

Pantaloon Retail

STOCK INFO.	BLOOMBERG
BSE SENSEX: 9,871	PF IN
	REUTERS CODE
S&P CNX: 2,983	PART.BO

27 January 2006

Buy

Rs1,709

Previous Recommendation: Buy

Equity Shares (m)	26.4
52-Week Range	1,849/624
1,6,12 Rel. Perf. (%)	-6/-3/102
M.Cap. (Rs b)	45.1
M.Cap. (US\$ b)	1.0

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
06/05A	10,837	386	17.5	75.1	97.4	17.0	17.4	15.6	3.7	44.9
06/06E	19,648	723	27.4	56.2	62.4	9.1	14.7	16.7	2.4	32.3
06/07E	33,249	1,264	47.9	74.8	35.7	7.5	21.1	21.0	1.5	20.6

- 2QFY06 results were in line with our estimates. The company recorded profit after tax of Rs186m versus our estimate of Rs181m.
- Sales for the quarter grew 98.1% YoY to Rs4.7b, driven largely by strong growth in the Value Retailing segment. The company's Value Retailing segment (Big Bazaar and Food Bazaar) grew 136% YoY, while its Lifestyle Retailing segment (Pantaloon and Central Mall) grew 35% YoY.
- EBITDA margins declined 110bp YoY to 8% in 2QFY06, primarily due to higher contribution of the low-margin value-retailing segment. Value Retailing contributed approximately 70.5% YoY to total revenues in 2QFY06 compared with 59% in 2QFY05.
- The company opened six new Pantaloon stores (Lifestyle segment), four new Big Bazaar stores (Value Retailing), one independent Food Store (Value Retailing) and one new Fashion Station store (Lifestyle Retailing) during the quarter.
- Pantaloon Retail added approximately 0.43m sq. ft. of retail space in 1HFY06 and ended the quarter with total retail space of 2.4m sq. ft.
- We expect the company to report an EPS of Rs27.4, Rs47.9 and Rs74.8 for the years FY06, FY07 and FY08 respectively based on diluted equity. The stock currently trades at 62.4x FY06E earnings, 35.7x FY07E earnings and 22.8x FY08E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(Rs Million)

Y/E JUNE	FY05				FY06				FY05	FY06E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	2,011	2,382	2,750	3,697	3,648	4,720	4,977	6,303	10,837	19,648
YoY Change (%)	45.3	55.6	79.1	73.4	81.4	98.1	81.0	70.5	65.5	81.3
Total Exp	1,830	2,166	2,506	3,472	3,368	4,341	4,594	5,880	9,941	18,184
EBITDA	182	216	243	225	280	379	383	422	896	1,464
Margins (%)	9.0	9.1	8.8	6.1	7.7	8.0	7.7	6.7	8.3	7.5
Depreciation	-31	-35	-37	-31	-38	-46	-60	-66	-133	-210
Interest	-63	-63	-64	-54	-57	-79	-78	-80	-282	-295
Other Income	4	9	3	27	7	4	15	18	50	45
PBT	92	127	145	168	192	258	260	294	531	1,004
Tax	-22	-26	-38	-60	-57	-72	-70	-82	-146	-281
Rate (%)	24.4	20.1	26.3	35.6	29.7	28.0	27.0	27.8	27.4	28.0
PAT	69	101	107	108	135	186	190	212	386	723
YoY Change (%)	41.3	63.8	170.4	124.6	94.9	83.1	77.9	96.7	101.1	87.6

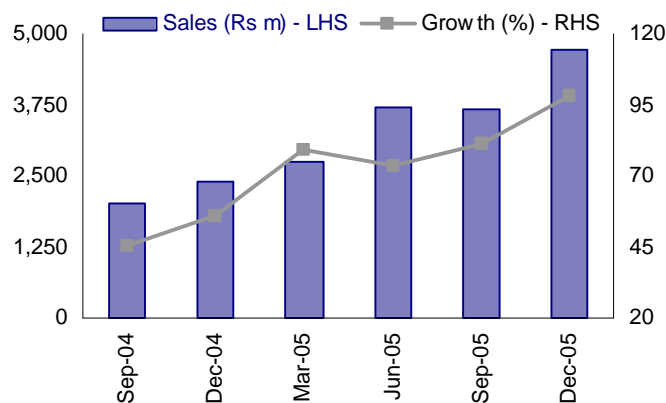
E: Inquire Estimates

Value Retailing drives overall revenue growth

Pantaloon’s 2QFY06 revenues grew 98.1% YoY to Rs4.7b, driven largely by Value Retailing segment (Big Bazaar and Food Bazaar). Value Retailing grew 136% YoY for the quarter, while Lifestyle revenues grew 35.2%. Over 1HFY06, Value Retailing grew 134% YoY and Lifestyle Retailing reported 25% YoY growth. Same store sales for the quarter grew 24.4% YoY, with Value and Lifestyle retailing reporting 27.1% and 20.1% growth in their respective same store sales.

