

Initiating Coverage

Koutons Retail India (KOURET)

Current price Rs 810	Target price Rs 1173
Potential upside 44.8%	Time Frame 15-18 months

OUTPERFORMER

Creating a win-win opportunity...

Koutons Retail India, a specialty discount company, operates through "Koutons" and "Charlie Outlaw" outlets throughout in the country. The company has unveiled aggressive expansion plans that would increase the number of outlets from 687 in FY07 to 1345 in FY08, 1850 in FY09 and 2385 in FY10. Its asset-light franchise model provides scalability to the business. We initiate coverage with an OUTPERFORMER rating.

■ Unique positioning targeting huge middle class

Koutons Retail has positioned itself as "High Fashion Value for Money" chain. Its brands "Koutons" and "Charlie Outlaw" target the middle income group, which is expected to constitute the largest proportion of population by 2025. It offers products for all age groups and sells the entire range for men's and kids wear and western wear for women. As the proportion of working women is rising, the demand for western wear is expected to increase.

■ Aggressive rollout plans to boost sales

To capture the increasing demand, the company has unveiled an aggressive rollout plan for the next 2 years. We expect the company to increase the number of outlets to 2,385 by FY10 from 687 in FY07. With the implementation of this plan, we expect a 68.5% CAGR in net sales over the FY07-FY10.

■ Asset-light model

Koutons Retail operates EBOs (exclusive brand outlets) through the franchise route. Due to the franchise arrangement, the company requires low capital for expansion. It also does not have to bear rental cost as it is paid by the franchisee. As a result, the company enjoys high profitability compared to its peers. Approximately 98% of the outlets are operating under this route.

Valuations

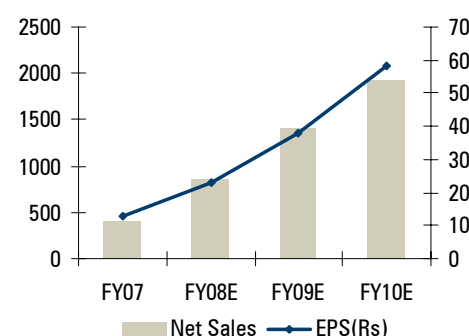
We are positive on the asset-light franchise business model of the company. We expect net sales and earnings to increase at a CAGR of 68.5% and 73.2% respectively over FY07-10E on back of the aggressive rollout plan and improving margins. At the current price of Rs 810, the stock trades at a PER of 13.89 x its FY10E EPS of Rs 58.32. We initiate coverage with a target price of Rs 1173 per share, valuing it at 20x PER of FY10, giving potential upside of 44.8%.

Analyst's Name

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Sales & EPS trend (Rs. Crore)



Stock metrics

Bloomberg	KUTN IN
Reuters	KRIL.BO
Face value (Rs.)	10
Promoters holding (%)	66.63
Market Cap (Rs. Crore)	2214
52 Week H/L	1098/515
Sensex	14994
Average volume	105159

Comparative return metrics

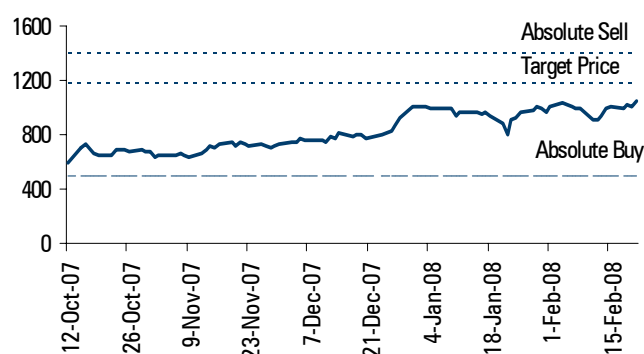
Stock return	3 M	6M	12M
Vishal Retail	-7.29	-0.96	NA
Pantaloon	-41.08	-29.76	-6.70
Koutons Retail	1.25	NA	NA

Exhibit 1: Key Financials

Year to March 31	FY07	FY08E	FY09E	FY10E
Net Profit (Rs crore)	34.49	70.92	116.66	178.16
Shares in issue (crore)	2.73	3.06	3.06	3.06
EPS (Rs)	12.61	23.21	38.19	58.32
P/E (x)	64.22	34.89	21.21	13.89
Price/Book (x)	13.62	7.44	5.50	3.94
EV/EBIDTA	34.26	18.12	11.82	8.56
RoNW (%)	21.12	21.29	25.93	28.38
RoCE (%)	18.15	20.86	22.97	25.73

Source: ICICIdirect Research

Price Trend



Company Background

Koutons Retail India Ltd is an integrated apparel manufacturing and retailing company. It designs, manufactures and retails apparels under the “Koutons” and “Charlie Outlaw” brands. The company has a network of 1,150 outlets (including Koutons and Charlie Outlaw outlets) across the country. It has manufacturing capacity of 12.36 million pieces per annum and finishing capacity of 22.92 million pieces per annum. The company is expanding aggressively across the country with both of its brands, and is in the process of launching women’s brand “Les Femme” and kid’s brand “Koutons Junior”. It is increasing its product categories to include men’s apparels, women’s apparels and kidswear. It is also undergoing inorganic expansion route through acquisition of regional brands, thereby increasing the number of brands in its portfolio.

Share holding pattern

Shareholder	% holding
Promoters	66.63
Institutional investors	29.48
Other investors	1.31
General public	2.57

Promoter & Institutional holding trend (%)

