

UBS Investment Research

Pantaloen Retail (India) Ltd.

Dilution on the cards

■ Event: Pantaloen to raise Rs15bn

Pantaloen Retail's (PRIL) board has cleared a proposal to raise Rs15bn by issuing equity-linked securities. The securities to be issued could either be convertible instruments, debt instruments with attached warrants giving the holder the right to subscribe for Equity Class B shares, or issue of Class B shares. Class B shares issued by PRIL have the right to an additional dividend over Class A shares. The board has agreed on some upper limits: 1) stake dilution of less than 15%; and 2) debt to equity less than or equal to 1.33x.

■ Impact: EPS dilution near term if the issue goes through

If PRIL issues shares and uses the entire proceeds to repay its debt, there could be a potential dilution of ~8-10% in FY12E PAT. The debt to equity ratio for core retail was 1.12x as at FY11. The discount for high leverage has been built into the stock.

■ Action: key catalyst for the stock is non-core divestment

We believe the key catalyst for the stock is divestment of its non-core business, which we fear could be pushed now given the urgency of capital issuance in a risk-off market. We believe the stock will likely remain range-bound due to the delay in divestment of non-core businesses and the announcement of a share dilution.

■ Valuation: maintain Buy with price target of Rs400

We maintain our Buy rating and price target of Rs400. We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool. We assume a WACC of 12%.

Highlights (Rsm)	06/09	06/10	06/11E	06/12E	06/13E
Revenues	66,614	89,261	110,123	136,807	166,649
EBIT (UBS)	5,284	6,068	6,925	8,514	10,574
Net Income (UBS)	1,406	2,431	1,897	2,840	3,993
EPS (UBS, Rs)	7.39	11.79	8.76	13.11	18.44
Net DPS (UBS, Rs)	0.61	0.70	0.72	0.75	0.80

Profitability & Valuation	5-yr hist av.	06/10	06/11E	06/12E	06/13E
EBIT margin %	6.6	6.8	6.3	6.2	6.3
ROIC (EBIT) %	14.1	14.1	14.2	15.4	17.0
EV/EBITDA (core) x	15.0	9.7	5.6	4.8	4.1
PE (UBS) x	51.1	30.7	21.6	14.4	10.3
Net dividend yield %	0.2	0.2	0.4	0.4	0.4

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs189.05 on 03 Oct 2011 23:55 SGT

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Global Equity Research

India

Retailers, Broadline

12-month rating **Buy**
Unchanged

12m price target **Rs400.00/US\$8.13**
Unchanged

Price **Rs189.05/US\$3.84**

RIC: PART.BO BBG: PF IB

4 October 2011

Trading data (local/US\$)

52-wk range	Rs517.40-189.05/US\$11.66-3.85
Market cap.	Rs41.0bn/US\$0.83bn
Shares o/s	217m (ORD)
Free float	60%
Avg. daily volume ('000)	791
Avg. daily value (m)	Rs234.9

Balance sheet data 06/11E

Shareholders' equity	Rs39.4bn
P/BV (UBS)	1.0x
Net Cash (debt)	(Rs27.9bn)

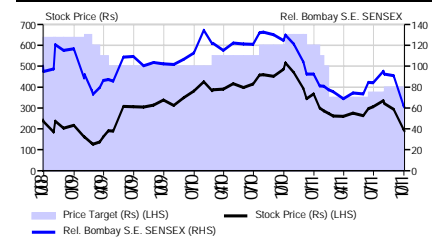
Forecast returns

Forecast price appreciation	+111.6%
Forecast dividend yield	0.4%
Forecast stock return	+112.0%
Market return assumption	13.3%
Forecast excess return	+98.7%

EPS (UBS, Rs)

	06/11E	06/10
	UBS	Cons. Actual
Q1	1.97	- 1.38
Q2	2.18	2.88 4.35
Q3	2.33	2.06 1.82
Q4E	2.27	2.61 4.35
06/11E	8.76	9.60
06/12E	13.11	13.11

Performance (Rs)



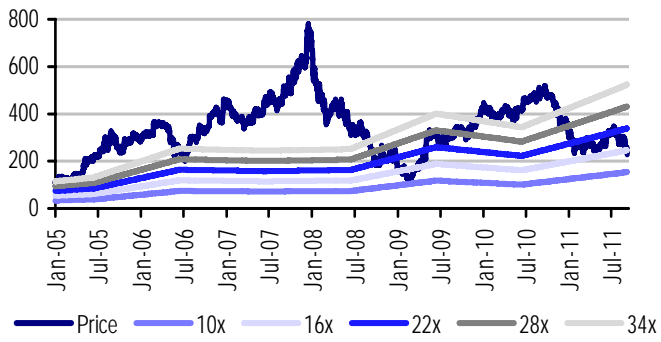
Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 5.

