

RESULT UPDATE ✓

Koutons Retail (KOURET)

WHAT'S CHANGED...

PRICE TARGET.....	Unchanged
EPS (FY10E).....	Unchanged
EPS (FY11E).....	Unchanged
RATING.....	Unchanged

High interest hits bottomline...

Koutons Retail's Q1FY10 results are better than our expectations in terms of profitability. The company reported net sales of Rs 201.8 crore against Rs 157.8 crore in the corresponding quarter of the previous year, 27.8% growth. This was due to a 23.7% YoY rise in retail space under operations. The EBITDA margin improved 405 bps to 23.8% in Q1FY10 against 19.9% in Q1FY09 on account of more than proportionate reduction in other expenses. The net profit grew to Rs 11.5 crore against Rs 10.3 crore in Q1FY09, a meagre 11.7% growth YoY due to high interest cost (107% YoY increase).

Highlight of the quarter

- Koutons Retail added net 0.25 lakh sq ft in the quarter taking the total space under operations to 12.92 lakh sq ft
- A total of 35 stores were closed during the quarter

Valuations

At the CMP of Rs 398, the stock is trading at 10.6x and 7.7x its FY10E and FY11E earnings, respectively. We remain positive on the asset-light business model of the company. However, we expect the margins to be under pressure in the coming quarters due to the current macroeconomic scenario and weak consumer sentiments, where we are cautious. We maintain our target price of Rs 505 per share with an **OUTPERFORMER** rating, valuing the company at 10x its FY11E earnings of Rs 50.6 per share.

Current Price Rs 390	Target Price Rs 505
Potential upside 29%	Time Frame 12-15 months

OUTPERFORMER

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Stock data...

Market Cap.	1191.5
Debt (FY09)	610.0
Cash (FY09)	35.3
EV	1780.8
52 week H/L	829/330
Equity capital	30.6
Face value (Rs.)	10.0
MF Holding (%)	0.0
FII Holding (%)	20.0

Price performance

Company	Returns (%)			
	1M	3M	6M	12M
Koutons Retail	-1	-10	-10	-50
Vishal Retail	5	48	25	-84

Exhibit 1: Key Financials

	Rs Crore								
	Q1FY10A	Q1FY10E	Q1FY09	Q4FY09	YoY Gr. (%)	QoQ Gr. (%)	FY09	FY10E	FY11E
Net Sales	201.8	223.3	157.8	377.5	27.8	-46.6	1046.7	1459.3	1797.5
EBITDA	48.3	43.5	31.4	93.3	53.9	-48.3	208.2	283.0	354.9
EBITDA Margin (%)	23.9	19.5	19.9	24.7	405 bps	(79 bps)	19.9	19.4	19.7
Depreciation	4.0	5.1	2.8	5.2	44.1	-23.5	15.3	20.5	26.1
Interest	26.8	34.0	12.9	35.5	107.0	-24.6	88.5	89.2	90.9
Other Income/Exceptional items	0.0	1.0	0.3	1.4	-90.0	-97.7	16.5	1.0	2.0
Reported Net Profit	11.5	3.6	10.3	35.8	11.7	-67.9	79.6	112.4	154.7
EPS (Rs)	3.8	1.2	3.4	11.7	11.7	-67.9	26.0	36.8	50.6
Valuation									
PE (x)	-	-	-	-	-	-	15.0	10.6	7.7
Target PE (x)	-	-	-	-	-	-	19.4	13.7	10.0
EV to EBITDA (x)	-	-	-	-	-	-	8.6	6.3	5.2
Price to book (x)	-	-	-	-	-	-	2.9	2.3	1.8
RoNW (%)	-	-	-	-	-	-	20.5	23.4	25.4
RoCE (%)	-	-	-	-	-	-	23.1	23.4	25.3

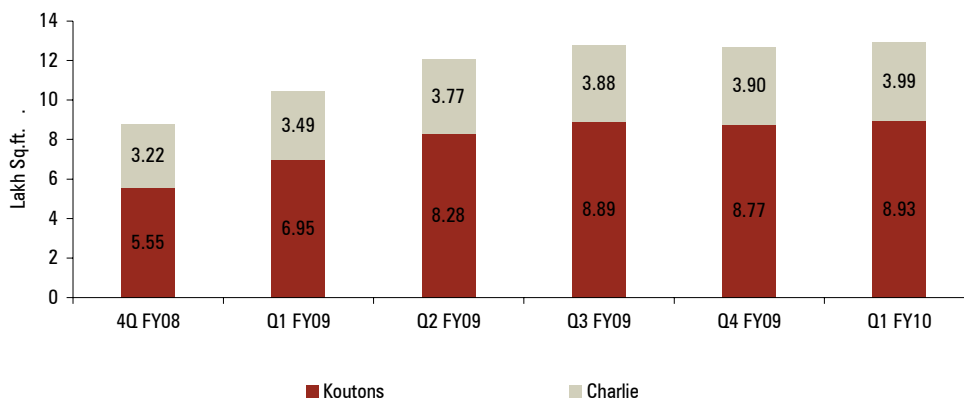
Source: Company, ICICIdirect.com Research

