

Koutons Retail India

BUY

Rs 702

Sensex: 18,939

Anand Mour

(91) 22-6632 2244
AnandMour@PLIndia.com

Mihir P Shah

(91) 22-6632 2258
MihirPShah@PLIndia.com

Key Figures

(Rs m)

Y/e Mar	'07	'08E	'09E	'10E
Net Sales	4,024	9,048	15,157	21,946
EBITDA	703	1,564	2,630	4,009
PAT	345	800	1,344	2,205
PAT Gr. (%)	161.3	131.9	68.0	64.1
EPS (Rs)	12.6	26.2	44.0	72.2

Key Ratios

(%)

Y/e Mar	'07	'08E	'09E	'10E
EBITDA Mar.	17.5	17.3	17.4	18.3
RoCE	19.8	18.7	19.7	21.9
RoE	37.6	29.6	30.3	35.5

Valuations

(x)

Y/e Mar	'07	'08E	'09E	'10E
PER	55.6	26.8	16.0	9.7
EV / Sales	5.2	2.6	1.7	1.2
EV / EBITDA	30.0	15.2	10.0	6.8
MCap / Sales	4.8	2.4	1.4	1.0

Key Data

Bloomberg Code : KUTN@IN
Reuters Code : KRIL.BO / NS

Shareholding Pattern (%)

Promoters	: 66.6
Foreign	: 16.9
Inst/non-Promoters	: 11.5
Public & Others	: 5.0

Price Relative to Sensex (%)

1 month	: 5.1
3 months	: NA
12 months	: NA

Shares Outstanding : 31m
Market Cap : Rs 21,442m
\$ 543m

Average Volume
(3 months) : 0.9m shares

(Price as on November 28, 2007)

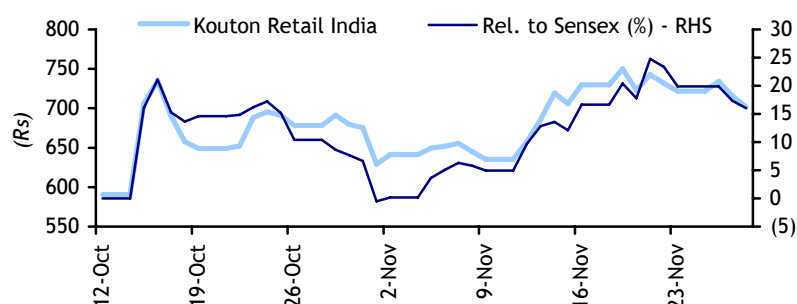
Meeting aspirations and affordability

Koutons Retail India, a home grown apparel maker and retailer, has taken fodder for its growth from the changing consumption pattern of the growing middle-class in the country. The company has captured a niche in apparel retailing by setting up a large number of retail outlets and offering good quality products at reasonably price. Having commenced operations in 2002, the company currently has 1,122 stores spread across 0.82 million sq.ft. in 442 cities. Koutons Retail is expected to expand its total store count to 1,385 in FY08 (1 million sq.ft.) and 2,000 in FY09 (1.5 million sq.ft) and further to 2,600 in FY10 (2 million sq.ft.).

The company posted net revenue of Rs4,024m and net profit of Rs345m in FY07. We expect the company to post revenue of Rs9,048m in FY08, Rs15,157m in FY09, Rs21,946m in FY10; PAT of Rs800m in FY08, Rs1,344m in FY09, Rs2,205m in FY10; and EPS of Rs26.2 in FY08, Rs44 in FY09, Rs72.2 in FY10. At the CMP of Rs702, the company is trading at 9.7x FY10E earnings and 6.8x EV/EBITDA, which is at a discount to its peers. We initiate coverage on the stock with BUY rating and 12-month target price of Rs1,127 trading at 10x EV/EBITDA FY10 (PE of 15.6x FY10E), which is an upside of 61% from current levels.

- 76% CAGR growth in revenue from Rs4,024m in FY07 to Rs21,946m in FY10E. The company's PAT will grow from Rs345m in FY07 to Rs2,205m in FY10 at a CAGR of 86% with improving margins, due to integrated manufacturing facilities
- Aggressively expanding its retail presence from 687 stores in FY07 to 1,385 in FY08, 2,000 in FY09 and 2,600 in FY10. The franchisee model allows for easier scalability of operations as compared to the self-owned model
- The company has launched its women's wear, *Les Femme* and kid's wear, *Koutons Junior* in some of its existing stores and is looking at expansion of these stores from FY09. Koutons also launched its premium offerings for men, *KC*

Stock price performance



Source: MetaStock, PL Research

Table of Contents

Investment Highlights	3
Strong earnings growth	3
Aggressive expansion plans	4
Scalable and relatively lower risk business model	6
Integrated manufacturing to retailing	7
Koutons positioning - key to success	7
Investment Concerns	9
Execution risks	9
Growing competition	9
High inventory risks	9
Company and management background	10
Valuation	12
Financials	14
Appendix	18
Industry Overview	18
Organised retail industry	18
Indian apparel industry	18
Annual spending on apparel	19

Tables & Charts

Chart 1: Earnings from different brands	3
Chart 2: Expansion of Koutons outlets	4
Chart 3: Expansion of Charlie Outlaw outlets	5
Chart 4: High velocity retail expansion (total stores)	5
Chart 5: Penetration of Koutons stores	6
Chart 6: Business Model	6
Table 1: Finishing capacity	7
Table 2: Manufacturing capacity	7
Chart 7: Meeting aspirations of the middle-class	8
Chart 8: Koutons' product positioning	8
Chart 9: High level of inventory turnover	9
Chart 10: Eliminating middle man to reach end users	10
Table 3: Company management detail	11
Table 4: Peer valuation	13
Table 5: Assumptions	14
Chart 11: Product mix in the Indian apparel market	18
Chart 12: Value growth	19
Chart 13: Indian demographics, middle class consumption and consumption cycle	19
Chart 14: Increased apparels spending by urban and upper middle class	20

Investment Highlights

We expect the company to post revenue of Rs9,048m in FY08 and Rs15,157m in FY09

Strong earnings growth

For FY07, the company posted revenue of Rs4,024m. With the pace at which the company is expanding its retail presence, we believe it will post revenue of Rs9,048m in FY08 and Rs15,157m in FY09.

