

April 04, 2008

Morning Note

	BSE	NIFTY
Close	15833	4772
Change	82.15	17.40
52 Week High / Low	21207/12691	6357/3690

Sectoral Indices	Days' close	Previous close	P/E
Automobiles	4220	4296	12.49
Capital Goods	15683	16053	33.53
Cement	9442	9524	9.57
FMCG	3810	3766	24.20
Infotech	3103	3011	17.67
Constructions	18786	18926	45.83

Other Markets	Close	Change
Dow Jones	12626	20.2
FTSE	5891	-24.6
Nasdaq	2363	1.9

Trade Data 03/04	BSE	NSE
Turnover (Rs. bn)	49.86	124.13
Change	0.31	12.14
Adv/ Dec/ unchanged	22/26/1	23/39/1
	Buying	Selling
FII's (Rs. bn) 02/04	28.99	29.19
MF's (Rs. bn) 02/04	5.21	6.49

Interbank Closing	Close	Change
Rs/US \$	40.02	-0.03
Rs/UK £	79.30	-0.01
Rs/EURO	62.21	0.35

Commodity Prices	Close	Change
Crude (\$/Bbl)	102.39	1.21
Copper (\$/tn)	8590	127
Gold Std (Rs/10GM)	11830	110
Silver (Rs/Kg)	22900	400
Aluminium (\$/tn)	2835	-64
Zinc (\$/tn)	2290	10

ADR / GDR	Latest	Previous	Change
Infosys	37.41	37.17	0.24
ICICI Bank	39.40	39.45	-0.05
Wipro	12.10	12.35	-0.25
Tata Motors	16.14	16.24	-0.10
Satyam	24.26	23.28	0.98
Dr. Reddy's	15.31	15.04	0.27
HDFC Bank	98.68	100.44	-1.76

10 year G-Sec yield : 7.9%

FOCUS OF THE DAY

PROVOGUE (INDIA) LTD.

Provogue, one of the leading apparel retailers, has raised Rs 4.6 bn in its retail infrastructure downstream subsidiary Prozone Liberty. This investment will help the company fund its ongoing projects .

Key Arguments

- Provogue has raised Rs 4.6 bn by selling 27% stake in a step down subsidiary of Prozone Enterprises Pvt Ltd (Prozone-Liberty) to Triangle India Real Estate Fund LLC (co-promoted by Old Mutual Investment Group Property Investment and ICS Realty). This downstream subsidiary of Prozone Liberty holds stake in four projects being developed in Aurangabad, Indore, Nagpur and Jaipur covering over 16 million sq.ft. The deal values these projects at Rs 17 bn.
- The projects involve setting up shopping centers, hotels and entertainment zones. The funds raised would be used in the completion of these four real estate development projects. Also, the downstream subsidiary of Prozone-Liberty has acquired 5% additional stake in its Aurangabad project and now holds a majority stake in it.
- Provogue is expected to foray into the infrastructure space. On the basis of our interaction with the management, we believe that this venture would initially commence with realty based infrastructure projects such as roads, public private partnership projects, sports cities, roads with attached land banks, re-development projects etc. The company will leverage on its existing retail infrastructure arm's expertise to test the waters.
- The company has opened its 2nd Promart store (discount apparel store) in Indore and is reported to have clocked sales of Rs 2.2 mn on the opening day.

Outlook & Valuation

We estimate the sales of apparel will grow at ~48% CAGR (FY07-FY09E) to Rs 5100 mn (FY09E), and net profits by Rs ~554 mn, growing at a CAGR of 68% (FY07-FY09E). We value Provogue on a standalone basis at 23 times FY 09E earnings, which is Rs 609 per share. We have valued Prozone on a 10-year DCF based NAV at Rs 743 per share. Our base case target price for the company on an SOTP basis is Rs 1352 per share (25% upside from the CMP). We are upgrading our recommendation from Market Performer with a Positive Bias to Buy, primarily due to the correction in the stock price. We believe that the stock has not reacted to the aforesaid positive stake sale news because of the damp sentiment on mid-cap stocks. We also believe that the negative buzz surrounding mid-cap stocks will settle down and good quality mid-caps like Provogue will find their place.

CMP (Rs): 1085

Mkt Cap (Rs Bn): 22.67

Mkt Cap (\$ Mn): 566.91

Stand Alone Annual Estimates

Rs (Mn)	FY 05	FY 06	FY 07	FY 08E	FY 09E
Revenues	1150	1564	2387	3699	5258
% Change YoY	-	36%	53%	55%	41%
EBITDA	138	206	326	555	835
% Change YoY	-	50%	58%	70%	50%
EBITDA Margin	12%	13%	14%	15%	16%
Net Profit	72	119	196	355	554
% Change YoY	-	66%	64%	81%	56%
NPM	6%	8%	8%	10%	11%
EPS	7.95	7.82	10.25	16.84	26.37
% Change YoY	-	-2%	31%	64%	57%

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