

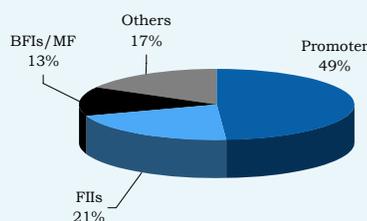
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Key points

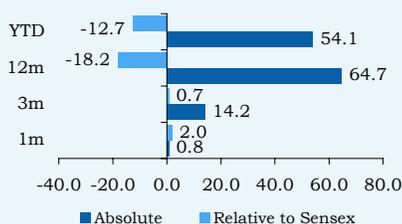
- Re-alignment of business to separate retail business and allow investments in subsidiaries.
- Successful QIP of Rs5bn

CMP	Rs335
Reuters code	PART.BO
Bloomberg code	PF IB
Shares o/s (mn)	159
Mkt Cap	Rs53bn/US\$1.1bn
52 wk high / Low	Rs360/105
Avg daily trad vol	0.49(mn shs)
BSE Sensex	17,022
Nifty	5,052

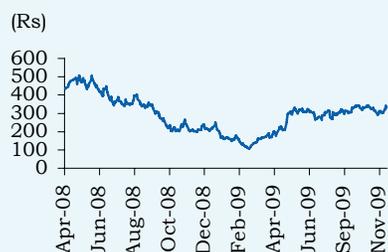
Shareholding pattern



Performance



Share price movement



Shifting Gear – Re-alignment and QIP

Pantaloon has received board approval to restructure the company into three verticals - Retail, Support (non-Retail) and Financial services & insurance with direct participation in financial services for investors. (See Exhibit 1)

Further, as per news channels Pantaloon has successfully raised Rs5bn at a price of Rs316/share through a QIP.

Three key points on the restructuring -

1) Sale of Non-Retail businesses

Pantaloon sold its stake in its IT back-end, brands and learning & development subsidiaries (Future Knowledge, Future Brands, Future Learning & development) for Rs1.9bn to a promoter group company. They had invested ~0.9bn, this implies a return of 110% on their investment.

Our view: *Although a valuation of Rs1.9bn (valued by two Independent firms) looks to be on the lower side (as Pantaloon would now pay a royalty of ~3% to Future Brands), going forward no additional investments will be needed to be made by PRIL in the future. Also cash inflow of Rs1.9bn is a positive given that we estimate Pantaloon requires ~Rs8bn for WC & expansion in FY10 out of which only Rs4.6bn would be generated from operations.*

2) Financial services to be separated from PRIL

Pantaloon's stake in Future Capital (55%) and their Insurance business (49.7%) would be de-merged from the company into a separate holding company where Pantaloon would hold a controlling stake (~26%). The rest would be distributed to shareholders of Pantaloon. The 26% stake of PRIL could eventually be monetized. The expected valuation of their insurance business is 0.7bn to 1bn USD. Pantaloon expects to complete the process in 6 to 8 months but listing of the holding co/Insurance venture could take 2 years. They may have to make nominal investments for the next 6 to 8 months but after the process is complete the holding company will have an NBFC status so it can raise money on its own.

Our View: *We view the separation of the financial services from the retail business as a positive. Shareholders of PRIL may receive shares of FCH or even the holding company if they eventually list it. The move would eventually obviate any need for PRIL to invest in the cash guzzling Insurance venture (they invested close to Rs1bn in FY09).*

3) Value retail to be separated

Big bazaar and Food bazaar will be now made into a 100% subsidiary. They expect to complete the regulatory requirements for this by January after which a listing/IPO may take place. They are also looking to partner with an international food company to open a new format which will retail ~60% of food related products (Big Bazaar food mix is ~30%).

Our View: *Separation of the retail venture from the support services and further separation of Value Retail and Lifestyle retail would help in separation of businesses to enable capital raising. An IPO of Value Retail (Big Bazaar and Food Bazaar) could fund the aggressive expansion plans of this business.*

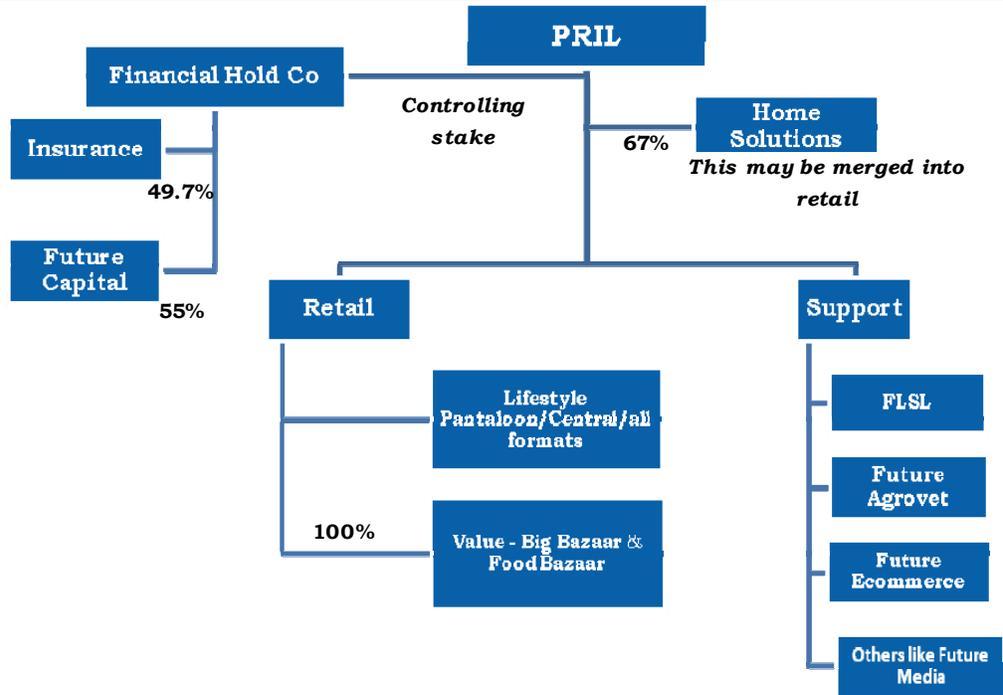
QIP to provide the ammo for expansion growth

As per news channels, Pantaloon has successfully raised Rs5bn through a QIP. Investors were mainly domestic Insurance and Mutual funds (FII investments have already reached the cap of 24%). At current market cap this would imply a dilution of 7.8%. We estimate that the funds raised would be used to fund WC and expansion needs and also reduce high cost debt.

View

We view the overall plan of restructuring as a positive for Pantaloon. The plan to provide direct access to Pantaloon shareholders in their financial businesses would give them the option to divest their stake and have a pure retail holding. Further, this would obviate the need of any further investments from PRIL into these subsidiaries and also eliminate losses on consolidation. The inflow of Rs1.9bn will help partially fund their working capital and expansion needs for the year.

Exhibit 1 - Expected Structure after re-alignment



Source: Alchemy Research, Company

The ratings are based on the absolute upside of our target price from the current price.

Upside more than 25%	Strong Buy
Upside between 15-25%	Buy
Upside of up to 15%	Accumulate
Downside of up to 15%	Reduce
Downside of more than 15%	Sell

Sector Relative call:

Outperform	>5% upside to sector benchmark
Marketperform	+5% to -5% of sector benchmark
Underperform	>5% downside to sector benchmark

Sector Weightage

Overweight
Equal weight
Underweight

Sales

91-22-6639 9125	91-22-6639 9126	91-22-6639 9178
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Trade Execution

91-22-6639 9121	91-22-6639 9134	91-22-6639 9167
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