Cox & Kings Ltd (BOM:533144)

Share Price: Rs. 295
December 1, 2014 | LT Holding

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Summary Investment Thesis

Cox & Kings Ltd ("COX") offers ownership in a collection of market leading businesses and represents the best pure play in the fast growing India outbound tours industry. The total equity of the company is currently selling for ~Rs. 5,000 crore, which compares to ~Rs. 475 crore of normalized pre-tax earnings (10.5x multiple). This valuation level is extremely favorable relative to the growth potential of the business and historical trading levels (20x–25x pre-tax). Valuation is currently muted due to a few key misperceptions: (i) troublesome debt levels, (ii) commodity service offering, (iii) modest growth potential, and (iv) risk of performance decline due to Europe exposure.

Investment Merits

- Ownership in a group of market leading businesses with strong economic moats.
    - India leisure (28% of operating profit): With its collection of widely recognized brands (200+ year operating history), best-in-class distribution network, purchasing scale with travel suppliers, worldwide operations, and advertising budget, the India leisure division benefits from difficult-to-replicate cost advantages, service, and distribution. COX enjoys a 30% share in the outbound market.
    - Education (31%): COX's student tour business in the UK is driven primarily by PGL, the preeminent outdoor education operator in the market with a nearly 70% share among private providers. PGL's dominance is explained by its best-in-class property portfolio (18 owned properties housed on 1,800 acres of land plus 5 leased properties), 20+ year operating history and strong reputation for safety and positive student experiences, and effective marketing strategies.
    - Meininger (13%): Meininger is one of the largest commercial hostel chains in Europe, catering to student tour groups, families, and youth adventure travelers. Meininger's flexible room configurations, high quality amenities and services at affordable prices, and prime locations has allowed it to achieve a remarkable 92% occupancy rate year to date.
- The majority of the company's operations require very little capital to grow. In fact, as the leisure travel and education businesses grow, the company should generate cash from working capital. This factor, combined with robust operating margins (30%) should allow COX to generate high returns on invested capital over the next 5-10 years.
- The promoter group and key executives (50% insider shareholding) have an exceptional track record of building a leading position in the India tour market, developing a global brand, and making strategic acquisitions to strengthen the company's service offering and expand its competitive advantage. Management has also been prudent with capital, shedding capital intensive businesses and shunning non-strategic acquisitions. Moreover, the promoter group has demonstrated its long run commitment to the business, recently purchasing Rs. 200 crore of a Rs. 1,000 crore qualified institutional placement ("QIP").

Misperceptions

Current valuation levels understate the true long term earnings power of the enterprise. COX is mispriced in the market for the following reasons.

- High debt levels. COX has accumulated a meaningful amount of debt relative to operating earnings (3.5x) as a result of long term investments made over the past few years, mostly notably the acquisition of Holidaybreak in 2011. Indian investors have historically had an unfavorable view of debt fueled acquisitions and capital projects, and sent COX's share price falling nearly 60% over a two year period post announcement of the Holidaybreak acquisition. It's unlikely the shares will fully revalue until balance sheet risk is reduced. *Counterpoint: The company has been aggressively reducing debt over the past year including the sale of its capital intensive camping division and a recent Rs. 1,000 crore share raise. Utilizing modest assumptions for growth and free cash flow, it's likely leverage will reduce to 2.0x by year end 2016, a level investors should be comfortable with.*
- Competitive dynamics. The tourism industry is extremely fragmented, competitive, and has low barriers to entry. *Counterpoint: Most of the market is still comprised of small travel agencies specializing in either transportation or accommodation. COX, Thomas Cook India, and Kuoni India (SOTC brand) are the only organized tour operators of scale. COX is currently a leading operator with a 30% market share, up from 20% five years ago. COX should be able to maintain its market position due to its (i) strong branding and unmatched distribution reach in India, (ii) scale which allows for stronger purchasing power with travel suppliers, and (iii) a growing client base which should provide for future referrals.*
- Modest growth potential. Current valuation suggests COX is modest growth business. *Counterpoint: Last year, 15 million Indians traveled outside the country, of which only ~1 million were leisure holiday travelers. This compares to greater than 50 million Chinese vacationers. Due to changes in travel culture (Indian films today heavily showcase intl. sites), an aspirational young workforce, increased business travel, and much improved airport infrastructure, international tourism is rapidly becoming popular and accessible for Indians. COX also has significant potential for growth in its student tours business, with expansion in PGL underway in Australia and India, and long term potential for room capacity expansion at Meininger.*
- Economic uncertainty in Europe. Greater than 50% of the company's operating profit is generated from its European operations. There's concerns that economic growth in Europe is slowing. *Counterpoint: The company's largest business in Europe is student tours which is recession resistant. Furthermore, tourism has historically proven to be less impacted by macroeconomic factors than other cyclical industries. Total international tourist arrivals declined by only 4% in 2009.*

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Valuation Snapshot

(in Rs. crore, unless otherwise noted)

Share Price (Rs.)	295.0
Shares Outstanding (000s)	169,261
Market Capitalization	4,993.2
Net Borrowings	2,476.0
Minority Interest	820.5
Total Enterprise Value	8,289.7
LTM EBITDA	836.0
LTM Operating Earnings (1)	711.0
LTM Adj. Pre-Tax Earnings (2)	477.0
Metrics	
TEV / LTM EBITDA	9.9x
TEV / LTM Operating Earnings	11.7x
Market Cap / Adj. Pre-Tax Earnings	10.5x

(1) EBITDA less Rs. 125 crore of projected annual capex
(2) Operating earnings net of minority earnings less Rs. 175 crore of PF interest expense less other

Business Overview

COX is one of the most recognized travel brands in the global tourism industry with a 200+ year history and operations in 26 countries. COX operates in four lines of business.

