

C.M.P:
Rs.400.00

Target Price:
Rs.460.00

June 7, 2010

1 Year Comparative Graph



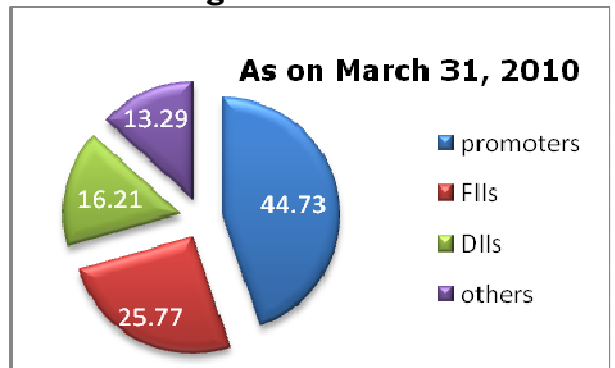
SYNOPSIS

- Pantaloon Retail (India) Limited, is India's leading retailer that operates multiple retail formats in both the value and lifestyle segment of the Indian consumer market.
- Pantaloon Retail (India) Ltd. is looking at acquiring small foods companies in India.
- During the quarter company has approved issuance of 1,00,00,000 Warrants.
- Pantaloon Retail has entered into a 50:50 joint venture (JV) with C & J Clark International.
- Pantaloon Retail merges the consumer durable business.
- Operating profit and Net profit of the company are expected to grow at a CAGR of 11% and 22% over 2008 to 2011E respectively.

Stock Data

Sector	Retail
Face Value Rs.	2.00
52 wk. High/Low (Rs.)	455.00/252.05
Volume (2 wk. Avg.)	40000
BSE Code	523574
Market Cap (Rs.In mn)	82460.0

Share Holding Pattern



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Financials (Rs.in.mn)

	FY09	FY10E	FY11E
Net Sales	63417.0	49542.7	34679.8
EBIDTA	6745.0	6289.7	6349.2
PAT	1405.8	1654.7	2265.3
EPS	7.39	8.03	10.99
P/E	54.15	49.83	36.40

Peer Group Comparison

Name of the company	CMP(Rs.)	Market Cap.(Rs.Mn.)	EPS(Rs.)	P/E(x)	P/Bv(x)	Dividend (%)
Pantaloon Retail India Ltd	400.00	82460.0	7.93	50.34	3.65	30.00
Provogue India Ltd	47.55	5437.7	2.48	19.17	0.78	15.00
Koutons Retail India Ltd	312.50	9577.3	26.95	11.60	1.88	10.00
Trent Ltd	850.00	17030.9	20.07	42.35	2.80	55.00

Investment Highlights

🚩 Q3 FY10 Results Update

Pantaloon Retail (India) disclosed a marginal decline in standalone net profit for the quarter ended March 2010. During the quarter, the profit of the company declined 5.47% to Rs 325.00 million from Rs 343.80 million in the same quarter previous year. Net sales for the quarter declined 63.33% to Rs 6,021 million, while total income for the quarter fell 63.31% to Rs 6,031.30 million, when compared with the prior year period. It posted earnings of Rs 1.58 a share during the quarter, registering 19.66% decline over previous year period.

Quarterly Results - standalone (Rs in mn)			
As At	Mar-10	Mar-09	%change
Net sales	6021.00	16420.90	(63.33)
PAT	325.00	343.80	(5.47)
Basic EPS	1.58	1.96	(19.66)

✚ Issue of warrants

Pantaloon Retail (India) Ltd has approved issuance of 1,00,00,000 Warrants at a price of Rs. 400/- per Warrants aggregating to Rs. 400,00,00,000/- to one of the Promoter Group entity with an option to the Warrant holders to acquire same number of equity shares within a period of 18 months pursuant to provisions of Chapter VII of Securities & Exchange Board of India (issue of Capital & Disclosure Requirements) Regulations, 2009 relating to Preferential issues.

✚ JV with Uk based company

Pantaloon Retail has entered into a 50:50 joint venture (JV) with C & J Clark International, a company incorporated in UK, for the Single brand retailing of the `Clarks` branded footwear and allied products. The joint venture would also be engaged in wholesale business of Clarks branded products in India. The joint venture activities would be carried out by a separate joint venture company.

With this joint venture, Pantaloon Retail has taken a strategic business decision to enlarge its business activities and have a better footprint in retail as well as wholesale of branded footwear and allied products in India.

✚ Merge of consumer business with itself

Retail major Pantaloon Retail (India) will merge the consumer durable business of its subsidiary with itself.