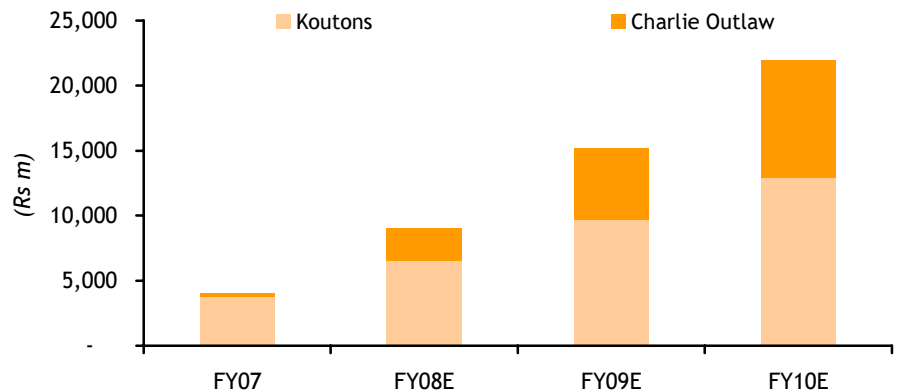
Koutons is expected to grow at a CAGR of 41% during FY08-10, thus crossing Rs10,000m turnover mark in FY10. The company is targeting metros and, tier I and II cities. In FY08, Koutons will be able to generate revenue of Rs6,515m with average sales of Rs11.1m per store and Rs13,069 per sq.ft. In FY09, it will be able to post sales of Rs9,625m with average sales per store of Rs12.5m and Rs13,325 per sq.ft. This growth will come from improvement in sales mix and introduction of kids wear and womens wear. However, we understand that there would be some sales cannibalisation leading to 6-7% growth in sales per store.

In FY08, *Charlie Outlaw* will be able to generate revenue of Rs2,533m in FY08 with average sales of Rs5.63m per store and Rs9,534 per sq.ft. In FY09, it will be able to post sales of Rs5,532m with average sales per store of Rs5.98m and Rs9,967 per sq.ft. This growth will come from improvement in sales mix and about 10% existing store growth. However, the impact of entry into small towns and cannibalisation will reduce average sales, leading to 6-8% growth in sales per store.

Les Femme and *Koutons Junior* were launched in select outlets in the current year. The company is looking at opening exclusive outlets for these brands next year.

Koutons is looking to open 15% of its outlet as concept stores, managed by the company. Sales of these stores have been included in brand wise sales. These stores will be large stores (3000-4500 sq ft) and will provide brand visibility at up market areas and leading malls.

Chart 1: Earnings from different brands



Source: Company Data, PL Research

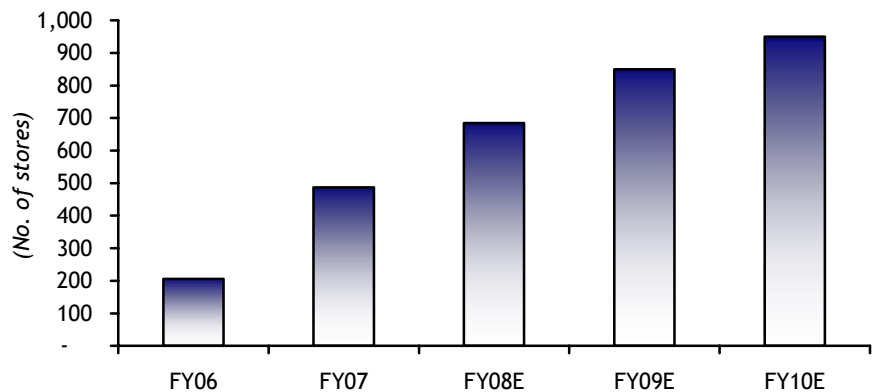
Aggressive expansion plans

In FY07, the company increased the number of its *Koutons* stores from 206 to 487, and opened 200 *Charlie Outlaw* stores. In FY08, the company plans to expand its *Charlie Outlaw* stores aggressively to 700, increase *Koutons* stores to 685 and introduce women's wear and kid's wear ranges. In FY09, the company plans to expand *Charlie Outlaw* stores aggressively and open a few stores for *Les Femme* and *Koutons Junior*. In FY10, the company plans to aggressively expand *Les Femme* and *Koutons Junior* stores.

Plans to increase the number of Koutons outlets from 487 in FY07 to 950 by FY10

Koutons' outlets will increase from 487 in FY07 to 685 in FY08, 850 in FY09 and 950 in FY10. Koutons has also launched its premium range *KC*, which would increase its average realisation. It has also launched *KC* ties in select outlets. It is also looking at expanding ranges in the premium category. Having demonstrated its ability to open two stores every day, we are more than convinced that it will achieve its target.