India leisure (28% of operating profit): Through a number of widely recognized travel brands, COX provides organized tours (mostly group tours), visa and passport processing services, and foreign exchange services to Indian retail and business travelers. A majority of business is generated from outbound tours (Indians traveling outside the country) and domestic tours (Indians traveling within the country). The company sells its travel services through 150 franchisees, owned stores, a number of travel agents, its call center, and web properties. COX generates >50% of revenue through its franchisee network and hopes to generate >75% of revenue through this channel in the future. Franchisees are highly entrepreneurial and have strong customer relationships in their locality. Less than 1% of individuals who apply to be a franchisee are granted a license. COX is also one of the largest corporate travel suppliers in India, serving ~125 of India's largest companies.

International leisure (28%): Specializes in outbound holiday tours from the UK, Australia, New Zealand, Japan, USA, and UAE. 40% of international leisure revenue is generated in the UK.

Education (31%): COX entered this segment through the acquisition of Holidaybreak Limited in 2011. Through its market leading brands, PGL and NST, the company provides education tours to students, primarily in the UK.

- PGL: PGL is the dominant, private student tour operator in the UK market (~70% market share versus ~20% for nearest competitor). The company offers outdoor education tours (typically 3-5 days in length) to students between the ages of 8-12. The company owns 16 centers and leases another 7 centers (total 8,900 beds) from which it conducts these tours. In the prior fiscal year, the company served over 300,000 students from 5,500 schools. Outdoor education, although not mandatory, is highly encouraged by the government and teachers and has been core to the UK curriculum for greater than 50 years.
- NST: NST offers domestic and international education group tours for secondary school students in the UK and Ireland (~30% market share in the UK). NST offers greater than 60 courses, covering history, science, math, arts, and music. NST serves over 100,000 students each year.

Meininger (13%): Meininger is one of the largest commercial hostel chains in Europe, providing high quality amenities and services at budget prices. The chain currently operates 7,040 beds across 16 city center tourist locations in Germany, Austria, and the UK. The hotel attracts student group tours within 4 to 8 bed room configurations. It also attracts the leisure and budget travel segment (both individuals and families) within the 2 to 4 bed segment. Meininger's cross between a hostel and hotel offers customers a unique price-value proposition and results in best-in-class occupancy rates (90%+). Meininger is a strong selling point for Indian travelers as it can offer a typical family of four a single room for lodging rather than a 2 room configuration which would be required at other hotels.

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Key Misperception #1: Troublesome Debt Levels

Over the past few years, COX has invested heavily in both capex and acquisitions to expand its business. This expansion has largely been funded through borrowings. In addition to a net 1,000 crore cash outflow over the past three years, quoted debt balances have increased due to a depreciation in the rupee relative to the GBP (most of the company's debt is held in its UK subsidiaries). Over the past year, management has worked aggressively to pare debt and restore the balance sheet to a more healthy level through asset sales and a large share raise (the promoter group purchased 20% of the issue).

(in Rs. Crore)	Fiscal Year Ended March					
	2010	**2011**	**2012**	**2013**	**2014**	**Current**
Short Term Borrowings	0	0	255	256	346	--
Long Term Borrowings	504	750	3,451	3,918	4,739	--
Total Borrowings	504	750	3,706	4,175	5,086	--
Cash	375	961	1,053	1,269	1,379	--
Net Borrowings	130	-211	2,653	2,905	3,707	2,476
Total Finance Charges	0	54	184	371	324	175
Operating Income	213	247	284	629	719	711
Net Borrowings / Op. Inc.	**0.6x**	**-0.9x**	**9.3x**	**4.6x**	**5.2x**	**3.5x**

Cash Outflow	**Rs. Crore**
2011: Acquired Holidaybreak	3,100
2013: Increased stake in Meininger from 50% to 74%	172
2014: Increased stake in Meininger from 74% to 100%	257
2012: Net working capital increase	353
2013: Net working capital increase	373
2014: Net working capital increase	18
2012: Capital expenditures	143
2013: Capital expenditures	170
2014: Capital expenditures	284
Total Outflow	4,870
Cash Inflow	
2012: Operating cash flow before NWC change	49
2013: Operating cash flow before NWC change	291
2014: Operating cash flow before NWC change	661
2013: Sold Djoser business	91
2013: Sold 34% stake in Prometheon (Holidaybreak) to CVCI	825
2014: Sold camping business	890
2014: Share raise through QIP	1,000
Total Inflow	3,807
Net Outflow	**1,063**

In September 2014, the company refinanced its existing UK bank loan facilities with a new GBP 245 million (Rs. 2,450 crore) facility. Management noted that the new facility will reduce annual interest expense by Rs. 20 crore, extend maturities to 2019/2020, and provide for additional covenant flexibility. The all-in interest cost on the new facility is ~4.3%.

One key unknown with cash flow is working capital management. COX suffered a total Rs. 700 crore working capital cash use during FY'12-FY'13, further straining the balance sheet. A majority of the company's operations are net producers of cash from working capital as customers pay COX a few weeks before COX pays its travel suppliers. The company's business travel operation, however, has been a large consumer of cash. India suffered a minor recession in the FY'12-FY'13 period which led many businesses to delay payments to vendors, particularly non-core ones. In the business travel operation, COX provides large companies a corporate travel card which it finances through its own balance sheet. When travel needs arise, corporations charge the card and pay bills at a much later date, well after travel services have been provided.

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As the economy recovered in FY'14, working capital was a non-user of cash, a favorable reversal in trend. Management is exploring alternatives to reduce the capital burden in this business, including engaging financial institutions to offload some or all of the travel financing.