The board has approved demerger of consumer durables and home improvement business from Home Solutions Retail (India).

Following the demerger, the said units would be merged with Pantaloon Retail (India). Further, the company would acquire the sports retail business from its wholly-owned subsidiary, Winner Sports.

Company Profile

Pantaloon Retail (India) Limited, is India's leading retailer that operates multiple retail formats in both the value and lifestyle segment of the Indian consumer market. Headquartered in Mumbai (Bombay), the company operates over 16 million square feet of retail space, has over 1000 stores across 73 cities in India and employs over 30,000 people.

The company's leading formats include Pantaloons, a chain of fashion outlets, Big Bazaar, a uniquely Indian hypermarket chain, Food Bazaar, a supermarket chain, blends the look, touch and feel of Indian *bazaars* with aspects of modern retail like choice, convenience and quality and Central, a chain of seamless destination malls. Some of its other formats include Brand Factory, Blue Sky, aLL, Top 10 and Star and Sitara.

The company operates 120 Big Bazaar stores, 170 Food Bazaar stores, among other formats, in over 70 cities across the country, covering an operational retail space of over 6 million square feet. As a focussed entity driving the growth of the group's value retail business, Future Value Retail Limited will continue to deliver more value to its customers, supply partners, stakeholders and communities across the country and shape the growth of modern retail in India.

Subsidiary Company

Future Capital Holdings Limited

Home Solutions Retail (India) Limited

Future Logistic Solutions Limited

Future Agrovet Limited (Formerly known as Pantaloon Food Product (India) Limited)

Future Media (India) Limited

Future Brands Limited

Futurebazaar India Limited

Pantaloon Future Ventures Limited

Financials Results

12 Months Ended Profit & Loss Account (Standalone)

Value(Rs.in.mn)	FY08	FY09	FY10E	FY11E
Description	12m	12m	12m	12m
Net Sales	50489.10	63417.00	49542.70	34679.89
Other Income	37.60	60.60	89.03	106.84
Total Income	50526.70	63477.60	49631.73	34786.73
Expenditure	-45883.90	-56732.60	-43341.94	-28437.51
Operating Profit	4642.80	6745.00	6289.79	6349.22
Interest	-1852.70	-3182.20	-2455.33	-1841.50
Gross profit	2790.10	3562.80	3834.46	4507.72
Deprecation	-833.90	-1400.50	-1344.32	-1075.45
Profit Before Tax	1956.20	2162.30	2490.14	3432.27
Tax	-696.50	-756.50	-835.43	-1166.97
Profit After Tax	1259.70	1405.80	1654.71	2265.30
Equity capital	318.60	380.60	412.30	412.30
Reserves	17515.00	22114.70	23769.41	26034.70
Face value (Rs.)	2.00	2.00	2.00	2.00
EPS	7.91	7.39	8.03	10.99

Quarterly Ended Profit & Loss Account (Standalone)

