

Cox and Kings Ltd

July 24, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Issuer Rating [#]	-	CARE AA (Is); Stable [Double A (Issuer Rating); Outlook: Stable]	Reaffirmed
Long-term Bank Facilities	1,760 [reduced from Rs.1787 crore]	CARE AA: Stable [Double A, Outlook:Stable]	Reaffirmed
Total Facilities	1,760 (Rupees One thousand Seven hundred and Sixty crore only)		
Non-convertible Debentures	800 (Rupees Eight hundred crore only)	CARE AA: Stable [Double A, Outlook:Stable]	Reaffirmed
Commercial Paper issue	375 (Rupees Three hundred Seventy Five crore only)	CARE A1+ [A One Plus]	Reaffirmed
Commercial Paper Issue (carved out)*	1,647 (Rupees One thousand Six hundred and Forty-Seven crore only)	CARE A1+ [A One Plus]	Reaffirmed

Details of instruments/facilities in Annexure-1

#The Issuer Rating would be subject to overall gearing not exceeding 1.01 times (Level as of 31st March 2018)

**Carved out of the sanctioned working capital limits of the company*

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to Cox and Kings Limited (C&K) factors in the healthy business risk profile of the company with diversified product portfolio marked by stable growth in operations. The ratings continue to derive strength from established brand in India as well as in the international markets, healthy liquidity position, company's long track record in the tourism industry, long-standing experience of the promoters, geographical diversity, established relationship with large corporates for ticketing business and travel packages and scale which lends significant bargaining power with its suppliers and supports efficient management of key operating costs resulting into stable operating (PBILDT) margins. In FY2018, EBITDA contribution of Leisure India segment and Leisure International segment were 34% and 22% respectively while Education and Meininger segment contributed 28% and 16% respectively. The ratings also factor in company's monetization plan of its international business by the end of FY2019, leading to significant reduction of debt as envisaged by CARE which will lead to an improvement in the capital structure of the company going forward. The company has already sold 14.58% stake in Prometheon Holdings UK (PHUK) in March 2018 for a consideration of approximately 67 million GBP and the proceeds from the sale were partially utilized to pare debt.

The rating strengths are tempered by seasonality and exposure of the company's travel business to macro-economic factors prevailing in the markets to which it caters and the fragmented nature of the domestic travel industry.

Any delay in monetization of International business beyond FY2019, any significant worsening of capital structure and the coverage indicators of the company compared to the envisaged levels remains the key rating sensitivities and will warrant an adverse rating action.

Detailed description of the key rating drivers

¹ Complete definition of the ratings assigned is available at www.careratings.com and other CARE publications

Key Rating Strengths

Diversified product portfolio and steady growth in key business segments ease the seasonality and economic cycle risk:

The company offers a diverse set of services catering to a varied set of customers spread across multiple geographies providing diversity of revenue streams. During FY18, C&K's Leisure India business contributed 31% (30% last year), Leisure International contributed 15% (17% last year), education business (PGL-provider of school activity courses and adventure holidays for children and NST-study tours for schools and colleges, both part of HBR) contributed 25% (27% last year) and Meininger business contributed 21% (18% last year) to the total net revenue. In FY2018, a decision to de-merge the Foreign Exchange division of the company was taken. While, the scheme of arrangement has been approved by requisite majority in the Shareholders' meeting, the company is in the process of filing the petition to NCLT for sanctioning the Scheme. Cox and Kings Financial Service Limited (CKFSL) has also been granted NBFC license from RBI.

Satisfactory operating performance; comfortable liquidity position: The company reported an improved operating margin of 14.03% in FY18 as against that of 12.35% in FY17 on account of better operating efficiency. Total debt to gross cash accruals (TD/GCA) and net debt to gross cash accruals ratios for FY18 stood at 9.68x and 5.74x respectively while interest coverage ratio was 3.24x. The company also had a comfortable liquidity position marked by healthy cash and cash equivalents of Rs.1619 crore as on March 31, 2018 while the working capital utilization for FY18 stood at an average of 76%.

Long & established track record of operations: C&K has an established track record of over 260 years in the tours and travel industry with strong brand recognition globally. C&K manages its majority of business operations through subsidiaries/JVs/associates spread over in countries like United Kingdom, Japan, Australia, United States of America, etc.

Envisaged debt reduction by FY2019 to improve capital structure: C&K plans to reduce its debt level by monetizing its International business by FY2019. This is expected to reduce the leverage and improve the capital structure of the company going forward.

Key Rating Weaknesses

Seasonality of the tourism industry and exposure of C&K's operations to macroeconomic factors: The travel and tourism industry is highly cyclical in nature and is susceptible to seasonality and factors such as school and public holidays, weather, economic and political conditions. The industry remains susceptible to the various terrorism and other violence related incidents which adversely impacts operational and financial profile of the company.

Fragmented nature of the domestic tourism industry: The Indian tours and travels industry is highly fragmented, with a large number of small unorganised tour operators, resulting in intense competition within the tourism space. However, going forward, the established players, including C&K are expected to gain market share, owing to their greater bargaining power.

