

RESULT UPDATE ✓

Vishal Retail (VISRET)

WHAT'S CHANGED...

PRICE TARGET.....	Changed to Rs 46 from Rs 93
EPS (FY09E).....	Changed to Rs 9.92 from Rs 13.34
EPS (FY10E).....	Changed to Rs 11.62 from Rs 18.64
RATING.....	Changed to Underperformer

Current Price Rs 56	Target Price Rs 46
Potential upside -18%	Time Frame 12-15 months

UNDERPERFORMER

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Disappointing performance continues...

Vishal Retail's Q3FY09 results are far below our expectations. The company has reported net profit of Rs 2.15 crore as against our expectation of Rs 4.26 crore. This is on account of weak consumer sentiment, high debt (Rs 765 crore) and high inventory (Rs 813 crore) with the company. The same store sales have registered de-growth of more than 10% in the quarter.

During Q3FY09, Vishal Retail has been focusing on cost control measures to improve the efficiency of the company. This has yielded positive results, with the operating profit margin improving to 12.32% from 11.73% in Q2FY09. The company added 536,162 sq ft in the quarter taking the total space to 2.88 mn sq ft from 2.34 mn sq ft in Q2FY09.

Concerns

The company has very high inventory of Rs 813 crore of which 20% is winter-specific, which will have to be cleared by providing steep discounts.

At the end of Q3FY09, the company has debt of Rs 765 crore. Vishal Retail does not have cash except the credit limits for working capital, which are unutilised to the extent of Rs 10 crore maximum. The debt repayment ability of the company has sharply deteriorated.

Valuations

The high debt and inventory with the company is adding to the difficult retail scenario. We are revising our estimates and target P/E downwards to arrive at a target price of Rs 46 per share. As a result, we are revising the rating downward to **UNDERPERFORMER**.

Exhibit 1: Key Financials

	Q3FY09A	Q3FY09E	Q3FY08	Q2FY09	YoY Gr. (%)	QoQ Gr. (%)	YTDFY09	FY09E	FY10E
	<i>Rs Crore</i>								
Net Sales	355.5	381.6	301.7	358.3	17.8	-0.8	1090.3	1381.4	1574.4
EBIDTA	43.8	41.3	41.1	42.0	6.6	4.2	134.9	169.5	198.5
EBIDTA Margin (%)	12.3	10.8	13.6	11.7			12.4	12.3	12.6
Depreciation	13.4	11.6	7.5	11.3	79.5	17.9	34.5	44.6	49.6
Interest	28.6	24.0	12.0	26.2	137.3	9.0	72.3	97.6	115.9
Other Income	2.1	1.5	1.9	2.4	13.2	-11.9	6.4	8.5	9.0
Reported Net Profit	2.2	4.3	15.0	4.1	-85.6	-47.2	20.3	22.2	26.0
EPS (Rs)	1.0	1.9	6.7	1.8	-85.6	-47.2	9.0	9.9	11.6
Valuation									
PE (x)	-	-	-	-	-	-	-	5.6	11.6
Target PE (x)	-	-	-	-	-	-	-	4.6	4.0
EV to EBIDTA (x)	-	-	-	-	-	-	-	5.2	4.7
Price to book (x)	-	-	-	-	-	-	-	0.4	0.4
RoNW (%)	-	-	-	-	-	-	-	7.6	8.1
RoCE (%)	-	-	-	-	-	-	-	12.6	13.8

Source: Company, ICICIdirect.com Research

Stock data

Market Cap.	Rs. 125.44 Cr
Debt(FY08)	Rs. 532.80 Cr
Cash (FY08)	Rs. 54.96 Cr
EV	Rs. 411.98 Cr
52 week H/L	Rs. 889/56
Equity capital	Rs. 22.40 Cr
Face value	Rs. 10.00
MF Holding	3.20%
FII Holding	9.22%

Price performance (%)

