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Provogue India*Embedded value – still to sizzle***Buy****Company Flash**Change in Estimates Target Reco Sangeeta Tripathi
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- **Prozone dilutes its stake in SPV.** Prozone Enterprise, has sold 27% of its stake in the four projects (at Aurangabad, Indore, Nagpur and Jaipur), to Triangle India Fund for Rs4.57bn. After the transaction, the implied value for the four projects stands at Rs16.9bn
- **Valuation, marginally lower than estimates.** In our initiating coverage report dated 28th Feb.'08, we had valued the four projects at Rs18.7bn, and had assumed a 35% stake sale at a 10% discount to our fair value. The present valuation is at marginal (9%) discount to our estimates.
- **Reconfirms the execution ability of Prozone.** The present stake sale is instrumental in that it reconfirms Prozone's execution ability and the unique self-funding mechanism of its business model illustrated in our initiating coverage report dated 28th Feb.'08.
- **Another dilution in the offing.** Our discussion with the management leads us to believe that yet another dilution (of about 7-8%) is likely to take place for these four projects. After utilizing Rs1bn for the present projects, these dilutions would leave Rs4.76bn with Prozone to be utilized to develop its other projects.
- **Maintain rating and target price.** Our sum-of-parts valuation of Provogue gives a target of Rs1,700. The apparel retail business is valued at 19x FY10E EPS, at Rs600 a share. The retail real estate development and management play, Prozone, is valued at Rs1,100 a share.

Key Data

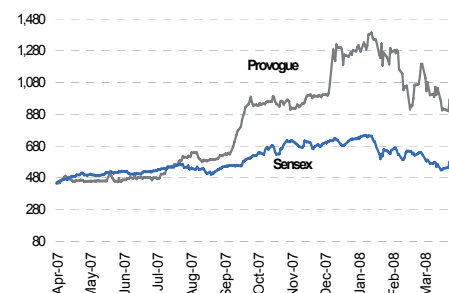
Market price	Rs1,131
Target price.....	Rs1,700
52-W hi/lo	Rs 1,460/441
Sensex/Nifty	15,644/4,734
3-mth avg. vol	US\$0.49m
Market cap	Rs21bn/ US\$0.5m
Shares o/s	19.1m
Free float	56.4%
Promoters	43.6%
FII's	28.5%
DII's	4.1%
Public	16.0%

Key Financials

Year ending 31-Mar	FY06	FY07	FY08e	FY09e	FY10e
Revenue (Rsm)	1,548	2,327	3,490	5,050	6,834
Growth (%)	40.8	50.3	50.0	44.7	35.3
EBITDA (Rsm)	218	322	501	777	1029
Margin (%)	14.1	13.8	14.3	15.4	15.1
PAT (Rsm)/ Cons. PAT (Rsm)	123	176	301	508	663
Growth (%)	81.5	42.4	71.4	68.7	30.4
EPS (Rs)	5.9	8.4	14.4	24.3	31.7
BV (Rs)	52.2	137.1	189.8	214.1	245.8
DPS (Rs)	10	10	-	-	-
RoCE (%)	15.2	10.7	10.4	13.3	15.0
RoE (%)	16.1	8.9	8.8	12.0	13.8
P/E (x)	186.3	130.8	76.3	45.2	34.7
P/BV (x)	21.1	8.0	5.8	5.1	4.5
Div. yield (%)	-	-	-	-	-
EV/ EBITDA (x)	79.4	53.8	34.6	22.3	16.8

Price Performance

	3 m	6 m	12 m
Absolute	-13.8	21.0	153.1
Relative	9.8	33.4	129.8



Stake sale reaffirms Prozone's ability to scale

- Stake sale to Triangle India Fund reaffirms Prozone's execution capability
- Discussion with management leads us to believe another stake sale in the same SPV is in the offing

Roping in Triangle India brings credibility.

Triangle India Fund is co-promoted by Old Mutual Investment Group Property Investments (OMIGPI), the property division of Old Mutual Plc (OM) and the ICS Group. OM is a UK-listed FTSE-100 financial services group into life assurance, asset management, banking and general insurance. It currently has over \$550bn in assets under management.

OMIGPI is a full-service property company with a growing international reputation for innovation. It manages over 50 shopping centers world-wide, catering to more than 4,500 tenants. The ICS Group provides a comprehensive range of property services through a number of joint ventures with international domain leaders.

The stake sale to a player of such stature and experience, coupled with an experienced JV partner, Liberty International, makes us comfortable with regard to the execution capability, and the unique self-funding mechanism of Prozone.

As per its self-funding mechanism, Prozone would bundle three to four of its projects into an SPV (shell companies) and dilute its stake in this SPV. This route, we believe would not only ensure infusion in the SPV to fund the project, but would also provide Prozone the necessary capital to fund development of other properties. We see merit in bundling of projects rather than raising funds for individual projects.

Further dilutions in the offing.

Our discussion with the management leads us to believe that yet another dilution (of around 7-8%) is likely to take place for the same four projects. After utilizing Rs1bn for the present projects, these dilutions would leave Rs4.76bn with Prozone to be utilized to develop its other projects.

Prozone is also continuously exploring retail opportunities in tier-II and tier-III cities. It has identified five other locations for development. In line with its business plan, it has formed six subsidiaries as SPV's to develop and manage its projects. Ahead, at an opportune time, Prozone would dilute stakes in each of these SPV's.