

Retail

Q3FY12 preview: A mixed bag

We expect our retail universe to report a strong 21.8% YoY revenue growth for Q3FY12 on strong performances by JUBI, TTAN and BATA. At the same time, a key metric to monitor would be volume growth deceleration across categories due to high inflation, a spike in apparel prices and increase in gold prices. We maintain that discretionary spends would likely remain under pressure going forward, given the slowing GDP growth that would in turn pressurise margins. Our top pick in the space is BATA, and we remain UNDERWEIGHT on JUBI, TTAN and SHOP.

- ❖ **BATA to maintain strong growth trajectory:** We expect BATA to report a strong 25% revenue growth led by robust double-digit volume growth, which would in turn be driven by space addition. We expect margin improvement for the company to continue with Q4CY11 margins likely improving 180bps YoY due to leverage on employee costs and overheads. PAT growth for BATA will be the strongest ever at 42% YoY to Rs 490mn.
- ❖ **TTAN to witness marginal slowdown in jewellery volumes, largely compensated by higher gold prices:** We expect TTAN's jewellery volumes to see a low single-digit drop led by high gold prices (up 39% YoY for the quarter); the business would see value growth of 37%. The Watches business would likely see 15% revenue growth (led by a 5-7% price hike). While EBITDA margins would likely contract ~70bps YoY due to lower margins in the watches business, PAT would see a strong 27% YoY growth to Rs 1.75bn.
- ❖ **JUBI to see marginal growth moderation:** JUBI is likely to report a strong 40% growth in revenues with same-store-sales (SSS) growth at ~25% levels. We expect a gradual tapering off in SSS growth going forward, as the outlook on discretionary spends remains muted. EBITDA margins are likely to improve by 65bps YoY as the company has taken a ~5% price increase to counter input cost inflation. We expect PAT growth for JUBI at 36% YoY to Rs 258 mn.
- ❖ **High interest costs to impact PF earnings:** PF is likely to see a slowdown in SSS growth (2-3% levels) as *Diwali* sales have not been strong for the company. We expect PF to report a 13% YoY increase in sales led largely by space addition. While margins are likely to improve 60bps YoY, a 30% YoY increase in interest costs to Rs 1.4bn will impact PAT growth for the company (expect a 4.6% YoY decline in PAT to Rs 451mn).
- ❖ **SHOP to report PAT of Rs 86mn in Q3FY12:** SHOP's Q3FY12 consolidated revenues are likely to grow 16.5% YoY to Rs 8bn driven by high single-digit SSS growth. Standalone sales are likely to see a growth 13% YoY while HyperCity sales 25% YoY. EBITDA margins, however, could dip by 60bps YoY on account of consolidation of HyperCity losses, while PAT would likely plummet by 48% YoY to Rs 86mn.

Varun Lohchab (91-22) 6766 3458
varun.lohchab@religare.com

Gaurang Kakkad (91-22) 6766 3470
gaurang.kakkad@religare.com

Prasad Dhake (91 22) 6766 3475
prasad.dhake@religare.com

Recommendation snapshot

Company	CMP	Target	Rating
Bata India (BATA)	530	825	Buy
Jubilant Foodworks (JUBI)	752	750	Sell
Pantaloon Retail (PF)	127	210	Buy
Shoppers Stop (SHOP)	259	380	Hold
Titan Industries (TTAN)	175	225	Hold

Stock price performance

Company	1m	3 m	6m
Bata India (BATA)	530	825	Buy
Jubilant Foodworks (JUBI)	752	750	Sell
Pantaloon Retail (PF)	127	210	Buy
Shoppers Stop (SHOP)	259	380	Hold
Titan Industries (TTAN)	175	225	Hold



Fig 1 - RCML Retail Universe: Q3FY12 Preview

Company	CMP (Rs)	Target (Rs)	Reco	Sales (Rs mn)			EBITDA margin (%)		PAT (Rs mn)		
				Q3FY12E	Q3FY11	YoY(%)	Q3FY12E	Q3FY11	Q3FY12E	Q3FY11	YoY (%)
Bata India	530	825	Buy	4,448	3,559	25.0	17.4	15.5	490	344	42.4
Jubilant FoodWorks	752	750	Sell	2,599	1,856	40.0	18.0	17.3	258	190	36.0
Pantaloon Retail	127	210	Buy	31,172	27,586	13.0	9.3	8.6	451	472	(4.6)
Shoppers Stop	259	380	Hold	8,010	6,874	16.5	5.6	6.2	86	165	(48.0)
Titan	175	225	Hold	26,162	19,546	33.8	9.3	10.0	1,751	1,376	27.3
Aggregate	-	-	-	72,391	59,420	21.8	9.7	9.5	3,035	2,547	19.2

