



Indsec Securities & Finance Ltd.

Pantaloon Retail India Limited (PRIL)

Recommendation: BUY

December 17, 2007

Share Price	: 656.15
BSE Sensex	: 19261.35
Nifty	: 5777.00
Sector	: Retail
High / Low	: 2378/365
Year end	: June
Listed on	: BSE, NSE
Market Cap	: 98423mn
BSE Scrip Code	: 523574
NSE Scrip Code	: PANTALOONR
Shares in issue	: 150 mn
Shareholding	: Sept. 2007
Promoters	: 43.47%
Institutions	: 12.32%
Public & Others	: 18.88%
Foreign	: 25.33%

All currency in INR unless otherwise stated

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We are initiating coverage on Pantaloon Retail India Limited (PRIL), India's largest retailer and the flagship company of Future Group, a business group catering to the entire Indian consumption space. The management's focus on setting up new stores and looking at other related retail initiatives are expected to augur well from a long-term perspective.

We recommend Buy on PRIL for the following reasons:

- PRIL, India's largest listed retailer has **set out to spend** Rs. 800 cr. to have 10 to 11 mn sq. ft. space by the year ending June, from the current 6 million sq. ft. retail space. The company is getting more aggressive and apart from the lifestyle segment and specialty retail format, it is now focusing on the value retail segment and general store kind of formats, which are able to attract more footfalls.
- During the Q1FY08 the company opened 27 stores, thus **expanding its retail space** from 5.2 mn. sq. ft. to 6 mn. sq. ft. The company is not only expanding its space but also is venturing into new segments in a move to have presence across formats and categories.
- **Future Capital Holdings**, a 74% subsidiary of PRIL, has recently sold an undisclosed stake to Quantum Fund for a valuation of \$ 1 bn. and has also **applied for IPO** for about 10% of its post issue capital, which is expected to open some time in December this year. The move is a bid by Future Capital to raise money for expanding its chain of consumer finance outlets, unlock shareholder value and incentives its talent through stock options.
- Our economy is moving from a saving to a consuming economy. The **Consumer Credit to GDP Ratio** in India is **just around 8%**, this indicates that besides retailing of products and services one also needs to facilitate consumption and spending.
- Retailing is a volume game; the **robust growth in Pantaloon's top-line** may weigh on the margins in the short term but will augur well for the company from a long-term perspective.

At CMP of Rs. 656.15 the stock is trading at a PER of 99.72 times & 55.56 times of FY08E & FY09E earnings respectively.

Earnings Table	Income (Rs mn)	Op. Profit (Rs mn)	PBT (Rs mn)	PAT (Rs mn.)	EPS (Rs)	CEPS (Rs)	P/E (x)
FY 2006	19620	1506	919	642	4.55	6.03	144.21
FY 2007	33928	3121	1810	1200	8.51	11.13	77.10
FY 2008 (P)	60052	3602	1474	987	6.58	10.71	99.72
FY 2009 (P)	93081	5585	2644	1771	11.81	18.34	55.56

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Company Background:

Pantaloon Retail India Ltd (PRIL) is India's largest retailer and the flagship company of Future Group, a business group catering to the entire Indian consumption space.

The company operates multiple retail formats in both the value and lifestyle segment of the Indian consumer market. Incorporated in 1987, PRIL forayed into modern retail in 1997 with the opening up of a chain of department stores, Pantaloons. PRIL is among the pioneers in chain retailing. The company operates over 7 mn. sq. ft. of retail space, has over 450 stores across 48 cities in India and employs over 18,000 people.

PRIL's business is broadly divided into 2 segments, Lifestyle and Value retailing. The company's leading formats include Pantaloons (35 departmental stores), a chain of fashion outlets, Big Bazaar (75 hypermarkets), a unique Indian hypermarket chain, Food Bazaar (106 supermarkets), a supermarket chain and Central (5 seamless malls), a chain of seamless destination malls. Some of its other formats include, Depot, Shoe Factory, Brand Factory, Blue Sky, Fashion Station (5 fashion stores), All, Top 10, Bazaar and Star and Sitara. PRIL also operates an online portal, futurebazaar.com.



The non-retail business of the Future group includes asset management i.e. real estate and private equity funds, consumer finance, hotels and logistics and will soon start selling general and life insurance.

Home Solutions Retail (India) Limited, a 73% subsidiary of the company, operates Home Town, a large-format home solutions store, Collection i, selling home furniture products and E-Zone focused on catering to the consumer electronics segment.

Investment Rationale:

Retail space opening accelerating:

PRIL, India's largest listed retailer has set out to spend Rs 800 cr. to have 10 to 11 million sq. ft. space by the year ending June, from the current 6 mn sq. ft retail space.



On a standalone basis, during the Q1FY08 Pantaloons opened 1.15 mn. sq.ft. of retail space, with 0.95 mn. sq.ft. addition from Big Bazaar and 0.4 mn. sq. ft from Home Solutions. Compared to 5.2 mn. sq. ft (standalone) and 6 mn. sq. ft. (consolidated), that the company had at the end of FY07; it has grown by 22% and 26% respectively.

The company is believed to get more aggressive with its retail related businesses. Apart from the lifestyle segment and specialty retail format, the company is now focusing on the value retail segment and general store kind of formats, which are able to attract more footfalls.