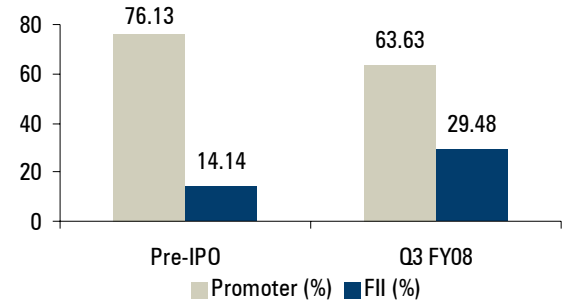
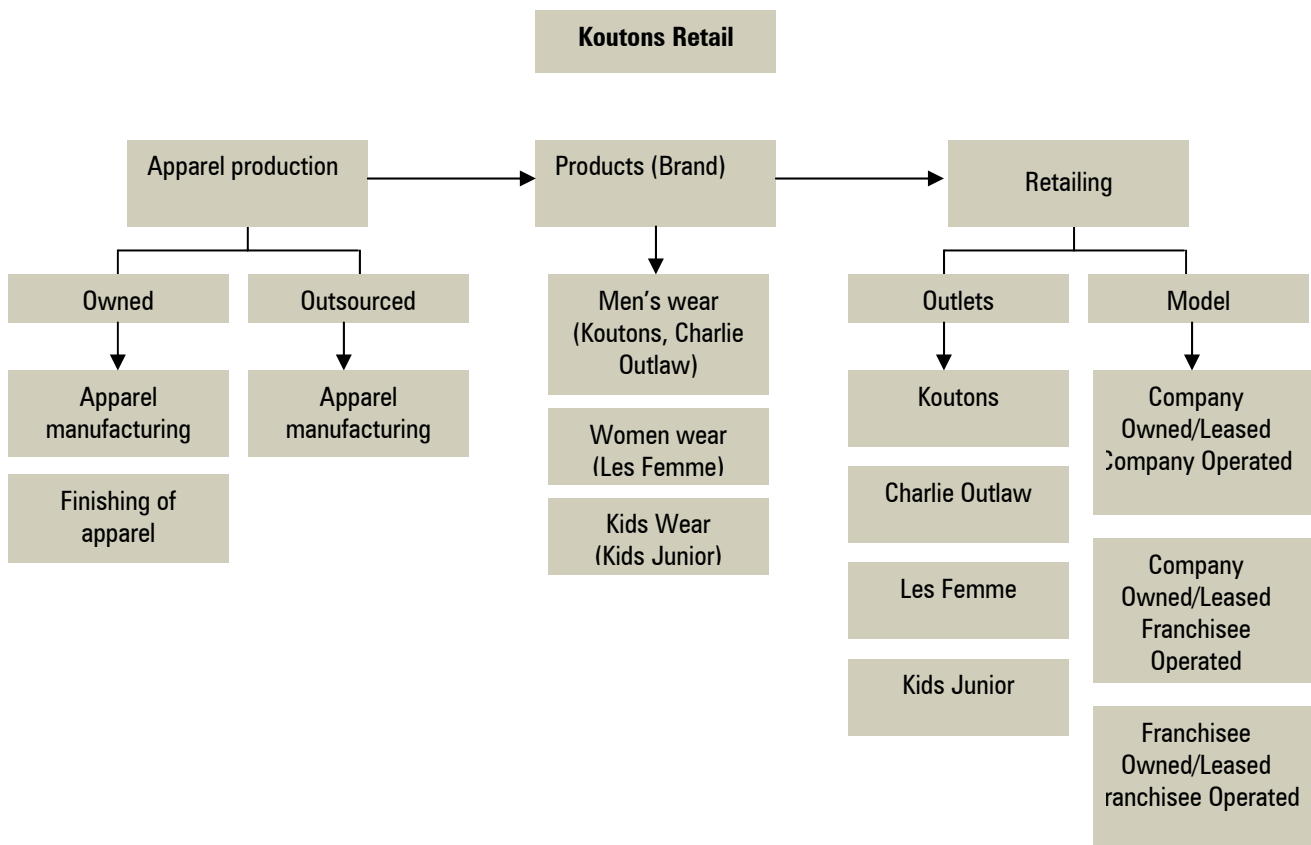


Exhibit 2: Business Model



Source: ICICIdirect Research

INVESTMENT RATIONALE

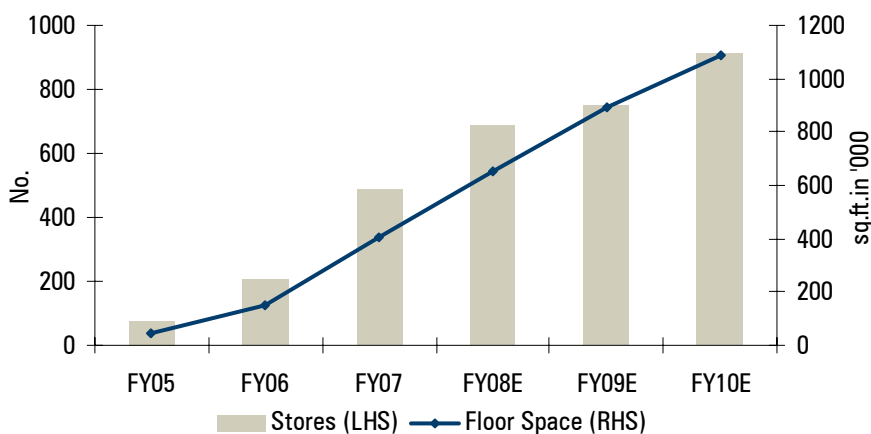
Aggressive roll-out plan

Koutons Retail is growing at a very rapid pace. Its retail journey started with the launch of Koutons outlets in FY02. It launched Charlie Outlaw outlets in FY07. In the past two years, the total number of outlets increased to 687 in FY07 from 74 in FY05. Of the 687 outlets, Koutons outlets comprise of 487 outlets and the remaining are Charlie Outlaw outlets. At the end of FY07, the company had an aggregate area of 517,250 sq.ft. Koutons outlets cover approximately 78% of this area.

Koutons outlets on a growth trajectory

The company began the retail journey through the launch of EBOs in FY02 taking the franchisee route. It expanded the number of Koutons EBOs to 487 in FY07 from 74 in FY05. This led to an increase in the space under Koutons outlets to increase to 405,816 sq.ft in FY07 from 43,522 sq.ft. in FY05, CAGR of 205.4%. We expect the number of Koutons outlets to increase to 910 with total space of 1.08 million sq.ft. by FY10.

Exhibit 3: Koutons outlets increasing

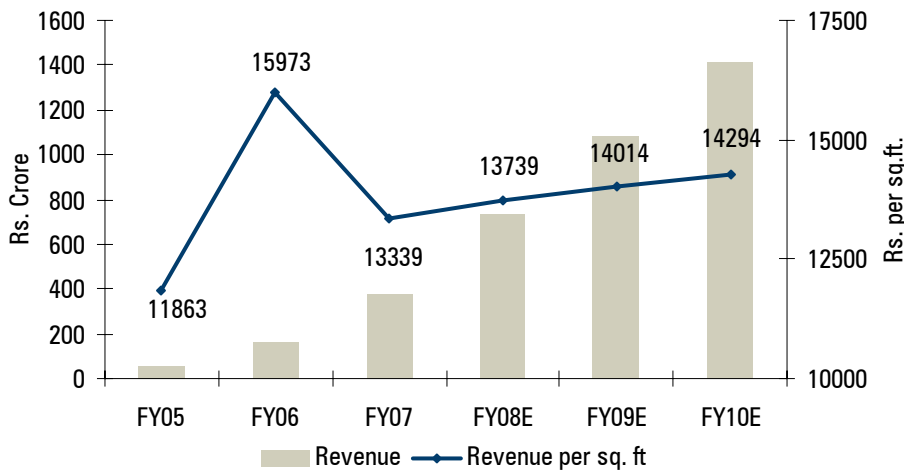


Space with Koutons to increase 2.6x

Source: Company, ICICIdirect Research

With the increasing space, the revenue from Koutons outlets increased at a 168.7% CAGR, from Rs 51.63 crore in FY05 to Rs 372.69 crore in FY07. We expect revenue from Koutons outlets to increase to Rs 1,413.07 crore in FY10E, implying a 55.93% CAGR over FY07-10E. We expect revenue per sq.ft. from the outlets to increase to Rs 14,294 in FY10 from Rs 13,339 in FY07 due to introduction of premium segment products like KC.