Result analysis

A total of 23.7% YoY addition in space

At the end of Q1FY10, Koutons Retail operates 12.92 lakh sq ft of space, adding 0.25 lakh sq ft during the quarter. Of this addition, Koutons outlets added 0.16 lakh sq ft of space while the balance 0.09 lakh sq ft were added under Charlie Outlaw outlets. The company now operates 8.93 lakh sq ft under Koutons outlets and 3.99 lakh sq ft under Charlie Outlaw outlets. The company closed 38 unviable stores during the quarter maintaining its reach to 496 cities. Koutons is now consolidating its stores based on demand availability and taking a conservative approach in opening new stores.

Exhibit 2: A total of 23.7% YoY growth in space

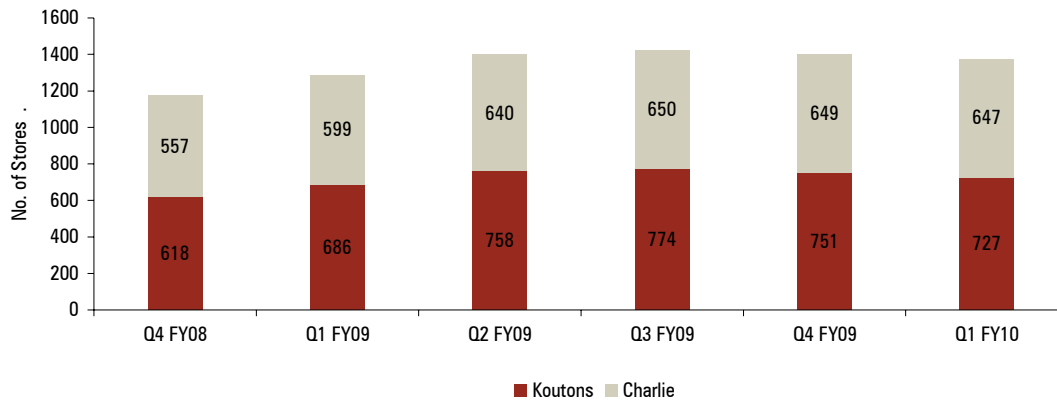


Consolidating stores based on demand availability leading to almost flat growth of 1.2% over previous two quarters

Source: Company, ICICIdirect.com Research

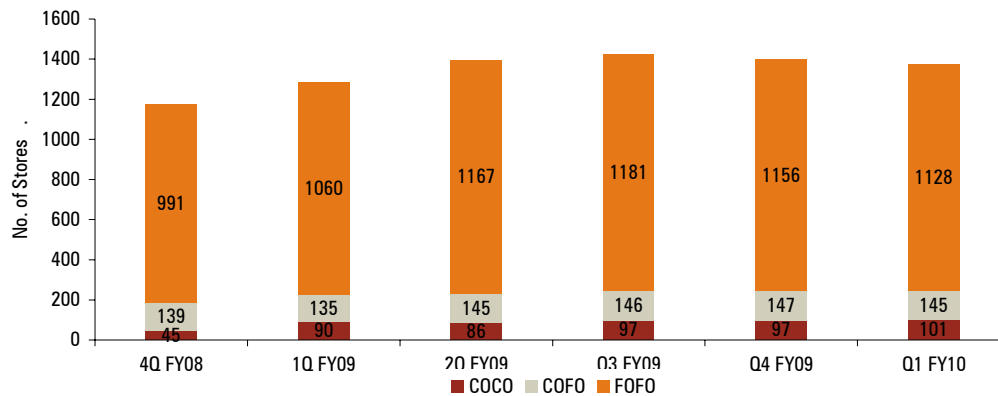
At the end of Q1FY10, the company operates 1374 stores against 1400 stores in Q4FY09, reducing net 26 stores in the quarter. Of the total 1374 stores, 727 stores belong to Koutons (which includes Les Femme and Kids Junior stores as well) while the remaining 647 stores belong to Charlie Outlaw. At the end of the quarter, the company operates 101 COCO stores, 145 COFO stores and 1128 FOFO stores. The focus of the company is on opening family stores. The company added 17 family stores during the quarter. Koutons now operates 199 family stores with a total area of 463,781 sq ft.