Management has guided to Rs. 750-1,000 crore debt reduction from operating cash flow by fiscal year ended March 2017, which would put net borrowings around Rs. 1,500-1,750 crore, or 1.5-2.0x operating income. If the company were to achieve this target, it's likely a larger set of investors would become interested in owning shares.

Key Misperception #2: Competitive Dynamics in Travel Business

Many investors view tourism as a commodity industry dominated by mom and pop travel agencies and the large OTAs. In the 1980s and 1990s, COX in fact was a small mom and pop operation, mostly handling airline ticketing and hotel accommodations. In 2000, however, the company's key promoter, Peter Kerkar, began a 10 year process of transforming COX into a branded provider of memorable travel experiences. Selling experiences turned out to be a much more sticky, price inelastic, and profitable business than ticketing. The numbers tell an interesting story.

The chart below outlines the performance of COX's core leisure operation (India plus international) over the past decade. Acquisitions have added between 5-10 pts of growth.

(in Rs. Crore)	FYE March												
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	CAGR
Revenue	27.1	28.8	45.5	65.8	99.4	188.3	293.6	402.0	498.0	872.0	980.0	1,030.0	39%
EBITDA	2.4	7.8	20.4	22.9	42.6	79.2	128.0	186.0	228.0	352.0	394.0	416.0	60%
% Margin	*9%*	*27%*	*45%*	*35%*	*43%*	*42%*	*44%*	*46%*	*46%*	*40%*	*40%*	*40%*	

Notably, the company achieved this growth (particularly in the period from 2003-2010) in a capital efficient manner, generating 30%+ returns on invested capital. The margin and ROIC metrics suggest the presence of a valuable service offering and strong competitive advantage.

The Customer Experience

Selling a holiday tour package, in which the operator is providing a full end to end experience including air travel, hotels, ground handling, tour guides, destination selection, and food, is deeply personal. An individual or family typically has one opportunity each year (or every few years) to go on an international holiday, placing significant value on their time. When making the decision to spend large sums of money and time, the customer will travel with (i) an operator with which they've had a positive experience in the past, (ii) an operator which resonates in their mind due to peer referrals or marketing, or (iii) an operator which can meet their specific needs. The last point is critical in India. Due to India's diversity, food tastes and language vary widely across the country and are critical factors to a memorable experience. Well organized tour operators are able to provide tour guides/ground handlers with specific language skills and food options which cater to the tastes of individual groups. Price is certainly a consideration for travelers, but not the determining factor. It's for this reason that COX has been able to consistently generate robust margins and returns on capital over the past decade.

Competitive Advantages

There are dozens of tour operators in business in India and hundreds around the world. At first glance, it's difficult to see how any one or a group of winners could emerge. Upon further study, however, it's evident that COX has developed some key competitive advantages which has allowed it to capture market share and generate industry leading margins.

- Strong branding and unmatched distribution: COX has a strong presence in ~150 Indian cities, selling primarily through its franchisee network. Franchisees are selected (rigorous selection process) based on entrepreneurial ability, customer relationships and stature in their locality, and experience in the tourism sector. Franchisees are often former travel agents who have built up strong relationships over decades, but can no longer earn money selling tickets. COX receives hundreds of franchisee applications each year, but typically grants licenses to less than 1% of the total. COX's scale also leads to large advantages in advertising. In India alone, it spends ~Rs. 50 crore on advertising annually compared to Rs. 20 crore for Thomas Cook India (another player of size). COX's well recognized brands, scale in advertising (which should compound over time), referral base, and strong franchisee network provides it with unmatched awareness in India. As more Indians enter the middle class and consider holiday tours, COX will be a top of mind brand.
- Purchasing advantages due to scale: Airline tickets, hotel rooms, rental cars, and transportation services are often purchased in bulk by tour operators. COX's ability to purchase in much larger volumes than its competitors provides it with an inherent cost advantage, particularly versus regional tour operators.

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- Strong service offering: COX has, through acquisition and greenfield expansion, built a presence in 26 countries worldwide. It's strong ground presence allows it to craft highly customized tours catering to a wide variety of travelers – religious, adventure, free independent, historical, and family. In addition, it has taken steps to become a more vertically integrated company, owning some ground handling operations and the Meininger hotel chain. These factors allow it to craft customer experiences which are difficult for competitors to match. A recent case study illustrates the point. Raj Tours and Travels was one of the earliest companies to take Indians on outbound holidays. It enjoyed exceptional popularity because it sent Indian chefs with tour groups to provide home style food for constrained travelers. Beginning a few years ago, however, business began to suffer because Indians were seeking more customized trips and off-beat experiences, which Raj Tours could not provide. Without an international presence and destination management specialists, it's very difficult for regional tour operators to compete against an international tour company such as COX.

Overview of Key Competitors
In India, there are two competitors of meaningful scale, reach, and international presence – (i) Kuoni, a Switzerland based international holiday company operating in India under the SOTC brand, and (ii) Thomas Cook India, former subsidiary of Thomas Cook PLC, a British holiday and foreign exchange company.

- Kuoni India – Kuoni purchased SOTC in 1996 and has been operating under the brand in India for the past 18 years. The company sells holidays through ~100 outlets around the country, its website, and call center. Parent Kuoni does not break out its India financials separately, but COX management estimates Kuoni to have a sizeable operation in India, on par with COX in terms of revenue, but meaningfully lower in terms of operating profits. In recent years, Kuoni has experienced declines in its India business, citing the FY'12-FY'13 recession and competitive factors. COX, on the other hand, has been growing at 20%+ while maintaining a nearly 50% operating margin.
- Thomas Cook India – Thomas Cook has wide distribution reach in India, with over 150 outlets, franchisee operations, and a strong internet and social media presence. Despite broad reach, the company generates half the revenue COX generates in core travel. Thomas Cook India, after separating from its parent company, no longer owns a strong presence in international markets. It is dependent on its relationship with its former parent company for branding and services. Moreover, Thomas Cook India is now controlled by Prem Watsa's Fairfax Financial. The company's long term plan is to diversify away from travel and serve as a holding company for future acquisitions.