Exhibit 3: Revenues from Koutons outlets to increase



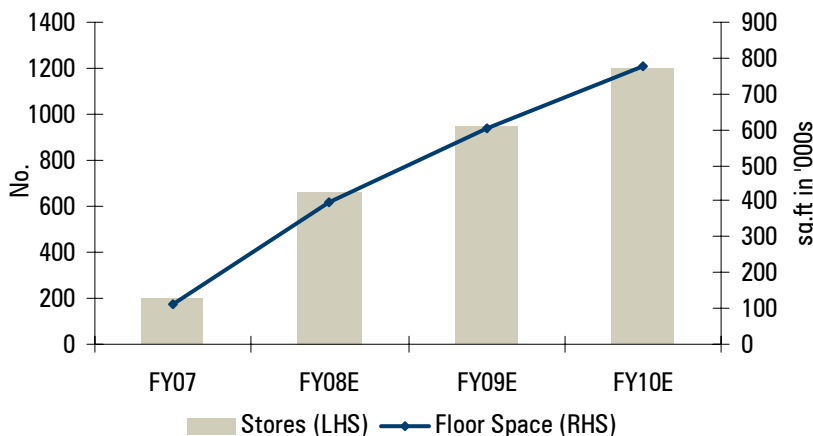
Revenue from Koutons to increase at a 55.93% CAGR over FY07-10E

Source: Company, ICICIdirect Research

Charlie Outlaw outlets: Taking off...

The company launched its Charlie Outlaw brand through Charlie Outlaw EBOs in 2007. It opened 200 outlets in FY07 with total area of 111,434 sq.ft. The average area of these outlets is approximately 600 sq. ft., relatively smaller than the average size of Koutons outlets (approximately 1,000 sq.ft.). The company plans to aggressively expand these outlets going forward. We expect the number of outlets to increase to 1,200 by FY10 with an aggregate area of 776,108 sq.ft.

Exhibit 4: Charlie Outlaw outlets gaining size

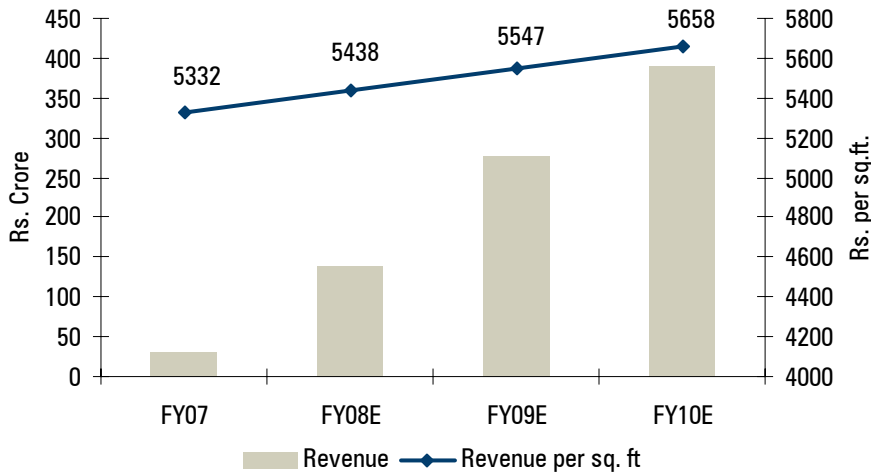


Space with Charlie Outlaw outlets to increase 7x

Source: Company, ICICIdirect Research

With its launch in FY07, we expect revenue from Charlie Outlaw outlets to increase to Rs 389.6 crore in FY10 from a meagre Rs 29.7 crore in FY07, a 135.83% CAGR. We believe the rapid rollout will enable its share in total revenue to increase to 20.24% in FY10 from 7.38% in FY07.

Exhibit 4: Revenue from Charlie Outlaw increasing



Revenue from Charlie Outlaw to increase at CAGR of 135.83%

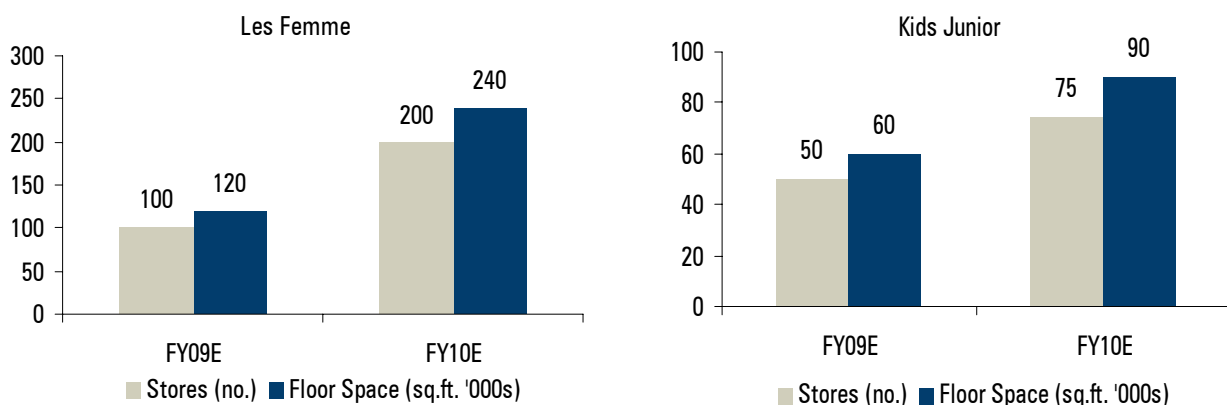
Source: Company, ICICIdirect Research

Les Femme and Kids Junior outlets: To be launched in FY09

In FY08, the company launched women’s wear and kids wear in its existing outlets. Further, it plans to launch EBOs “Les Femme” and “Koutons Junior” for women and kid’s wear respectively. “Les Femme” targets at women western wear including casuals and formals. These outlets are likely to open in Metros, Tier1 and Tier 2 cities only. We expect the company to open 100 “Les Femme” outlets and double this number to 200 outlets in FY10. For “Kids Junior”, 50 outlets are expected to open in FY09 and increase to 90 outlets by FY10. The aggregate space under these outlets is expected to be 330,000 sq.ft. by FY10. Of this, 240,000 sq.ft. is expected to be with “Les Femme” and the remaining with “Kids Junior”. We believe these outlets will gain traction beyond FY10. We expect Les Femme and Koutons Junior to contribute 4.33% and 2% respectively to the total revenue in FY10.

