

## Cox & Kings (CNKLIM)

### Mixed performance...

- Cox & Kings reported a disappointing set of Q3FY19 numbers. Revenues increased 25% YoY to ₹ 499 crore (vs. I-direct estimates of ₹ 457 crore, after adjusting for revenue share of education business) led by strong growth in Meininger business at 37% YoY to ₹ 180 crore led by uptick in occupancy in newer hotels
- However, on margin front, EBITDA margin fell 755 bps YoY to 23.85% led by higher marketing expenses and additional expenses on account of a delay in launch of two Meininger properties. Thus, EBITDA for Q3FY19 was at ₹ 119 crore vs. ₹ 125 crore in Q3FY18 (vs. I-direct estimate of ₹ 153.3 crore adjusted for education division)

### Domestic business continues to perform well...

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 continued 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.

### Led by Meininger, 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 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 EBITDA margins.

### Sale of education division to help reduce debt significantly

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. The focus on asset light strategy and reduction in debt burden remains the key main criteria behind this move as the education business is a capex heavy one. This division reported revenue & 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 of adjusted FY20E EBITDA against 3.4x earlier.

### Reduction in debt remains key catalyst; downgrade to HOLD

We expect leisure revenues to grow at 11% CAGR in FY18-20E mainly led by improving domestic spend and higher growth in foreign tourist arrivals. The company is adding bed capacity at Meininger at 28% CAGR in FY18-22E. This will also drive revenue growth, going forward. However, slowdown in European regions remains a key concern in the near term, accounting for ~33% of revenues. Hence, we downgrade the stock with **HOLD** rating and revised target price of ₹ 150/share (i.e. @10x FY20 EPS). Key upside risks would be a substantial reduction in debt, going forward, from sales proceeds of the education division.

#### Rating matrix

Rating	:	Hold
Target	:	₹ 150
Target Period	:	12 months
Potential Upside	:	4%

#### What's Changed?

Target	Changed from ₹220 to ₹150
EPS FY19E	Changed from ₹ 10.4 to ₹ 8.0
EPS FY20E	Changed from ₹ 15.1 to ₹ 14.9
Rating	Changed from Buy to Hold

#### Quarterly Performance

	Q3FY19	Q3FY18*	YoY (%)	Q2FY19	QoQ (%)
Revenue	499.0	493.3	1.2	753.6	-33.8
EBITDA	118.9	167.8	-29.1	282.6	-57.9
EBITDA (%)	23.8	34.0	-1019 bps	37.5	-1366 bps
Adjusted PAT	28.9	73.4	-67.3	81.1	NA

#### Key Financials

₹ crore	FY17	FY18	FY19E	FY20E
Net sales	2179.4	2379.6	2499.8	2246.8
EBITDA	680.9	1015.2	804.9	833.8
Net Profit	-10.2	363.1	140.9	263.7
EPS (₹)	-0.6	20.6	8.0	14.9

#### Valuation summary

	FY17	FY18	FY19E	FY20E
PE (x)	NA	7.0	18.0	9.6
Target PE (x)	NA	7.3	18.8	10.0
EV to EBITDA (x)	6.2	4.7	5.9	3.6
Price to book (x)	1.0	0.8	0.7	0.7
RoNW (%)	-0.4	11.0	4.1	7.2
RoCE (%)	8.8	11.2	8.0	10.5

#### Stock data

Particular	Amount
Mcap	₹ 2542 crore
Debt (FY18)	₹ 3907 crore
Cash & Invest(FY18)	₹ 1644 crore
EV	₹ 4805 crore
52 week H/L	₹ 306/199
Equity cap	₹ 86.4 crore
Face value	₹ 5

