

Pantaloon Retail

Clarity on restructuring builds confidence

In a step that will alleviate concerns over financial health, the Pantaloon Retail (PRIL) management plans to hive off its insurance arm and its 55% stake in Future Capital (FCH) to a step-down subsidiary. This entity will thereafter be merged with FCH. We believe the sell-off is a positive move as it will eliminate the drag of insurance losses on the retail business. Stronger clarity on PRIL's restructuring plans coupled with buoyant consumer sentiment bolsters our confidence in the company. We upgrade the stock from Hold to Buy with a revised target price of Rs 461.

Sale of financial investments a key positive: In line with its strategy to de-risk the business model, PRIL has outlined a plan to sell its stakes in Future Generali (insurance) and FCH (financial services) to a step-down subsidiary. This subsidiary will be merged with FCH over the next six months, with shares to be issued to PRIL shareholders based on business valuations. We believe the hive-off will prove beneficial for PRIL as it will restrict losses and additional investments in the insurance venture (a major overhang on financials), besides offering an exit route to investors. The stake sale will also improve the company's return ratios going ahead.

Value retailing to be hived off; Home Solutions to be merged: PRIL's plan to hive off its value retailing business, primarily Big Bazaar, Food Bazaar and Furniture Bazaar, into a separate subsidiary remains intact. The management has already passed a resolution to merge its Home Solutions business with PRIL by issuing 5.93mn equity shares and 6.35mn convertible preference shares (within 12 months) to Kotak and ICICI Ventures. The company does not have further plans to dilute equity in the next 15–18 months.

Consumer sentiment buoyant: With strong consumer sentiment, the management estimates that same-store-sales growth hit double digits in February, both in value as well as lifestyle retailing. Home retailing, a laggard earlier, has also recovered with healthy same-store growth of 6–7% in the last two months. With the recovery in demand, the company is continuing with its plan to add 2.5–3mn sq ft of retail space annually over the next two to three years.

Target raised to Rs 461; upgrade to Buy: With a degree of clarity emerging on PRIL's restructuring plans and buoyancy in demand, we upgrade the stock from Hold to Buy and raise our target from Rs 393 to Rs 461. The target price revision stems from an increase in our valuation multiple for PRIL's core operations from 10x EV/EBITDA to 13x on FY11E. With further details on restructured financials awaited, we maintain our valuations for Home Solutions (0.3x P/Sales) and PRIL's stakes in FCH and Future Logistics (30% holding company discount). Further news flow on business restructuring will be a key near-term trigger for the stock.

Financial highlights

Y/E June (Rs mn)	FY09	FY10E	FY11E	FY12E
Revenue	63,417	80,731	103,716	133,181
Growth (%)	25.6	27.3	28.5	28.4
Adj net income	1,406	2,138	3,331	4,545
Growth (%)	11.6	52.1	55.8	36.5
FDEPS (Rs)	7.2	10.1	15.1	20.6
Growth (%)	(9.0)	40.7	49.0	36.5

Profitability and return ratios

Y/E June (%)	FY09	FY10E	FY11E	FY12E
EBITDA margin	10.5	10.1	9.7	9.3
EBIT margin	8.3	8.0	7.9	7.7
Adj PAT margin	2.2	2.6	3.2	3.4
ROE	6.8	8.0	10.4	12.7
ROIC	7.7	7.9	9.0	10.5
ROCE	7.6	7.9	9.0	10.3

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 396	Rs 461	BUY	MEDIUM

BSE	NSE	BLOOMBERG
532574	PANTALOONR	PF IN

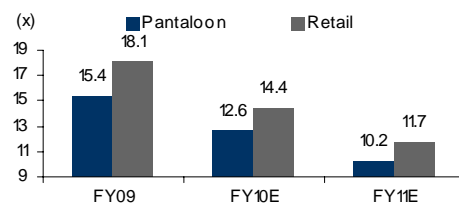
Company data

Market cap (Rs mn / US\$ mn)	75,367 / 1,621
Outstanding equity shares (mn)	190
Free float (%)	55.3
Dividend yield (%)	0.2
52-week high/low (Rs)	455 / 105
3-month average daily volume	123,484

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Pantaloon	396	(3.7)	11.3	26.0
Sensex	16,972	4.6	(0.8)	8.2

EV/EBITDA comparison



Valuation matrix

(x)	FY09	FY10E	FY11E	FY12E
P/E @ CMP	57.7	40.9	26.2	19.2
P/E @ Target	67.2	47.6	30.6	22.4
EV/EBITDA @ CMP	15.4	12.6	10.2	8.3