Chart 2: Expansion of Koutons outlets

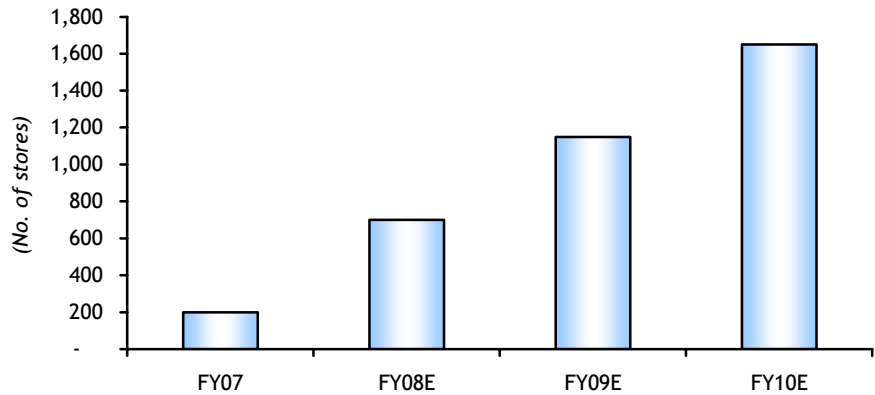


Source: Company Data, PL Research

Charlie Outlaw outlets to increase from 200 in FY07 to 1,650 by FY10

Koutons' second growth driver could be the expansion of *Charlie Outlaw* stores. The brand was hot selling property in unorganised trade till 2001. The company relaunched the brand in 2006 by opening 107 stores on a single day. It is now planning to increase *Charlie Outlaw* stores from 200 in FY07 to 700 in FY08, 1,150 in FY09 and 1,650 in FY10. *Charlie Outlaw* is expected to grow 3.5 times between FY08 and FY10. The brand is targeted at all kinds of towns (even small and semi urban), which provides enough scope for expansion into the hinterland.

Chart 3: Expansion of Charlie Outlaw outlets



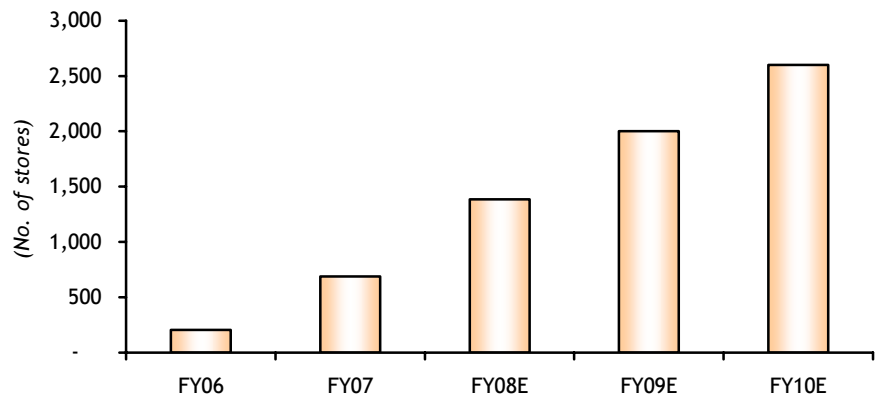
Source: Company Data, PL Research

The company plans to convert some of its existing Koutons stores to Koutons Junior and Les Femme

Koutons is looking at women's wear for its next round of growth. With this objective, it has introduced *Les Femme*, western outfits for women, and has placed them in select *Koutons* stores. The company will convert some of its existing *Koutons* stores to *Koutons Junior* and *Les Femme*, and in place will take up larger stores of 2,500 to 3,000 sq.ft. for *Koutons* mens wear.

In addition to this, Koutons will also look at opportunities to sell accessories like shoes, belts from all its stores at a later stage.

Chart 4: High velocity retail expansion (total stores)

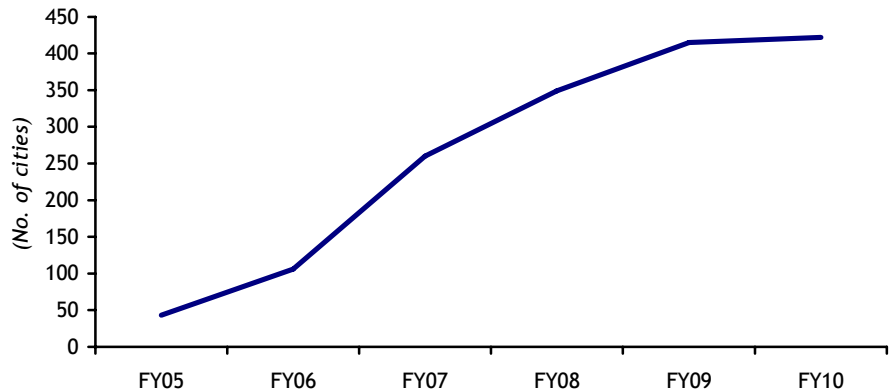


Source: Company Data, PL Research

Expected to expand its total retail presence from 687 outlets in FY07 to 2,600 in FY10

Koutons is expected to expand its retail presence from 687 outlets in FY07 to 1,385 in FY08, 2,000 in FY09 and 2,600 in FY10. It will, in turn, increase its retail area from 0.5 million sq.ft. in FY07 to 1 million sq.ft. in FY08, 1.5 million sq.ft. in FY09 and 2 million sq.ft. in FY10. The company may look at increasing its store size at some locations, instead of opening two stores in the same town.

Chart 5: Penetration of Koutons stores



Source: Company Data, PL Research

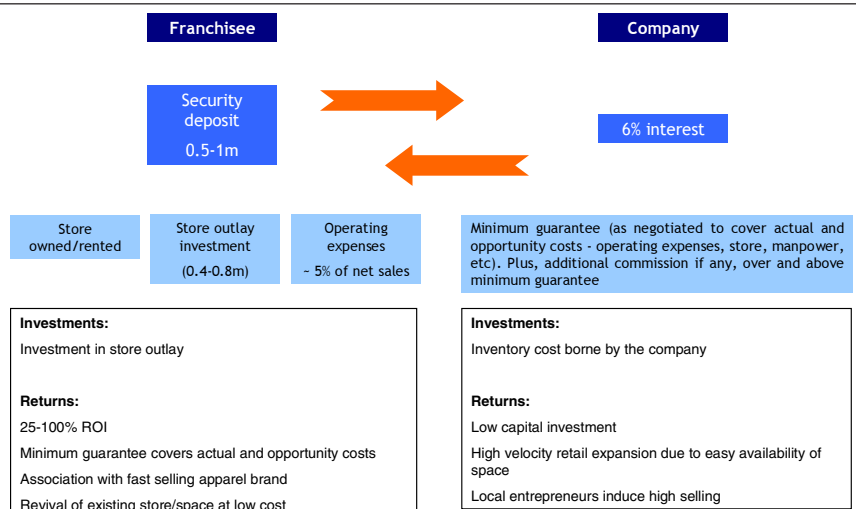
The company has a network spread across the country. It is present in all types of towns and semi-urban towns. *Koutons* is targeted at urban consumer in the 22-45 year age group and is available in 326 towns. *Koutons* plans to expand its reach to 349 towns in FY08, 415 towns in FY09 and 442 towns in FY10. *Charlie Outlaw* is positioned towards the 14-25 year age group and is available in 329 towns.