New formats expected to gain traction beyond FY10

Exhibit 5: Increasing size of women and kids wear

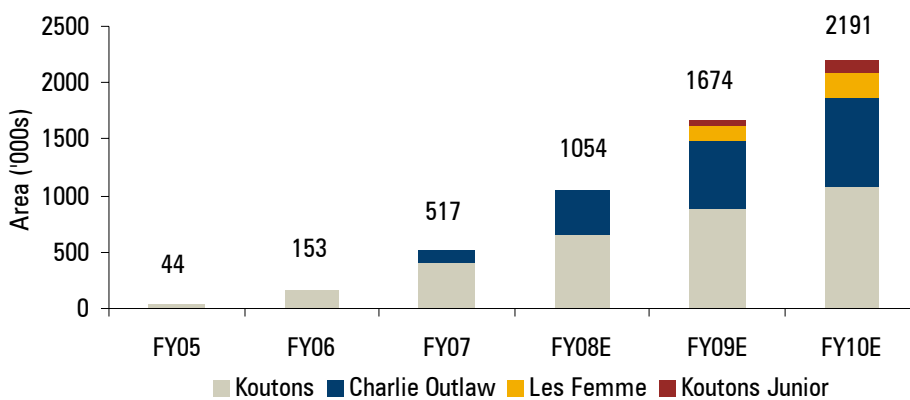


Source: ICICIdirect Research

Koutons Retail plans to open flagship outlets in metros and Tier-1 cities. These outlets will store the entire range of the company including men, women and kids wear, depending upon the demographics of the region. They will be bigger in size, approximately 3,000-5,000 sq.ft. They will serve as one-stop shop for the entire family and will be managed by the company.

We expect the company to increase its reach rapidly over the next 3 years. By FY10, we expect the company to have a total area of 2.2 million sq.ft, increasing by 4.2x. This growth will enable the company to get further visibility and increase brand recall, apart from giving it a pan-India presence. With the increase in floor area, the volumes are expected to grow, increasing the sales.

Exhibit 6: Quadrupling of space by FY10



Retail space to increase by 4.2x

Source: Company, ICICIdirect Research

▪ **Positioned to capture burgeoning apparel market**

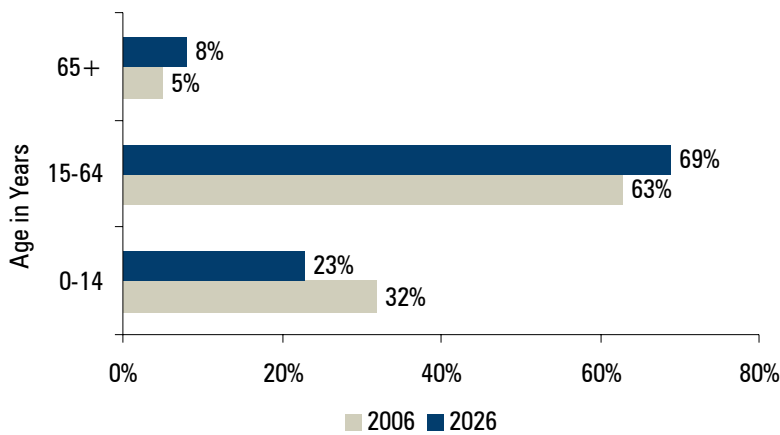
The share of organized apparel and accessories segment is the largest in the organised retail market at 39%. Its share in the total apparel retail stands at 18.9%. With increasing population, rising per capita income and growing middle class, the Indian apparel market size is expected to increase to US\$ 50 billion by 2015 from US\$ 21 billion in 2006, CAGR of 10%. (Source: Images India Retail 2007). Koutons Retail India Ltd sells apparels for all the segments — men, women and kids.

Koutons Retail India has positioned itself as a “High Fashion Value for Money” chain targeting the middle income segment, which is brand conscious and has high aspirations. The company provides value for money products that are priced reasonably, emphasizing on volume sales. According to McKinsey Global Institute, the middle class and upper middle class income group will constitute the largest proportion of the population in India by 2025.

Targets high fashion value for money segment in the age group of 14-45 years

“Koutons” brand is positioned in the middle to high fashion segment, offering a complete range of a man’s wardrobe (in the age group of 22 to 45 years) ranging from formal to casual and party wear. “Charlie Outlaw” brand is a casual brand targeted at fashion conscious youngsters in the age group of 14 to 25 years. According to Census of India, by 2026 approximately 69% of the population will be in the age group of 15-64 years i.e. the target market of the company.

Exhibit 7: Age composition of India



Source: Census of India

Apart from its unique positioning, the company has wide presence in the country, enabling the availability of its products to the target segment. At the end of FY07, it was present in 221 cities, which is far higher than the other players. It has the highest number of outlets in the apparel category.

Exhibit 8: Presence of Top 10 players

Players	Brand	Number of outlets		Cities	
		2005-06	2006-07	2005-06	2006-07
Raymond	The Raymond Shop	332	380	167	174
Koutons Retail India	Koutons & Charlie Outlaw	206	500	N A	221
Pepe	Pepe	58	N A	27	N A
Madura Garments	Peter England	21	22	12	N A
Arvind Brands	Lee	53	71	N A	71
Provogue India	Provogue	75	100	24	27
Madura Garments	Allen Solly	24	N A	16	N A
Levi Strauss India	Levi's	65	115	N A	29
Personality	Weekender	50	60	N A	25
ITC Group	Wills Lifestyle	40	55	N A	30

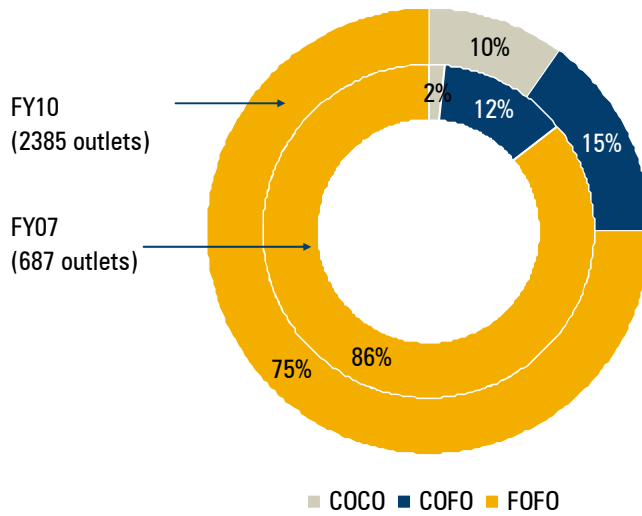
Highest number of outlets among peers with presence across 221 cities

Source: Company, Images India Retail Report 2007

Asset-light unique business model

Koutons Retail operates exclusive brand outlets through the franchisee route. The franchise arrangement of the Company is essentially structured on three models namely: (a) locations which are company-owned/ leased and company operated (COCO); (b) franchise locations which are company owned/ leased and franchisee operated (COFO); and (c) franchise locations which are franchisee owned/leased and franchisee operated (FOFO). As on August 2007, the company had approximately 86% of the outlets under FOFO model, 13% under COFO model and 2% under COCO model. We expect that the share of outlets under COCO model to increase to 10% by FY10 due to launch of flagship outlets. Consequently, the share of outlets under FOFO model is expected to reduce to 75% by FY10.

