ICICI direct.com
On-line Share Trading

Initiating Coverage

Vishal Retail (VISRET)

Current price	Target price
Rs 700	Rs 1026
Potential upside	Time Frame
46.6%	15-18 months

OUTPERFORMER

First mover advantage...

Vishal Retail, a value retailer with a focus on Tier 2 and Tier 3 cities, is expanding aggressively. The expansion will boost its retail space to 5.1 million sq ft by FY10 from 1.3 million sq ft in FY07. The company plans to increase its penetration throughout the country over the next few years. We initiate coverage on the company with an OUTPERFORMER rating.

- **Rapid expansion to increase reach, provide volume growth**
  The expansion plan of Vishal Retail is very aggressive. It increased its retail space from 88,700 sq.ft. in FY03 to 1.3 mn sq.ft. in FY07, CAGR of 94%. We expect the retail space to increase to 5.1 mn sq. ft. by FY10, at a CAGR of 59% over FY07-FY10E. This expansion will increase its reach and provide volume growth, whereby revenue is expected to increase four-fold.

- **Focus on Tier-2 and Tier-3 cities**
  The company targets Tier-2 and Tier-3 cities where there is little or no presence of organised retail players. Even in Tier-1 cities, it is present on the outskirts of the city. This enables the company to enjoy first mover advantage and earn better margins than its peers. Also, the rentals in such cities are low.

- **Increasing margins**
  The company's operating margin is higher than to peers due to owned manufacturing capacity of apparel, higher proportion of apparel in the sales mix (60%), sales of private labels only in apparels, high share of private labels in the sales mix, efficient supply chain and distribution system and low rentals. We expect the operating margin to increase to 12.49% in FY10 from 11.12% in FY07 despite the ongoing capex.

Valuations

We expect the net sales and earnings of the company to grow at a CAGR of 63.7% and 61.1% respectively during FY07-FY10E. At the current price of Rs. 700, the stock trades at PER of 12.27x its FY10 earnings. We value Vishal Retail at a target price of Rs. 1026, based on 18x FY10 PER, giving a potential upside of 46.6%.

Analyst's Name
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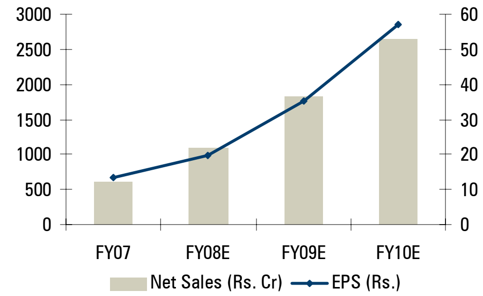
Sales & EPS trend



Stock metrics

Bloomberg	VISH IN
Reuters	VIRL.BO
Face Value (Rs.)	10
Promoters holding (%)	63.93
Market Cap	16086
52 Week H/L	1001/423
Sensex	16256
Average volume	27249

Comparative return metrics

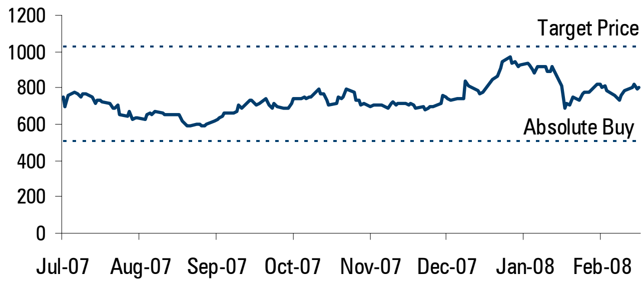
Stock return	3 M	6M	12M
Pantaloon	-42.38	-26.34	-5.16
Shoppers' Stop	-25.50	-28.49	-37.15
Vishal Retail	-16.99	-4.95	NA

Exhibit 1: Key Financials

Year to March 31	FY07	FY08E	FY09E	FY10E
Net Profit	24.98	44.20	78.58	127.77
Shares in issue (crore)	1.83	2.24	2.24	2.24
EPS (Rs)	13.63	19.73	35.08	57.05
P/E (x)	51.34	35.47	19.95	12.27
Price/Book (x)	10.12	5.58	4.36	3.22
EV/EBIDTA	25.27	17.27	11.53	8.68
RoNW (%)	19.71	15.73	21.86	26.22
RoCE (%)	14.61	15.26	16.30	17.82