Franchisee route to expansion entails less capital requirement and easy availability of retail space

Scalable and relatively lower risk business model

Koutons prefers the franchisee route to growth, as it allows entrepreneurs at the front end to induce more selling due to their relation with members in the local community. The company provides an able manager to its franchisees to ward off competition; this also helps these franchisees create a cushion against increasing managerial salary cost. It also empowers small shop owners, who do not feel threatened by the presence of national retailers. This model also allows higher velocity in retail rollout, as it involves less capital requirement and easy availability of retail space.

Chart 6: Business Model



Source: Company Data, PL Research

Has increased its annual finishing and manufacturing capacity to 229.2 lakh and 123.6 lakh pcs respectively

Integrated manufacturing to retailing

The company has about 21 manufacturing units with a capacity to produce 12.3 million garments per annum and 15 warehouses in and around Gurgaon, Haryana. It procures about 45% of its raw material from China. Koutons incurs lower cost on raw material as it enjoys bargaining power due to economies of scale. The company has increased its annual finishing and manufacturing capacity to 22,920,000 and 12,360,000 pieces of apparel, as of March 31, 2007.

Table 1: Finishing capacity (Pcs)

	FY05	FY06	FY07
Trousers	900,000	2,040,000	6,600,000
Shirts	1,200,000	3,000,000	12,000,000
Denim	900,000	1,200,000	4,200,000
Suits & blazers	-	-	120,000
Total capacity	3,000,000	6,240,000	22,920,000

Source: Company Data, PL Research

Table 2: Manufacturing capacity (Pcs)

	FY05	FY06	FY07
Trousers	600,000	960,000	3,240,000
Shirts	-	-	6,600,000
Denim	-	-	2,400,000
Suits & blazers	-	-	120,000
Total capacity	600,000	960,000	12,360,000

Source: Company Data, PL Research

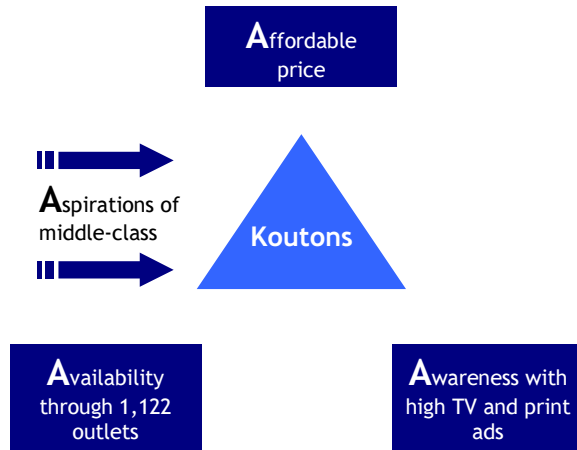
They have also entered into fabricating agreements with various manufacturing units to which they outsource stitching of certain apparel. The manufacturing and finishing facilities are backed by adequate facilities for product testing, apparel development, design studio and sampling infrastructure to ensure high quality apparel.

High fashion and affordable products are positioned to target lifestyle aspirations of middle-class consumers

Koutons positioning - key to success

The company has identified a value gap in the market and is providing premium products at a low price. Koutons' products are positioned to target the lifestyle aspirations of middle-class consumers with high fashion content and exclusivity at affordable prices. Koutons has well addressed the troika of reaching consumers - affordability, availability and awareness - with low prices, wider reach (1,122 outlets) and high level of advertisement.

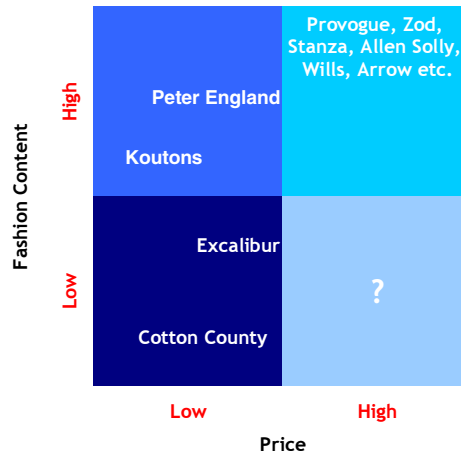
Chart 7: Meeting aspirations of the middle-class



Source: Company Data, PL Research

Strategic positioning and high velocity rollout of Koutons to fill value gap in the industry have been key factors for its success. Koutons has been able to provide good quality but reasonably priced apparels in the highly competitive market.

Chart 8: Koutons' product positioning



Source: Company Data, PL Research

Investment Concerns

Any delay in executing its ambitious rollout plan could be detrimental to growth

Execution risks

The company plans to expand the number of its outlets from 687 in FY07 to 1,385 in FY08 and 2,200 in FY09. The company currently has 1,122 stores. This kind of expansion may be a little too ambitious, though the company has executed such an expansion in the past two years. But if there is any delay in executing the rollout, its revenue may be less than our projections.