Exhibit 9: Changing mix of Model



The number of flagship outlets to increase, resulting in higher share for COCO outlets

Source: Company, ICICIdirect Research

The franchisee model provides scalability to the company as the capital requirement is low and the outlets are managed by the franchisee. In COFO and FOFO model, the entire capital cost and operating cost is borne by the franchisee. The franchisee also pays security deposit and keeps certain amounts with the company in the form of blank cheques that can be encashed in case of default. The company pays commission or minimum guarantee, whichever is higher, to the franchisee. It also pays interest on the security deposit to them. Due to this model, the store breaks even in the first year of operation (refer table below). As there is very less difference in the breakeven sales and capex requirement is low in the franchisee model, the company has been able to increase its size from 74 outlets in FY05 to 687 outlets in FY07.

Franchisee model provides scalability to the company

Exhibit 10: Hypothetical break-even model

Rs. In thousands	Assumptions	COCO	COFO/FOFO
Sales	1000 sq.ft. store, Rs. 12000 revenue per sq.ft.	12000	12000
Variable Cost			
Raw Material Cost	55% of sales	6600	6600
Commission on Sales	15% of sales	0	1800
Total Variable cost		6600	8400
Fixed Cost			
Operating Expenses	4% of sales	480	0
Salaries	Rs. 5000 per month per employee, 5 employees	300	0
Rent	Rs. 70 per sq.ft. p.m.	840	0
Minimum Guarantee	Rs. 140000 per month	0	1680
Interest	6% on deposit (Rs. 500000)	0	30
Total		1620	1710
Non-Recurring Cost	Rs. 800 per sq.ft. capex	800	0
Profit		3780	1890
Profit Margin		31.50%	15.75%
Break-even Sales		5378	5700

Outlets breakeven within a year

Source: ICICIdirect Research

Note: Common costs like administration and selling costs, etc. not considered.

▪ **Introducing new products categories**

Koutons Retail sells the entire range of men’s wear. It launched premium categories for men under the brand “KC”, which is expected to increase its margin. It introduced women’s wear and kids wear in FY08. The company has also started selling accessories like wallets, belts, ties, etc. The introduction of these categories will enable the company to increase the footfalls in the outlets. This will also increase the margins of the company as women and kids wear are higher margin products than men’s wear.

Exhibit 11: Existing products

Category	Range
Trousers	Formal trousers, Chinos, Casual, Cargos, Capris
Denim wear	Jeans, Skirts, Jackets
Suits and Blazers	Formal and party wear, Jackets
Shirts	Formal, Semi formal, Casual, Party wear in a wide range of fabrics and designs
Knit wear	T-Shirts, Sweaters, Pullovers, Tracksuits, Sweatshirts

Source: Company

▪ **Inorganic expansion to fillip to the growth**

The company also plans to grow through the inorganic route by acquiring premium brands. This will increase the product categories and brands in its outlets. It will also help in increasing the margins of the company. The acquisition of “Upper Class” brand is a step forward in implementation of this strategy.

It recently acquired 51% stake in Delhi-based brand “Upper Class”. “Upper Class” has a strong foothold in the ladies apparel segment. It specializes in casual bottom wear for women. The Rs 25-crore company has been exporting apparel to leading brands in Europe such as Armand Thierry, Class, F Ferra, Alcorpe English and is available in outlets such as Splash and Lulu Center in the Middle East under its signature brand Upper Class. Available across multi-brand outlets (MBOs) such as Globus, Piramyd, Shoppers’ Stop and Pantaloons, Upper Class also has its own brand outlets in New Delhi, Jaipur, Ludhiana and Vadodara. Koutons Retail will provide further visibility to the brand by opening exclusive brand outlets in the country. It plans to open 400 retail outlets for “Upper Class” brand by FY10. The centralized outsourcing of fabric from Koutons Retail and other common costs will increase the margin of “Upper Class” brand. On the other hand, “Koutons” will get international visibility due to the presence of “Upper Class” brand in other countries. However, we have not taken this development in our estimates as it is at a nascent stage.

Acquired 51% stake in “Upper Class” brand in FY08

▪ **Manufacturing capacities to boost margin**

The company manufactures or gets manufactured the entire range of products sold in its outlets. It has 18 in-house manufacturing/finishing units and 14 warehouses which are spread across various locations in and around Gurgaon, Haryana. In FY07, it had an in-house capacity to manufacture 12,360,000 pieces of apparel and finishing capacity of 22,920,000 pieces of apparel, per annum. The manufacturing capacity relates to its capacity to produce fabricated apparel from raw fabric. The finishing capacity relates to its capacity to provide final finishing to the fabricated apparel. The company has entered into fabrication agreement with various manufacturers to which it outsource stitching of apparels

through the design and fabric provided by it. Due to increasing scale of business, the company enjoys economies of scale in sourcing fabric from its suppliers. The manufacturing and finishing capacity help in improving the gross margin of the company.

Exhibit 12: Annual manufacturing capacity

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

Source: Company

Exhibit 13: Annual finishing capacity

Particulars	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 and blazers	-	-	120,000
Total Capacity	3,000,000	6,240,000	22,920,000

Source: Company

▪ **Low sensitivity to rentals**

The company follows franchisee route for expansion of its outlets. As a result, 98% of its outlets are under franchisee route. In this agreement, the company pays commission on sales or minimum guarantee to the franchisee, whichever is higher. This minimum guarantee includes operating expenses of the store including rental. This amount is fixed at the time of entering into the franchisee agreement and does not vary thereafter. As a result, the company does not have to incur any rental cost as it is paid by the franchisee. This way the company has minimized the risk of rising rentals that is prevalent in the retail industry.