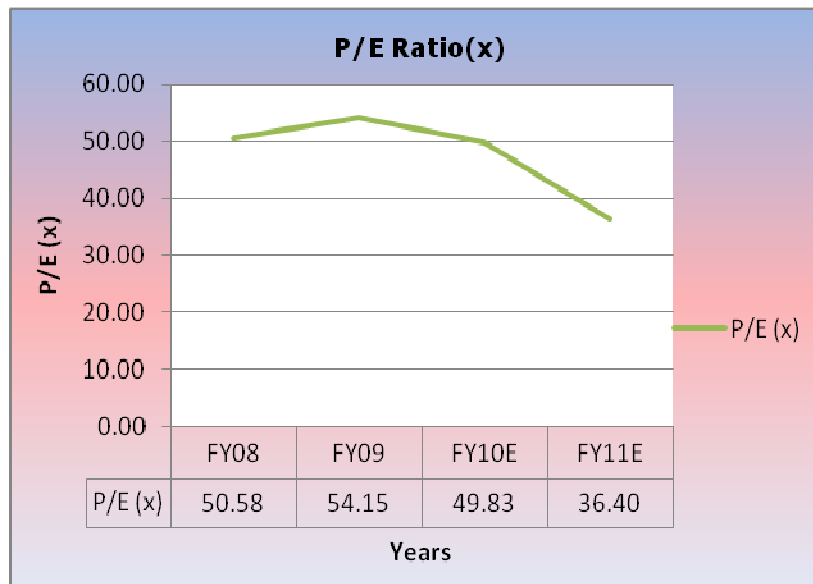
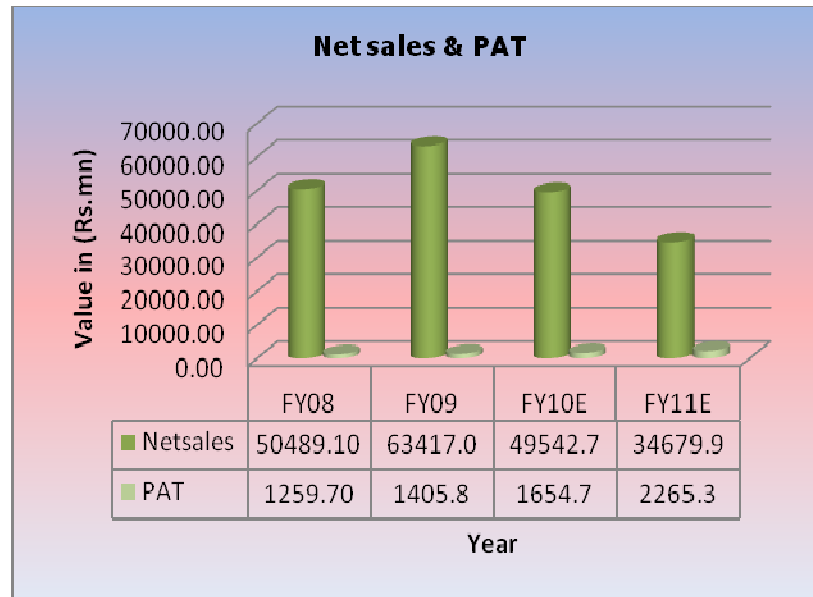
Value(Rs.in.mn)	30-Sep-09	31-Dec-09	31-Mar-10	30-Jun-10
Description	3m	3m	3m	3m
Net sales	17770.20	19128.40	6021.00	6623.10
Other income	47.20	20.20	10.30	11.33
Total Income	17817.40	19148.60	6031.30	6634.43
Expenditure	-15869.00	-17094.00	-4948.00	-5430.94
Operating profit	1948.40	2054.60	1083.30	1203.49
Interest	-868.50	-835.30	-366.60	-384.93
Gross profit	1079.90	1219.30	716.70	818.56
Deprecation	-432.80	-451.70	-224.30	-235.52
Profit Before Tax	647.10	767.60	492.40	583.04
Tax	-208.90	-260.90	-167.40	-198.23
Profit After Tax	438.20	506.70	325.00	384.81
Equity capital	380.60	412.30	412.30	412.30
Face value (Rs.)	2.00	2.00	2.00	2.00
EPS	2.30	2.46	1.58	1.87

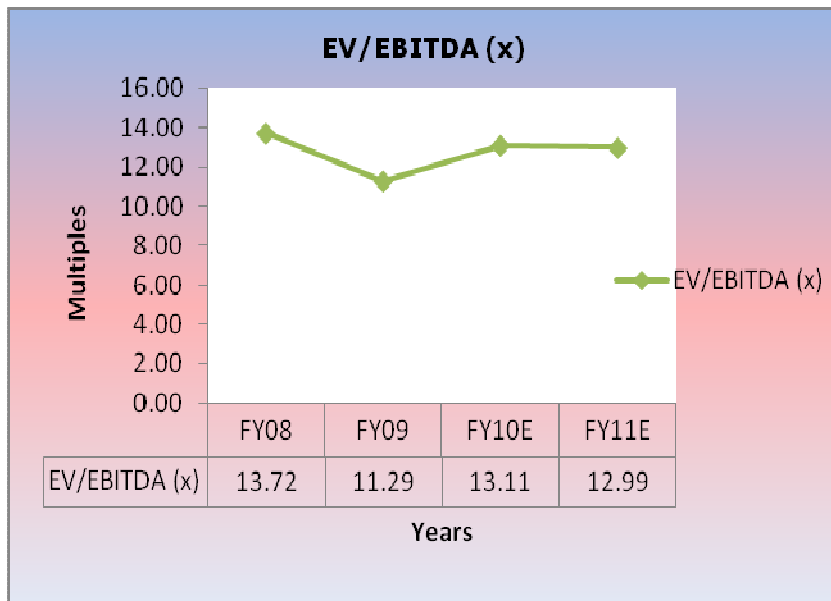
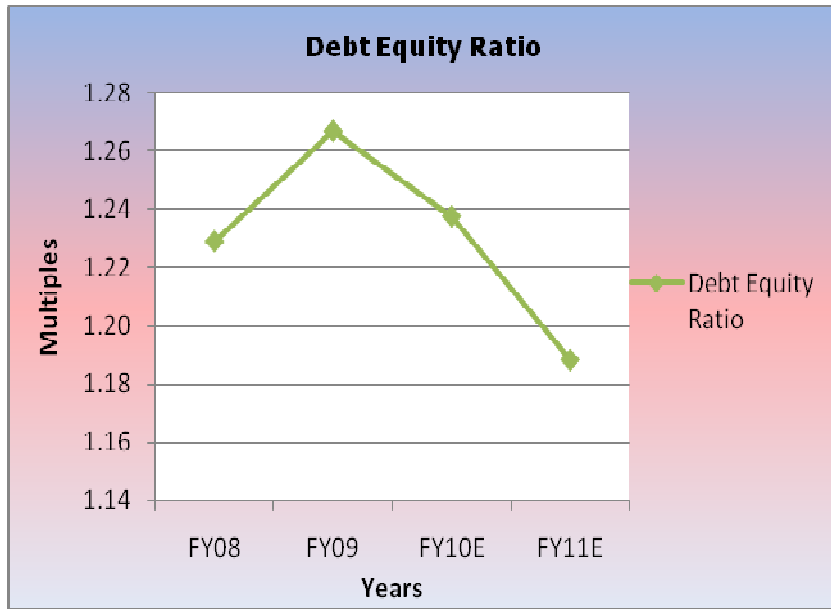