Kuoni and Thomas Cook are legitimate players in the market, but COX has outperformed due to strong branding, larger investments in advertising, its franchisee model, service, and execution. All three players are likely to benefit from the coming boom in outbound travel and will take share from small operators and travel agencies. COX remains the best way to play this trend.

Potential threats loom from online operators and other large international tour companies.

- Online operators such as MakeMyTrip have operated for many years and have gained very little traction in the organized group tour market. Success in the group tour industry requires a combination of an online presence and face-to-face consulting. In India, people strongly prefer to speak to someone in person, particularly when it involves a large expenditure with hundreds of potential options. COX has invested significantly in its web properties and will be prepared if consumer preferences change.
- India has been a growth story in the travel sector for greater than a decade. No significant international tour operator has been able to enter successfully. Developing a brand in such a diverse and geographically spread country takes decades. Further, developing tours customized for individual preferences based on food, language, and activities requires a deep understanding of the culture. COX, Thomas Cook, and SOTC have been operating in India for greater than 50 years.

Key Misperception #3: Modest Growth Potential

The global tourism industry is ~$7 trillion, or ~10% of world GDP. Tourism is larger than the global oil and gas industry and is critical to many world economies. Worldwide, the total number of tourist arrivals has been growing 2-3 points ahead of GDP for many years as (i) tourism has opened up in many countries, (ii) the worldwide middle class is expanding making travel an option for a greater number of people, (iii) the culture of tourism has spread because of popular media and the internet, (iv) the internet has made travel research accessible and easy, and (v) the cost of travel and stay has decreased relative to income. Last year, there were ~1.1 billion international tourist arrivals across the world. Of this total, India received 7 million inbound visitors and accounted for 17 million outbound travelers (1.5% of the total despite representing 15% of the world's population and 7% of GDP on a PPP basis). By comparison, China accounted for 100 million outbound visitors last year.

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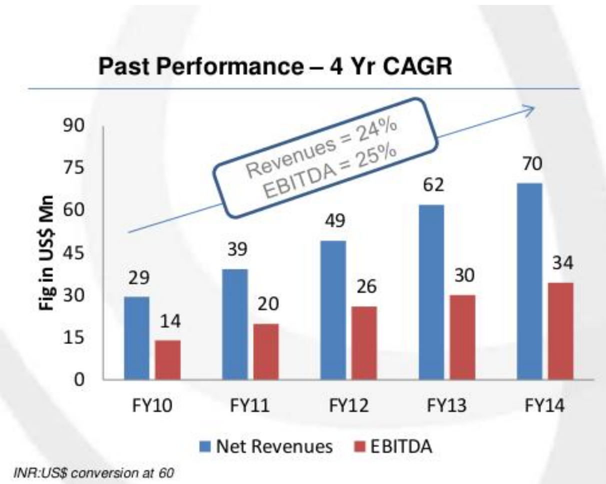
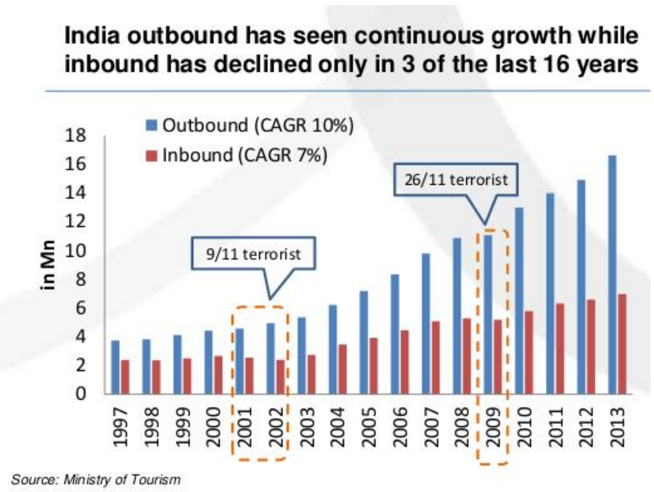
International travel has been less popular in India than other countries due to cultural and economic factors. Historically, most Indians traveled within the country on religious pilgrimages or to visit family. Over the past decade, however, travel preferences have shifted, driven by a few factors: (i) greater amount of business trips, exposing Indians to international travel, (ii) greater exposure to international destinations and the joy of travel from Bollywood cinema (perhaps the largest driving force of culture in India) and the internet, (iii) vast improvements in airport infrastructure and capacity, driving down airfare cost, (iv) economic growth, making travel affordable for a greater number of Indians, and (v) the emergence of holiday tour providers such as COX, which address people's primary concerns of language, food, ground transportation, and site selection.

The Indian outbound tour market has grown at more than double the rate of the total travel market (4-5% growth historically), indicated by the figures on the chart below. COX's India leisure business has grown at nearly 5x the rate of the total travel market.





The United Nations World Tourism Organization ("WTO") estimates that total India outbound trips will reach 50 million by 2020. These are aggressive estimates compared to historical growth rates, but nevertheless indicative of the long term potential of the industry.

The company also acquired a few assets with high growth potential through its acquisition of Holidaybreak.