Experienced and Efficient Management

Koutons Retail India Ltd is promoted by Mr. DPS Kohli, Mr. B.S. Sawhney and Mr. Gurmeet Sawhney, first generation entrepreneurs. They have been instrumental in the exponential growth of the company. The company has a strong execution team with adequate experience and qualification. As a result, it has been possible for the company to expand at such a rapid rate and create visibility in the minds of the consumers.

Exhibit 14: Key Managerial Personnel

Name	Designation	Responsibility	Educational Qualification	Age	Date of joining Vishal Retail	Total Experience
Ajay Mahajan	Chief Financial Officer	Supervision of finance, accounting, legal and secretarial related matters	B.Com, Law (Delhi)	38	Nov-05	17 years
Harbir Singh Siddhu	Executive Vice President	Incharge of Business operations including marketing and sales, system development, administration and human resources	Batchelors degree in Economic, Cmabridge University	55	Sep-05	32 years
Pradeep Sachdeva	General Manager (Retail)	Incharge of the North India sales team for the brand "Charlie Outlaw"	B.A B.Com, PG Diploma in Apparel Mktg and	42	Jan-06	20 years in the retail industry
Bharat Grover	Country Manager (Retail)	Incharge of the brand "Koutons" as team leader	Merchandising Mgmt (NIFT) Degree in garment export merchandising (NIFT)	29	Aug-02	5 years
Ritu Chhabra	Manager of Merchandising	Looking after product development	(NIFT)	31	Feb-01	8 years
Sanjay Handa	Regional Manager (Gujarat/Maharashtra)	Managing product sales in Gujarat and Maharashtra for Koutons brand	B.A, MBA	30	Apr-06	6 years
Gurjot Singh	Regional Sales Manager	Managing sales in the east region	B.A, MBA	33	May-06	8 years
Ravindra Yadav	Manager (Human Resources)	Looking after human resources management	Masters in Geography and in Social Work	44	Feb-06	19 years
Ramit Rastogi	Company Secretary	Looking after legal matters	B.Com, Masters in law	28	Aug-07	5 years

Source: Company

RISKS & CONCERNS

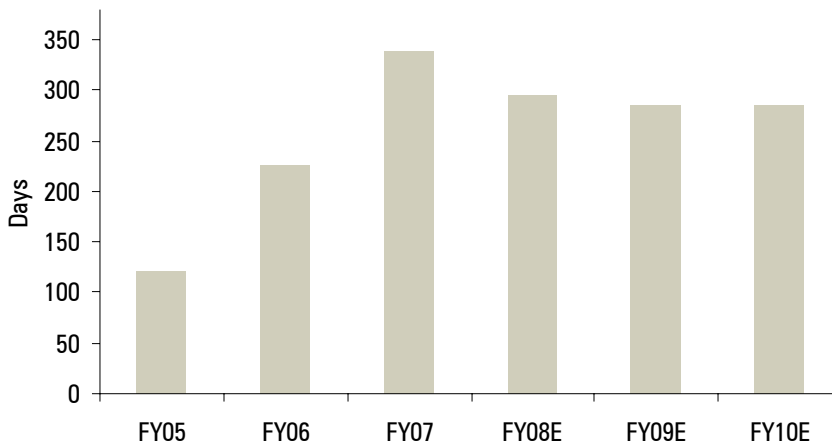
Execution risk

The company has aggressive plans for expansion over the next two years. Although it has excellent implementation expertise, external risks like non-availability of adequate location, delay in delivery of outlets, etc. may affect the company. This may pose a downward risk to our revenue estimates.

Inventory management

Koutons Retail has very high inventory period of 339 days at the end of FY07. Due to aggressive rollout plans, the company has to keep inventory for forthcoming outlets along with existing outlets. Since the company has manufacturing capacity, it has to keep adequate raw material inventory to serve its increasing outlets. It has 14 warehouses in and around Gurgaon. However, its outlets are spread across the country. As a result some stocks are always in transit. Since the company is in fashion business, there is risk of obsolescence if the fashion trends change. This risk increases if the inventory levels are high. We expect the inventory days to reduce due to opening of warehouses in different zones and relatively lower pace of rollout going forward.

Exhibit 15: High inventory days



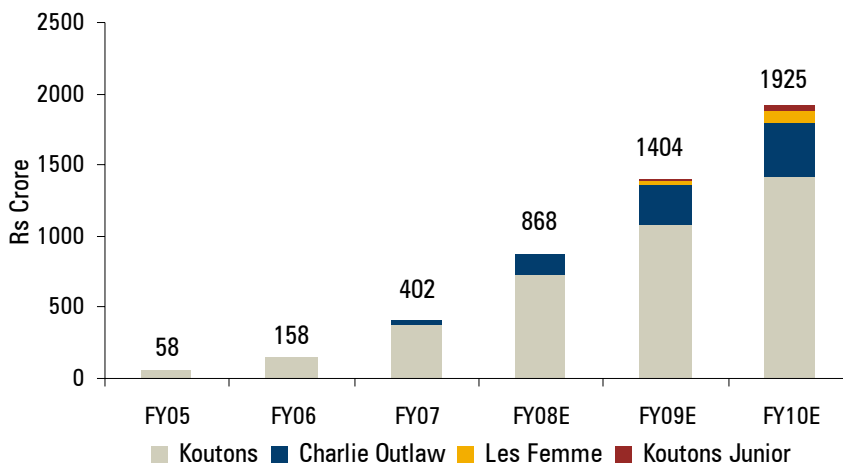
Source: ICICIdirect Research

FINANCIALS

Revenue to grow at 68.5% CAGR

The net sales grew at an exponential rate over the past years, increasing at a 109.1% CAGR to Rs 402.4 crore in FY07 from Rs 21 crore in FY03. This growth is the result of the aggressive rollout of outlets coupled with franchisee model. Going forward, we assume that the company will continue implementing its aggressive rollout plans. We expect a 68.5% CAGR in the net sales to Rs 1924.74 crore in FY10 from Rs 402 crore in FY07. With the inclusion of women and kids wear, we expect the share of "Koutons" to decrease to 73% from 93% of the total revenue and that of other brands to increase.