Growing competition

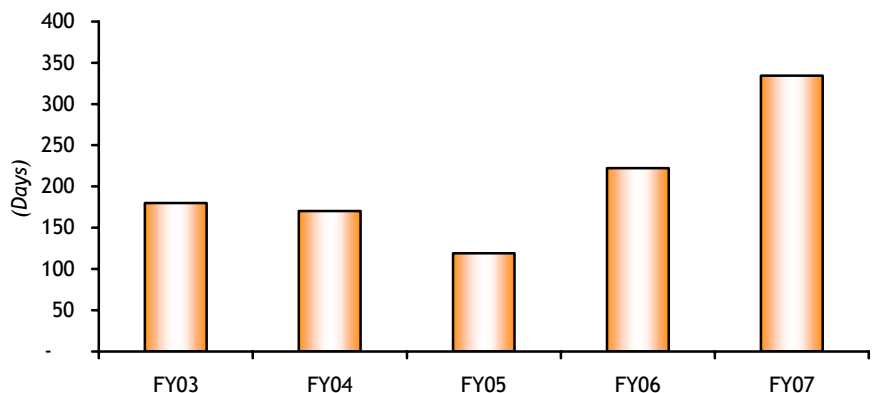
After the success of *Koutons*, many companies like *Cotton County*, etc. have rushed in to adopt the same model with affordable prices and wide reach. Even Peter England is looking at retail expansion and Vishal Retail is also looking at only apparel retail formats. This may lead to lower sales realisation for the company.

Changes in fashion could lead to obsolescence of stock, which could adversely affect finances

High inventory risks

The company has very high inventory of about 334 days in FY07. We understand that the company needs about 130 days inventory of finished goods (including for new stores), about 80 days inventory for manufacturing in semi-finished stage, and similar inventory for raw materials. Any change in fashion may lead to obsolescence of stock, which can have a dampening effect on the company's financials.

Chart 9: High level of inventory turnover



Source: Company Data, PL Research

Company and management background

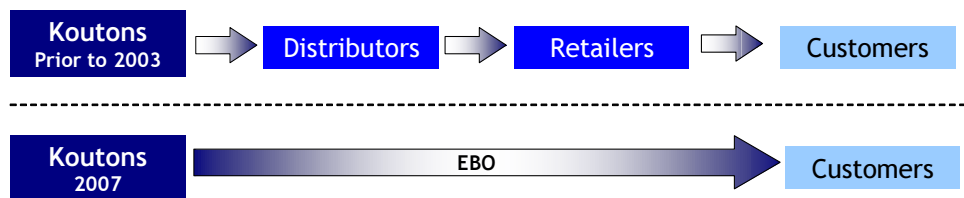
Koutons Retail India is a New Delhi based integrated apparel manufacturing and retail company. They are in the business of designing, manufacturing and retailing apparel under the *Koutons* and *Charlie Outlaw* brands through a network of 1,122 exclusive brand outlets across India. It was started as a partnership firm, M/s. Charlie Creations, with a single manufacturing unit (having a capacity to manufacture approximately 20,000 pieces of apparel per annum) in Delhi in 1993.

The company now has 21 in-house manufacturing/finishing units and 15 warehouses, which are spread across various locations in and around Gurgaon, Haryana. It has increased its annual finishing and manufacturing capacity from 3,000,000 to 22,920,000 and 12,360,000 pieces of apparel as of March 31, 2007.

Koutons sells garments it manufactures through a chain of exclusive brand outlets. These outlets have become one of the largest integrated men's apparel retail chain in India and caters to the entire range of men's apparel. The company's operations range from sourcing of fabric to manufacturing and finishing the garments and selling it in its retail stores. Koutons has two men's wear brands - *Koutons* and *Charlie Outlaw*. Koutons recently launched a new range of women's wear and kid's wear under brands *Les Femme* and *Koutons Junior* respectively. These new brands will be expanded further in FY09.

The company, being an integrated player in the entire thread to fashion value chain, can manufacture at a low cost and make 46% gross margin by selling at a lower price to consumers. The company has an advantage over other players as its entire business comes from its own private labels. It has eliminated intermediaries and plans for direct access to consumers through EBOs, resulting in improvement in margin and reduction in dead stocks.

Chart 10: Eliminating middle man to reach end users



Source: Company Data, PL Research

Table 3: Company management detail

Name	Designation	Qualification & experience
Mr. Davinder Pal Singh Kohli	Promoter, Chairman & Full time Director	A mechanical engineer from Sambalpur University. Mr. Kohli has been with the company since its inception and has played a key role in its growth by providing inputs in strategic planning and business development.
Mr. Bhupinder Singh Sawhney	Promoter - Managing Director	A commerce graduate from Delhi University. Mr. Sawhney has been with the organisation since its incorporation and has played a pivotal role in its growth and development of new products and brands.
Mr. Gurmeet Singh Sawhney	Promoter - Deputy Managing Director	Mr. Sawhney has been with the company since its incorporation. He has played a key role in the expansion of the company and the development of its brands.
Mr. Harbir Singh Sidhu	Executive Vice President	Mr. Sidhu holds a bachelors degree in Economics from the Cambridge University. Has 32 years of experience as an economist and in the management of various companies. He was earlier employed with Vishal Retail Private Limited as General Manager (Retail) and Ebony Retail Holdings Private Limited as Senior GM (Operations).
Mr. Ajay Mahajan	Finance Controller	Mr. Mahajan holds a bachelors degree in commerce and a degree in law from Delhi University. He is also an associate member of the Institute of Costs and Works Accountant of India and a member of the Institute of Company Secretaries of India. He has 17 years of experience in finance, accounting, legal and secretarial work in private and public sector undertakings. He has earlier worked with BHEL and Wings Pharmaceutical Private Limited as Finance Controller cum Company Secretary.
Ms. Ritu Chhabra	Merchandising Manager	Ms. Ritu Chhabra holds a degree in garment export merchandising from National Institute of Fashion Technology, New Delhi. She has over eight years of experience in the apparel industry. Prior to joining the Company she was employed with Aeroclub, as a merchandiser.

Source: Company Data, PL Research

Valuation

We believe Koutons should trade at a higher valuation than its peers

We are positive on the growth prospects of Koutons. We believe the company is trading at a discount to its peers and the valuation gap needs to reduce, as Koutons has executed retail expansion much faster and wider than other players and it is expanding to new categories.