Company	1M	3M	6M	12M
Vishal Retail	-48	-55	-85	-92
Koutons Retail	7	-26	-34	-39

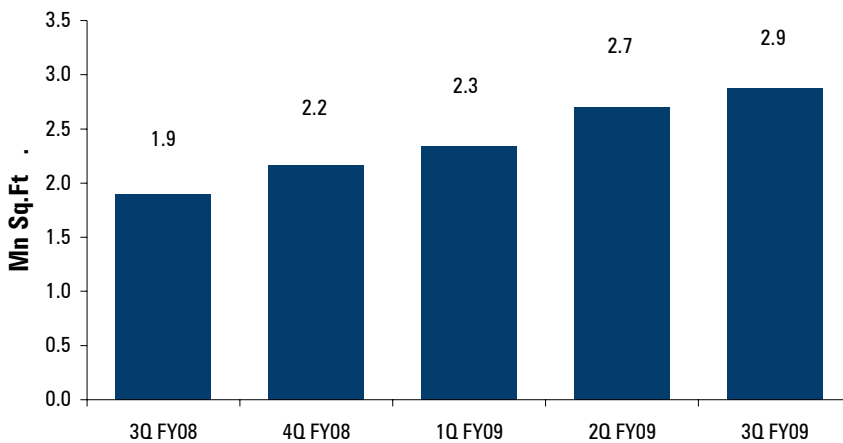
Sales growth of 17.8% YoY

For Q3FY09, the company reported 17.80% growth in net sales to Rs 355.45 crore as against Rs 301.74 crore in Q3FY08. This quarter the company has shown a flat performance with respect to Q2FY09 with net sales of Rs 358.34 crore. This is on account of weak consumer sentiments, which are resulting in lower turnover in shelf space. As a result, the average realisation per square feet (psf) has declined to Rs 1272.9 from Rs 1419.5 psf in Q2FY09.

Retail space increased to 2.9 mn sq ft

Vishal Retail added 536,162 sq ft of retail space in Q3FY09. With this addition, the retail space under operations increased to 2.88 mn sq ft from 2.7 mn sq ft in Q2FY09. The company added 27 stores during the quarter to reach 181 stores from 154 stores in Q2FY09. This includes 148 megamarts, 12 cornermarts, eight fashionmarts and 13 franchisees.

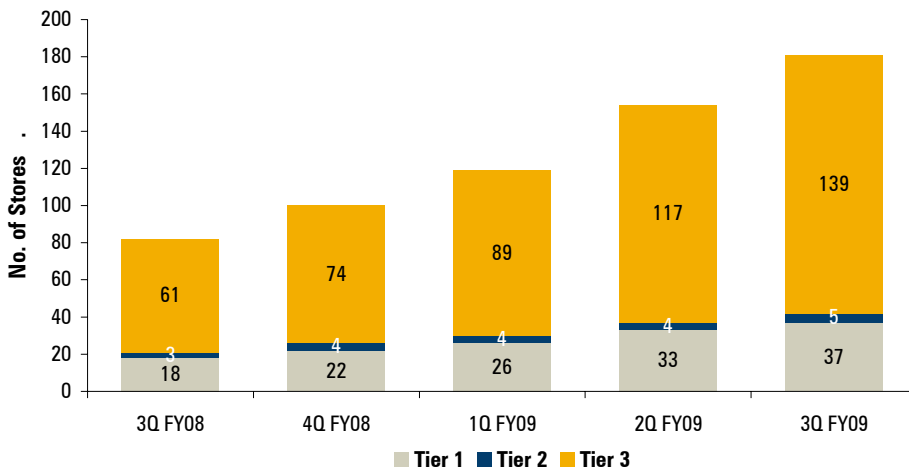
Exhibit 2: Retail space reached 2.7 mn sq ft



Source: Company, ICICIdirect.com Research

Vishal Retail maintained its strategy to keep 75-80% of stores in Tier-II and Tier-III cities. The company added 22 stores in Tier-III cities and four stores in Tier-I cities during the quarter. The company is now present in 108 cities and 24 states and union territories, adding 11 new cities to its geographical reach.