Exhibit 16: Revenue growth of 4.7x by FY10

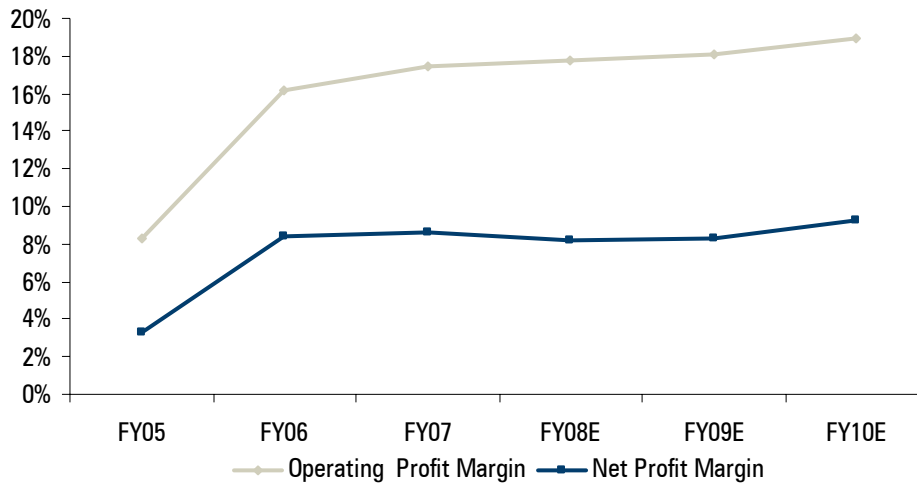


Source: Company, ICICIdirect Research

Margins to increase further

Koutons Retail has the highest operating and net margin in the retail industry. They have increased substantially over the past years due to manufacturing capacities and franchisee model. The operating profit margin increased to 17.48% in FY07 from 1.4% in FY03. The net profit margin increased to 8.57% in FY07 from 2.06% in FY03. We expect the operating profit margin to increase to 18.93% in FY10 from 17.46% in FY07, an increase of 146 basis points. The net profit margin is expected to increase to 9.26% in FY10 from 8.57% in FY07, a rise of 74 basis points. This is lower than operating margin due to increase in the share of COCO outlets leading to rise in depreciation and increasing number of COFO/FOFO outlets leading to rise in interest cost to franchisee on the deposit given by them.

Exhibit 17: Increasing Profitability

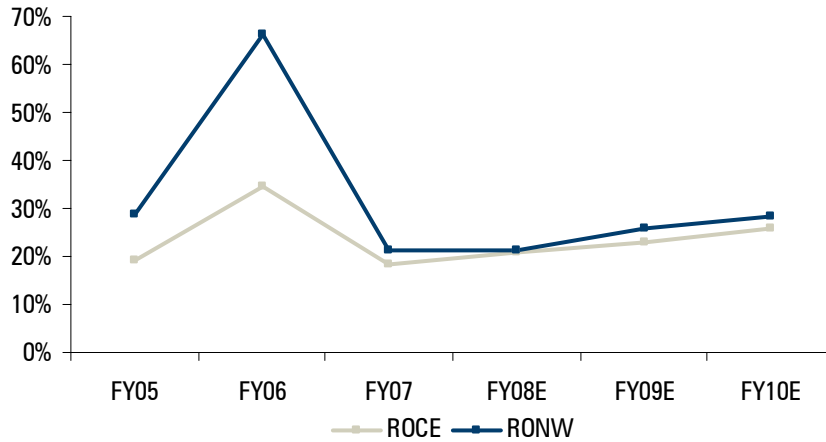


Source: Company, ICICIdirect Research

■ Robust returns ratios

The return ratios have been high due to the company's asset-light model, leading to low capital requirement and resulting in better profitability. We expect ROE and ROCE to increase further to 28.38% and 25.73% in FY10 from 21.12% and 18.15% in FY07 respectively.

Exhibit 18: Return ratios getting stronger



Source: Company, ICICIdirect Research

VALUATIONS

We are positive on the business model of the company. The customers benefit due to availability of quality products with affordable prices. The franchisees do not suffer due to the minimum guarantee given and the interest paid on security deposit. Due to these factors, the company will get better volumes with low capex requirement. The win-win strategy of the company creates wealth for all the stakeholders.

On the back of the company's aggressive rollout plan and improving margins, we expect a 68.5% CAGR in net sales and 73.2% CAGR in earnings over FY07-10. We expect the company to report positive operating cash flow in FY10. The company is expected to report better return ratios i.e. ROE and ROCE in FY10 as compared to its peers, Pantaloon and Shoppers' Stop, though strictly not comparable.

At the current price of Rs 810, the stock trades at a 13.89x of its FY10E EPS of Rs58.32. We value it at Rs1173, 20x of FY10 earnings, giving potential upside of 44.8%.

Exhibit 19: Peer Valuations

Peer Valuation	Koutons Retail	Vishal Retail	Pantaloon Retail	Shoppers Stop
Year End	FY10E	FY10E	FY10E	FY10E
Net Sales (Rs. Cr)	1924.74	2641.73	12127.30	2287.13
EBITDA Margin (%)	19.03	12.87	6.82	6.99
NPM (%)	9.26	4.84	2.43	2.38
RONW (%)	28.38	26.22	13.25	13.40
ROCE (%)	25.73	17.82	6.50	5.80
EPS (Rs)	58.32	57.05	19.01	14.38
Mcap (Rs cr)	2474.55	1619.52	6150.60	1394.00
CMP (Rs.)	810.00	723.00	408.00	400.00
P/E (x)	13.89	12.67	21.46	27.82
PEG (x)	0.21	0.21	0.50	0.24
MCap/Sales (x)	1.29	0.61	0.51	0.61
EV/Sales	1.62	1.08	0.62	0.67
EV/EBDITA (x)	8.56	8.68	9.00	9.78
O/S number of shares	3.06	2.24	15.08	3.49

Source: ICICIdirect Research, Reuters

FINANCIAL SUMMARY

Profit & Loss

(Rs. Crore)

