

August 26, 2011

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Rating	<b>BUY</b>
Price	Rs275
Target Price	Rs337
Implied Upside	22.5%
Sensex	16,146

(Prices as on August 25, 2011)

#### Trading data

Market Cap. (Rs bn)	249.7
Shares o/s (m)	908.8
3M Avg. Daily value (Rs m)	281.4

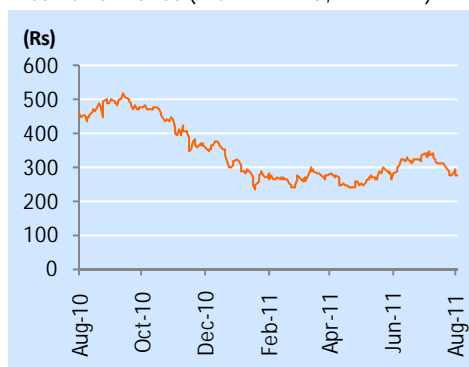
#### Major shareholders

Promoters	44.92%
Foreign	24.38%
Domestic Inst.	17.17%
Public & Other	13.53%

#### Stock Performance

(%)	1M	6M	12M
Absolute	(18.8)	(1.0)	(38.5)
Relative	(4.3)	7.8	(27.4)

Price Performance (RIC: PART.BO, BB: PF IN)



Source: Bloomberg

■ **Sales growth moderates to 15%:** Pantaloon Retail's (PF's) Q4FY11 results were touch below our expectations, with Sales, EBITDA and PAT coming in at Rs28.6bn(up 15% YoY), Rs2.6bn(up 22%) and Rs491m (up 2%) as against our expectations of Rs31bn, Rs2.6bn and Rs525m. Same-store growth for Lifestyle, Value and Home division was 7.5%, 11.4% and -4.5%, respectively. Inflation, RM price increase and excise duty resulted in the moderation in SSS growth for Lifestyle division which reported 21% SSS for H1FY11. During Q4, PF added 0.39m sq.ft of space, taking the total retail space to 15.23m sq.ft. For FY11, space addition stands at 2.25m sq.ft and PF intends to add 1m sq.ft in Q112.

■ **EBITDA margins improve 60bps:** PF's operating margins improved 60bps YoY to 9.1%. This was driven by similar gross margin expansion. While the SSS growth has clearly moderated from 1HFY11 owing to price increase, we expect the recovery to be led by festive season purchases as consumers get used to higher prices. Input prices for Apparel has corrected, however it will take time to reflect in the MRP's as there is a lag effect of seven months from sourcing yarn for fabric to production and retail sale. Core retail debt has increased by Rs3bn QoQ to Rs41.9bn (D/E=1.12x) while inventory stood at Rs35.9bn. Consolidated debt continues to remain high owing to financial services subs (t Rs78.5bn).

■ **Revised Target price maintain BUY:** While there has been moderation in SSS growth from the peak, we expect it to recover following the festive season. PF intends to add ~1mn sqft in 1QFY12. PF has booked ~9mn Sqft of retail space for its future expansion. This can turn out to be a significant competitive advantage given the shortage of quality retail space. Monetisation of stake in non-retail businesses and positive policy action from government on FDI in multi-brand retail can act as key triggers for share price. We maintain '**BUY**', with a revised SOTP-based one year target price of Rs337. Our SOTP does not factor in the value from non-retail businesses.

Key financials (Y/e June)	2010	2011	2012E	2013E
Revenues (Rs m)	89,261	110,129	135,973	163,486
Growth (%)	40.8	23.4	23.5	20.2
EBITDA (Rs m)	8,191	9,604	11,538	13,079
PAT (Rs m)	2,302	1,900	2,462	3,173
EPS (Rs)	11.2	2.1	2.7	3.5
Growth (%)	51.2	(81.3)	28.7	28.9
Net DPS (Rs)	1.4	0.3	0.3	0.5

Source: Company Data; PL Research

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	9.2	8.7	8.5	8.0
RoE (%)	8.8	6.4	7.8	9.5
RoCE (%)	6.8	4.9	4.8	4.8
EV / sales (x)	1.1	2.9	2.4	2.0
EV / EBITDA (x)	11.9	33.6	28.5	25.5
PE (x)	24.6	131.4	102.1	79.3
P / BV (x)	2.0	7.9	7.9	7.2
Net dividend yield (%)	0.5	0.1	0.1	0.2