Analytical approach: Consolidated

Applicable Criteria:

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Service Sector Companies](#)

Financial ratios – Non-Financial Sector

About the Company

Incorporated in 1939 as Eastern Carrying Company Limited, Cox & Kings Limited (C&K) is an international tour and travels company with operations spread over 22 countries. The company is managed by Mr. A B M Good and Mr. Peter Kerkar, both of them have vast experience in tourism industry. C&K has four major business segments, Leisure-India, Leisure-International, Education and Meininger and are operated through subsidiaries (including step down), associates and joint ventures and are largely concentrated in India and Europe region (including United Kingdom- UK). In 2011 C&K acquired Holiday break UK (HBR)- a leading tour operator in niche segments like education, adventure and camping. Since the acquisition, the Company has been realigning its business in four different verticals; Leisure India, Leisure International, Education and Meininger. Other ancillary businesses of HBR are being slowly divested. In June 2014, the Company sold off its Camping division; in FY16, C&K sold off 100% stake in its Leisure International entity Explore Worldwide (part of HBR acquisition). It also sold its 100% stake in hotel booking website – Late Rooms and short break specialist firm Super break (also part of HBR acquisition) to Malvern Enterprises UK and in turn purchased a 49% stake in Malvern.

During FY18 (refers to the period April 1 to March 31), C&K reported a total income of Rs.6473.84 crore and Profit after tax of Rs.443.87 crore compared with the total income of Rs.7212.23 crore and profit after tax of Rs.211.76 crore in FY17.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	7212.23	6473.84
PBILDT	890.85	908.54
PAT	211.76	443.87
Overall gearing (times)	1.20	1.01
Interest coverage (times)	3.82	3.24

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Not Applicable

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	1685.00	CARE AA; Stable
Non-fund-based - LT-Bank Guarantees	-	-	-	75.00	CARE AA; Stable
Issuer Rating-Issuer Ratings	-	-	-	0.00	CARE AA (Is); Stable
Debentures-Non Convertible Debentures	-	Proposed NCD	Proposed NCD	350.00	CARE AA; Stable
Debentures-Non Convertible Debentures	April 2018	9.00%	April 2021	175.00	CARE AA; Stable
Debentures-Non Convertible Debentures	July 2018	9.00%	August 2019	200.00*	CARE AA; Stable
Debentures-Non Convertible Debentures	March 2014	10.50%	March 2019	75.00	CARE AA; Stable
Commercial Paper	December 2017	8.09%	December 2018	375.00	CARE A1+
Commercial Paper	August 2017	8.17%	March 2019	1647.00	CARE A1+

*Earlier NCDs of Rs.150 crore have been refinanced with a new NCDs of Rs.200 crore

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Commercial Paper	ST	375.00	CARE A1+	-	1)CARE A1+ (07-Jul-17)	1)CARE A1+ (13-Dec-16) 2)CARE A1+ (11-Jul-16)	1)CARE A1+ (16-Oct-15)
2.	Commercial Paper	ST	1647.00	CARE A1+	-	1)CARE A1+ (13-Mar-18) 2)CARE A1+ (07-Jul-17) 3)CARE A1+ (11-May-17)	1)CARE A1+ (08-Mar-17) 2)CARE A1+ (13-Dec-16) 3)CARE A1+ (31-Aug-16) 4)CARE A1+ (11-Jul-16) 5)CARE A1+ (22-Apr-16)	1)CARE A1+ (22-Feb-16) 2)CARE A1+ (14-Jan-16) 3)CARE A1+ (16-Oct-15)

3.	Fund-based-Long Term	LT	1685.00	CARE AA; Stable	-	1)CARE AA; Stable (13-Mar-18) 2)CARE AA; Stable (07-Jul-17) 3)CARE AA; Stable (11-May-17)	1)CARE AA; Stable (08-Mar-17) 2)CARE AA; Stable (13-Dec-16) 3)CARE AA (31-Aug-16) 4)CARE AA (11-Jul-16) 5)CARE AA (22-Apr-16)	1)CARE AA (22-Feb-16) 2)CARE AA (14-Jan-16) 3)CARE AA (16-Oct-15)
4.	Debentures-Non Convertible Debentures	LT	205.00	CARE AA; Stable	-	1)CARE AA; Stable (07-Jul-17)	1)CARE AA; Stable (13-Dec-16) 2)CARE AA (11-Jul-16)	1)CARE AA (16-Oct-15)
5.	Debentures-Non Convertible Debentures	LT	595.00	CARE AA; Stable	-	1)CARE AA; Stable (07-Jul-17)	1)CARE AA; Stable (13-Dec-16) 2)CARE AA (11-Jul-16)	1)CARE AA (16-Oct-15)
6.	Non-fund-based - LT- Bank Guarantees	LT	75.00	CARE AA; Stable	-	1)CARE AA; Stable (13-Mar-18) 2)CARE AA; Stable (07-Jul-17) 3)CARE AA; Stable (11-May-17)	1)CARE AA; Stable (08-Mar-17) 2)CARE AA; Stable (13-Dec-16) 3)CARE AA (31-Aug-16) 4)CARE AA (11-Jul-16) 5)CARE AA (22-Apr-16)	1)CARE AA (22-Feb-16) 2)CARE AA (14-Jan-16) 3)CARE AA (16-Oct-15)
7.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AA (Is); Stable	-	1)CARE AA (Is); Stable (07-Jul-17)	1)CARE AA (Is); Stable (13-Dec-16) 2)CARE AA (Is) (11-Jul-16)	1)CARE AA (Is) (14-Jan-16)

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