We expect lifestyle revenue growth to pick up as the company is increasingly focusing on this segment. The company opened more Pantaloon outlets (6) than Big Bazaar (4) during the quarter, clearly indicating their renewed focus on the lifestyle segment. New store openings are expected to continue to keep revenue growth buoyant.

REVENUE GROWTH REMAINS BUOYANT



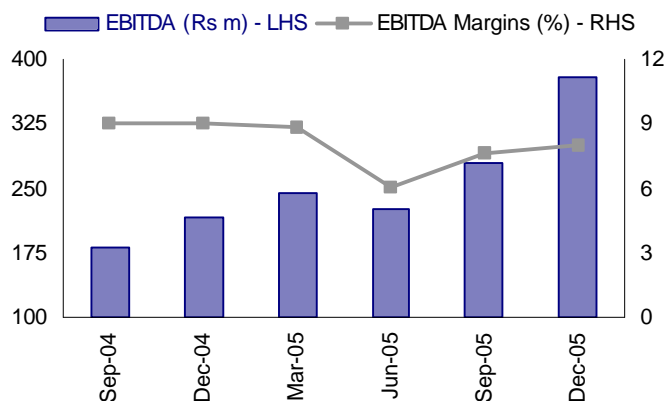
Source: Company/Motilal Oswal Securities

Higher contribution of Value Retailing depressing margins

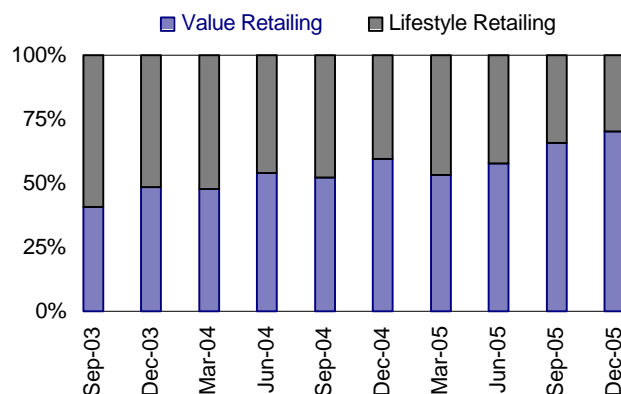
EBITDA margins for the quarter were down 110bp YoY, primarily due to higher contribution of low-margin value-retailing business to overall revenues. The contribution of value retailing to overall revenues increased to 70.5% in 2QFY06 v/s 59% in the corresponding quarter of the previous year. For 1HFY06, value retailing contributed 68.4% to overall revenues. We believe that the mix of value and lifestyle retailing is likely to continue to remain skewed in favor of lifestyle retailing in the short term. However,

management is focusing on improving the Lifestyle Retailing share to overall revenues by trying to add more Pantaloon outlets.

EBITDA MARGIN



GROWING CONTRIBUTION OF VALUE RETAILING TO OVERALL REVENUE



Source: Company/Motilal Oswal Securities

New tie-ups and initiatives announced

The company has announced a joint venture with Gini and Jony Apparel Pvt. Ltd. to set up a retail chain for kidswear under the Gini and Jony brand. The company expects to roll out these stores within six months. The company has also acquired a 33% stake in Capital Foods Ltd. and Capital Foods Exports Pvt. Ltd. for a consideration of Rs100m, which manufactures and markets RTE (Ready to eat) food items under brand names such as Ching’s secret, Smith & Jones etc. Further, it has announced that it intends to set up an NBFC to undertake all financial service activities for the company. The NBFC is likely to handle the asset management services of the company.

Valuation and view

Pantaloon continues to be our top pick in the organized retail segment. The company has delivered revenue CAGR of 56% over FY02-FY05. We expect the company to deliver revenue CAGR of 64% over FY05-FY08E, driven by

aggressive expansion plans. The company plans to more than double its retail space to 8m sq. ft. by the end of FY08. The stock currently trades at 62.4x FY06E earnings, 35.7x FY07E earnings and 22.8x FY08E earnings. We maintain **Buy**.