Source: RCML Research

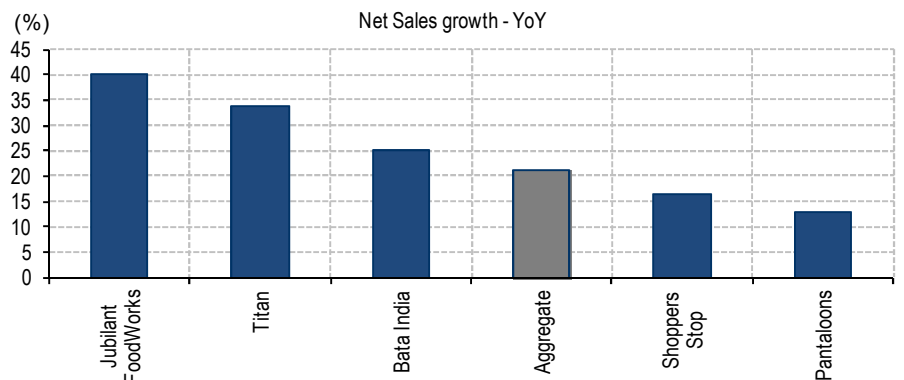
Fig 2 - Sector valuation snapshot – HPC and Foods

Company	MCap (Rs mn)	Dividend Yield (%)	Sales Growth (%)		EPS CAGR FY11-13E	EBITDA Margin (%)		ROE (%)		P/E (x)		EV/EBITDA (x)	
			FY12E	FY13E		FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Bata India	34,712	2.0	21.7	21.6	43.7	16.3	17.3	28.2	30.6	23.9	17.6	13.8	10.7
Jubilant FoodWorks	48,954	-	45.8	34.9	42.5	18.8	19.8	41.3	41.7	48.6	33.3	26.3	18.5
Pantaloon Retail	29,004	1.5	18.0	17.7	5.3	8.7	8.5	5.7	6.4	16.3	13.7	9.5	8.3
Shoppers Stop	22,252	0.6	31.0	25.6	26.1	4.7	5.2	8.5	12.7	50.5	31.4	17.9	12.8
Titan	159,402	0.7	38.8	20.4	31.5	9.0	9.2	36.2	28.1	26.1	21.4	17.9	14.5

Source: RCML Research

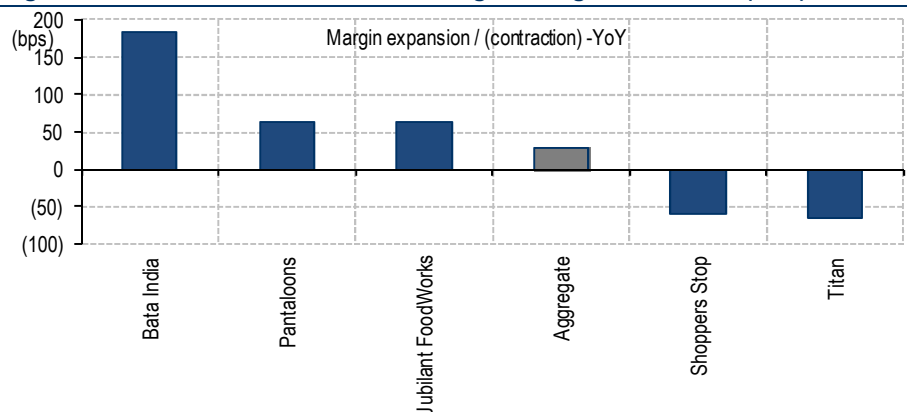
Quarterly trends

Fig 3 - RCML Retail universe Sales growth – Q3 FY12E (YoY)



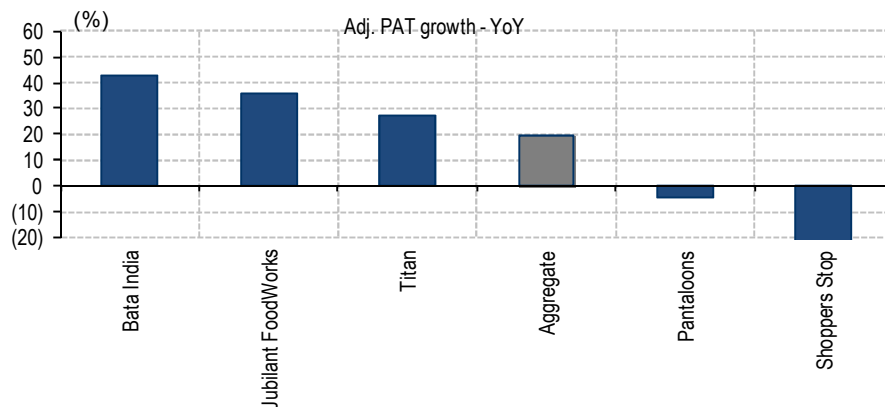
Source: RCML Research

Fig 4 - RCML Retail universe EBITDA margin change Q3 FY12E – (YoY)