Koutons' revenue is expected to grow at a faster pace than its peers at 76% CAGR from FY07 to FY10; it has higher EBITDA margin at 17.5% and higher net profit margin at 8.6%. We believe Koutons should trade at a higher valuation than its peers.

Koutons posted net revenue of Rs4,024m and net profit of Rs345m in FY07. We expect the company to post revenue of Rs9,048m in FY08, Rs15,157m in FY09, Rs21,946m FY10; PAT of Rs800m in FY08, Rs1,344m in FY09, Rs2,205m in FY10; and EPS of Rs26.2 in FY08, Rs44 in FY09, Rs 72.2 in FY10. At the CMP of Rs702, the company is trading at 9.7x FY10E earnings and 6.8x EV/EBITDA, which is at a discount to its peers. We initiate coverage on the stock with BUY rating and 12-month target price of Rs1,127 trading at 10x EV/EBITDA FY10 (PE of 15.6x FY10E), which is an upside of 61% from current levels.

Table 4: Peer valuation

	FY07	FY08E	FY09E	FY10E
Sales (Rs m)				
Pantaloon	33,981	61,162	96,167	130,320
Provogue	2,194	3,522	6,116	8,406
Shopper's Stop	8,462	11,803	17,019	24,841
Titan	19,935	28,546	36,644	45,818
Vishal	7,712	11,308	17,239	33,227
Koutons	4,024	9,048	15,157	21,946
Op. margin (%)				
Pantaloon	6.7	6.3	5.4	5.5
Provogue	-	13.1	10.1	-
Shopper's Stop	6.2	3.1	6.7	5.5
Titan	10.0	8.4	8.5	8.6
Vishal	-	10.8	10.8	10.3
Koutons	17.5	17.3	17.4	18.3
PAT margin (%)				
Pantaloon	2.8	2.3	2.3	2.1
Provogue	8.5	8.5	7.0	7.6
Shopper's Stop	3.9	2.8	3.3	3.5
Titan	5.9	5.5	5.9	6.0
Vishal	3.2	4.1	3.8	4.6
Koutons	8.6	8.8	8.9	10.0
RoE (%)				
Pantaloon	13.3	12.6	14.0	17.0
Provogue	12.5	11.2	12.6	14.6
Shopper's Stop	12.1	9.5	14.1	17.8
Titan	40.4	37.6	38.3	38.6
Vishal	-	21.8	24.0	26.2
Koutons	37.6	29.6	30.3	35.5
PER (x)				
Pantaloon	99.5	70.0	46.4	33.5
Provogue	91.7	65.0	47.4	32.9
Shopper's Stop	51.5	50.5	31.4	21.3
Titan	55.4	41.6	30.4	24.0
Vishal	-	34.3	21.9	11.4
Koutons	55.6	26.8	16.0	9.7
M. cap / sales (x)				
Pantaloon	2.9	1.6	1.0	0.8
Provogue	8.7	5.4	3.1	2.3
Shopper's Stop	2.1	1.5	1.0	0.7
Titan	3.3	2.3	1.8	1.4
Vishal	2.0	1.4	0.9	0.5
Koutons	5.3	2.4	1.4	1.0
EV / EBITDA (x)				
Pantaloon	50.1	29.9	22.0	15.9
Provogue	-	42.0	31.5	-
Shopper's Stop	34.9	50.2	16.0	13.4
Titan	34.8	29.0	22.1	17.5
Vishal	-	14.7	9.6	-
Koutons	30.0	15.2	10.0	6.8

Source: Bloomberg, Company Data, PL Research

Financials

Among all listed retail players, Koutons has one of the highest reach (442 cities). Its EBITDA margin and net profit margin for FY07 are much higher at 17.5% and 8.6% respectively. The company posted revenue of Rs4,024m in FY07, and we expect FY08E revenue at Rs9,048m and FY09E at Rs15,157m. We believe the company will witness a marginal decline in its EBITDA margin to 17.3% in FY08E and 17.4% in FY09E, as the company starts its own stores. However, in FY10, it should improve marginally with benefits coming from the company's integrated manufacturing facilities.

Table 5: Assumptions

	FY07	FY08E	FY09E	FY10E
Koutons				
No. of stores	487	685	850	950
Total sq.ft.	405,816	591,155	733,550	819,850
Sales per sq.ft.	13,339	13,069	13,325	13,488
Charlie Outlaw				
No. of stores	200	700	1,150	1,650
Total sq.ft.	111,434	420,000	690,000	990,000
Sales per sq.ft.	-	9,534	9,967	10,765

Source: Company Data, PL Research

Average sales per sq.ft. are taken as total sales divided by sum of total existing stores and average (0.5) of new stores. For example, in FY08, total Koutons sales = $487 * 13,069 + 0.5 * 198 * 13,069$

Income Statement

(Rs m)