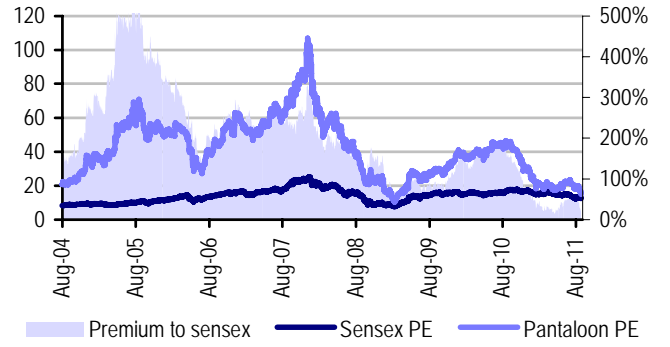
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Chart 1: PRIL 1-yr fwd PE band chart



Source: Reuters, UBS estimates

Chart 2: PRIL premium/discount to Sensex



Source: Reuters, UBS estimates

Pantaloon Retail (India) Ltd.

Income statement (Rsm)	06/06	06/07	06/08	06/09	06/10	06/11E	% ch	06/12E	% ch	06/13E	% ch
Revenues	19,548	33,928	52,959	66,614	89,261	110,123	23.4	136,807	24.2	166,649	21.8
Operating expenses (ex dephn)	(18,153)	(31,772)	(48,354)	(59,930)	(81,070)	(100,522)	24.0	(124,836)	24.2	(151,869)	21.7
EBITDA (UBS)	1,395	2,156	4,605	6,684	8,191	9,600	17.2	11,971	24.7	14,780	23.5
Depreciation	(208)	(369)	(834)	(1,401)	(2,123)	(2,675)	26.0	(3,457)	29.2	(4,207)	21.7
Operating income (EBIT, UBS)	1,187	1,787	3,771	5,284	6,068	6,925	14.1	8,514	22.9	10,574	24.2
Other income & associates	30	920	38	61	857	208	-75.7	325	56.1	325	0.0
Net interest	(369)	(898)	(1,853)	(3,182)	(3,913)	(4,288)	9.6	(4,601)	7.3	(4,939)	7.3
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	848	1,810	1,956	2,162	3,012	2,845	-5.6	4,238	49.0	5,960	40.6
Tax	(277)	(610)	(697)	(757)	(582)	(948)	63.1	(1,399)	47.5	(1,967)	40.6
Profit after tax	570	1,200	1,260	1,406	2,431	1,897	-22.0	2,840	49.7	3,993	40.6
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	0	0	0	0	0	0	-	0	-	0	-
Net income (local GAAP)	570	1,200	1,260	1,406	2,431	1,897	-22.0	2,840	49.7	3,993	40.6
Net Income (UBS)	570	1,200	1,260	1,406	2,431	1,897	-22.0	2,840	49.7	3,993	40.6
Tax rate (%)	33	34	36	35	19	33	72.7	33	-1.0	33	0.0
Pre-abnormal tax rate (%)	34	69	36	36	19	33	72.7	33	-1.0	33	0.0
Per share (Rs)	06/06	06/07	06/08	06/09	06/10	06/11E	% ch	06/12E	% ch	06/13E	% ch
EPS (local GAAP)	3.86	7.43	7.19	7.39	11.79	8.76	-25.7	13.11	49.7	18.44	40.6
EPS (UBS)	3.86	7.43	7.19	7.39	11.79	8.76	-25.7	13.11	49.7	18.44	40.6
Net DPS	0.50	0.51	0.67	0.61	0.70	0.72	2.9	0.75	4.2	0.80	6.7
Cash EPS	5.27	9.72	11.95	14.75	22.09	21.11	-4.5	29.07	37.7	37.86	30.2
BVPS	35.64	70.57	105.39	119.41	183.63	181.63	-1.1	194.02	6.8	211.68	9.1
Balance sheet (Rsm)	06/06	06/07	06/08	06/09	06/10	06/11E	% ch	06/12E	% ch	06/13E	% ch
Net tangible fixed assets	3,094	6,746	11,982	15,688	23,292	26,658	14.5	28,786	8.0	31,307	8.8
Net intangible fixed assets	0	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	6,633	13,580	22,005	26,068	23,322	26,890	15.3	30,972	15.2	35,734	15.4
Other liabilities	(279)	(558)	(678)	(1,161)	(1,287)	(1,287)	0.0	(1,287)	0.0	(1,287)	0.0