- PGL – PGL enjoys a near monopoly position in the outdoor student tour business in the UK. Outdoor education, although not mandatory, is highly encouraged by the government and teachers and is a core part of the British school curriculum. Currently, 50% of outdoor education tours are conducted by government entities and 50% are conducted by private operators (of which PGL has a 70% share). Teachers and school administrators typically dictate which program a school will send its students to. PGL has been capturing share from both government entities and the other private players due to (i) its unmatched property portfolio with best-in-class amenities and outdoor education offerings, (ii) stellar track record of health and safety, (iii) positive student experiences, and (iv) government budget cuts which has led to closure of government facilities. Moreover, PGL has provided an excellent experience for teachers and counselors during the week long programs, offering great accommodations, amenities, and educational experience for students. These factors have established PGL as the preeminent provider in the UK, with potential to capture additional market share going forward. PGL also has great scope outside of the UK. COX recently built a 350 bed outdoor education center on 200 acres of land in Australia. Australia is a market ripe for growth – (i) it shares a similar curriculum to the British, with a component of outdoor education, and (ii) existing operators have subpar facilities and marketing strategies. Long term, management sees potential for PGL to also have a successful business operation in India. There are a few hundred international schools in operation in the country, a number surely to grow over time.
- Meininger – Meininger fits in well with COX's long term plans in its leisure and student tour operations. Meininger has the benefit of extremely flexible room offerings, with 2, 4, and 8 bed configurations. The properties cater to youth travelers, student tour groups, and even families on COX group tours coming from India. Currently, the supply of hotels catering to this market is in thin supply. Meininger has generated a 92% room occupancy rate this year and is planning a significant expansion to accommodate demand. Management has guided to 10-15% room growth over the next five years. Meininger leases the properties in which it operates, providing for an expedient and capital efficient way to expand operations.

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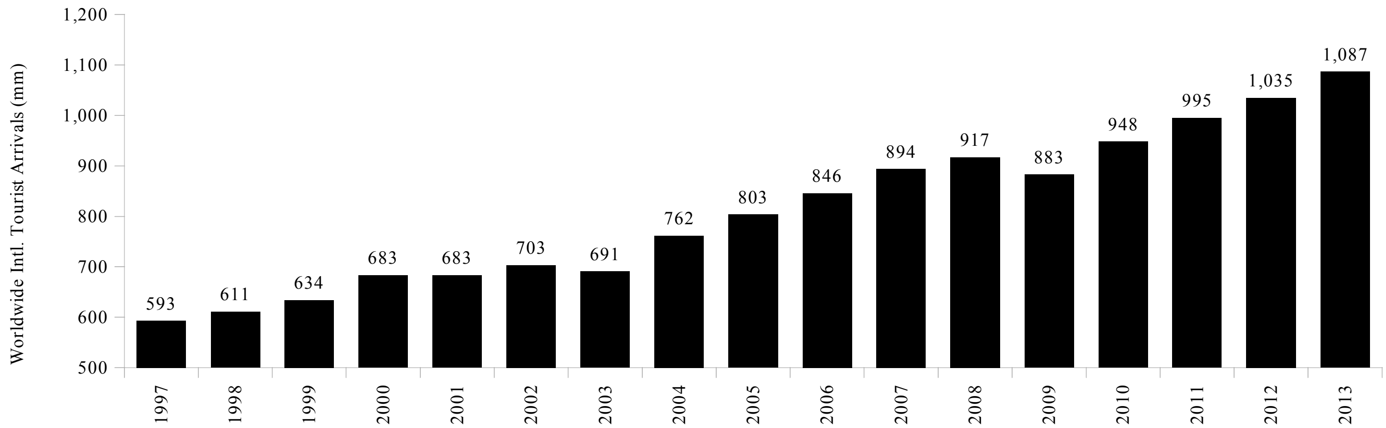
Key Misperception #4: Exposure to European Economy

Since the economic recession of 2009, European markets have lagged in comparison to the rest of the world due to persistent fears of debt collapse, deflation, unemployment, and overleveraged banks. As a result, investors are ascribing relatively low valuations to European businesses, including COX's operations. COX generates greater than 50% of operating profit from Europe.

The largest business in the Europe portfolio is the education business. A study of Holidaybreak's historical financials demonstrates the incredible resiliency of this business during the 2009 recession. Revenue grew by 11% during the FY'08-FY'09 period as parents continued to spend on their kids' education and PGL opened a new facility.

The international leisure business, however, is more susceptible to economic conditions. Detailed historical data on COX's international leisure operations does not exist as the company did not list until 2010. However, from analyzing Kuoni's historical financial statements, it's evident that the global economic crisis had a meaningful impact on Kuoni's operations. Revenues declined by 20% from FY'08-FY'09, but have since recovered. Overall, tourism continues to trend favorably on a global basis (see chart below).



Source: Ministry of Tourism

Over time, as the education and India leisure operations grow in size, the international leisure operation should represent a smaller portion of COX's overall business (today, it accounts for 30% of operating profit).

Expected Returns

Please refer to appendix for model. Below are key assumptions and returns for base, downside, and upside scenarios.

	Base	**Downside**	**Upside**
Revenue Growth:			
India Leisure	15% per annum	5% per annum	20% per annum
International Leisure	3% per annum	-1% per annum	5% per annum
Education	12.5% per annum	3% per annum	15% per annum
EBITDA Margin:			
India Leisure	0.25% expansion per annum	0% expansion per annum	0.25% per annum
International Leisure	0.25% contraction per annum	0.5% contraction per annum	0% contraction per annum
Education	0.25% expansion per annum	0% expansion per annum	0.25% expansion per annum
Ongoing capex	Rs. 125 crore per annum	Rs. 125 crore per annum	Rs. 125 crore per annum
Tax rate	30%	30%	30%
Terminal P/E multiple	15x	12x	18x

10 year compounded return	22%	8%	29%
Implied share price @ 10% return	Rs. 870	Rs. 250	Rs. 1450
% upside / downside	195%	-15%	390%

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When COX listed in late 2009, shares were trading for ~25x earnings and maintained this valuation level until the company announced it was seeking a large acquisition in Europe. If the company can demonstrate continued capital prudence and deliver on its guidance, it's possible that shares would revalue significantly.