Exhibit 3: 79% of stores in Tier-II and Tier-III cities



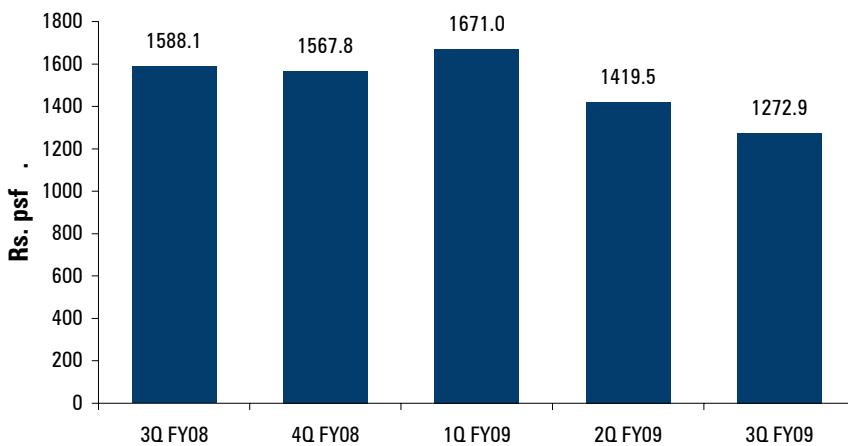
Source: Company, ICICIdirect.com Research

Lowest average realisation in recent quarters

The company earned lowest average realisation in recent quarters in Q3FY09 as can be seen from the following exhibit. We believe this is due to the following reasons:

1. Weak consumer sentiments affecting the spend on discretionary products.
2. Lower contribution of apparel in sales, which is a high ticket product.

Exhibit 4: Lowest average realisation in last 4 quarters

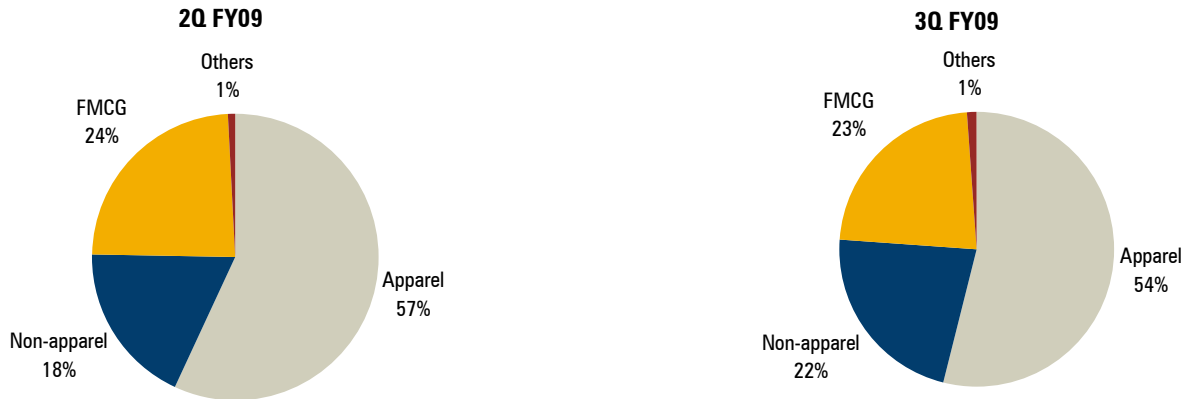


Source: Company, ICICIdirect.com Research

Changing revenue mix

The revenue mix of the company is following the same trend as in the last quarter. The share of apparel sales decreased further by 3% to reach 54% of total sales in Q2FY09 as compared to 57% in Q2FY09 and 62.4% in Q1FY09. Likewise, the share of non-apparels increased to 22.4% of total sales in the quarter from 18.2% in Q2FY09 and 16.7% in Q1FY09. The share of FMCG decreased to 22.6% from 24.1% in Q2FY09. This signifies that consumers are reducing discretionary expenses like clothing, which may affect Vishal Retail's margin if such a trend persists for a long time.