Source: ICICIdirect Research

Price Trend



Company Background

Vishal Retail Ltd, incorporated in 2001 by Mr. Ram Chandra Agarwal, is in the business of value retailing with focus on Tier 2 and Tier 3 cities. At present, the company operates 92 stores under the name "Vishal Megamart" with a retail space of 2 mn sq.ft. The company sells over 100,000 stock keeping units (SKUs) across categories of apparels (63% of sales in FY07), non-apparels (22%) and FMCG (15%). In order to strengthen its operations, it has set up 2 manufacturing facilities with a total capacity of 3 mn pieces. To ensure strong logistics support, the company established 29 warehouses in 8 cities with total space of1.05 mn sq.ft. and a fleet of trucks for transportation.

Share holding pattern

Shareholder	Percentage holding
Promoters	63.93
Institutional investors	12.30
Other investors	17.33
General public	6.44

Promoter & Institutional holding trend (%)

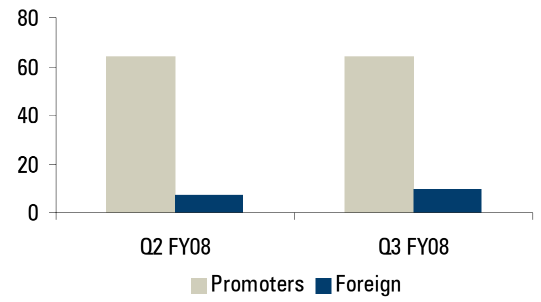
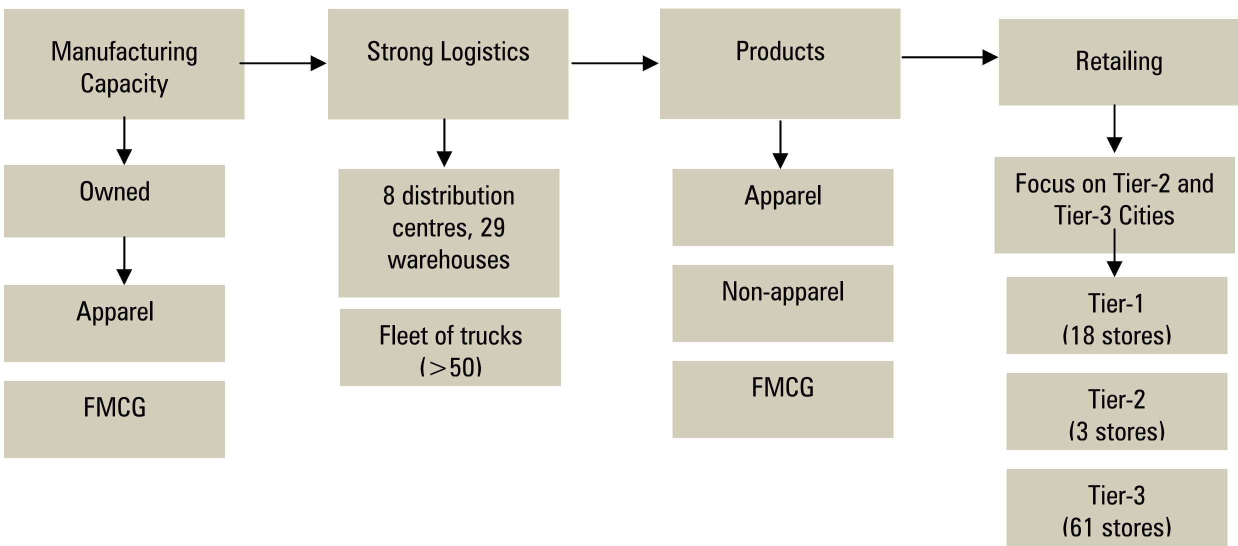