#### Price performance (%)

	1M	3M	6M	12M
Cox & Kings	-10.0	-21.5	-19.6	-32.4
Nifty	0.0	2.0	-4.9	2.4

#### Research Analyst

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## Variance analysis

	Q3FY19	Q3FY19E	Q3FY18*	YoY (%)	Q2FY19	QoQ (%)	Comments
Total Operating Income	499.0	557.0	493.3	1.2	753.6	-33.8	On like-to-like basis, revenues grew 25% YoY mainly led by Meininger (up 36% YoY to ₹180 crore) while leisure segment grew 21% YoY
Other Income	23.0	13.4	-7.9	NA	23.2	NA	
Employee Expenses	163.4	235.6	199.0	-17.9	259.4	-37.0	
Advertisement expenses	0.0	0.0	0.0	NA	0.0	NA	
Other expenses	216.7	149.6	126.4	71.4	211.6	2.4	
EBITDA	118.9	171.8	167.8	-29.1	282.6	-57.9	Higher marketing expenses, expansion and delays in launch of hotels in Meininger led to miss in EBITDA margins during the quarter
EBITDA Margin (%)	23.8	30.8	34.0	-1019 bps	37.5	-1366 bps	
Interest	72.3	68.1	56.5	28.1	59.3	21.9	
Depreciation	20.9	26.8	29.7	-29.7	28.3	-26.2	
Less: Exceptional Items	-7.7	0.0	2.2	-451.4	26.1	NA	
PBT	56.4	90.2	71.5	-21.1	192.0	-70.6	
Total Tax	24.2	27.1	16.8	44.1	56.6	-57.3	
Reported PAT	28.9	63.2	73.4	-60.6	81.1	-64.3	
Adjusted PAT	24.5	65.8	113.7	-67.3	60.5	-59.5	

\* Includes revenue from Education division

Source: Company, ICICI Direct Research,

## Change in estimates

₹ Crore)	FY19E			FY20E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	2,657.8	2,499.8	-5.9	2,941.1	2,246.8	-23.6	With the sale of Meininger business, we adjust the revenues for FY19E and FY20E accordingly
EBITDA	845.7	804.9	-4.8	1,125.5	833.8	-25.9	
EBITDA Margin (%)	31.8	32.2	38 bps	38.3	37.1	-116 bps	With the sale of low margin business, we expect margin profile to improve for FY20E
PAT	183.6	140.9	-23.3	266.7	263.7	-1.1	We assume debt repayment of ₹ 2000 crore for FY20. This may lead to saving in interest cost for FY20E
EPS (₹)	10.4	8.0	-23.3	15.1	14.9	-1.1	

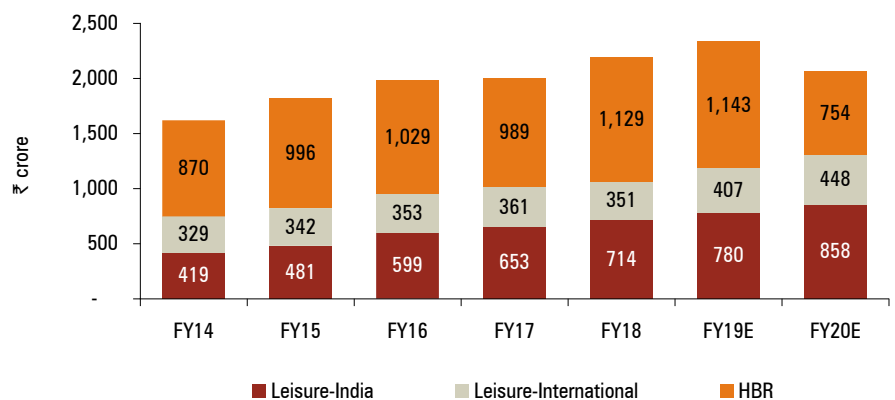
Source: Company, ICICI Direct Research,

## Company Analysis

### Domestic tourism outlook remains healthy

The company has witnessed healthy growth (up 12% YoY in FY18) in its domestic business. 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 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 government's thrust on tourism.