Source: Company Data; PL Research

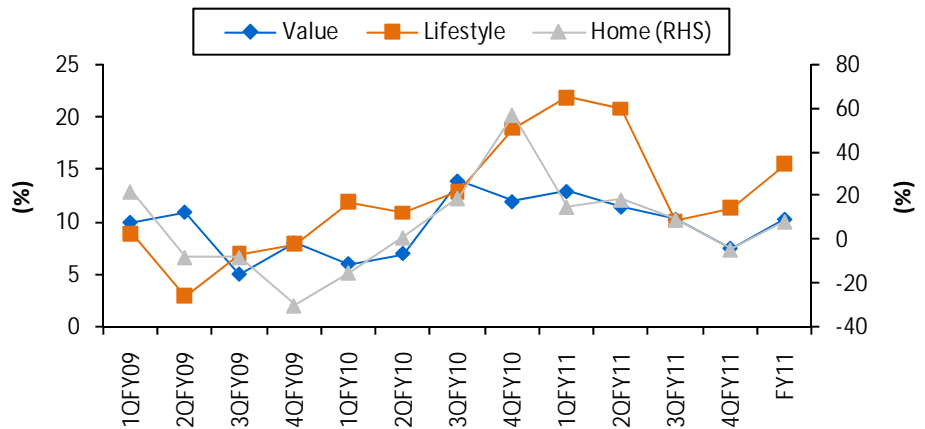
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**Exhibit 1: Q4FY11 Result Overview (Rs m)**

Y/e June	Q4FY11	Q4FY10	YoY gr. (%)	Q3FY11	FY11	FY10	YoY gr. (%)
<b>Net revenues</b>	<b>28,604</b>	<b>24,940</b>	<b>14.7</b>	<b>28,119</b>	<b>110,123</b>	<b>89,261</b>	<b>23.4</b>
Total operating expenditure	25,992	22,810	14.0	25,641	100,522	81,070	24.0
<b>EBITDA</b>	<b>2,612</b>	<b>2,130</b>	<b>22.6</b>	<b>2,479</b>	<b>9,600</b>	<b>8,191</b>	<b>17.2</b>
Depreciation	735	580	26.8	660	2,675	2,123	26.0
<b>EBIT</b>	<b>1,876</b>	<b>1,550</b>	<b>21.0</b>	<b>1,819</b>	<b>6,925</b>	<b>6,068</b>	<b>14.1</b>
Other income	41	790	(94.8)	34	208	857	(75.7)
<b>PBIT</b>	<b>1,917</b>	<b>2,340</b>	<b>(18.1)</b>	<b>1,853</b>	<b>7,133</b>	<b>6,925</b>	<b>3.0</b>
Interest	1,182	970	21.8	1,096	4,288	3,913	9.6
<b>PBT</b>	<b>735</b>	<b>1,370</b>	<b>(46.3)</b>	<b>757</b>	<b>2,845</b>	<b>3,013</b>	<b>(5.6)</b>
Tax	244	390	(37.4)	252	948	582	63.1
<b>Core PAT</b>	<b>491</b>	<b>980</b>	<b>(49.9)</b>	<b>505</b>	<b>1,897</b>	<b>2,431</b>	<b>(22.0)</b>
Extraordinary Items	-	-		-	-	(129)	
<b>PAT</b>	<b>491</b>	<b>980</b>	<b>(49.9)</b>	<b>505</b>	<b>1,897</b>	<b>2,302</b>	<b>(17.6)</b>
<b>Recurring PAT</b>	<b>491</b>	<b>480</b>	<b>2.4</b>	<b>505</b>	<b>1,897</b>	<b>2,302</b>	<b>(17.6)</b>
<b>As % of Sales</b>							
Total operating expenditure	90.9	91.5		91.2	91.3	90.8	
EBITDA	9.1	8.5		8.8	8.7	9.2	
PBT	2.6	5.5		2.7	2.6	3.4	
PAT	1.7	3.9		1.8	1.7	2.7	