Operating invested capital	9,448	19,768	33,308	40,594	45,326	52,261	15.3	58,470	11.9	65,754	12.5
Investments	1,617	2,520	5,865	9,540	20,032	15,024	-25.0	15,024	0.0	15,024	0.0
Total capital employed	11,065	22,288	39,173	50,135	65,358	67,285	2.9	73,494	9.2	80,778	9.9
Shareholders' equity	5,269	10,922	18,466	22,724	37,846	39,413	4.1	42,101	6.8	45,934	9.1
Minority interests	0	0	0	0	0	0	-	0	-	0	-
Total equity	5,269	10,922	18,466	22,724	37,846	39,413	4.1	42,101	6.8	45,934	9.1
Net debt / (cash)	5,796	11,366	20,707	27,411	27,512	27,872	1.3	31,393	12.6	34,844	11.0
Other debt-deemed items	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	11,065	22,288	39,173	50,135	65,358	67,285	2.9	73,494	9.2	80,778	9.9
Cash flow (Rsm)	06/06	06/07	06/08	06/09	06/10	06/11E	% ch	06/12E	% ch	06/13E	% ch
Operating income (EBIT, UBS)	1,187	1,787	3,771	5,284	6,068	6,925	14.1	8,514	22.9	10,574	24.2
Depreciation	208	369	834	1,401	2,123	2,675	26.0	3,457	29.2	4,207	21.7
Net change in working capital	(3,362)	(6,474)	(6,451)	(3,928)	1,484	(2,667)	-	(4,082)	53.1	(4,762)	16.7
Other (operating)	30	920	38	61	860	208	-75.8	325	56.1	325	0.0
Operating cash flow (pre tax/interest)	(1,937)	(3,398)	(1,808)	2,817	10,535	7,142	-32.2	8,214	15.0	10,343	25.9
Net interest received / (paid)	(369)	(898)	(1,853)	(3,182)	(3,913)	(4,288)	9.6	(4,601)	7.3	(4,939)	7.3
Dividends paid	(67)	(75)	(107)	(116)	(144)	(144)	0.00	(151)	4.53	(161)	6.67
Tax paid	(277)	(610)	(697)	(757)	(582)	(972)	67.2	(1,399)	43.8	(1,967)	40.6
Capital expenditure	(1,868)	(4,471)	(8,065)	(5,252)	(8,656)	(5,952)	-31.2	(5,585)	-6.2	(6,728)	20.5
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	(1,293)	(905)	(3,327)	(3,684)	(6,395)	4,985	-	(23)	-	(25)	6.7
Share issues	2,560	4,541	6,410	2,988	13,212	(196)	-	23	-	25	6.7
Cash flow (inc)/dec in net debt	(3,251)	(5,815)	(9,446)	(7,186)	4,057	574	-85.8	(3,521)	-	(3,451)	-2.0
FX / non cash items	102	245	105	483	(4,158)	(935)	-77.5	0	-	0	7.1
Balance sheet (inc)/dec in net debt	(3,149)	(5,570)	(9,341)	(6,704)	(101)	(361)	256.3	(3,521)	876.6	(3,451)	-2.0
Core EBITDA	1,395	2,156	4,605	6,684	8,191	9,600	17.2	11,971	24.7	14,780	23.5
Maintenance capital expenditure	(1,868)	(4,471)	(8,065)	(5,252)	(8,656)	(5,952)	-31.2	(5,585)	-6.2	(6,728)	20.5
Maintenance net working capital	0	0	0	0	0	0	-	0	-	0	-
Operating free cash flow, pre-tax	(473)	(2,315)	(3,460)	1,432	(465)	3,649	-	6,386	75.0	8,053	26.1