**Exhibit 1: Revenue growth trend**

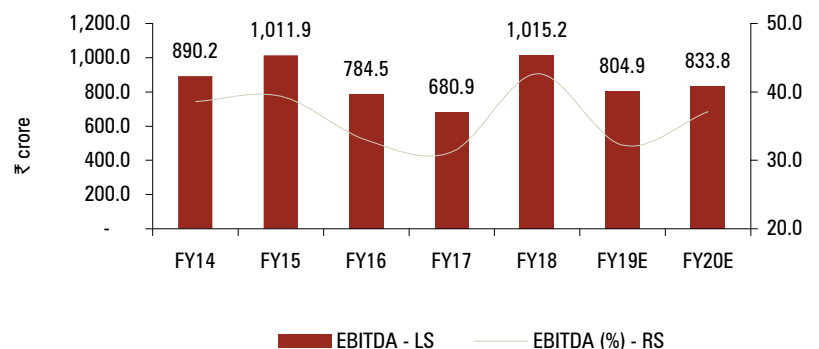


Source: Company, ICICI Direct Research

### International business to improve, going forward...

Bed capacity addition (up 42.8% YoY in FY18) has led 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 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 a substantial part of growth in the international business.

**Exhibit 2: EBITDA & EBITDA margin trend**

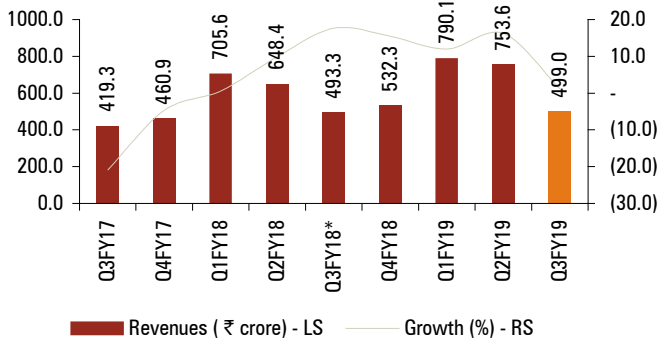


Source: Company, ICICI Direct Research

### Expect revenue CAGR of 10% during FY18-20E

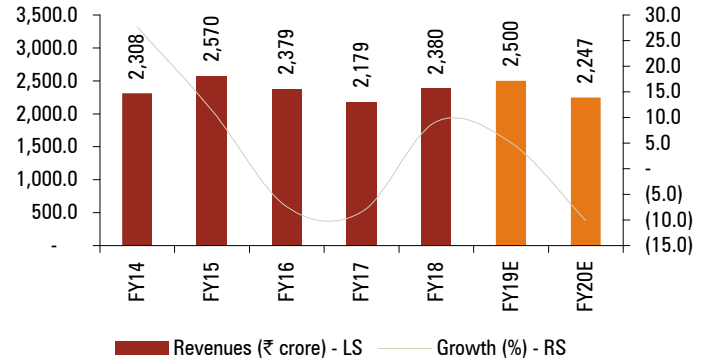
We expect net sales to grow at a CAGR of 10% in FY18-20E. The major revenue growth driver would be **leisure India** (healthy domestic outlook), **leisure international** (low base and improved growth in Dubai and Australia) and **Meininger** (based on higher bed capacity addition).

**Exhibit 3: Q3FY19 revenues up 25% YoY (on like to like basis)**



Source: Company, ICICI Direct Research  
\*Includes revenues from Education business