Standalone financials

Profit and Loss statement

Y/E June (Rs mn)	FY09	FY10E	FY11E	FY12E
Revenues	63,417	80,731	103,716	133,181
Growth (%)	25.6	27.3	28.5	28.4
EBITDA	6,684	8,157	10,080	12,322
Growth (%)	45.1	22.0	23.6	22.2
Depreciation & amortisation	1,401	1,675	1,851	2,022
EBIT	5,284	6,482	8,229	10,300
Growth (%)	40.1	22.7	26.9	25.2
Interest	3,182	3,270	3,192	3,393
Other income	61	77	87	86
EBT	2,162	3,289	5,124	6,993
Income taxes	757	1,151	1,793	2,448
Effective tax rate (%)	35.0	35.0	35.0	35.0
Extraordinary items	-	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	1,406	2,138	3,331	4,545
Adjustments	-	-	-	-
Adjusted net income	1,406	2,138	3,331	4,545
Growth (%)	11.6	52.1	55.8	36.5
Diluted sh outstanding (mn)	190.3	220.7	220.7	220.7
FDEPS (Rs) (adj)	6.9	9.7	15.1	20.6
Growth (%)	(13.2)	41.2	55.8	36.5
DPS (Rs)	0.6	0.6	0.6	0.6

Cash flow statement

Y/E June (Rs mn)	FY09	FY10E	FY11E	FY12E
Net income + Depreciation	2,806	3,812	5,182	6,567
Non-cash adjustments	2,926	5,647	0	-
Changes in working capital	(3,917)	(2,163)	(2,917)	(1,024)
Cash flow from operations	1,815	7,296	2,265	5,543
Capital expenditure	(5,252)	(4,336)	(4,238)	(4,499)
Change in investments	(3,675)	(1,500)	(1,200)	(800)
Other investing cash flow	483	395	615	839
Cash flow from investing	(8,445)	(5,441)	(4,823)	(4,460)
Issue of equity	62	42	19	-
Issue/repay debt	6,586	(2,500)	3,500	0
Dividends paid	(135)	(148)	(155)	(155)
Other financing cash flow	-	-	-	-
Change in cash & cash eq	(117)	(752)	806	928
Closing cash & cash eq	1,093	341	1,148	2,076

Economic Value Added (EVA) analysis

Y/E June	FY09	FY10E	FY11E	FY12E
WACC (%)	10.8	11.4	11.3	11.5
ROIC (%)	7.7	7.9	9.0	10.5
Invested capital (Rs mn)	50,339	56,312	62,262	65,780
EVA (Rs mn)	(1,595)	(1,955)	(1,440)	(691)
EVA spread (%)	(3.2)	(3.5)	(2.3)	(1.1)

Balance sheet

Y/E June (Rs mn)	FY09	FY10E	FY11E	FY12E
Cash and cash eq	1,093	341	1,148	2,076
Accounts receivable	1,773	1,543	1,867	1,052
Inventories	17,878	21,196	24,502	27,991
Other current assets	12,083	12,975	14,578	16,039
Investments	9,540	11,040	12,240	13,040
Gross fixed assets	18,765	23,101	27,338	31,837
Net fixed assets	15,688	18,349	20,735	23,213
CWIP	3,452	3,452	3,452	3,452
Intangible assets	-	-	-	-
Deferred tax assets, net	(1,161)	(1,556)	(2,171)	(3,010)
Other assets	-	-	-	-
Total assets	60,347	67,340	76,352	83,854
Accounts payable	4,081	5,607	6,856	8,142
Other current liabilities	4,833	5,080	6,086	7,856
Provisions	205	247	309	365
Debt funds	28,504	26,004	29,504	29,504
Other liabilities	-	-	-	-
Equity capital	381	422	441	441
Reserves & surplus	22,344	29,980	33,156	37,546
Shareholder's funds	22,724	30,402	33,597	37,988
Total liabilities	60,347	67,340	76,352	83,854
BVPS (Rs)	119.4	144.0	152.2	172.1

Financial ratios

Y/E June	FY09	FY10E	FY11E	FY12E
Profitability & Return ratios (%)				
EBITDA margin	10.5	10.1	9.7	9.3
EBIT margin	8.3	8.0	7.9	7.7
Net profit margin	2.2	2.6	3.2	3.4
ROE	6.8	8.0	10.4	12.7
ROCE	7.6	7.9	9.0	10.3
Working Capital & Liquidity ratios				
Receivables (days)	8	7	6	4
Inventory (days)	127	121	110	98
Payables (days)	29	30	30	28
Current ratio (x)	3.7	3.4	3.3	2.9
Quick ratio (x)	0.3	0.2	0.2	0.2
Turnover & Leverage ratios (x)				
Gross asset turnover	3.9	3.9	4.1	4.5
Total asset turnover	1.2	1.3	1.4	1.7
Interest coverage ratio	1.7	2.0	2.6	3.0
Adjusted debt/equity	1.3	0.9	0.9	0.8
Valuation ratios (x)				
EV/Sales	1.6	1.3	1.0	0.8
EV/EBITDA	15.4	12.6	10.2	8.3
P/E	57.7	40.9	26.2	19.2
P/BV	3.3	2.9	2.6	2.3