Source: Company Data, PL Research

**Exhibit 2: Same store growth performance**


Source: zz, Company Data, PL Research

**Exhibit 3: Quarterly space addition (m sq. ft.)**

Format	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Big Bazaar	6.88	6.36	6.63	6.88	7.02	7.38	7.62	7.64
Food Bazaar	0.47	0.46	0.48	0.47	0.48	0.48	0.52	0.55
Pantaloon	1.24	1.15	1.19	1.24	1.25	1.45	1.5	1.74
Central	2.18	2.1	2.19	2.18	2.2	2.36	2.52	2.59
eZone	0.48	0.49	0.49	0.48	0.53	0.53	0.54	0.5
Home Town	0.99	0.84	0.98	0.96	1.11	1.11	1.17	1.15
KB's Fair price	0.12	0.1	0.17	0.12	0.13	0.15	0.18	0.19
Others	0.89	0.49	0.5	0.89	0.65	0.71	0.79	0.87
<b>Total</b>	<b>13.25</b>	<b>11.99</b>	<b>12.63</b>	<b>13.22</b>	<b>13.37</b>	<b>14.17</b>	<b>14.84</b>	<b>15.23</b>

Source: Company Data, PL Research

**Exhibit 4: Store count details**

Format	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Big Bazaar	132	120	125	132	136	143	148	149
Food Bazaar	53	52	54	53	55	54	56	56
Pantaloon	48	45	46	48	48	53	54	59
Central	25	22	25	25	27	29	30	32
eZone	36	37	37	36	42	43	44	42
Home Town	10	7	8	9	11	11	12	12
KB's Fair price	123	99	166	123	134	170	198	214
Others	164	128	125	164	150	150	179	193
<b>Total</b>	<b>591</b>	<b>510</b>	<b>586</b>	<b>590</b>	<b>603</b>	<b>653</b>	<b>721</b>	<b>757</b>

Source: Company Data, PL Research



**Income Statement (Rs m)**

Y/e June	2010	2011	2012E	2013E
<b>Net Revenue</b>	<b>89,261</b>	<b>110,129</b>	<b>135,973</b>	<b>163,486</b>
Raw Material Expenses	63,056	78,274	96,949	117,056
Gross Profit	26,205	31,855	39,024	46,430
Employee Cost	3,940	4,862	6,002	7,193
Other Expenses	14,074	17,389	21,484	26,158
<b>EBITDA</b>	<b>8,191</b>	<b>9,604</b>	<b>11,538</b>	<b>13,079</b>
Depr. & Amortization	2,123	2,675	3,133	3,753
Net Interest	3,913	4,288	5,100	6,015
Other Income	728	208	370	1,426
<b>Profit before Tax</b>	<b>2,883</b>	<b>2,848</b>	<b>3,675</b>	<b>4,736</b>
Total Tax	582	948	1,213	1,563
<b>Profit after Tax</b>	<b>2,302</b>	<b>1,900</b>	<b>2,462</b>	<b>3,173</b>
Ex-Od items / Min. Int.	—	—	—	—
<b>Adj. PAT</b>	<b>2,302</b>	<b>1,900</b>	<b>2,462</b>	<b>3,173</b>
<b>Avg. Shares O/S (m)</b>	<b>206.2</b>	<b>908.8</b>	<b>915.3</b>	<b>915.3</b>
<b>EPS (Rs.)</b>	<b>11.2</b>	<b>2.1</b>	<b>2.7</b>	<b>3.5</b>

**Cash Flow Abstract (Rs m)**

Y/e June	2010	2011	2012E	2013E
C/F from Operations	9,712	3,941	7,465	9,610
C/F from Investing	(4,010)	(9,180)	(6,500)	(7,000)
C/F from Financing	2,197	31,116	4,593	3,572
Inc. / Dec. in Cash	7,899	25,877	5,558	6,182
Opening Cash	2,025	2,865	5,520	10,796
Closing Cash	9,098	12,967	12,967	12,967
FCFF	(5,436)	(25,723)	(2,809)	(3,405)
FCFE	(498)	9,218	7,191	6,595