New store openings expected to be robust:

Pantaloon is rapidly building retail capacity in its 2 main retailing formats: lifestyle and value retailing. In the lifestyle segment, Pantaloon stores and the upcoming Central stores offer apparel and fashion items targeting the middle-class market. Its Big Bazaar discount stores target the price-conscious apparel and grocery markets (the latter through the Food Discount brand).



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The group is currently developing over 50 malls and consumption centers across the country and has formed a joint venture company focusing on mall management with Singapore-based CapitalLand.

Stake sale in subsidiaries would act as an catalyst:

Future Group is India's leading business group that caters to the entire Indian consumption space. The group operates through 6 verticals: Retail, Capital, Brands, Space, Media and Logistics.

Future Capital Holdings (FCH), the group's financial arm, and a 74% subsidiary of PRIL, focuses on asset management and consumer credit. It manages assets worth over \$1 bn that are being invested in developing retail real estate and consumer-related brands and hotels. The company plans to increase its AUM to ~\$2 bn. in the coming 4 to 5 months and also plans to launch new funds in their real estate and consumer private equity businesses.

FCH is one of the fastest growing financial services companies in India with asset advisory, retail financial services and proprietary research. The group has launched a consumer credit and financial supermarket format, Future Money and soon plans to offer insurance products through a joint venture with Italian insurance major, Generali.

FCH has recently sold an undisclosed stake to Quantum Fund for a valuation of \$ 1 bn and has also applied for IPO for about 10% of its post issue capital, which is expected to open some time in December this year. The move is a bid by Future Capital to raise money for expanding its chain of consumer finance outlets, unlock shareholder value and incentives its talent through stock options.

Economy moving from a saving to a consuming economy:

The Indian economy is growing at a rate of ~9% and is predominantly a consuming economy. Life in India lies beyond the Metros, the true opportunity lies in the millions living in rural areas.

The consumer credit to GDP ratio in India is just around 8% compared to 13% in Thailand, 26% in Malaysia, 36% in Taiwan and 58% in Korea. This indicates that besides retailing of products and services one also needs to facilitate consumption and spending. If proper understanding of our economy is undertaken then it would provide huge scope for growth as this is where the opportunity lies.

Industry Background:

The inception of retail industry dates back to the time when retail stores were found in the village fairs, melas or in the weekly markets. These stores were highly unorganized. The maturity of the retail sector took place with the establishment of retail stores in the locality for convenience. With the government intervention the retail industry in India took a new shape.

Future of organized retail in India looks bright. The industry is projected to grow at a rate of about 37% in 2007 and at a rate of 42% in 2008. It will capture a share of 10% of the total retailing by the end of 2010. The organized retail sector is expected to grow to a value of Rs. 2,00,000 cr (\$45 bn) and may generate 10 to15 mn jobs in next 5 years.

However, to compete in this sector one needs to have up-to-date market information for planning and decision-making. The second most important requirement is to manage costs widely in order to earn at least normal profits in face of stiff competition.

Modern retail faces political obstacles in India because of fears that millions of small shopkeepers could lose their jobs in the fragmented but fast-growing industry that is forecasted to double in size by 2015 from an estimated \$350 bn.

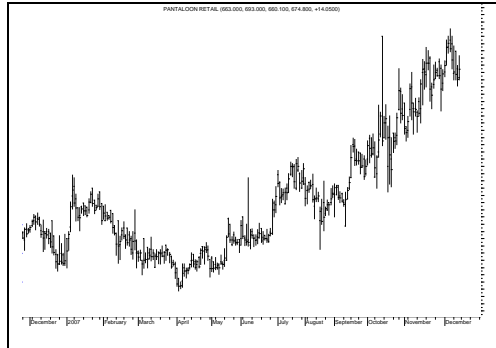
Concerns:

- ✓ Execution risks of the chalked out plans.
- ✓ Gestation period of new stores to translate into earnings.
- ✓ Industry is susceptible to fluctuations in consumer spending.

Conclusion:

The target of the management is to achieve revenues of Rs. 300 bn. by 2011 and hence it has outlined aggressive growth plans to expand its different retail chains as a part of its strategy. These expansion plans will give the desired boost to the top line of the company and help achieve economies of scale over a long-term period.

Earning Summary of Pantaloon Retail India Ltd.				(Rs mn.)	
	Q1 FY08	Q1 FY07	YoY	FY2008 (P)	FY2009 (P)
	3 mths	3 mths	%	12 mths	12 mths
Income from operations	10864	6034	80.1	60052	93081
Other Income	7	356		100	150
Expenditures	9908	5626		56550	87646
Op. Profit	963	763	26.3	3602	5585
Interest	352	117		1508	1961
Gross Profit	611	646	(5.34)	2094	3624
Depreciation	153	67		620	980
PBT	458	580	(20.8)	1474	2644
Tax	162	193		487	873
Profit	296	387	(23.2)	987	1771
Equity shares outstanding	150	141		150	150
OPM (%)	8.87	12.65		6.00	6.00
GPM (%)	5.63	10.71		3.49	3.89
NPM (%)	2.73	6.41		1.64	1.90
EPS (Rs)	1.97	2.74		6.58	11.81
CEPS (Rs)	2.99	3.22		10.71	18.34



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