Quarterly trend

Particulars	Q2FY08	Q3FY09	Q4FY09	Q1FY10	Q2FY10
Revenue (Rs mn)	15,257	16,421	16,627	17,770	19,128
YoY growth (%)	24.4	21.2	20.4	17.6	25.4
QoQ growth (%)	1.0	7.6	1.3	6.9	7.6
EBITDA (Rs mn)	1,573	1,730	1,833	1,901	2,034
EBITDA margin (%)	10.3	10.5	11.0	10.7	10.6
Adj net income (Rs mn)	335	344	365	438	507
YoY growth (%)	6.1	7.1	12.2	21.2	51.1
QoQ growth (%)	(7.3)	2.5	6.1	20.1	15.6

DuPont analysis

(%)	FY08	FY09E	FY10E	FY11E	FY12E
Tax burden (Net income/PBT)	64.4	65.0	65.0	65.0	65.0
Interest burden (PBT/EBIT)	51.9	40.9	50.7	62.3	67.9
EBIT margin (EBIT/Revenues)	7.5	8.3	8.0	7.9	7.7
Asset turnover (Revenues/Avg TA)	136.0	118.4	126.5	144.4	166.3
Leverage (Avg TA/Avg equity)	252.7	260.0	240.3	224.5	223.8
Return on equity	8.6	6.8	8.0	10.4	12.7

Company profile

Pantaloons Retail (PRIL) is India's leading retailer operating through multiple store formats in both the value (Big Bazaar, Food Bazaar) and lifestyle (Pantaloons, Central) segments. The company was one of the early entrants in the organised Indian retail sector and boasts of ~10.4mn sq ft of retail space. Value retailing contributes 70% to the topline, while lifestyle products contribute the balance.

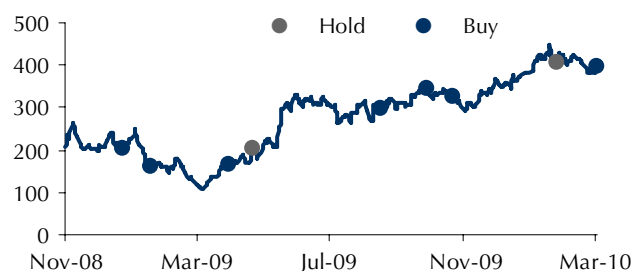
Shareholding pattern

(%)	Jun-09	Sep-09	Dec-09
Promoters	48.6	48.8	44.7
FIs	20.3	21.1	22.8
Banks & FIs	12.3	13.2	18.1
Public	18.8	16.9	14.4

Recommendation history

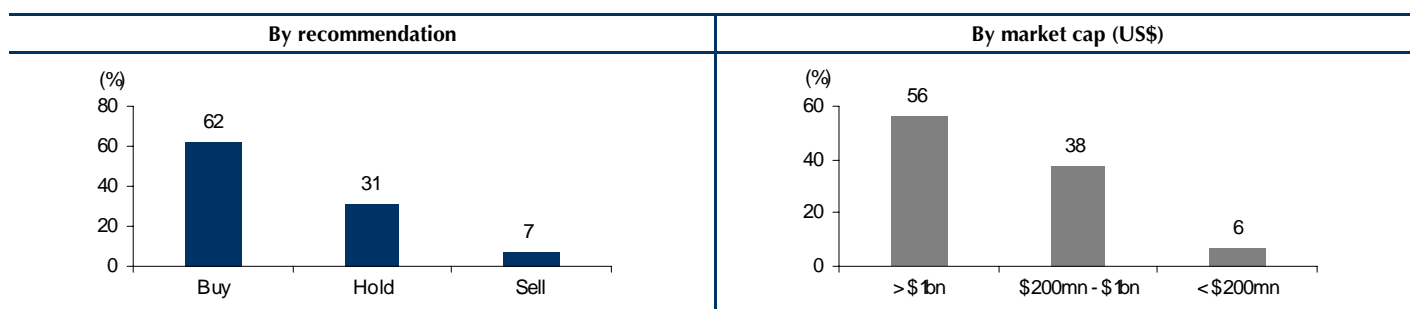
Date	Event	Reco price	Tgt price	Reco
26-Dec-08	Initiating Coverage	208	240	Buy
22-Jan-09	Results Review	162	189	Buy
6-Apr-09	Quarterly Preview	162	189	Buy
27-Apr-09	Results Review	202	194	Hold
19-Aug-09	Company Update	298	360	Buy
29-Sep-09	Results Review	343	393	Buy
23-Oct-09	Results Review	324	393	Buy
27-Jan-10	Results Review	409	393	Hold
5-Mar-10	Company Update	396	461	Buy

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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