Given current valuation levels, a de-risked balance sheet, and strong competitive advantages, COX offers investors a significant margin of safety. The downside case model showcases a positive 8% return over the projection period, resulting in no loss of investor purchasing power given historical inflation rates.

Other Risks

- **Promoter group controls ~50% of the company.**
  As is the case with many companies in India, minority shareholders have very little power to effect change. The Kerkar family and its associates control a majority of shares and can dictate strategy and capital allocation. The company has stated its long term intention to add services through greenfield expansion and acquisitions. It's possible COX will make another large debt financed acquisition in the future. Such an action would increase the risk of ownership and hinder a potential revaluation. Recently, management has made clear that its foremost priority is to delever the balance sheet and be in a position to pay meaningful dividends beginning in FY 2019.
- **Global terrorism, economic unrest, and natural disasters would impact the tourism business.**
  Tourism has declined in the past after major political, economic, and natural calamities – 9/11, Fukushima meltdown, uprising in Africa, Mumbai terrorist attacks, and the Icelandic volcano. Long term trends suggest, however, that tourism has always recovered from such events. Exploration is an innately human trait; people will always want to explore the world.
- **A sharp decline in the rupee could have an adverse effect on COX's business.**
  A lower rupee exchange rate would make tour packages more expensive for Indian customers. This would be partially offset by increased demand for inbound travel and strength in international operations.
- **The education business could be impacted by any issue which causes permanent reputational damage.**
  Since the student tour business involves thousands of school age children, any event including safety issues and misconduct could cause irreparable reputational harm. PGL and NST have a greater than 20 year track record of strong service, with particular excellence in safety and health.

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Appendix A: Historical Financial Summary

(in Rs. Crore)	FYE March												Quarter Ended		Quarter Ended		LTM
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	06/30/13	06/30/14	09/30/13	09/30/14	06/30/14
INCOME STATEMENT																	
Revenue	27.1	28.8	45.5	65.8	99.4	188.3	293.6	441.3	532.7	873.5	1,867.5	2,307.6	586.2	738.7	818.8	867.5	2,508.8
Employee Benefit Expense	6.2	6.1	8.1	15.1	20.9	50.6	79.1	99.4	129.6	385.2	695.8	874.8	199.2	241.7	244.8	271.6	944.1
Advertisement Cost	--	--	--	--	--	--	--	--	--	--	--	105.7	29.2	37.5	30.4	32.7	116.2
Other Expenses	18.5	14.8	17.0	27.8	35.9	58.6	86.5	113.3	137.1	155.0	394.9	437.0	80.4	108.1	74.6	109.5	499.7
EBITDA	2.4	7.8	20.4	22.9	42.6	79.2	128.0	228.5	266.0	333.4	776.9	890.1	277.4	351.4	469.0	453.7	948.8
Depreciation and Amortization	1.9	1.3	1.4	1.8	3.4	6.4	9.6	15.1	18.6	49.1	147.4	171.1	39.4	51.3	74.6	90.9	199.4
Operating Income	**0.5**	**6.6**	**19.0**	**21.0**	**39.2**	**72.8**	**118.4**	**213.5**	**247.5**	**284.2**	**629.5**	**719.0**	**238.0**	**300.1**	**394.4**	**362.8**	**749.4**
Finance Costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	54.4	184.3	370.5	323.6	80.9	91.4	77.8	90.4	346.8
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-79.4	91.9	24.8	30.2	70.6	-37.0	-10.2
Other Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-43.1	6.9	13.4	7.9	13.3	-31.2
Profit Before Tax	0.5	6.6	19.0	21.0	39.2	72.8	118.4	213.5	193.1	99.9	338.4	346.6	125.5	165.1	238.2	296.0	444.1
Operating Income After MI	**0.5**	**6.6**	**19.0**	**21.0**	**39.2**	**72.8**	**118.4**	**213.5**	**247.5**	**284.2**	**708.9**	**627.1**	**213.2**	**269.9**	**323.8**	**399.7**	**759.7**
% Growth																	
Revenue	--	6%	58%	44%	51%	89%	56%	50%	21%	64%	114%	24%	--	26%	--	6%	--
EBITDA	--	221%	161%	12%	86%	86%	62%	79%	16%	25%	133%	15%	--	27%	--	-3%	--
Operating Income	--	1133%	189%	11%	86%	86%	63%	80%	16%	15%	121%	14%	--	26%	--	-8%	--
% Margin																	
EBITDA	9%	27%	45%	35%	43%	42%	44%	52%	50%	38%	42%	39%	47%	48%	57%	52%	38%
Operating Income	2%	23%	42%	32%	39%	39%	40%	48%	46%	33%	34%	31%	41%	41%	48%	42%	30%
Employee Benefit Expense	23%	21%	18%	23%	21%	27%	27%	23%	24%	44%	37%	38%	34%	33%	30%	31%	38%
Other Expenses	68%	52%	37%	42%	36%	31%	29%	26%	26%	18%	21%	24%	19%	20%	13%	16%	25%
BALANCE SHEET																	
Cash and Equivalents	5.9	10.0	26.1	32.5	19.2	56.1	63.4	374.7	961.3	1,053.3	1,269.3	1,378.6					
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	196.2	28.1	28.1	28.1					
Total Cash	5.9	10.0	26.1	32.5	19.2	56.1	63.4	374.7	1,157.4	1,081.4	1,297.3	1,406.7					
Working Capital Assets																	
Trade Receivables	30.7	31.7	47.9	47.3	76.5	178.7	232.2	302.1	414.2	715.1	905.4	1,135.6					
Loans and Advances	46.1	50.6	60.9	89.5	98.9	174.5	262.2	271.5	346.9	821.2	843.8	1,204.2					
Inventories	0.8	0.7	1.2	1.1	1.9	4.1	3.5	8.3	8.6	17.3	18.6	19.9					
Other Current Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.7	1.7	3.3	1.7					
Total Current Assets	77.5	83.0	110.0	138.0	177.3	357.2	497.9	581.9	771.4	1,555.2	1,771.1	2,361.4					
Fixed Assets	7.9	7.2	8.8	13.7	15.0	55.4	81.8	92.6	93.6	1,894.7	1,889.2	2,335.3					
Investments	0.9	0.3	19.1	19.3	53.1	46.5	45.7	258.4	15.1	276.1	438.3	32.1					
Goodwill	0.0	0.0	0.0	10.1	9.6	10.2	111.0	217.5	217.5	2,662.9	2,733.3	4,053.2					
Intangible Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	57.2	143.8	215.9	276.9					
Working Capital Liabilities																	
Trade Payables	--	--	--	--	--	--	--	--	109.9	424.9	470.0	542.8					
Total Current Liabilities	40.2	53.7	89.4	96.8	135.4	228.2	219.9	211.3	396.2	2,648.1	2,224.3	2,725.0					
ST Borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	255.0	256.4	346.3					
LT Borrowings	52.8	45.6	61.1	64.3	57.2	129.6	354.1	504.3	749.8	3,451.2	3,918.2	4,739.5					
Total Borrowings	52.8	45.6	61.1	64.3	57.2	129.6	354.1	504.3	749.8	3,706.2	4,174.5	5,085.8					
Net Borrowings	46.9	35.5	34.9	31.9	38.0	73.6	290.8	129.7	-407.7	2,624.8	2,877.2	3,679.1					
Net Borrowings / Op. Inc	88.0x	5.4x	1.8x	1.5x	1.0x	1.0x	2.5x	0.6x	-1.6x	9.2x	4.6x	5.1x					
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	542.2	820.5					
Total Shareholders' Equity	2.0	3.2	13.9	53.6	82.9	165.9	227.4	810.1	1,207.9	1,192.4	1,326.0	1,754.9					
Metrics																	
Change in NWC (CF Statement)	-31.8	2.3	6.9	-23.4	-5.7	-74.0	-201.7	-81.2	-81.5	-352.9	-372.8	-18.1					
CASH FLOW																	
CFO	-0.2	5.8	11.6	24.1	25.2	57.7	91.3	99.6	134.8	48.8	291.4	660.6					
Capital Expenditures	2.3	1.3	3.2	6.6	4.9	17.7	29.1	31.3	92.3	143.4	169.5	284.1					
Cash Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	115.5	101.0	0.0	2,770.7	0.0	0.0					
Cash Sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	90.8	0.0					
Purchase of Investments	0.1	0.0	18.0	16.4	25.2	16.9	0.0	1,247.7	1,761.8	-25.0	0.0	256.8					
Sale of Investments	0.0	0.0	2.9	0.3	0.0	21.2	0.0	1,034.2	1,747.9	176.3	0.0	0.0					
Issue of Pref. Shares in Subsidiary	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	649.9	109.1					
Issue of Equity Shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	529.4	304.0	0.0	0.0	0.0					
OTHER METRICS																	
Invested Capital	43.0	38.8	48.9	75.4	111.2	229.3	407.1	722.3	582.7	1,154.3	2,012.0	2,201.3					
ROIC	1.2%	16.9%	38.9%	27.9%	35.3%	31.7%	29.1%	29.6%	42.5%	24.6%	31.3%	32.7%					