Y/E March 31	FY07	FY08E	FY09E	FY10E
Net Sales	402.40	868.09	1404.25	1924.74
<i>Growth (%)</i>	<i>154.1%</i>	<i>115.7%</i>	<i>61.8%</i>	<i>37.1%</i>
Cost of Goods Sold	216.31	465.16	754.07	1025.38
Gross Profit	186.08	402.93	650.18	899.36
<i>Gross Profit Margin (%)</i>	<i>46.24</i>	<i>46.42</i>	<i>46.30</i>	<i>46.73</i>
Employee Cost	7.62	14.76	21.06	25.02
<i>% to NS</i>	<i>1.89%</i>	<i>1.70%</i>	<i>1.50%</i>	<i>1.30%</i>
Administrative expenses	8.62	17.36	24.57	28.87
<i>% to NS</i>	<i>2.14%</i>	<i>2.00%</i>	<i>1.75%</i>	<i>1.50%</i>
Selling & distribution expenses	99.39	217.02	351.06	481.18
<i>% to NS</i>	<i>24.70%</i>	<i>25.00%</i>	<i>25.00%</i>	<i>25.00%</i>
Miscellaneous Expenses	0.2	0.0	0.0	0.0
Total Expenditure	332.13	714.30	1150.77	1560.46
Operating Profits	70.27	153.78	253.48	364.28
<i>Operating Profit Margin (%)</i>	<i>17.46%</i>	<i>17.72%</i>	<i>18.05%</i>	<i>18.93%</i>
Other Income	1.22	3.00	2.00	2.00
EBITDA	71.49	156.78	255.48	366.28
<i>EBITDA Margin (%)</i>	<i>17.76%</i>	<i>18.06%</i>	<i>18.19%</i>	<i>19.03%</i>
Depreciation	3.97	11.93	16.45	17.89
EBIT	67.52	144.85	239.03	348.39
<i>EBIT Margin (%)</i>	<i>16.78%</i>	<i>16.69%</i>	<i>17.02%</i>	<i>18.10%</i>
Interest	14.91	36.58	60.92	76.38
PBT	52.61	108.27	178.11	272.00
<i>PBT Margin (%)</i>	<i>13.07%</i>	<i>12.47%</i>	<i>12.68%</i>	<i>14.13%</i>
Taxes	18.13	37.35	61.45	93.84
<i>Effective Tax Rate (%)</i>	<i>34.45%</i>	<i>34.50%</i>	<i>34.50%</i>	<i>34.50%</i>
Profit After Tax	34.49	70.92	116.66	178.16
<i>Growth (%)</i>	<i>160.17%</i>	<i>105.63%</i>	<i>64.50%</i>	<i>52.72%</i>
<i>PAT Margin (%)</i>	<i>8.57%</i>	<i>8.17%</i>	<i>8.31%</i>	<i>9.26%</i>

Balance Sheet

(Rs Crore)

Y/E March 31	FY07	FY08E	FY09E	FY10E
Equity	27.34	30.55	30.55	30.55
Equity Warrants	0.00	0.00	0.00	0.00
Share Capital Suspense Account	0.00	0.00	0.00	0.00
Total Share Capital	27.34	30.55	30.55	30.55
Reserves and Surplus	135.93	302.61	419.27	597.14
Total Shareholders Funds	163.28	333.16	449.82	627.69
Total Loan Funds	209.43	361.52	591.02	726.52
Net Deferred Tax Liability	1.94	7.02	22.60	50.09
Total Capital Employed	374.65	701.70	1063.45	1404.30
Gross Block	50.60	125.60	205.60	255.60
Less: Accumulated Depreciation	7.04	18.97	35.42	53.31
Net Block	43.56	106.63	170.18	202.29
Inventory	373.84	700.00	1100.00	1500.00
Debtors	20.39	40.00	50.00	55.00
Cash and bank Balance	17.26	48.84	70.30	84.23
Loans and Advances	50.99	90.02	133.98	184.36
Gross Current Assets	462.47	878.86	1354.28	1823.59
Gross Current Liabilities	132.01	284.23	461.27	621.65
Net Current Assets	330.46	594.63	893.01	1201.94
Miscellaneous Expenses not w/off	0.62	0.44	0.26	0.07
Total Assets	374.65	701.70	1063.45	1404.31

Cash Flow

(Rs. Crore)

Y/E March 31	FY07	FY08E	FY09E	FY10E
Net profit before tax	52.61	108.27	178.11	272.00
Depreciation	3.97	11.93	16.45	17.89
Interest	14.50	36.58	60.92	76.38
Others	0.00	0.00	0.00	0.00
Operating Profit before WC Changes	71.08	156.78	255.48	366.28
WC Changes	-260.65	-232.20	-273.43	-291.92
Cash Generated from Operations	-189.57	-75.42	-17.96	74.36
Direct Taxes Paid	-15.92	-31.94	-48.98	-69.36
Prior Period Adjustments	4.25	0.00	0.00	0.00
Cash from Operating activities (A)	-201.25	-107.36	-66.94	4.99
Purchases of fixed assets and Cap WIP	-36.89	-75.00	-80.00	-50.00
Others	1.04	-0.18	-0.18	-0.18
Cash from Investing Activities (B)	-35.86	-75.18	-80.18	-50.18
Proceeds from Issue of Equity Shares	108.72	98.62	0.00	0.00
Net loans	158.17	152.09	229.50	135.50
Interest Paid	-14.68	-36.58	-60.92	-76.38
Cash from Financing Activities (C)	252.22	214.13	168.58	59.12
Net Increase in Cash and Cash Equivalents (A+B+C)	15.12	31.59	21.46	13.93
Cash at Beginning	2.14	17.26	48.84	70.30
Cash at End	17.26	48.84	70.30	84.23

*Cash Flow from
Operations turning
positive from FY10*

Ratio Analysis

Y/E March 31	FY07	FY08E	FY09E	FY10E
Margins (%)				
Operating	17.46%	17.72%	18.05%	18.93%
PAT	8.57%	8.17%	8.31%	9.26%
Asset based ratios (%)				
RONW / ROE	21.12%	21.29%	25.93%	28.38%
ROCE / ROI	18.15%	20.86%	22.97%	25.73%
Gearing (x)				
Debt / Equity	1.28	1.09	1.31	1.16
Liquidity Ratios (x)				
Current Ratio	3.50	3.09	2.94	2.93
Quick Ratio	2.99	2.60	2.49	2.50
Per Share (Rs)				
Earnings	12.61	23.21	38.19	58.32
Book Value	59.48	108.91	147.16	205.44
Cash EPS	14.06	27.12	43.57	64.18
Turnover				
Inventory (days)	339.10	294.33	285.92	284.45
Debtor (days)	18.50	16.82	13.00	10.43
Creditor (days)	101.11	105.12	106.57	104.30
Market Cap. (Rs Crore)	2214.86	2474.55	2474.55	2474.55
EV (Rs Crore)	2407.04	2787.23	2995.27	3116.84
Valuations (x)				
P / E	64.22	34.89	21.21	13.89
P / BV	13.62	7.44	5.50	3.94
M.Cap / Sales	5.50	2.85	1.76	1.29
EV / EBIDTA	34.26	18.12	11.82	8.56
EV / Sales	5.98	3.21	2.13	1.62
Du Pont Analysis				
PAT/PBT	0.66	0.66	0.66	0.66
PBT/EBIT	0.74	0.69	0.70	0.74
EBIT/Sales	0.18	0.18	0.18	0.19
Sales/Assets	1.07	1.24	1.32	1.37
Assets/Equity	2.29	2.11	2.36	2.24

RATING RATIONALE

ICICIdirect endeavors to provide objective opinions and recommendations. ICICIdirect assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Outperformer, Performer, Hold, and Underperformer. The performance horizon is 2 years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Outperformer: 20% or more;

Performer: Between 10% and 20%;

Hold: $\pm 10\%$ return;

Underperformer: -10% or more.

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