Exhibit 3: Net 26 Stores closed during Q1FY10



Source: Company, ICICIdirect.com Research

Exhibit 4: A total of 82% stores under FOF0 model

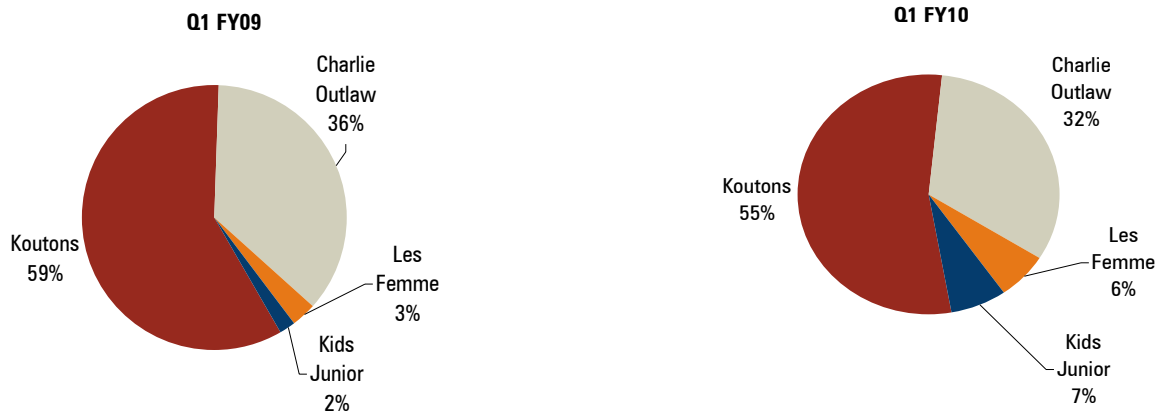


Source: Company, ICICIdirect.com Research

Increasing contribution of Les Femme and Kids Junior

The contribution of Les Femme and Kids Junior increased to 13% collectively as compared 5% in the corresponding quarter previous year. The margins in this segment are high as compared to menswear, thereby providing a cushion to the profitability in a scenario of weak consumer sentiments. The share of Koutons brand declined to 55% from 59% in Q1FY09 while that of Charlie Outlaw declined by 4% to stand at 32% in Q1FY10.

Exhibit 5: Rise in contribution of Les Femme and Kids Junior



Source: Company, ICICIdirect.com Research

Valuations

At the CMP of Rs 390, the stock is trading at 10.6x and 7.7x its FY10E and FY11E earnings, respectively. We remain positive on the asset-light business model of the company. However, we expect the margin to be under pressure in the coming quarters due to the current macroeconomic scenario and weak consumer sentiments, where we are cautious. We maintain our target price of Rs 505 per share with an **OUTPERFORMER** rating. We value the company at 10x its FY11E earnings of Rs 50.6 per share.

Exhibit 6: Valuation Table

	Sales (Rs. cr)	Sales Gr (%)	EPS (Rs.)	EPS Gr (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY09E	1046.7	31.9	26.0	14.5	15.0	8.4	20.5	23.1
FY10E	1459.3	39.4	36.8	41.3	10.6	6.3	23.4	23.4
FY11E	1797.5	23.2	50.6	37.6	7.7	5.1	25.4	25.3

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe

Exhibit 7: Universe Matrix

Koutons			Sales		PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Retail			(Rs. Crore)	EPS (Rs.)				
Idirect Code	KOURET CMP (Rs.)	390 FY09E	1046.7	26.0	15.0	8.4	20.5	23.1
	Target (Rs.)	505 FY10E	1459.3	36.8	10.6	6.3	23.4	23.4
MCap	1191.5	Upside (%)	30 FY11E	1797.5	50.6	7.7	5.1	25.4
			Sales		PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Vishal Retail			(Rs. Crore)	EPS (Rs.)				
Idirect Code	VISRET CMP (Rs.)	62 FY09E	1381.4	9.9	6.2	5.3	7.9	14.4
	Target (Rs.)	- FY10E	1574.4	11.6	5.3	4.8	8.5	14.4
MCap	137.8	Upside (%)	NA FY11E	1593.7	16.9	3.6	4.1	11.2

Source: Company, ICICIdirect.com Research

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Outperformer: 20% or more;

Performer: Between 10% and 20%;

Hold: $\pm 10\%$ return;

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