Y/e March	FY06	FY07	FY08E	FY09E	FY10E
Net sales	1,583	4,024	9,048	15,157	21,946
<i>YoY gr. (%)</i>	<i>89.0</i>	<i>85.0</i>	<i>85.3</i>	<i>83.6</i>	<i>82.6</i>
Expenses					
RM consumed and mfg chg	783	1,617	3,535	5,662	7,817
<i>% of NS</i>	<i>49.5</i>	<i>40.2</i>	<i>39.1</i>	<i>37.4</i>	<i>35.6</i>
Finished goods purchased	139	548	1,350	2,523	3,866
<i>% of NS</i>	<i>8.8</i>	<i>13.6</i>	<i>14.9</i>	<i>16.6</i>	<i>17.6</i>
Personnel	32	76	137	219	307
<i>% of NS</i>	<i>2.0</i>	<i>1.9</i>	<i>1.5</i>	<i>1.4</i>	<i>1.4</i>
Administrative & general exp	41	86	181	288	417
<i>% of NS</i>	<i>2.6</i>	<i>2.1</i>	<i>2.0</i>	<i>1.9</i>	<i>1.9</i>
Selling & distribution exp	332	994	2,280	3,835	5,530
<i>% of NS</i>	<i>21.0</i>	<i>24.7</i>	<i>25.2</i>	<i>25.3</i>	<i>25.2</i>
Total expenses	1,328	3,321	7,484	12,527	17,938
EBITDA	256	703	1,564	2,630	4,009
<i>YoY gr. (%)</i>	<i>430.1</i>	<i>174.7</i>	<i>122.6</i>	<i>68.2</i>	<i>52.4</i>
<i>% of NS</i>	<i>16.2</i>	<i>17.5</i>	<i>17.3</i>	<i>17.4</i>	<i>18.3</i>
Depreciation	10	40	102	156	136
EBIT	245	663	1,462	2,474	3,873
Interest	34	149	255	438	521
Other income	0.4	12	15	15	15
PBT	211	526	1,221	2,051	3,367
<i>YoY gr. (%)</i>	<i>593.2</i>	<i>148.8</i>	<i>132.1</i>	<i>68.0</i>	<i>64.1</i>
Tax	79	181	421	708	1,162
<i>Effective tax rate (%)</i>	<i>37.6</i>	<i>34.5</i>	<i>34.5</i>	<i>34.5</i>	<i>34.5</i>
PAT	132	345	800	1,344	2,205
<i>YoY gr. (%)</i>	<i>584.2</i>	<i>161.3</i>	<i>131.9</i>	<i>68.0</i>	<i>64.1</i>
Dividend	-	-	-	-	-
Dividend tax	-	-	-	-	-
Retained earnings	132	345	800	1,344	2,205
<i>Payout ratio (%)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>

Source: Company Data, PL Research

Balance Sheet

(Rs m)

Y/e March	FY06	FY07	FY08E	FY09E	FY10E
SOURCES OF FUNDS					
Equity capital	50	273	306	306	306
Reserves & surplus	151	288	1,088	2,432	4,637
Share premium account	-	1,071	2,370	2,370	2,370
Networth	201	1,633	3,764	5,107	7,313
Total debt	513	2,094	2,797	4,853	5,908
Deferred item	2	19	18	31	51
Total	715	3,747	6,579	9,991	13,271
APPLICATION OF FUNDS					
Gross block	137	506	786	1,200	1,044
Less: depreciation	31	70	102	156	136
Net block	106	436	683	1,044	909
Current assets	1,253	4,625	8,610	13,797	19,715
Inventories	977	3,738	7,515	12,776	18,657
Debtors	82	204	181	303	329
Cash & cash equivalents	21	173	462	111	70
Loans & advances	173	510	452	606	658
Less: current liabilities	645	1,320	2,714	4,850	7,352
Other current liabilities	582	1,115	2,533	4,547	7,023
Provisions	63	205	181	303	329
Net working capital	609	3,305	5,896	8,946	12,363
Misc exp not written-off	0.4	6	-	-	-
Total	715	3,747	6,579	9,991	13,271

Source: Company Data, PL Research

Cash Flow

(Rs m)

Y/e March	FY06	FY07	FY08E	FY09E	FY10E
Net cashflow from operations	(228)	(2,011)	(1,144)	(1,464)	(595)
Net cash after investing	(314)	(2,380)	(1,424)	(1,879)	(439)
Cash from financing	307	2,532	1,713	1,528	398
Opening cash balance	28	21	173	462	111
Closing cash balance	21	173	462	111	70

Source: Company Data, PL Research

Key Ratios

Y/e March	FY06	FY07	FY08E	FY09E	FY10E
Growth ratios (%)					
Net sales	173.3	154.1	124.9	67.5	44.8
EBITDA	430.1	174.7	122.6	68.2	52.4
PAT	584.2	161.3	131.9	68.0	64.1
EPS	549.8	(52.3)	107.6	68.0	64.1
Asset based ratios (%)					
RoCE/ RoI	32.1	19.8	18.7	19.7	21.9
RoE/RoNW	98.6	37.6	29.6	30.3	35.5
Gearing					
Debt/equity	2.6	1.3	0.7	1.0	0.8
Per share (Rs)					
EPS	26.4	12.6	26.2	44.0	72.2
BV	40.2	59.7	123.2	167.2	239.4
CEPS	28.5	14.1	29.5	49.1	76.6
DPS	-	-	-	-	-
Margins (%)					
Gross margin - total	41.7	46.2	46.0	46.0	46.8
EBITDA	16.2	17.5	17.3	17.4	18.3
PAT	8.3	8.6	8.8	8.9	10.0
Tax rate	37.6	34.5	34.5	34.5	34.5
Velocity (days)					
Debtors	19	18	7	7	5
Inventories	222	334	299	303	306
Valuations (x)					
P/E	26.5	55.6	26.8	16.0	9.7
P/CEPS	24.6	49.9	23.8	14.3	9.2
P/BV	17.5	11.8	5.7	4.2	2.9
M. cap/ sales	2.2	4.8	2.4	1.4	1.0
EV/EBITDA	15.6	30.0	15.2	10.0	6.8
EV/sales	2.5	5.2	2.6	1.7	1.2

Source: Company Data, PL Research

Appendix

Industry Overview

Organised retail industry

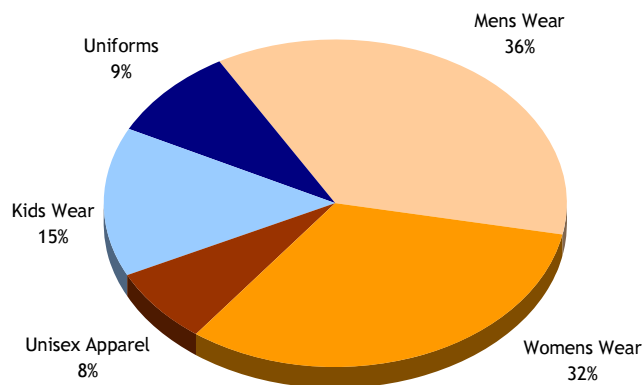
The organised retail industry is estimated to be about Rs550bn in size and has grown rapidly at a CAGR of 25% over 2004-07. However, penetration of organised retail has been quite low at about 5% in 2007. It was as low as 3%, three years ago. The country's top six cities account for 66% of total organised retailing.