**Exhibit 4: Expect revenue CAGR of 10% during FY18-20E**

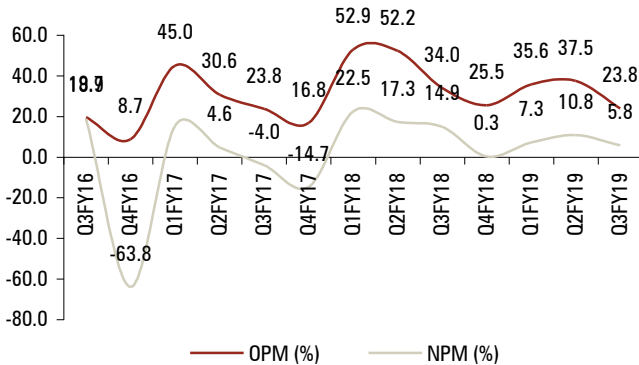


Source: Company, ICICI Direct Research

### Margins to improve led by improvement in demand

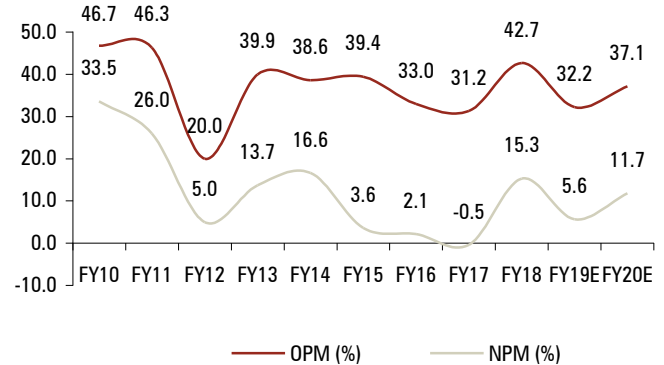
Adjusted for forex, EBITDA margins were at 39.3%, which, we believe, will improve to 37.6% in FY20E mainly led by improving revenue growth and cost efficiency.

**Exhibit 5: Quarterly trend in margins**



Source: Company, ICICI Direct Research

**Exhibit 6: Annual trend in margins**



Source: Company, ICICI Direct Research

### Sale of education division to help reduce debt significantly

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. The focus on an asset light strategy and reduction in the debt burden remains the key main criteria behind this move as education is a capex heavy business. This division reported revenue & EBITDA of ₹ 613 crore and ₹ 242 crore, respectively, for FY18. Post this deal, the company's 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 of adjusted FY20E EBITDA against 3.4x earlier.

## Outlook and valuations

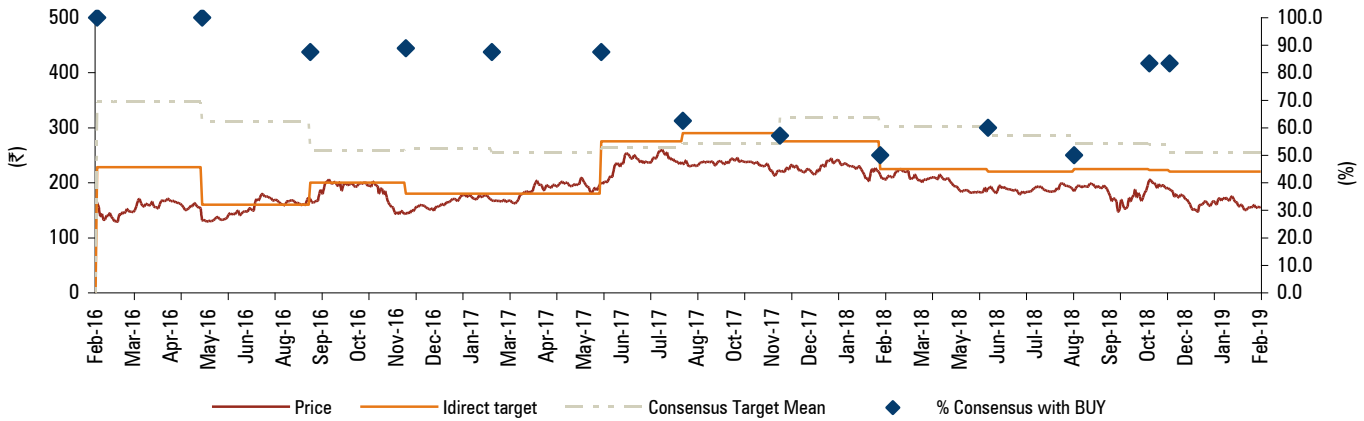
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**Exhibit 7: Valuation**

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	2179.4	-8.4	-0.6	NA	0.0	6.2	-0.4	8.8
FY18	2379.6	9.2	20.6	NA	7.0	4.7	11.0	11.2
FY19E	2499.8	5.1	8.0	-61.2	18.0	5.9	4.1	8.0
FY20E	2246.8	-10.1	14.9	87.1	9.6	3.6	7.2	10.5