Exhibit 2: Business Model



Source: ICICIdirect Research

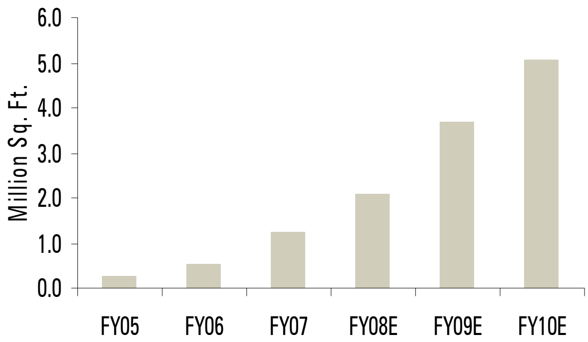
INVESTMENT RATIONALE

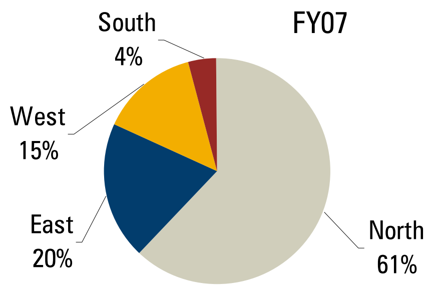
▪ Rapid expansion to give company pan India presence

Vishal Retail is on an expansion spree. Its retail space increased from 88,700 sq.ft. in FY03 to 1.3 mn sq.ft. in FY07, a CAGR of 94%. The company has pan-India presence, however skewed towards northern region (61% in FY07). The company's strategy is to increase to new geographies and in cities where it already has a presence. More stores are expected to come in the southern and eastern region in the next few years. We expect the retail space to increase to 5.1 mn sq. ft. by FY10, at 59% CAGR over the period FY07-FY10. With these initiatives, we believe the sales of the company will increase at CAGR of 63.66% over FY07-FY10 with a scattered pan-India presence.

Retail space expected to increase to 5.1 mn sq.ft. in FY10E from 1.3 mn sq.ft. in FY07, 59% CAGR

Exhibit 3: Increasing space with pan India presence





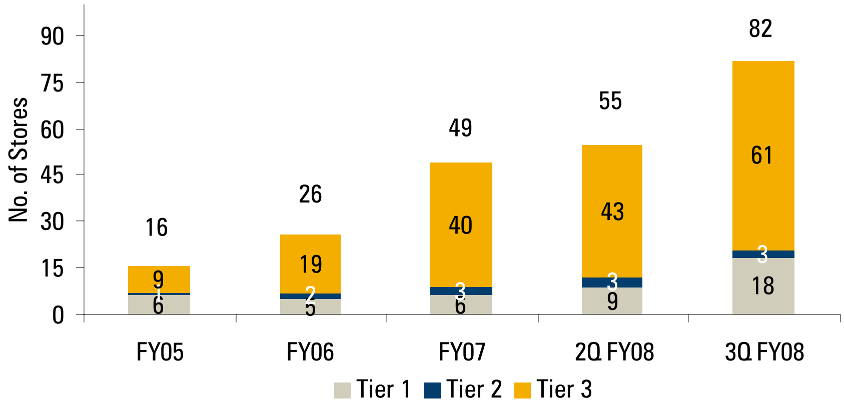
Source: Company, ICICIdirect Research

▪ Focus on Tier 2 and Tier 3 cities – first mover advantage

Vishal Retail targets cities with urban population of 1 million people or above or can be classified as Tier-2 and Tier-3 cities. In Tier-1 cities, the company opens retail outlets on the outskirts, rather than the prime area. Its target market includes people with middle income and lower income levels. This enables the company to overcome competition to some extent due to its first mover advantage (as competitors have relatively less space in tier-2 and tier-3 cities) and helps to lower rental cost. As at 3Q FY08, 78% of the company's 82 stores are in Tier-2 and Tier-3 cities. The company plans to maintain the ratio of Tier-2 and Tier-3 to Tier-1 cities at 80:20.

78% of the stores in Tier-2 and Tier-3 cities

Exhibit 4: Increasing presence in Tier 3 cities



Source: Company

- **Strong logistics and distribution network**

  As on 3QFY08, Vishal Retail operates 29 warehouses in 8 cities with a space of 1.05 million sq ft. The company has 8 distribution centres in different zones, where all the products are stored. As a result, it maintains less space for storage in the retail stores enabling better utilization of space. Majority of the warehouses are located in northern region due to its concentration (approximately 62% of sales in FY07) in the concerned zone. Since the presence in the south is very small, the requirement from the southern India is catered by the distribution centre in west.