Key Ratios

Particulars	FY08	FY09	FY10E	FY11E
No. of Shares(In Million)	159.3	190.3	206.15	206.15
EBITDA Margin (%)	9.20%	10.64%	12.70%	18.31%
PBT Margin (%)	3.87%	3.41%	5.03%	9.90%
PAT Margin (%)	2.49%	2.22%	3.34%	6.53%
P/E Ratio (x)	50.58	54.15	49.83	36.4
ROE (%)	7.06%	6.25%	6.84%	8.57%
ROCE (%)	13.78%	15.97%	14.11%	12.83%
Debt Equity Ratio	1.23	1.27	1.24	1.19
EV/EBITDA (x)	13.72	11.29	13.11	12.99
Book Value (Rs.)	111.95	118.21	117.3	128.29
P/BV	3.57	3.38	3.41	3.12

Charts:





Outlook and Conclusion

- ✚ At the current market price of Rs.400.00, the stock is trading at 49.83 x FY10E and 36.4 x FY11E respectively.
- ✚ Price to Book Value of the stock is expected to be at 3.41 x and 3.12 x respectively for FY10E and FY11E.
- ✚ Earning per share (EPS) of the company for the earnings for FY10E and FY11E is seen at Rs.8.03 and Rs.10.99 respectively.
- ✚ Operating profit and Net profit of the company are expected to grow at a CAGR of 11% and 22% over 2008 to 2011E respectively.
- ✚ On the basis of EV/EBITDA, the stock trades at 13.11 x for FY10E and 12.99 x for FY11E.
- ✚ In view of the management's decision to realign the business of the Company, including recent transfer of 'value retail business' to its wholly owned subsidiary, the performance of the quarter ended and nine months ended would not be comparable with the previous years corresponding periods. The Company proposes to evolve to the consolidated reporting from the coming financial year to give holistic view of the performance.
- ✚ We recommend 'BUY' in this particular scrip with a target price of Rs.460.00 for Medium to Long term investment.

Industry Overview

The BMI India Retail Report for the third-quarter of 2010, released in May 2010 forecasts that the total retail sales will grow from US\$ 353.0 billion in 2010 to US\$ 543.2 billion by 2014. Strong underlying economic growth, population expansion, the increasing wealth of individuals and the rapid construction of organised retail infrastructure are key factors behind the forecast growth. As well as an expanding middle and upper class consumer base, there will also be opportunities in India's second and third-tier cities. The greater availability of personal credit and a growing vehicle population to improve mobility also contribute to a trend towards annual retail sales growth of 11.4 per cent.

The growth in the overall retail market will be driven largely by the explosion in the organised retail market. Domestic retailers continue to invest heavily in increasing their store networks and improving in-store offerings, and the impact they have on growth will be boosted by the arrival of expansion-orientated multinationals.

Mass grocery retail (MGR) sales in India are forecast to undergo enormous growth over the forecast period. BMI predicts that sales through MGR outlets will increase by 154 per cent to reach US\$ 15.29 billion by 2014. This is a consequence of India's dramatic, rapid shift from small independent retailers to large, modern outlets.