Pantaloon Retail: an investment profile

Company description

Pantaloon Retail is the largest organized retailer in India with retail space of more than 2m sq. ft. Pantaloon retails multiple categories through different format offerings like departmental stores (Pantaloon), hypermarkets (Big Bazaar), seamless mall (Central) and standalone stores. The company is targeting revenues of US\$2b in FY09, a 68% CAGR over FY05-FY09.

Key investment arguments

- ✍ Pantaloon is the best play in the fast-growing organized retail market with a presence across categories and formats. The company plans to increase the retail space from which it operates from 2m sq. ft. to more than 8m sq. ft. by the end of FY08 – a CAGR of 60%.
- ✍ The company is trying to leverage on its expertise in real estate management by raising funds from investors which will be managed by its subsidiary, Pantaloon Fashion House - PFH advisory committee).

Key investment risks

- ✍ Pantaloon has an aggressive expansion plan wherein timely and profitable execution is a critical issue – more so in case of Pantaloon, where backend IT systems are being developed and are being scaled up.

Recent developments

- ✍ Announced a Joint Venture with Gini & Jony Apparel Pvt Ltd for setting up a retail chain for kidswear under Gini & Jony Brand name.
- ✍ Approved purchase of 33% stake each in Capital Foods Ltd and Capital Foods Exports Pvt Ltd., Companies manufacturing and marketing ready to eat food items under various brand names such as Ching's Secret, Smith & Jones etc

Valuation and view

- ✍ We forecast EPS to be Rs47.9 for FY07E and Rs74.8 for FY08E based on diluted equity.
- ✍ The stock currently trades at 35.7x FY07E earnings and 22.8x FY08E earnings. We maintain **Buy**.

Sector view

- ✍ We are positive on the sector. We expect the sector to clock revenue growth of 30%-35% CAGR over the next five years.
- ✍ Players such as Pantaloon Retail with a strong hypermarket format and presence in larger number of categories are likely to be bigger winners.
- ✍ Longer term prospects appear bright, given low store penetration and rising consumers' incomes.

COMPARATIVE VALUATIONS

		PANTALOOON RETAIL	SHOPPER'S STOP
P/E (x)	FY06E	62.4	64.4
	FY07E	35.7	51.9
EV/EBITDA (x)	FY06E	32.0	35.9
	FY07E	20.4	27.2
EV/Sales (x)	FY06E	2.4	2.2
	FY07E	1.4	1.7
P/BV (x)	FY06E	9.1	6.1
	FY07E	7.5	5.5

SHAREHOLDING PATTERN (%)

	DEC.05	SEP.05	DEC.04
Promoters	44.1	43.1	42.4
Domestic Institutions	3.4	2.7	5.6
FII's/FDIs	29.9	30.7	31.2
Others	22.6	23.5	20.8

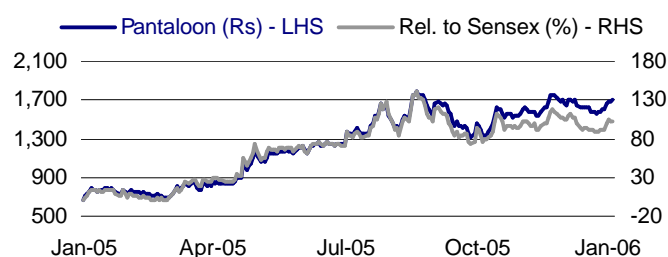
EPS: INQUIRE FORECAST VS CONSENSUS (RS)

	INQUIRE FORECAST	CONSENSUS FORECAST	VIATION (%)
FY06	27.4	26.3	4.0
FY07	47.9	43.0	11.4

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
1,709	1,871	9.5	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(RS MILLION)				
Y/E JUNE	2004	2005	2006E	2007E	2008E	
Net Sales	6,550	10,837	19,648	33,249	48,662	
Change (%)	48.4	65.5	81.3	69.2	46.4	
Total Expenditure	-6,001	-9,941	-18,184	-30,894	-45,145	
EBITDA	548	896	1,464	2,355	3,517	
Change (%)	46.6	63.5	63.4	60.8	49.3	
Margin (%)	8.4	8.3	7.5	7.1	7.2	
Depreciation	-96	-133	-210	-287	-353	
Int. and Fin. Charges	-236	-282	-295	-358	-426	
Other Income - Recurring	18	50	45	45	45	
Profit before Taxes	234	531	1,004	1,755	2,783	
Change (%)	75.5	26.8	89.1	74.8	58.5	
Margin (%)	3.6	4.9	5.1	5.3	5.7	
Tax	-15	-75	-141	-246	-403	
Deferred Tax	-28	-70	-141	-246	-403	
Tax Rate (%)	-18.1	-27.4	-28.0	-28.0	-29.0	
Profit after Taxes	192	386	723	1,264	1,976	
Change (%)	60.0	101.2	87.4	74.8	56.3	
Margin (%)	2.9	3.6	3.7	3.8	4.1	
Extraordinary Items	-1	0	0	0	0	
Reported PAT	191	386	723	1,264	1,976	