Exhibit 5: Apparel Share declining to 54%

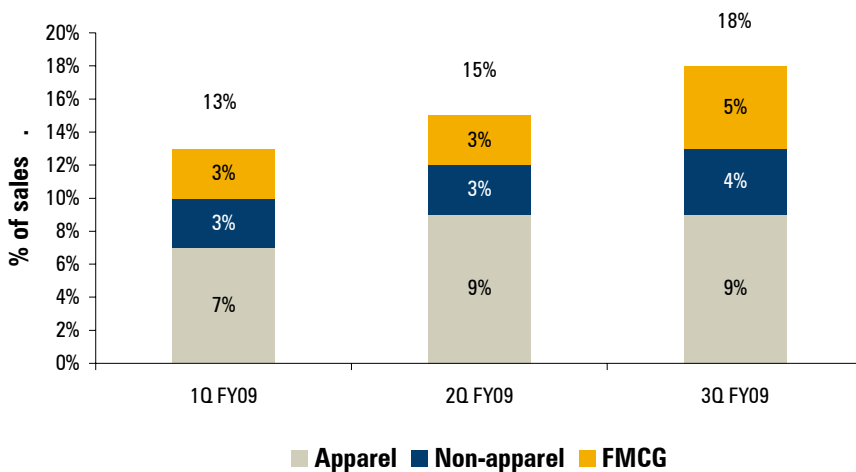


Source: Company, ICICIdirect.com Research

Increasing private label sales

The share of private labels increased to 18% in the current quarter from 13% in Q1FY09 and 15% in Q2FY09. This is in line with the company's strategy of increasing private label sales share to 25%. We believe this will enable the company to cushion the margin pressure.

Exhibit 6: Increasing private label sales



Source: Company, ICICIdirect.com Research

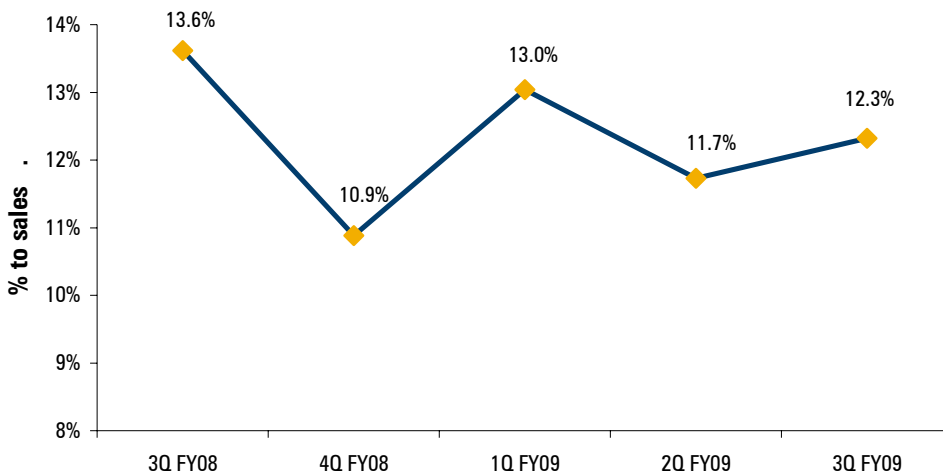
Operational efficiency: key target

The key focus of the company is reducing cost and improving the efficiency of the company. Vishal Retail introduced the following measures for the same:

1. Reducing area of less profitable stores – The company has the reduced area in 12 stores with existing size of more than 25000 sq ft.
2. Optimising warehousing space – As communicated in the last update, the company has discontinued the regional warehouses and consolidated the warehouses in the National Capital Region (NCR). These warehouses will now be acting as the centralised warehouses for supply throughout the country.
3. Other measures – The company is undertaking other measures such as bar-coding and unitised packing at vendor's end and recycling of cartons.
4. According to the management, it has been able to increase the credit period with vendors in the range of 30-90 days, except with FMCG players.

