

January 15, 2010

## Provogue (India) (PROVOG)

**Rs 65.7**

### In a sweet zone...

Provogue (India) is a major player in the branded retail segment and also has a presence in retail development and mall management. The company operates the retail segment under the brand Provogue and the real estate business under the brand Prozone. With the revival in consumer offtake, we expect its retail business to get back to the higher growth trajectory. While the retail business remains the key growth driver, we expect prozone to contribute positively, going ahead. Prozone, with three projects under execution, appears to be in a sweet spot, as these properties would enable Provogue to earn annual rental income and contribute to its earning growth.

#### ■ Retail expansion on the fast track

Provogue's retail operations have a pan-India presence with 125 Provogue studios and mega studios (premium segment) and two Promart stores (bargain department stores). With easing rentals and the improving macro scenario, Provogue has stepped up its retail expansion plans. It plans to add 15 Provogue stores and four to six Promart stores annually.

#### ■ Prozone to start contributing from Q2FY11

Prozone, (75% subsidiary of Provogue), through its 70% held SPV (Prozone Liberty International) plans to build about 15 million sq ft of malls/offices/hotels in Tier II cities of India. Prozone plans to build malls in Aurangabad, Coimbatore, Nagpur, etc. Its Aurangabad property that has a saleable area of 0.83 million sq ft is expected to commence operations in June 2010. Nearly 60% of this property is pre-leased at an average rental of Rs 47 and would add significantly to the revenue and profitability of the company from FY11 onwards.

#### ■ Financial performance to improve from H2FY10 onwards

With improving consumer sentiments, the retail industry is expected to register enhanced growth momentum. Provogue, with its pan-India presence and strong expansion plans with lower cost structure owing to downward revision of lease rentals of its few properties would be able to enhance its profitability, going ahead.

### Valuation

At the CMP of Rs 65.7, the stock is trading at attractive valuations of 18.7x and 1.1x FY11E consensus earnings and book value, respectively, which are at a significant discount to valuations of other retail companies. We recommend the stock with a 10% upside from current levels as our Pick of the Week.

#### Exhibit 1: Financial summary

(Rs Crore)	FY07	FY08	FY09	H1FY10
Net Sales	232.8	330.5	351.3	188.6
EBITDA	26.6	42.0	30.1	28.6
EBITDA Margin (%)	11.4	12.7	8.6	15.2
Net Profit	19.7	25.7	27.2	15.5
EPS (Rs)	1.7	2.3	2.4	1.4

Source: Company, ICICIdirect.com Research

#### Rating matrix

Target	:	Rs 72.3
Target Period	:	3 months
Potential Upside	:	10%

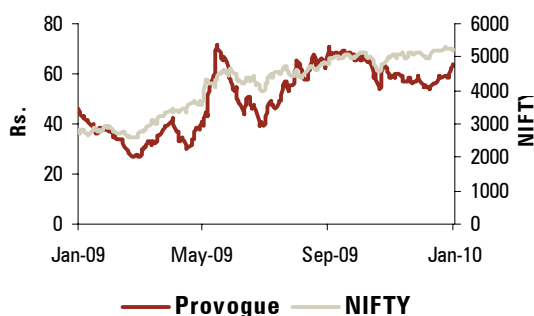
#### Stock data

Market Capitalisation	Rs 745 Crore
Debt (FY09)	Rs 154 Crore
Cash & Invst (FY09)	Rs 360 Crore
EV	Rs 539 Crore
52 week H/L	76/26
Equity capital	Rs 23.28 Crore
Face value	Rs 2
MF Holding (%)	0.5
FII Holding (%)	23.6

#### Price movement

Return %	1M	3M	6M	12M
Provogue (India)	16.9	-3.7	43.6	35.1

#### Price performance



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## Technical Outlook

Provogue has registered highest weekly volumes in the past two years along with price rise of 14% during the week. This clearly suggests increased participation in the stock.

Provogue continues to be in a bull trend since its lows in March 2009 and now appears poised for a breakout from triangular consolidation above Rs 71. The pattern implication suggests target of Rs 75 in the short-term. Apart from price action, short-term moving averages have given a golden cross over as the price explodes from the consolidation phase. Among momentum oscillators, the 14-period RSI is in buy mode and supports the bullish set up.



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