Source: Company, ICICI Direct Research

### Recommendation history vs. consensus estimate



Source: Bloomberg, Company, ICICI Direct Research

Key events	
Date	Event
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 from AA-
Oct-15	Acquires LateRooms.com for ₹ 85 crore
Dec-15	Sells Explore Worldwide
Apr-16	Divests majority stake in Late Rooms and Superbreak
Mar-17	To demerge its forex business
Oct-18	Enters into an agreement to sell education business at an EV of £467 million
Dec-18	Meininger signs agreement for hotel in Reykjavik. Hotel has 122 rooms with 422 beds and opening is scheduled for Q1FY21
Jan-19	NSE and BSE approvals received for listing of the demerged entity - Cox & Kings Financial Services Limited.
Jan-19	Sale of Education business to Midlothian Capital Partners completed

Source: Company, ICICI Direct Research

Top 10 Shareholders						Shareholding Pattern					
Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)	(in %)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
1	Sneh Sadan Graphic Services Pvt. Ltd.	31-Dec-18	19%	33.5	0.0	Promoter	50.30	49.34	49.34	49.34	49.75
2	Kubber Investments Mauritius Pvt. Ltd.	31-Dec-18	10%	18.3	0.0	FII	35.65	38.93	39.47	40.00	39.65
3	LIZ Investments Pvt. Ltd.	28-Jan-19	10%	17.5	0.0	DII	2.66	1.76	1.05	1.05	1.07
4	Karst Peak Capital Limited	31-Dec-18	6%	9.9	0.0	Others	11.39	9.97	10.14	9.61	9.53
5	Macquarie Investment Management Ltd.	31-Dec-18	4%	7.8	0.0						
6	Capital World Investors	30-Sep-18	4%	7.5	0.0						
7	Capital Research Global Investors	31-Dec-18	4%	7.5	7.5						
8	Standford Trading Pvt. Ltd.	31-Dec-18	4%	7.3	0.0						
9	Kerker (Urrshila)	31-Dec-18	3%	4.6	0.0						
10	Kotak Mahindra Asset Management Company Ltd.	31-Dec-18	2%	3.9	0.0						

Source: Reuters, ICICI Direct Research

Recent Activity					
Buys			Sells		
Investor name	Value (mn)	Shares	Investor name	Value (mn)	Shares
Capital Research Global Investors	17.93	7.50	Jupiter Asset Management Ltd.	-5.10	-2.20
BlackRock Institutional Trust Company, N.A.	1.01	0.46	ABN AMRO Investment Solutions (AAIS)	-0.58	-0.18
Advisory Research, Inc.	0.27	0.10	Mellon Investments Corporation	-0.35	-0.15
Varanium India Opportunity Ltd	0.20	0.08	Waverton Investment Management Ltd.	-0.04	-0.02
LIZ Investments Pvt. Ltd.	0.10	0.05	Dimensional Fund Advisors, L.P.	-0.03	-0.01