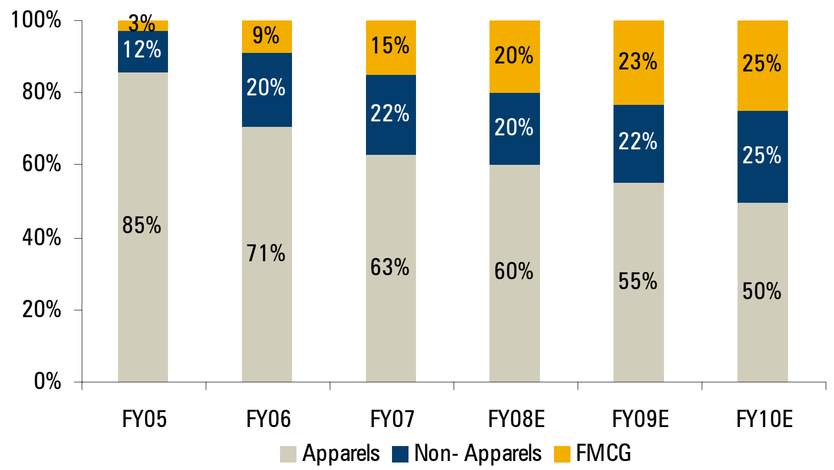
  The company also maintains a fleet of more than 50 trucks for transportation of products to distribution centres and from distribution centres to retail stores. It also uses the services of low cost logistics service providers to deliver products on time and optimizes transportation cost. We believe that the strong logistics and distribution network will enable the company to keep transportation cost in control and improve inventory management.

- **Changing product mix**

  Vishal Retail commenced operations with the retailing of readymade apparels for kids, women and men. Gradually, it expanded its product portfolio to include non-apparels and FMCG products. With over 100,000 SKUs, apparel (63.2% in FY07) is the largest contributor to sales. However this mix is expected to change with the increase in the variety of products. We expect the share of apparels to reduce to 50% over the next two years. Consequently the share of non-apparels and FMCG collectively is expected to increase to 50%. The change in the product mix will enable the company to reduce seasonality, attract more footfalls and maintain margins.

Enhanced product categories from apparels to include non-apparels and FMCG

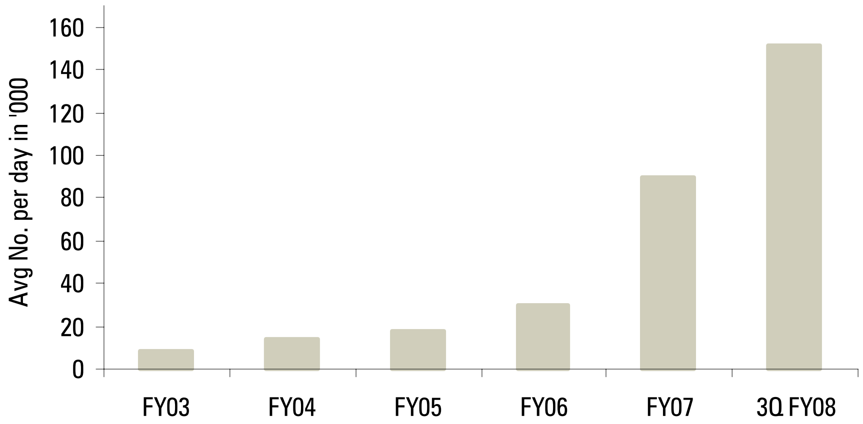
Exhibit 5: Contribution of non-apparels and FMCG to increase



Source: Company, ICICIdirect Research

Due to this change in product mix, the footfalls in the stores have increased. FMCG, due to its product nature, is a footfall driver. It also reduces the seasonality of sales as these are generally daily-use products. Over the past 5 years, the footfalls have increased to 89,829 persons per day as compared to 8,600 persons per day in FY03. At the end of Q3 FY08, the average footfall per day increased to 150,968. Also the company has been able to maintain the conversion ratio at approximately 45%, which is a healthy sign as the number of stores has increased drastically in the current fiscal.