Source: RCML Research

Fig 5 - RCML Retail universe Adj. PAT growth – Q3 FY12E (YoY)



Source: RCML Research

Companies

Fig 6 - Bata India

(Rs mn)	Q4CY11E	Q4CY10A	Change %	Comments
Net Sales	4,448	3,559	25.0	
EBITDA	773	553	39.8	Revenue growth momentum to continue with strong double-digit volume-led growth
EBITDA margin (%)	17.4	15.5	185 bps	Margin improvement to continue on account of leverage on overheads and employee costs
Adj. PAT	490	344	42.4	
Adj. PAT margin (%)	11.0	9.7	135 bps	

Source: RCML Research

Fig 7 - Jubilant FoodWorks

(Rs mn)	Q3FY12E	Q3FY11A	Change %	Comments
Net Sales	2,599	1,856	40.0	Sales growth YoY to be strong on the back of price increases and a 20%+ SSS growth
EBITDA	467	322	45.2	
EBITDA margin (%)	18.0	17.3	65 bps	EBITDA margins to improve on account of price increases taken by the company to cover input cost inflation
Adj. PAT	258	190	36.0	
Adj. PAT margin (%)	9.9	10.2	(30 bps)	

Source: RCML Research

Fig 8 - Pantaloon Retail

(Rs mn)	Q3FY12E	Q3FY11A	Change %	Comments
Net Sales	31,172	27,586	13.0	Sales growth to be largely led by space addition as SSS growth has been flattish
EBITDA	2,893	2,383	21.4	EBITDA margins to improve YoY led by improvement in gross margins
EBITDA margin (%)	9.3	8.6	64	
Adj. PAT	451	472	(4.6)	PAT growth would be impacted on account of high interest costs (we estimate at Rs 1.4bn)
Adj. PAT margin (%)	1.4	1.7	(27)	

Source: RCML Research

Fig 9 - Shoppers Stop

(Rs mn)	Q3FY12E	Q3FY11A	Change %	Comments
Net Sales	8,010	6,874	16.5	
EBITDA	449	426	5.4	Net sales growth to be lower on account of pressure on SSS growth
EBITDA margin (%)	5.6	6.2	(60 bps)	Margins to be impacted on account of consolidation of HyperCity losses
Adj. PAT	86	165	(48.0)	
Adj. PAT margin (%)	1.1	2.4	(130 bps)	

Source: RCML Research

Fig 10 - Titan

(Rs mn)	Q3FY12E	Q3FY11A	Change %	Comments
Net Sales	26,162	19,546	33.8	
EBITDA	2,440	1,950	25.1	Jewellery business to see a strong ~37% value growth largely led by increase in gold prices. We expect volumes to decline in the current quarter.
EBITDA margin (%)	9.3	10.0	(65 bps)	
Adj. PAT	1,751	1,376	27.3	Watches business likely to report a 15% YoY growth in sales
Adj. PAT margin (%)	6.7	7.0	(35 bps)	

Source: RCML Research

Important Global Disclosures

This report was prepared, approved, published and distributed solely by a Religare Capital Markets ("RCM") group company located outside of the United States (a "non-US Group Company"), which excludes Religare Capital Markets Inc. ("RCM Inc.") and Religare Capital Markets (USA) LLC ("RCM USA"). This report has not been reviewed or approved by RCM Inc. or RCM USA. This report may only be distributed in the U.S. to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through RCM Inc. Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or FINRA or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization.

Subject to any applicable laws and regulations at any given time, non-US Group Companies, their affiliates or companies or individuals connected with RCM (together, "Connected Companies") may make investment decisions that are inconsistent with the recommendations or views expressed in this report and may have long or short positions in, may from time to time purchase or sell (as principal or agent) or have a material interest in any of the securities mentioned or related securities or may have or have had a business or financial relationship with, or may provide or have provided investment banking, capital markets and/or other services to, the entities referred to herein, their advisors and/or any other connected parties. Any particular arrangements or relationships are disclosed below. As a result, recipients of this report should be aware that Connected Companies may have a conflict of interest that could affect the objectivity of this report.