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	2,379.6	2,499.8	2,246.8	
Growth (%)	-8.4	9.2	5.1	-10.1	
Employee Expenses	746	801	810	671	
Advertisement expenses	0	NA	NA	NA	
Other expenses	753	563	885	742	
Total Operating Expenditure	1,498.5	1,364.3	1,694.9	1,413.0	
EBITDA	680.9	1,015.2	804.9	833.8	
Growth (%)	-13.2	49.1	-20.7	3.6	
Depreciation	95.3	98.8	110.0	101.9	
Interest	225.5	259.0	254.1	122.9	
Other Income	-110.8	41.2	75.8	60.0	
PBT	238.4	677.9	493.0	669.0	
Profits from Associates	-11.6	-25.3	-33.7	-40.0	
Total Tax	172.2	222.2	180.7	259.6	
PAT	-10.2	363.1	140.9	263.7	
Growth (%)	NA	NA	-61.2	87.1	
EPS (₹)	-0.6	20.6	8.0	14.9	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
<b>Liabilities</b>					
Equity Capital	88.3	88.3	88.3	88.3	
Reserve and Surplus	2,511.2	3,199.8	3,319.4	3,561.8	
Total Shareholders funds	2,599.5	3,288.1	3,407.7	3,650.1	
Total Debt	3,423.9	3,906.9	4,006.9	1,806.9	
Def Tax Liability	175.6	232.1	236.1	240.1	
Total Liabilities	6,198.9	7,427.1	7,650.7	5,697.1	
<b>Assets</b>					
Gross Block	3,036.4	3,710.8	4,187.5	3,133.5	
Less: Acc Depreciation	1,340.9	1,439.8	1,549.8	1,651.6	
Net Block	1,695.5	2,271.0	2,637.7	1,481.9	
Capital WIP	310.7	135.3	46.0	100.0	
Total Fixed Assets	2,006.2	2,406.3	2,683.7	1,581.9	
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	21.5	11.8	
Debtors	1,820.1	2,241.6	2,335.4	2,099.1	
Loans and Advances	9.4	10.3	19.7	2.8	
Cash	1,692.6	1,643.7	1,771.9	1,339.0	
Total Current Assets	3,542.0	3,911.1	4,148.5	3,452.6	
Total Current Liabilities	2,191.7	2,344.7	2,008.9	1,696.3	
Net Current Assets	1,350.3	1,566.3	2,139.6	1,756.3	
Misc Exp not W/f	0.0	0.0	0.0	0.0	
Application of Funds	6,198.9	7,427.1	7,650.7	5,697.1	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Profit after Tax	-10.2	363.1	140.9	263.7	
Add: Depreciation	95.3	98.8	110.0	101.9	
(Inc)/dec in Current Assets	-371.2	-1,158.4	242.6	519.7	
Inc/(dec) in CL and Provisions	-186.6	153.0	-335.9	-312.6	
CF from operating activities	-472.7	-543.4	157.6	572.7	
(Inc)/dec in Investments	0.0	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-298.0	-499.0	-387.4	1,000.0	
Goodwill on consolidation	762.5	184.9	0.0	0.0	
Others	-47.5	0.0	279.3	215.6	
CF from investing activities	416.9	-314.1	-108.1	1,215.6	
Issue/(Buy back) of Equity	3.6	0.0	0.0	0.0	
Inc/(dec) in loan funds	-244.1	483.0	100.0	-2,200.0	
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	-2,221.3	
Net Cash flow	-150.0	-48.9	128.3	-433.0	
Opening Cash	1,842.6	1,692.6	1,643.7	1,771.9	
Closing Cash	1,692.6	1,643.7	1,771.9	1,339.0	

Source: Company, ICICI Direct Research

Key ratios		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
<b>Per share data (₹)</b>					
EPS	-0.6	20.6	8.0	14.9	
Cash EPS	4.8	26.2	14.2	20.7	
BV	147.3	186.3	193.1	206.8	
DPS	1.0	1.0	1.0	1.0	
<b>Operating Ratios (%)</b>					
EBITDA Margin	31.2	42.7	32.2	37.1	
PBT / Total Operating income	-0.5	15.3	5.6	11.7	
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	
<b>Return Ratios (%)</b>					
RoE	-0.4	11.0	4.1	7.2	
RoCE	8.8	11.2	8.0	10.5	
RoIC	12.3	13.8	9.8	12.8	
<b>Valuation Ratios (x)</b>					
P/E	0.0	7.0	18.0	9.6	
EV / EBITDA	6.2	4.7	5.9	3.6	
EV / Net Sales	1.9	2.0	1.9	1.3	
Market Cap / Sales	1.2	1.1	1.0	1.1	
Price to Book Value	1.0	0.8	0.7	0.7	
<b>Solvency Ratios</b>					
Debt/EBITDA	5.0	3.8	5.0	2.2	
Debt / Equity	1.3	1.2	1.2	0.5	
Current Ratio	2.1	2.5	2.8	2.8	
Quick Ratio	1.4	1.8	1.9	2.0	

Source: Company, ICICI Direct 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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