

RESULT UPDATE

MID CAP

Share Data

Reuters code	KRILBO
Bloomberg code	KUTN IN
Market cap. (US\$ mn)	224
6M avg. daily turnover (US\$ mn)	0.8
Issued shares (mn)	31
Target price (Rs)	489

Performance (%)	1M	3M	12M
Absolute	5	(16)	(49)
Relative	13	(19)	(71)

Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	28.6	33.4
+/- (%)	9.9	16.7
PER (x)	12.1	10.3
PBV (x)	2.1	1.7
EV/Sales (x)	1.3	1.2
EV/EBITDA (x)	7.0	6.2

Major shareholders (%)

Promoters	67
FII's	20
Fis	8
Public & Others	5

Financial highlights

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Sales	2,824	3,473	23.0	4,402	5,486	24.6	10,467	12,317	17.7	14,540	18.0
EBITDA	482	611	26.8	796	1,090	36.9	2,082	2,383	14.5	2,745	15.0
EBITDA Margin (%)	17.1	17.6	-	18.1	19.9	-	20	19	-	19	-
Other Income	8	8	(4.5)	17	12	(26.2)	165	53	(67.9)	56	(6.9)
Interest	(155)	(222)	43.1	(285)	(490)	72.2	(885)	(909)	2.7	(935)	4.9
Depreciation	(37)	(37)	1.2	(64)	(77)	19.6	(153)	(193)	25.9	(309)	55.2
PBT	298	360	20.6	464	535	15.4	1,208	1,334	10.4	1,557	14.3
Tax	(103)	(124)	20.7	(160)	(184)	15.4	(413)	(460)	11.6	(537)	14.3
Adjusted PAT	196	236	20.5	304	351	15.4	796	874	9.9	1,020	14.3
Adjusted PAT margin (%)	6.9	6.8	-	6.9	6.4	-	7.6	7.1	-	7.0	-
EPS (Rs)	6.4	7.7	20.5	10.0	11.5	15.4	26.0	28.6	9.9	33.4	14.3

Koutons Retail

Maintain Outperformer

Price: Rs 345

BSE Index: 15,896

03 November 2009

2QFY10 Result – Strengthening operationally

The results were in line with our expectations both at the top and bottom line. The growth in sales of 23% to Rs 3.5 bn has been mainly due to an extended discount scheme during the quarter as well as the incremental contribution from ladies and kids wear segments. The EBITDA margin would have been higher, benefitting from the richer product mix but was held down to 17.6% due to an increase in the company's promotional spends. The interest cost, which has been the main cause of worry for the company, also declined by 17% sequentially, as the company is re-structuring its high cost debt. The net profit showed a healthy growth of 21% to Rs 236 mn as a result of the improved top line and operating profit. The company's focus in this fiscal has been primarily on growing its chain of Family Stores, increasing their number by 29 during the quarter to take the total to 228.

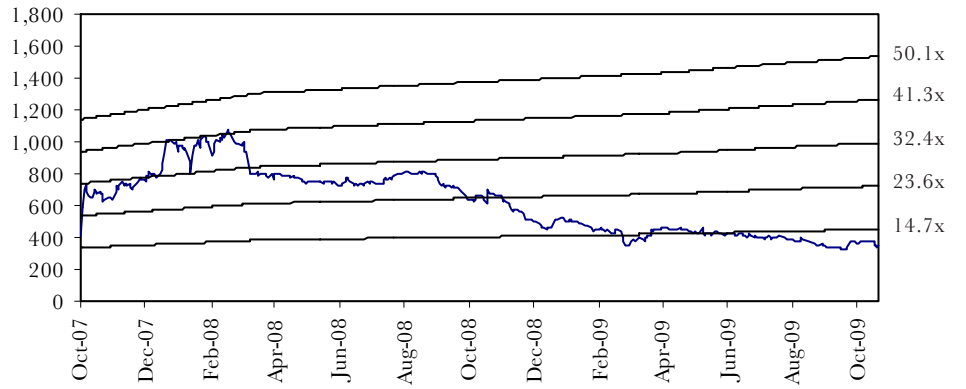
Outlook

The steadily increasing contribution from the ladies and kids wear segments to the revenues bodes well for the company's future. The profitability of the company can increase even further once the shoe segment stabilises. The inventory on the company's books remain high (Rs 7.5 bn for FY09) as it accounts for the inventory across the entire value chain. The company also has had some success in negotiating with PSU banks to restructure its high cost working capital loans and bring down its average cost of debt as can be witnessed from its interest outgo which has declined on a sequential basis.

Going forward, we believe the company's revenue growth will be driven mainly by its economic Family Stores, encompassing its men's, ladies and kids wear sections. If the company is able to restructure all its high cost debt and bring the cost of debt further down, we can expect more upsides to our estimates. Adjusting for the Annual Report numbers, our earnings estimates have been marginally revised upwards by 0.7% and 2.7% for FY10 and FY11, respectively.

The stock currently trades at 12.1x FY01E and 10.3x FY11E earnings. Maintain Outperformer.