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

12-month rating

Buy

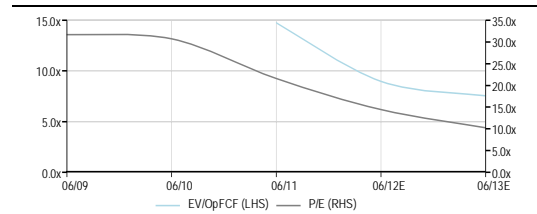
12m price target

Rs400.00

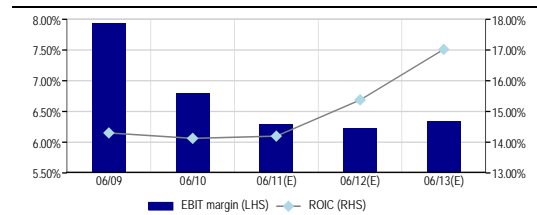
Company profile

Pantaloon is India's largest listed retailer. It is rapidly building retail capacity in its two main retailing formats: lifestyle and value retailing. In the lifestyle segment, its Pantaloon stores and the upcoming Central stores offer apparel and fashion items targeting the middle-income market. Its Big Bazaar discount stores target the price-conscious apparel and grocery markets (the latter through the Food Discount brand).

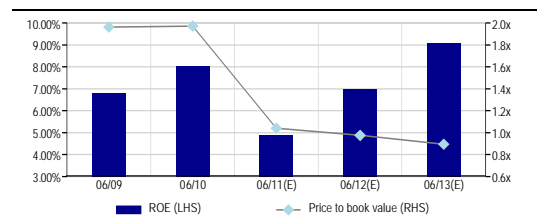
Value (EV/OpFCF & P/E)



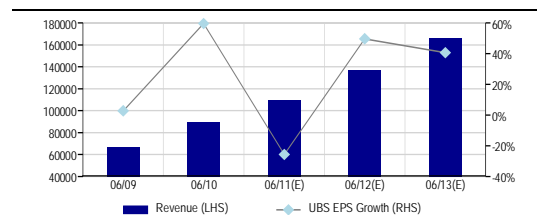
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	06/09	06/10	06/11E	06/12E	06/13E
P/E (local GAAP)	51.1	31.7	30.7	21.6	14.4	10.3
P/E (UBS)	51.1	31.7	30.7	21.6	14.4	10.3
P/CEPS	33.3	15.9	16.4	9.0	6.5	5.0
Net dividend yield (%)	0.2	0.3	0.2	0.4	0.4	0.4
P/BV	4.4	2.0	2.0	1.0	1.0	0.9
EV/revenue (core)	1.3	0.9	0.9	0.5	0.4	0.4
EV/EBITDA (core)	15.0	8.8	9.7	5.6	4.8	4.1
EV/EBIT (core)	19.1	11.2	13.1	7.8	6.7	5.8
EV/OpFCF (core)	NM	NM	NM	14.8	9.0	7.6
EV/op. invested capital	2.7	1.6	1.9	1.1	1.0	1.0

Enterprise value (Rsm)	06/09	06/10	06/11E	06/12E	06/13E
Average market cap	41,074	72,125	41,024	41,024	41,024
+ minority interests	0	0	0	0	0
+ average net debt (cash)	27,411	27,512	27,872	31,393	34,844
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(9,540)	(20,032)	(15,024)	(15,024)	(15,024)
Core enterprise value	58,944	79,605	53,872	57,393	60,844

Growth (%)	5Yr Avg	06/09	06/10	06/11E	06/12E	06/13E
Revenue	46.2	25.8	34.0	23.4	24.2	21.8
EBITDA (UBS)	55.7	45.1	22.5	17.2	24.7	23.5
EBIT (UBS)	50.4	40.1	14.8	14.1	22.9	24.2
EPS (UBS)	32.2	2.8	59.6	-25.7	49.7	40.6
Cash EPS	43.1	23.4	49.8	-4.5	37.7	30.2
Net DPS	8.8	-9.2	15.1	2.9	4.2	6.7
BVPS	50.7	13.3	53.8	-1.1	6.8	9.1

Margins (%)	5Yr Avg	06/09	06/10	06/11E	06/12E	06/13E
EBITDA / revenue	8.3	10.0	9.2	8.7	8.8	8.9
EBIT / revenue	6.6	7.9	6.8	6.3	6.2	6.3
Net profit (UBS) / revenue	2.7	2.1	2.7	1.7	2.1	2.4

Return on capital (%)	5Yr Avg	06/09	06/10	06/11E	06/12E	06/13E
EBIT ROIC (UBS)	14.1	14.3	14.1	14.2	15.4	17.0
ROIC post tax	-	9.2	11.4	9.5	10.3	11.4
Net ROE	10.7	6.8	8.0	4.9	7.0	9.1