Cox & Kings Ltd (BOM:533144)

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December 1, 2014 | LT Holding

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Appendix B: Segment Summary

(in Rs. Crore)	Fiscal Year March					FY 2013				FY 2014				FY 2015		LTM
	2010	**2011**	**2012**	**2013**	**2014**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q2 '15**
Revenues																
Leisure – India	176	236	296	372	419	125	78	84	84	145	85	95	93	166	100	455
Leisure – International	226	262	576	608	611	121	181	191	128	108	181	175	146	120	187	629
Total Leisure	402	498	872	980	1,030	246	259	275	212	253	266	270	239	286	287	1,063
Education	--	--	--	--	--	--	--	--	--	184	181	--	--	252	199	--
Meininger	--	--	--	--	--	--	--	--	--	57	87	--	--	99	95	--
Total Education	--	--	449	491	869	211	179	78	10	241	270	117	241	351	294	1,003
Others	--	--	15	18	25	2	3	4	7	3	6	8	8	11	23	50
Total excl. Camping	402	498	1,336	1,489	1,924	459	441	357	229	497	542	395	488	648	604	2,137
Total incl. Camping	402	498	1,681	1,810	2,308	532	689	357	231	586	819	407	495	738	738	2,379
EBITDA																
Leisure – India	84	119	144	186	207	75	35	37	39	89	39	43	36	102	46	227
Leisure – International	102	109	208	208	209	29	95	46	34	23	90	61	33	27	83	206
Total Leisure	186	228	352	394	416	104	130	83	73	112	129	104	69	129	129	433
Education	--	--	--	--	--	--	--	--	--	109	96	--	--	153	114	--
Meininger	--	--	--	--	--	--	--	--	--	23	42	--	--	49	49	--
Total Education	--	--	227	198	327	110	90	-7	4	132	138	31	27	202	163	422
Others	--	--	-21	-17	-14	-4	-7	-3	-7	-6	-4	-2	-1	-4	-11	-19
Total excl. Camping	186	228	**558**	**575**	**729**	**210**	**213**	**73**	**70**	**238**	**263**	**133**	**95**	**327**	**281**	**836**
Total incl. Camping	186	228	689	723	890	240	387	47	48	277	452	106	55	351	454	966
% Growth																
Leisure – India	--	34%	25%	26%	13%	--	--	--	--	16%	9%	13%	11%	14%	18%	--
Leisure – International	--	16%	120%	6%	0%	--	--	--	--	-11%	0%	-8%	14%	11%	3%	--
Total Leisure	--	24%	75%	12%	5%	--	--	--	--	3%	3%	-2%	13%	13%	8%	--
Education	--	--	--	--	--	--	--	--	--	--	--	--	--	37%	10%	--
Meininger	--	--	--	--	--	--	--	--	--	--	--	--	--	74%	9%	--
Total Education	--	--	--	9%	77%	--	--	--	--	14%	51%	50%	2310%	46%	9%	--
Total excl. Camping	**--**	**24%**	**168%**	**11%**	**29%**	**--**	**--**	**--**	**--**	**8%**	**23%**	**11%**	**113%**	**30%**	**11%**	**--**
% Margin																
Leisure – India	48%	50%	49%	50%	49%	60%	45%	44%	46%	61%	46%	45%	39%	61%	46%	50%
Leisure – International	45%	42%	36%	34%	34%	24%	52%	24%	27%	21%	50%	35%	23%	23%	44%	33%
Total Leisure	46%	46%	40%	40%	40%	42%	50%	30%	34%	44%	48%	39%	29%	45%	45%	41%
Education	--	--	--	--	--	--	--	--	--	59%	53%	--	--	61%	57%	--
Meininger	--	--	--	--	--	--	--	--	--	40%	48%	--	--	49%	52%	--
Total Education	--	--	51%	40%	38%	52%	50%	-9%	40%	55%	51%	26%	11%	58%	55%	42%
Total excl. Camping	**46%**	**46%**	**42%**	**39%**	**38%**	**46%**	**48%**	**20%**	**31%**	**48%**	**49%**	**34%**	**19%**	**50%**	**47%**	**39%**