**Key Financial Metrics**

Y/e June	2010	2011	2012E	2013E
<b>Growth</b>				
Revenue (%)	40.8	23.4	23.5	20.2
EBITDA (%)	22.6	17.2	20.1	13.4
PAT (%)	63.8	(17.4)	29.6	28.9
EPS (%)	51.2	(81.3)	28.7	28.9
<b>Profitability</b>				
EBITDA Margin (%)	9.2	8.7	8.5	8.0
PAT Margin (%)	2.6	1.7	1.8	1.9
RoCE (%)	6.8	4.9	4.8	4.8
RoE (%)	8.8	6.4	7.8	9.5
<b>Balance Sheet</b>				
Net Debt : Equity	1.5	2.3	2.4	2.3
Net Wrkng Cap. (days)	46	65	59	58
<b>Valuation</b>				
PER (x)	24.6	131.4	102.1	79.3
P / B (x)	2.0	7.9	7.9	7.2
EV / EBITDA (x)	11.9	33.6	28.5	25.5
EV / Sales (x)	1.1	2.9	2.4	2.0
<b>Earnings Quality</b>				
Eff. Tax Rate	20.2	33.3	33.0	33.0
Other Inc / PBT	28.5	7.3	10.1	30.1
Eff. Depr. Rate (%)	6.9	7.2	7.2	7.4
FCFE / PAT	(21.7)	485.1	292.1	207.8

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e June	2010	2011	2012E	2013E
Shareholder's Funds	28,069	31,420	31,965	34,726
Total Debt	43,520	78,461	88,461	98,461
Other Liabilities	4,980	4,868	4,868	4,868
<b>Total Liabilities</b>	<b>76,569</b>	<b>114,749</b>	<b>125,294</b>	<b>138,055</b>
Net Fixed Assets	29,512	36,919	40,286	43,532
Goodwill	—	—	—	—
Investments	9,098	12,967	12,967	12,967
Net Current Assets	37,959	64,863	72,042	81,556
<i>Cash &amp; Equivalents</i>	<i>2,865</i>	<i>5,520</i>	<i>10,796</i>	<i>16,978</i>
<i>Other Current Assets</i>	<i>55,603</i>	<i>87,766</i>	<i>88,517</i>	<i>97,186</i>
<i>Current Liabilities</i>	<i>20,508</i>	<i>28,424</i>	<i>27,271</i>	<i>32,608</i>
Other Assets	—	—	—	—
<b>Total Assets</b>	<b>76,569</b>	<b>114,749</b>	<b>125,294</b>	<b>138,055</b>

**Quarterly Financials (Rs m)**

Y/e June	Q1FY11	Q2FY11	Q3FY11	Q4FY11
<b>Net Revenue</b>	<b>25,814</b>	<b>27,586</b>	<b>28,119</b>	<b>28,604</b>
<b>EBITDA</b>	<b>2,127</b>	<b>2,383</b>	<b>2,479</b>	<b>2,612</b>
<i>% of revenue</i>	<i>8.2</i>	<i>8.6</i>	<i>8.8</i>	<i>9.1</i>
Depr. & Amortization	630	650	660	735
Net Interest	933	1,078	1,096	1,182
Other Income	81	52	34	41
<b>Profit before Tax</b>	<b>645</b>	<b>708</b>	<b>757</b>	<b>735</b>
Total Tax	197	235	252	244
<b>Profit after Tax</b>	<b>448</b>	<b>472</b>	<b>505</b>	<b>491</b>
<b>Adj. PAT</b>	<b>448</b>	<b>472</b>	<b>505</b>	<b>491</b>

**Key Operating Metrics**

Y/e June	2010	2011	2012E	2013E
Space addition (m sq ft)	1.6	1.8	2.1	1.9
Gr. in per sq ft Revenues	23.5	8.4	8.5	8.2
Rev. share of "value retail"	59.0	64.5	62.1	61.0
Gross Margins	29.4	28.9	28.7	28.4
Int. cost as % of EBITDA	47.8	44.7	44.2	46.0
Debt/Equity (x)	1.4	2.4	2.4	2.3

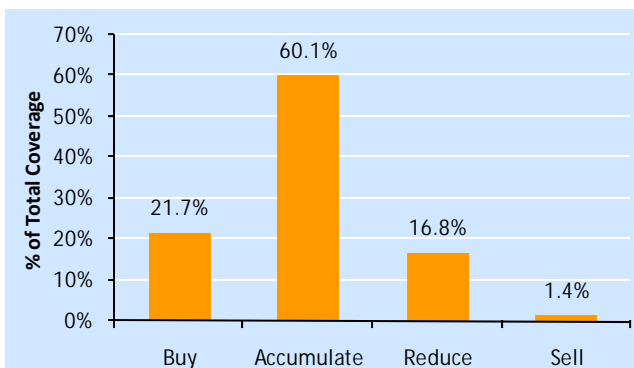
Source: Company Data, PL Research.

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<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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