PER Band



Source: B&K Research

Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net sales	7,935	10,467	12,317	14,540
<i>Growth (%)</i>	<i>97.2</i>	<i>31.9</i>	<i>17.7</i>	<i>18.0</i>
Operating expenses	(6,411)	(8,385)	(9,934)	(11,796)
Operating profit	1,524	2,082	2,383	2,745
Other operating income				
EBITDA	1,524	2,082	2,383	2,745
<i>Growth (%)</i>	<i>120.2</i>	<i>36.6</i>	<i>14.5</i>	<i>15.2</i>
Depreciation	(98)	(153)	(193)	(309)
Other income	42	165	53	56
EBIT	1,468	2,094	2,244	2,492
Interest paid	(417)	(885)	(909)	(935)
Pre-tax profit	1,052	1,208	1,334	1,557
(before non-recurring items)				
Pre-tax profit	1,052	1,208	1,334	1,557
(after non-recurring items)				
Tax (current + deferred)	(357)	(413)	(460)	(537)
Net Profit (before Minority Interest, Pref dividend, etc.)	695	796	874	1,020
Interest, Pref dividend, etc.)				
Prior period adjustments	(17)	(4)	0	0
Reported PAT	678	791	874	1,020
Adjusted net profit	695	796	874	1,020
<i>Growth (%)</i>	<i>101.5</i>	<i>14.5</i>	<i>9.9</i>	<i>16.7</i>

Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash & marketable securities	192	353	231	192
Other Current assets	7,947	10,550	12,359	14,552
Investments	405	28	28	28
Net fixed assets	723	1,243	1,632	1,760
Total assets	9,267	12,174	14,250	16,532
Current liabilities	1,583	1,695	2,814	3,777
Total Debt	4,193	6,239	6,300	6,600
Other non-current liabilities	20	25	25	25
Total liabilities	5,795	7,959	9,139	10,401
Share capital	306	306	306	306
Reserves & surplus	3,191	3,946	4,830	5,850
Less: Miscellaneous Exp	(25)	(37)	(25)	(25)
Shareholders' funds	3,471	4,215	5,110	6,130
Total equity & liabilities	9,267	12,174	14,250	16,532
Capital Employed	7,684	10,479	11,435	12,755

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	1,052	1,208	1,334	1,557
Depreciation	96	148	193	309
Chg in working capital	(3,472)	(2,134)	(1,141)	(1,306)
Total tax paid	(181)	(765)	(8)	(462)
Other operating activities	(17)	(4)	0	0
Cash flow from oper. (a)	(2,522)	(1,547)	377	98
Capital expenditure	(318)	(668)	(582)	(437)
Chg in investments	(405)	377	0	0
Others	3	(6)	10	0
Cash flow from inv. (b)	(720)	(297)	(572)	(437)
Free cash flow (a+b)	(3,242)	(1,844)	(195)	(339)
Equity raised/(repaid)	1,163	(12)	12	0
Debt raised/(repaid)	2,098	2,047	61	300
Dividend (incl. tax)	0	(31)	0	0
Cash flow from fin. (c)	3,261	2,005	72	300
Net chg in cash (a+b+c)	19	161	(122)	(39)

Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
EPS (Rs)	22.7	26.0	28.6	33.4
EPS growth	80.3	14.5	9.9	16.7
Book NAV/share (Rs)	113.6	138.0	167.3	200.7
Dividend/share (Rs)	0.0	1.0	0.0	0.0
Dividend payout ratio	0.0	3.8	0.0	0.0
Tax	33.9	34.2	34.5	34.5
EBITDA margin	19.2	19.9	19.4	18.9
EBIT margin	18.5	20.0	18.2	17.1
RoCE	25.7	23.1	20.5	20.6
Net debt/Equity	115.3	139.6	118.8	104.5

Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	15.2	13.3	12.1	10.3
PCE	13.3	11.1	9.9	7.9
Price/Book	3.0	2.5	2.1	1.7
Yield (%)	0.0	0.3	0.0	0.0
EV/Net sales	1.8	1.6	1.3	1.2
EV/EBITDA	9.5	7.9	7.0	6.2

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	8.8	7.6	7.1	7.0
Asset turnover	1.1	1.0	0.9	0.9
Leverage factor	2.8	2.8	2.8	2.7
Return on equity (%)	27.3	20.7	18.7	18.1

Kaustav Kakati
kaustav.kakati@bksec.com
+91-120-460 5622

Analyst Declaration: I, Kaustav Kakati, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
 2. **OUTPERFORMER:** 0 to +25%
 3. **UNDERPERFORMER:** 0 to -25%
 4. **SELL:** Potential downside of < -25% (absolute returns)
-

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, print, publishing, photocopying, recording or otherwise without the permission of Batlivala & Karani Securities India Pvt. Ltd. Any unauthorized act in relation to all or any part of the material in this publication may call for appropriate statutory proceedings.

The information contained herein is confidential and is intended solely for the addressee(s). Any unauthorized access, use, reproduction, disclosure or dissemination is prohibited. This information does not constitute or form part of and should not be construed as, any offer for sale or subscription of or any invitation to offer to buy or subscribe for any securities. The information and opinions on which this communication is based have been compiled or arrived at from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to their accuracy, correctness and are subject to change without notice. Batlivala & Karani Securities India P Ltd and/ or its clients may have positions in or options on the securities mentioned in this report or any related investments, may effect transactions or may buy, sell or offer to buy or sell such securities or any related investments. Recipient/s should consider this report only for secondary market investments and as only a single factor in making their investment decision. The information enclosed in the report has not been vetted by the compliance department due to the time sensitivity of the information/document. Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when the investment is realized. Those losses may equal your original investment. Some investments may not be readily realizable and it may be difficult to sell or realize those investments, similarly it may prove difficult for you to obtain reliable information about the value, risks to which such an investment is exposed. Neither B&K Securities nor any of its affiliates shall assume any legal liability or responsibility for any incorrect, misleading or altered information contained herein.

B & K SECURITIES INDIA PRIVATE LTD.

Equity Research Division: City Ice Bldg., 298, Ground/1st Floor, Perin Nariman Street, Behind RBI, Fort, Mumbai - 400 001, India. Tel.: 91-22-4031 7000, Fax: 91-22-2263 5020/30.
Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata - 700 001. Tel.: 91-33-2243 7902.

B&K Research is also available on Bloomberg <BNKI>, Thomson First Call & Investext.