The above measures are expected to improve the operating margin of the company. Its effect can be seen in the current quarter wherein, the operating profit margin has increased to 12.32% from 11.73% in Q2FY09.

Exhibit 7: Operating profit margin improved to 12.32%



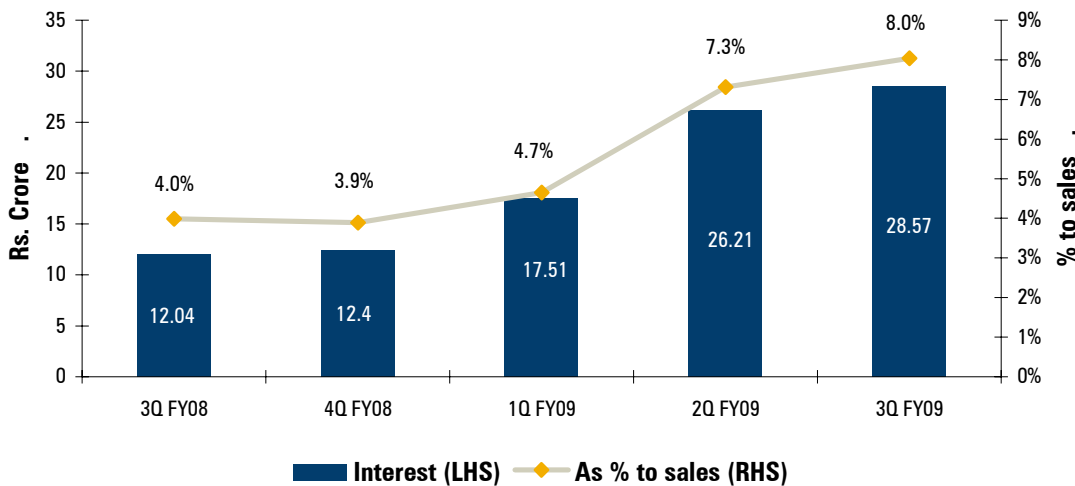
Source: Company, ICICIdirect.com Research

Concerns

Higher interest cost

The high interest cost has adversely affected the net profit margin of the company. The interest cost as percentage of sales has increased from 3.99% in Q3FY08 to 8.04% in Q3FY09. This is because of the higher working capital intensive nature of business. We believe the interest cost will continue to be high for the next two years due to the deteriorating debt servicing position of the company. The company has net debt of Rs 765 crore at the end of Q3FY09 whereas it has only Rs 10 crore approximately in the form of working capital limits as a substitute to cash. As a result, the company will be unable to repay the current debt due to insufficient cash available and lower sales generation on account of weak consumer sentiments.

Exhibit 8: Increasing interest cost



Source: Company, ICICIdirect.com Research

High inventory

The company has very high inventory of Rs 813 crore. To convert this inventory to sales, the company will have to provide steep discounts resulting in lower realisation and profitability. We are very cautious of the winter period inventory, which is approximately 20% of the current inventory. It may even have to sell this inventory at a loss so that money is released and converted into sales, realising cash for debt repayment. Such deep discounts may result into higher sales but for a short period of time, which is not sustainable.

Revising capex assumptions downwards

Owing to cash crunch faced and the conscious decision of management to halt capex, going forward, we are revising our capex estimates downwards. Accordingly, we are revising our retail space assumption downwards to 2.98 mn sq ft in FY09 and 3.08 mn sq ft in FY10 from the earlier 3.19 mn sq ft in FY09 and 4.49 mn sq ft in FY10, respectively. As a result, the capex requirement has been revised downwards to Rs 223.11 crore in FY09 and Rs 26 crore in FY10 from the earlier Rs 275 crore in FY09 and Rs 338 crore in FY10.