See "Special Disclosures" for certain additional disclosure statements, if applicable.

This report is only for distribution to investment professionals and institutional investors.

Analyst Certification

Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

Analysts and strategists are paid in part by reference to the profitability of RCM which includes investment banking revenues.

Stock Ratings are defined as follows

Recommendation Interpretation (Recommendation structure changed with effect from March 1, 2009)

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Expected absolute returns are based on the share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

Stock Ratings Distribution

As of 1 January 2012, out of 326 rated stocks in the RCM coverage universe, 214 have BUY ratings, 61 are rated HOLD and 51 are rated SELL. During the previous quarter, Religare Capital Markets Plc in the UK has published 124 independent research notes, 52 of which contained research recommendations, none of which related to corporate broking clients of the firm. The 52 recommendations were broken down into 36 buys, 6 sells, and 10 hold recommendations.

Research Conflict Management Policy

RCM research has been published in accordance with our conflict management policy, which is available at <http://www.religarecm.com/>

Disclaimers

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject RCM to any registration or licensing requirement within such jurisdiction(s). This report is strictly confidential and is being furnished to you solely for your information. All material presented in this report, unless specifically indicated otherwise, is under copyright to RCM. None of the material, its content, or any copy of such material or content, may be altered in any way, transmitted, copied or reproduced (in whole or in part) or redistributed in any form to any other party, without the prior express written permission of RCM. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of RCM or its affiliates, unless specifically mentioned otherwise.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. RCM has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. RCM will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. In addition, nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you.

Information and opinions presented in this report were obtained or derived from sources that RCM believes to be reliable, but RCM makes no representations or warranty, express or implied, as to their accuracy or completeness or correctness. RCM accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to RCM. This report is not to be relied upon in substitution for the exercise of independent judgment. RCM may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected absolute return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by RCM and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

This report is distributed in India by Religare Capital Markets Limited, which is a registered intermediary regulated by the Securities and Exchange Board of India. Where this report is distributed by Religare Capital Markets PLC ("RCM PLC") or Religare Capital Markets (EMEA) Ltd, those entities are authorised and regulated by the Financial Services Authority in the United Kingdom. In Dubai, it is being distributed by Religare Capital Markets Plc (Dubai Branch) which is licensed and regulated by the Dubai Financial Services Authority. In Singapore, it is being distributed (i) by Religare Capital Markets (Singapore) Pte. Limited ("RCMS") which is a holder of a capital markets services licence and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors", "accredited investors" or "expert investors", as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations (the "FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to RCMS when providing any financial advisory service to an accredited investor, expert investor or "overseas investor" (as defined in regulation 36 of the FAR). Persons in Singapore should contact RCMS in respect of any matters arising from, or in connection with this publication/communication. In Hong Kong, it is being distributed by Religare Capital Markets (Hong Kong) Limited ("RCM HK"), which is licensed and regulated by the Securities and Futures Commission, Hong Kong. In Australia, it is being distributed by RCMHK or by RCM PLC, both of which are approved under ASIC Class Orders. In South Africa, this report is distributed through Religare Capital Markets (Pty) Ltd, which is a licensed financial services provider (FSP No. 31530). In Sri Lanka, it is being distributed by Bartleet Mallory Stockbrokers, which is licensed under Securities and Exchange Commission of Sri Lanka. If you wish to enter into a transaction please contact the RCM entity in your home jurisdiction unless governing law provides otherwise. In jurisdictions where RCM is not registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation which may vary from one jurisdiction to another and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements.

Religare Capital Markets does and seeks to do business with companies covered in our research report. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of research produced by Religare Capital Markets. Investors should consider our research as only a single factor in making their investment decision.

Any reference to a third party research material or any other report contained in this report represents the respective research organization's estimates and views and does not represent the views of RCM and RCM, its officers, employees do not accept any liability or responsibility whatsoever with respect to its accuracy or correctness and RCM has included such reports or made reference to such reports in good faith. This report may provide the addresses of, or contain hyperlinks to websites. Except to the extent to which the report refers to material on RCM's own website, RCM takes no responsibility whatsoever for the contents therein. Such addresses or hyperlinks (including addresses or hyperlinks to RCM's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this report. Accessing such website or following such link through this report or RCM's website shall be at your own risk.

Special Disclosures (if applicable)

Not Applicable