BALANCE SHEET		(RS MILLION)				
Y/E JUNE	2004	2005	2006E	2007E	2008E	
Share Capital	191	220	264	264	264	
Reserves	739	1,995	4,670	5,738	7,413	
Net Worth	931	2,215	4,934	6,002	7,677	
Loans	2,366	2,862	2,562	3,521	4,021	
Deferred Tax	51	130	271	517	920	
Capital Employed	3,348	5,208	7,767	10,040	12,618	
Gross Block	1,891	2,511	4,111	5,611	6,911	
Less: Accum. Depn.	-271	-374	-584	-870	-1,223	
Net Fixed Assets	1,620	2,137	3,527	4,741	5,688	
Capital WIP	144	158	144	144	144	
Investments	4	319	466	544	622	
Curr. Assets, L&A	2,300	4,039	6,223	8,307	11,661	
Inventory	1,576	2,760	4,876	7,394	10,298	
Account Receivables	176	123	523	388	945	
Cash and Bank Balance	138	215	415	115	8	
Others	410	941	410	410	410	
Curr. Liab. and Prov.	724	1,448	2,598	3,701	5,500	
Account Payables	564	1,083	2,437	3,540	5,340	
Other Liabilities	91	182	91	91	91	
Provisions	70	183	70	70	70	
Net Current Assets	1,576	2,591	3,625	4,606	6,160	
Miscellaneous Expenditure	4	3	4	4	4	
Application of Funds	3,348	5,208	7,767	10,039	12,619	

E: Most Estimates

RATIOS						
Y/E JUNE	2004	2005	2006E	2007E	2008E	
Basic (Rs)						
EPS	10.0	17.5	27.4	47.9	74.8	
Cash EPS	15.0	23.6	35.3	58.7	88.2	
BV/Share	48.6	100.7	186.9	227.4	290.8	
DPS	15	2.5	4.5	6.5	10.0	
Payout %	15.0	14.3	16.4	13.6	13.4	
Valuation (x)						
P/E		97.4	62.4	35.7	22.8	
Cash P/E		72.4	48.3	29.1	19.4	
EV/Sales		3.7	2.4	1.5	1.0	
EV/EBITDA		44.9	32.3	20.6	14.0	
P/BV		17.0	9.1	7.5	5.9	
Dividend Yield (%)		0.1	0.3	0.4	0.6	
Return Ratios (%)						
RoE	20.6	17.4	14.7	21.1	25.7	
RoCE	14.0	15.6	16.7	21.0	25.4	
Working Capital Ratios						
Debtor (Days)	10	4	10	4	7	
Asset Turnover (x)	2.0	2.1	2.5	3.3	3.9	
Leverage Ratio						
Debt/Equity (x)	2.5	1.3	0.5	0.6	0.5	

CASH FLOW STATEMENT		(RS MILLION)				
Y/E JUNE	2004	2005	2006E	2007E	2008E	
OP/(loss) before Tax	452	763	1,254	2,068	3,164	
Int./Div. Received	18	50	45	45	45	
Depreciation and Amort.	96	133	210	287	353	
Interest Paid	-236	-282	-295	-358	-426	
Direct Taxes Paid	-15	-75	-141	-246	-403	
(Incr)/Decr in WC	-518	-939	-835	-1,281	-1,660	
CF from Operations	-203	-349	239	515	1,072	
Extraordinary Items	-1	0	0	0	0	
(Incr)/Decr in FA	453	-633	-1,586	-1,500	-1,300	
(Pur)/Sale of Investments	-2	-315	-147	-78	-78	
CF from Invest.	451	-949	-1,733	-1,578	-1,378	
Issue of Shares	10	914	2,200	0	0	
(Incr)/Decr in Debt	910	496	-300	959	500	
Dividend Paid	-32	-63	-119	-172	-264	
Others	-1,078	28	-86	-24	-36	
CF from Fin. Activity	-191	1,375	1,695	763	200	
Incr/Decr of Cash	58	76	200	-299	-106	
Add: Opening Balance	81	138	215	415	115	
Closing Balance	139	215	415	115	8	



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Pantaloon Retail

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| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |

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