BMI forecasts consumer electronic sales at US\$ 29.86 billion in 2010, with over the counter (OTC) pharmaceutical sales at US\$ 3.28 billion. The latter is predicted to be the fastest growing retail sub-sector over the forecast period. BMI forecasts that sales will reach US\$ 6.18 billion by 2014, an increase of 88.5 per cent.

Retail sales for the BMI universe of Asian countries in 2010 are a forecast US\$ 2.66 trillion. China and India are predicted to account for almost 91 per cent of regional retail sales in 2010 and by 2014 their share of the regional market is expected to be more than 92 per cent. Growth in regional retail sales for 2010-2014 is forecast by BMI at 72.2 per cent, an annual average of 14 per cent. India should experience the most rapid rate of growth in the region, followed by China. For India, its forecast market share of 13.9 per cent in 2010 is expected to increase to 14.3 per cent by 2014.

Moreover, for the fourth time in five years, India has been ranked as the most attractive nation for retail investment among 30 emerging markets by the US-based global management consulting firm A T Kearney in its eighth annual Global Retail Development Index (GRDI) 2009 published in June 2009.

Further, according to a study by the McKinsey Global Institute (MGI), released in May 2007, India's middle class will swell by more than ten times—from 50 million in 2007 to 583 million people by 2025. By 2025, India will also become the 5th largest consumer market, moving up from the 12th position it occupied in 2007.

According to a McKinsey report published in September 2008, called 'The Great Indian

Bazaar: Organised Retail Comes of Age in India', organised retail in India is expected to increase from 5 per cent of the total market in 2008 to 14-18 per cent of the total retail market and reach US\$ 450-billion by 2015.

Commercial real estate services company, CB Richard Ellis' findings published in April 2009, states that India's retail market has moved up to the 39th most preferred retail destination in the world in 2009, up from 44 in 2008.

India continues to be among the most attractive countries for global retailers. Foreign direct investment (FDI) inflows between April 2000 and March 2010, in single-brand retail trading, stood at US\$ 194.69 million, according to the Department of Industrial Policy and Promotion (DIPP).

- Carrefour, the second-largest retail chain in the world after Walmart, plans to open its first wholesale cash-and-carry store in the country at Seelampur in Delhi in the next two to three months. With the store sprawling over 55,000-square feet of area, the store will source 90 per cent of its products within the country.
- Aditya Birla Retail will invest up to US\$ 44.3 million in 2010-11 to expand its 'More' brand. The group will open 100 new supermarkets of 'More', and 8-10 new hypermarkets under the 'More Megastore' brand.
- Wal-Mart Stores Inc, the world's biggest retailer, will accelerate its roll-out of wholesale stores in India. Raj Jain, chief of Indian operations for Arkansas-based Wal-Mart, said the firm now expects to open 10-12 wholesale centres in India over two-to-three years, from an earlier target of five years, as real estate prices have become more attractive.
- K Raheja Group promoted Shopper's Stop has lined-up a capital expenditure of nearly US\$ 27.6 million to open about 12 stores in 2010-11. The new stores will come up in Bangalore, Delhi, Pune, Bhopal, Aurangabad, Vijaywada and Durgapur.
- British retail giant Tesco, expects to open its first cash-and-carry store in India by the end of 2010.

- Middle East retail chain Max is expanding its footprints across India. Max has 16 outlets operating in the metros while the rest are located in the tier II towns. It plans to take its total store count to 53 by March 2011, targetting a turnover of US\$ 96.8 million.
- Diamond retail chain ORRA Diamonds plans capital expenditure of US\$ 16.9 million for opening 16 new stores over the next three years.

Policy Initiatives

- 100 per cent FDI is allowed in cash-and-carry wholesale formats
- FDI up to 51 per cent under the Government route is allowed in retail trade of 'Single Brand' products

Road Ahead

According to industry experts, the next phase of growth is expected to come from rural markets.

According to a market research report published in June 2008 by RNCOS titled, 'Booming Retail Sector in India', organised retail market in India is expected to reach US\$ 50 billion by 2011.

- Number of shopping malls is expected to increase at a CAGR of more than 18.9 per cent from 2007 to 2015
- Rural market is projected to dominate the retail industry landscape in India by 2012 with total market share of above 50 per cent

- Driven by the expanding retail market, the third party logistics market is forecasted to reach US\$ 20 billion by 2011
- Apparel, along with food and grocery, will lead organised retailing in India.

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