Clothing, textile & fashion accessories accounts for the second largest consumption category in the consumer spend basket, with 9.5% share. In the organised retail pie, clothing, textile & fashion accessories segments hold the lion's share of 39%, with a CAGR of 30% (2004-06).

Indian apparel industry

In 2006, the Indian apparel market registered 5.3% volume growth and 14.7% value growth indicating better per unit realisation.

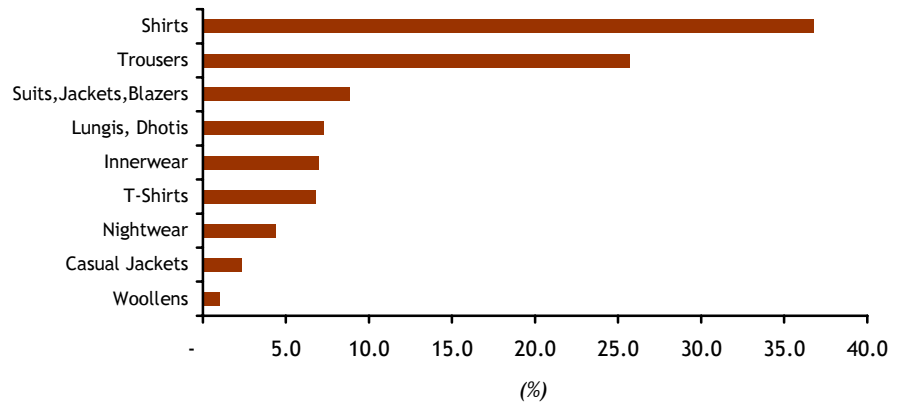
Chart 11: Product mix in the Indian apparel market



Source: Company Data, PL Research

Men's wear segment is the largest pie in the Indian apparel market, with value share of about 35.5%.

Chart 12: Value growth

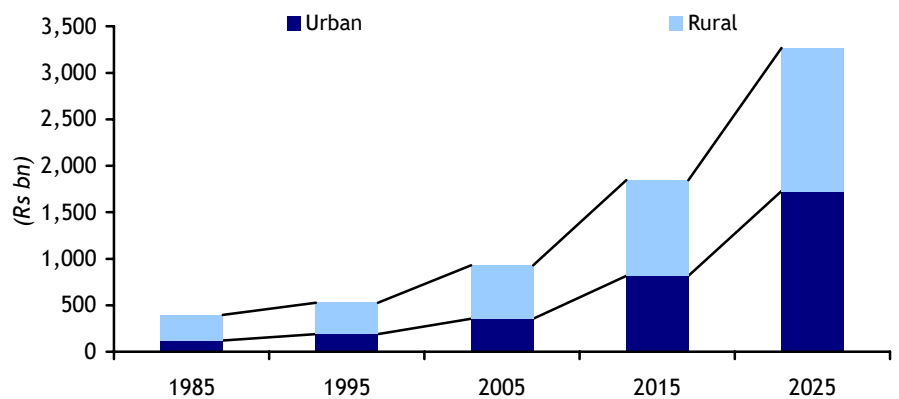


Source: Company Data, PL Research

Annual spending on apparel

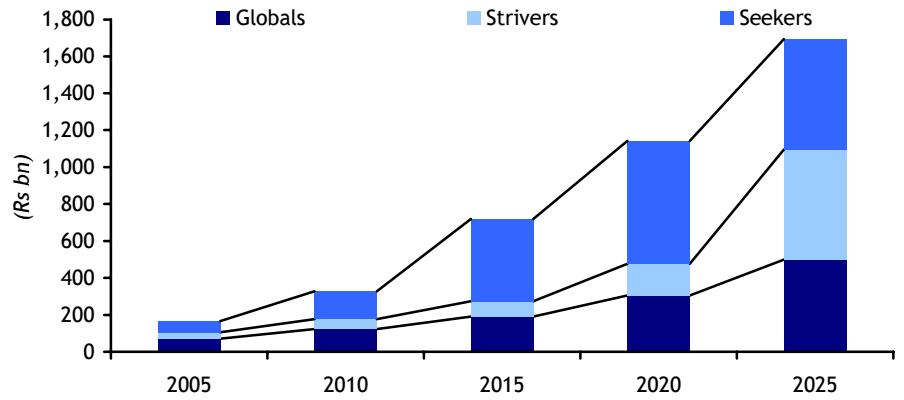
On per capita basis, apparel consumption in India is relatively low at Rs961. The industry has huge growth potential, with annual spending on apparels in rural areas expected to grow from Rs576bn in 2005 to Rs1,029bn in 2015, which is about 56% of the total apparel market. With its presence across tier I and tier II towns and few remote areas, Koutons is geared to take advantage of the swelling apparel market as there are only a few branded players present across geographies.

Chart 13: Indian demographics, middle class consumption and consumption cycle



Source: Company Data, PL Research

Chart 14: Increased apparels spending by urban and upper middle class



Source: Company Data, PL Research

Moreover, there is a rising trend in the seekers category (households with income between 200,000 and 500,000 per annum), which is likely to grow from Rs62bn in 2005 to Rs445bn in 2015. This is again going to be beneficial for Kouton as the seekers category is their main target segment.



Notes



Notes



Notes



Prabhudas Lilladher Pvt. Ltd.
3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India.
Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

PL's Recommendation Scale

BUY	: > 15% Outperformance to BSE Sensex	Outperformer	: 5 to 15% Outperformance to Sensex
Market Performer	: -5 to 5% of Sensex Movement	Underperformer	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security. The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein. Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor. Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication. We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.