Exhibit 6: Increasing footfalls

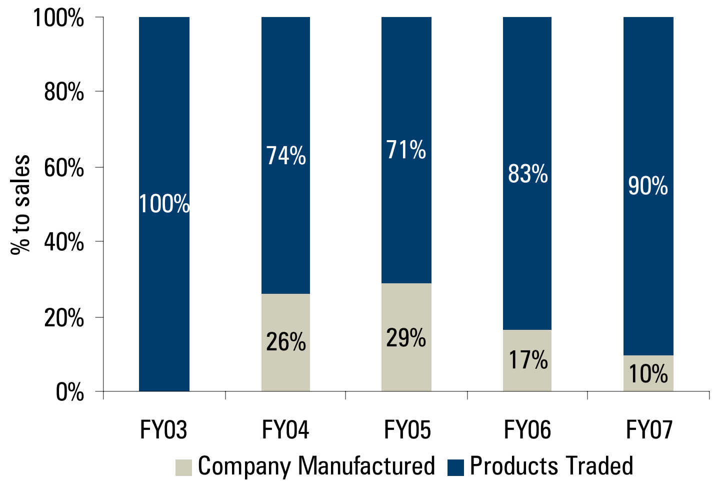


Source: Company

- **In-house manufacturing help sustain margin**

Vishal Retail operates two manufacturing facilities with a capacity of 1.5 mn pieces each. The Gurgaon manufacturing facility began operations in 2004 and currently operates at 80% utilization. The Dehradun facility, currently operating at 40% utilization, commenced operations in September 2007. The company also makes FMCG products, like namkins, farsans, ketch-ups, etc., through a bakery in Gurgaon. The in-house manufactured products enable improvement in operating margin. In FY06, the products manufactured by company contributed 9.7% to sales. This contribution is decreasing every year due to inclusion of other categories in the product mix. We expect the share of manufactured products to reduce further due to further addition in categories going forward.

Exhibit 7: Share of manufactured products



Source: Company

Share of manufactured products to decline due to further addition in product categories

- **Increase in private labels share to improve profitability**

The company sells two types of products, viz. private label and national brands. All the apparels sold in the stores are private labels. National brand apparels are not sold in the Vishal Retail stores. In FY07, the share of private labels stood at 9.68% of total sales (i.e. all apparel sales). In FY08, the company introduced private label in FMCG products as well, leading to an increase in the share of private label at 15% at the end of 3Q FY08. The company aims at increasing the share of private labels to 25% going forward. The private label products earn better margins as compared to national brands. We believe increase in the share of private labels will enable the company to sustain the margins.

Private labels share expected to increase from 15% to 25%

- **Rental cost lowest in the industry**

The rental cost of Vishal Retail is the lowest in the industry at Rs. 31 per sq.ft. as at 3Q FY08. This is due to the company strategy of opening stores in Tier-2 and Tier-3 cities, where the rental cost is low. In tier-1 cities, the company opens stores only in the outskirts of the city, where the rental cost is much lower than the prime area. Moreover, the company prefers opening stores in readymade buildings rather than malls to reduce rental cost. All these initiatives enable the company withstand intense competition. We do not see much increase in the rental cost going forward due to this strategy.

Exhibit 8: Lowest Rental Cost in FY07

Particulars	Rent per sq.ft.	% to sales
Vishal Retail	30.32	5.44%
Pantaloon	47.26	7.36%
Shoppers' Stop	47.66	7.51%

Source: ICICIdirect Research

- **Venturing into new areas**

The company is foraying into real estate sector either in the second half of the current year or early next year. It is planning to acquire 1 crore sq ft area in next three years which would partly be used for expanding the retail businesses and rest for real estate purposes.

Foraying into real estate sector to develop 1 crore sq.ft. area in next 3 years

The company is also planning to set up a private equity fund which will buy minority stakes in consumer product companies that will sell their goods through Vishal stores. The main objective is to sell a variety of brands through Vishal Retail and acquire a share in their profits. Besides, the decision to set up a private equity fund also goes hand in hand with the company's policy to promote private brands.