Exhibit 9: Revised Expansion Assumptions

Particulars	FY09			FY10		
	Now	Earlier	% Chg	Now	Earlier	% Chg
Space (Mn sq.ft.)	3.0	3.2	-6.6	3.1	4.5	-31.4
Capex	223.1	275.1	-18.9	26.0	338.0	-92.3

Source: ICICIdirect.com Research

Revising sales and profit estimates lower

Due to lower-than-expected growth in space additions, significantly lower realisation psf this quarter, weak consumer sentiments and halting expansion plans, we are revising our sales estimates downwards. Also, the high debt situation is expected to continue for at least the next four quarters. As a result, we are revising the net profit estimates downwards by 25.66% in FY09 and 37.66% in FY10 to Rs 22.22 crore and Rs 26.08 crore, respectively.

Exhibit 10: Revised Sales and profit estimates

Particulars	FY09			FY10		
	Now	Earlier	% Chg	Now	Earlier	% Chg
Sales	1381.4	1420.4	-2.7	1574.4	1927.2	-18.3
Net profit	22.2	29.9	-25.7	26.0	41.8	-37.7
EPS	9.9	13.3	-25.7	11.6	18.6	-37.7

Source: ICICIdirect.com Research

Valuations

Vishal Retail is present in the value segment of the retail industry wherein the growth story of the Indian retail sector lies. However, the company is moderating its growth aspirations due to massive expansion done in the last two years. Also, this massive expansion and high growth aspirations in the past have resulted in high debt with the company. The company has been unable to raise adequate equity required for this kind of expansion in the recent period due to volatile equity markets. Although the company is entering into a franchise model for further growth, it will be unable to meet the expansion plans it has targeted earlier. The weak consumer sentiment due to the uncertain macroeconomic scenario is adding to the woes of the company.

Hence, we remain cautious on the company due to high debt cost and the moderating growth rate. We value the company at a P/E of 4x its revised FY10E EPS of Rs 11.62 per share arriving at the revised target price of Rs 46 per share downgrading from our earlier target price of Rs 93 per share.

Exhibit 11: Valuations

	Sales	(Rs. crore)	EPS (Rs.)	PE (x)	EV/EBIDTA (X)	RoNW (%)	RoCE (%)
	FY08		953.0	18.1	3.1	5.0	15.0
FY09E		1381.4	9.9	5.6	5.2	7.6	12.6
FY10E		1574.4	11.6	4.8	4.7	8.1	13.8

Source: Company, ICICIdirect.com Research

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Exhibit 12: Valuation

Vishal Retail			Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA	RoNW (%)	RoCE (%)
Idirect Code	VISRET CMP (Rs.)	56 FY08	953.0	18.1	3.1	5.0	15.0	12.6
	Target (Rs.)	46 FY09E	1381.4	9.9	5.6	5.2	7.6	12.6
MCap	125.4 Upside (%)	-18 FY10E	1574.4	11.6	4.8	4.7	8.1	13.8
Koutons Retail			Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA	RoNW (%)	RoCE (%)
Idirect Code	KOURET CMP (Rs.)	490 FY08	793.5	22.7	21.5	12.4	19.9	19.2
	Target (Rs.)	670 FY09E	1228.8	32.6	15.0	9.0	22.2	20.6
MCap	1497.0 Upside (%)	37 FY10E	1654.6	45.5	10.8	7.2	23.6	22.1

Source: Company, ICICIdirect.com Research

Peer Valuation

	CMP (Rs.)	M Cap (Rs. Crore)	EPS (Rs.)			P/E (x)			EV/EBIDTA (x)			ROE (%)			ROCE (%)		
			FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
Pantaloon	161.0	2858.0	7.3	9.6	14.3	22.0	16.8	11.3	12.6	8.5	6.4	10.7	8.7	10.8	5.5	4.4	4.7
Shoppers Stop	96.0	343.0	3.6	-9.5	-1.5	27.0	-10.1	-66.0	7.8	11.6	5.1	4.4	-9.4	-2.9	3.3	-3.1	0.7
Vishal Retail	56.0	125.4	18.1	9.9	11.6	3.1	5.6	4.8	5.0	5.2	4.7	15.0	7.6	8.1	12.6	12.6	13.8

Source: Bloomberg, ICICIdirect.com Research

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