Coverage ratios (x)	5Yr Avg	06/09	06/10	06/11E	06/12E	06/13E
EBIT / net interest	2.4	1.7	1.8	1.7	1.9	2.2
Dividend cover (UBS EPS)	12.4	12.2	16.8	12.2	17.5	23.0
Div. payout ratio (% , UBS EPS)	8.7	8.2	5.9	8.2	5.7	4.3
Net debt / EBITDA	4.0	4.1	3.4	2.9	2.6	2.4

Efficiency ratios (x)	5Yr Avg	06/09	06/10	06/11E	06/12E	06/13E
Revenue / op. invested capital	2.0	1.8	2.1	2.3	2.5	2.7
Revenue / fixed assets	5.2	4.8	4.6	4.4	4.9	5.5
Revenue / net working capital	3.7	3.2	4.1	4.9	5.2	5.5

Investment ratios (x)	5Yr Avg	06/09	06/10	06/11E	06/12E	06/13E
OpFCF / EBIT	NM	0.3	NM	0.5	0.8	0.8
Capex / revenue (%)	10.8	7.9	9.7	5.4	4.1	4.0
Capex / depreciation	5.7	3.8	4.1	2.2	1.6	1.6

Capital structure (%)	5Yr Avg	06/09	06/10	06/11E	06/12E	06/13E
Net debt / total equity	97.4	NM	72.7	70.7	74.6	75.9
Net debt / (net debt + equity)	49.4	54.7	42.1	41.4	42.7	43.1
Net debt (core) / EV	26.9	46.5	34.6	51.7	54.7	57.3

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs189.05 on 03 Oct 2011 23:55 SGT Market cap(E) may include forecast share issues/buybacks.

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■ **Pantaloon Retail (India) Ltd.**

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■ **Statement of Risk**

The retail sector is closed to foreign competition, but this could change. The entry of large format foreign retailers with skills in merchandising and supply chain management could affect the sales and margins of Indian companies such as Pantaloon.

■ **Analyst Certification**

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	59%	35%
Neutral	Hold/Neutral	35%	33%
Sell	Sell	6%	14%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	0%
Sell	Sell	less than 1%	20%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2011.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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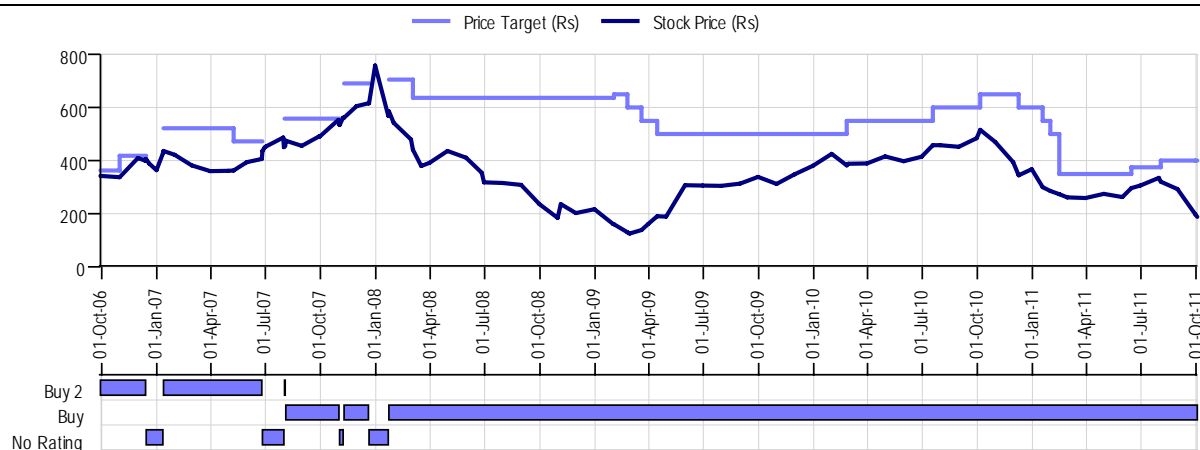
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Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Pantaloon Retail (India) Ltd.	PART.BO	Buy	N/A	Rs189.05	03 Oct 2011

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Pantaloon Retail (India) Ltd. (Rs)

Source: UBS; as of 03 Oct 2011

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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