

# Provogue

**Rs39**  
**OUTPERFORMER**

## RESULT NOTE

**Mkt Cap: Rs4.5bn; US\$100m**

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**Result:** Q3FY11

**Comment:** Rationalization efforts reflecting in margins

### Key valuation metrics

Year end Mar 31	Net Sales	yoy chg (%)	Net profit	EPS (Rs)	yoy chg (%)	EV / E	PER (x)
FY09	3,597	6.9	291	2.5	(3.2)	16.0	15.6
FY10	4,807	33.6	284	2.5	0.6	12.4	15.5
FY11E	5,625	17.0	422	3.0	17.5	7.4	13.2
FY12E	6,467	15.0	465	4.1	37.7	6.5	9.6

### Key highlights

- Provogue (PROV) has reported extremely strong set of operational numbers – revenue growth of 18% to Rs1.45bn (estimates of Rs1.5bn), EBITDA of Rs250m (estimates of Rs218m) and operational PAT growth of 55% to Rs140m (estimates of Rs122m)
- Reported PAT however stood at Rs98m, as PROV provided for Rs42m of one time expense on closure of ProMart's Indore operations
- While retail business revenues stood at Rs811m, exports revenues came in at Rs643m.
- PROV has during the quarter added 11 stores, while closed a few loss making Provogue stores and 1 ProMart store.
- PROV had started focusing on back end in the past 18 months by implementation of ERP, rationalization of Distribution centres (down from 22 to 7) and closing its loss making stores. This is now reflecting in the margin improvement for the past couple of quarters.
- EBITDA margins expanded by 590bp yoy and 160bp qoq to 17.2% (first time at over 17% after Q1FY08)
- Margin expansion comes on the back of 10bp gross margin expansion (39.2%), 110bp savings in staff cost and 480bp savings in other expenditure
- Amongst the segments, EBIT margins in retail business stood at 33% (Rs269m) and exports margins stood at 12% to Rs79m. Unallocable corporate overheads stood at Rs126m.
- Interest during the quarter stood at Rs74m and has a debt of Rs2.3bn on the books.
- Inventory days are coming down further with inventory addition during the year at Rs157m (7% addition to March 2010 inventory levels) as against revenue growth of 23% in 9MFY11.
- During the quarter, Prozone (the retail real estate arm) commenced operations at the Aurangabad mall. Spanning over 0.8m sq. ft. the mall is leased to the tune of 80% and occupied to the tune of 65%. While anchors like Shoppers Stop, Star India Bazaar, Westside, Pantaloons, Croma, Orama Entertainment Centre, etc have commenced operations, Sathyam Cineplex would commence operation in the current quarter.
- The mall has been drawing high footfalls of 25000+ on regular basis and at over 50000 on few weekends.
- Once fully operational, the mall will generate rental revenues of Rs30m per month.

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- During the quarter, Prozone has restructured the deal with Triangle Real Estate Fund (Old Mutual). According to the revised deal, Triangle Real Estate India Fund, promoted by Old Mutual, has invested Rs3.06bn in Prozone's SPV, Prozone International Limited, for a 35% stake (valuing the SPV at Rs8.65bn post money). The SPV has three projects - Aurangabad, Nagpur and Coimbatore. Of the total investment of Rs3.06bn, Rs1.41bn is the value of the stake sale by Prozone in the SPV and the remaining Rs1.65bn is fresh issuance into the SPV. Indore and Jaipur, which were earlier part of the SPV, will now be directly owned by Prozone while the Coimbatore project would move into the SPV. Deal with LTG has also been restructured on similar lines and Prozone would own 61.5% in the SPV.
- Post the deal, Prozone would have Rs2.2bn of cash on books, direct holding in Indore and Jaipur projects and 61.5% holding in the SPV owning Aurangabad, Coimbatore and Nagpur projects
- Prozone is currently in process of getting requisite approvals for the Indore residential, Aurangabad commercial and mixed use development in Coimbatore and Nagpur. We expect these projects to go on stream in the next six months (3-4 months delay from our earlier estimates).

## Valuations and View

**PROV is an exciting retail and proxy retail model with brand Provogue operating in the lifestyle segment and Prozone (75% subsidiary) operating in the mixed use real estate development business revolving around retail. While PROV was focused on enhancing the back end and rationalizing stores in the past 18 months, the core retail business is back on rapid retail space expansion (40 stores a year). Core retail business is well poised to grow at 25% CAGR over the next few years. On the other hand, Prozone has commenced operations at Aurangabad mall and has in all 15.8m sq. ft. of leasable / saleable space across Aurangabad (retail and commercial), Nagpur (retail, residential and commercial), Coimbatore (retail, residential and commercial), Indore (residential) and Jaipur (currently on hold). Fully funded for all its projects and Rs2bn of free cash on books, besides proven execution in Aurangabad mall, Prozone would be a major value creator in the long run. PROV is extremely attractively priced with current stock price of Rs39 not even fully factoring in retail business (9.6x FY12E retail earnings), leave aside the 75% stake in Prozone business (valued at Rs5.6bn - 156 acres of properties and Rs2bn+ of cash on books). PROV remains our top pick in the retail space.**

### Quarterly results

Rs Mn	Q3FY10	Q4FY10	FY10	Q1FY11	Q2FY11	Q3FY11	FY11E	FY12E
<b>Net Sales</b>	<b>1,231</b>	<b>1,630</b>	<b>4,807</b>	<b>1,034</b>	<b>1,426</b>	<b>1,454</b>	<b>5,625</b>	<b>6,467</b>
%yoy	21.3	106.1	33.6	41.2	17.5	18.1	17.0	15.0
<b>Operating profit</b>	<b>139</b>	<b>147</b>	<b>513</b>	<b>151</b>	<b>222</b>	<b>250</b>	<b>791</b>	<b>914</b>
EBITDA (%)	11.3	9.0	10.7	14.6	15.6	17.2	14.1	14.1
Net Interest	49	62	31	55	60	74	132	180
Depreciation	30	36	123	30	28	31	127	151
Other Income	58	32	39	35	48	46	39	45
Profit before tax	118	81	398	100	182	190	571	628
Tax	30	43	114	23	43	50	148	163
Extraordinary items	(2)	(2)	(4)	0	42	42	85	0
<b>PAT</b>	<b>90</b>	<b>40</b>	<b>287</b>	<b>78</b>	<b>97</b>	<b>98</b>	<b>338</b>	<b>465</b>
%yoy	24.7	(51.9)	(2.5)	15.5	10.6	8.4	17.0	37.7

Source : IDFC Securities Research

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