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Appendix C: Long Term Model

(in Rs. Crore)		Fiscal Year Ended March										
	Current	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Revenue												
Leisure – India	455	523	602	692	796	915	1,052	1,210	1,392	1,601	1,841	2,117
Leisure – International	629	648	667	687	708	729	751	774	797	821	845	871
Total Leisure	1,063	1,171	1,269	1,379	1,504	1,644	1,804	1,984	2,189	2,421	2,686	2,988
Education (incl. Meininger)	1,003	1,128	1,269	1,428	1,607	1,807	2,033	2,288	2,573	2,895	3,257	3,664
Others	50	50	50	50	50	50	50	50	50	50	50	50
Total	2,137	2,349	2,588	2,857	3,160	3,502	3,887	4,321	4,812	5,367	5,993	6,702
EBITDA												
Leisure – India	227	262	303	350	405	468	541	625	722	835	964	1,114
Leisure – International	206	211	215	220	225	230	235	240	245	250	256	261
Total Leisure	433	473	518	570	630	698	776	865	967	1,085	1,220	1,376
Education (incl. Meininger)	422	478	540	612	692	783	886	1,002	1,134	1,283	1,452	1,642
Less: 34% Minority Interest	-143	-162	-184	-208	-235	-266	-301	-341	-386	-436	-494	-558
Total Education	279	315	357	404	457	517	585	662	749	847	958	1,084
Others	-19	-14	-9	-4	0	0	0	0	0	0	0	0
Total	693	774	866	970	1,086	1,215	1,360	1,526	1,716	1,932	2,178	2,460
Less: Run-Rate D&A	125	125	125	125	125	125	125	125	125	125	125	125
Less: Finance Charges	175	149	120	86	45	-3	-48	-85	-128	-176	-232	-296
Subtotal	300	274	245	211	170	122	77	40	-3	-51	-107	-171
Less: 34% Minority Interest	-84	-78	-71	-63	-53	-42	-31	-22	-12	-1	13	28
Net Profit Before Tax	**477**	**578**	**692**	**822**	**970**	**1,134**	**1,315**	**1,509**	**1,731**	**1,984**	**2,273**	**2,602**
Cash Flow	334	404	484	576	679	794	920	1,056	1,211	1,389	1,591	1,822
% Growth												
Leisure – India	--	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Leisure – International	--	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Total Leisure	--	10%	8%	9%	9%	9%	10%	10%	10%	11%	11%	11%
Total Education	--	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%
Net Profit Before Tax	--	21%	20%	19%	18%	17%	16%	15%	15%	15%	15%	15%
% Margin												
Leisure – India	50%	50%	50%	51%	51%	51%	51%	52%	52%	52%	52%	53%
Leisure – International	33%	33%	32%	32%	32%	32%	31%	31%	31%	31%	30%	30%
Total Leisure	41%	40%	41%	41%	42%	42%	43%	44%	44%	45%	45%	46%
Total Education	42%	42%	43%	43%	43%	43%	44%	44%	44%	44%	45%	45%
Debt Schedule												
Borrowings	3,476	3,072	2,587	2,012	1,333	539	0	0	0	0	0	0
Cash	1,000	1,000	1,000	1,000	1,000	1,001	1,381	2,438	3,649	5,038	6,628	8,450
Net Borrowings	2,476	2,072	1,587	1,012	333	-461	-1,381	-2,438	-3,649	-5,038	-6,628	-8,450
Borrowing Cost	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Cash Deposit Rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Interest Expense	209	184	155	121	80	32	0	0	0	0	0	0
Interest Income	35	35	35	35	35	35	48	85	128	176	232	296
Total Finance Charges	174	149	120	86	45	-3	-48	-85	-128	-176	-232	-296
Returns												
Net Profit Before Tax												2,602
Terminal P/E Multiple												15.0x
Market Value	**4,993**											**39,036**
CAGR	**22%**											