Setting up a private equity fund

The company also plans to foray into cash-&-carry business in about a year. Of the many strategies taken into consideration, specialty formats like convenience, apparel, restaurants, consumer durables, IT, footwear, lifestyle and home are expected to be given the foremost preference. All the formats will be categorized into separate divisions and will be run by different CEOs.

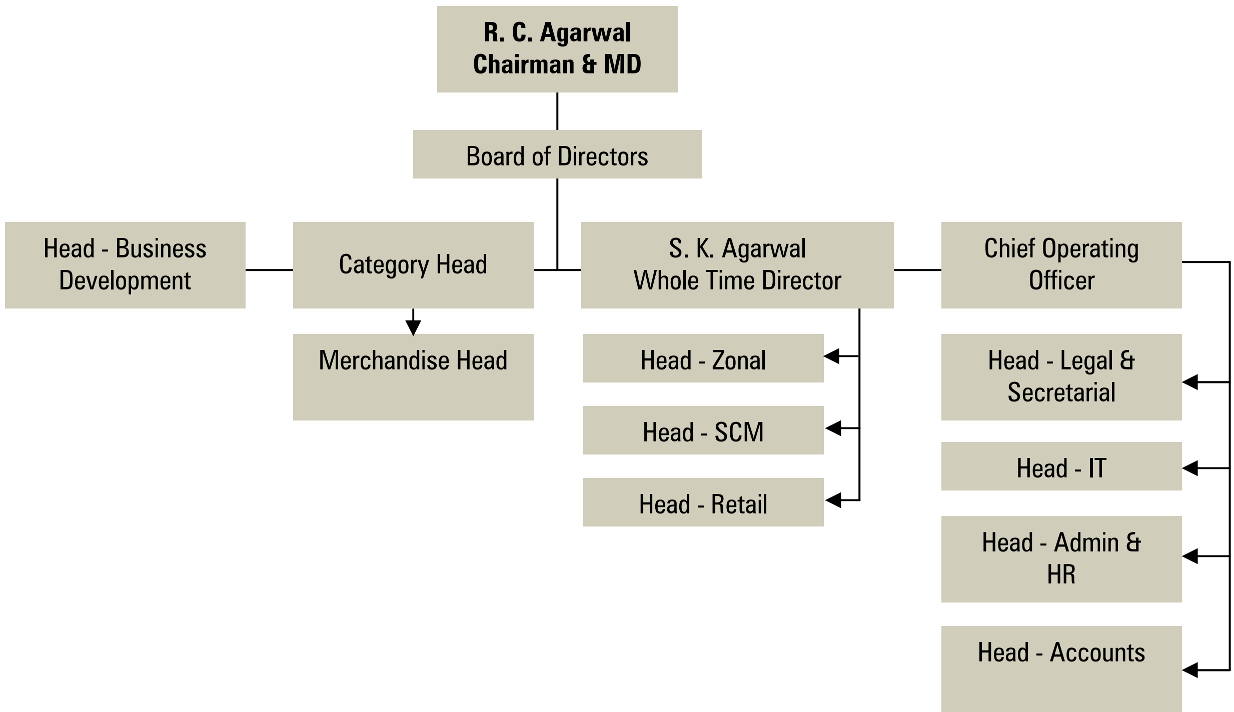
Foraying into cash-$-carry business and specialty formats

Since these initiatives are at nascent stage, we have not considered them in our estimates. We will include them in our estimates once some concrete development takes place.

- **Strong management with proven execution capability**

  Vishal Retail has been established by Mr. Ram Chandra Agarwal, a first generation entrepreneur. He has been instrumental in expanding the business from an apparel store in Kolkata to 82 value retail stores with pan-India presence. The management team has a pool of talented professionals with right mix of working experience. The detailed organization structure enables the management to trace the smallest possible responsibility and thereby facilitate proper internal control.

Exhibit 9: Organisation Structure



Source: Company

Exhibit 10: Key Managerial Employees

Name	Designation	Responsibility	Educational Qualification	Age	Joined Vishal Retail	Total Experience
Ritesh Rathi	Chief Operating Officer	Looking after the day to day management of the operations as well as IT department	B.Com, Chartered Accountant	31	Sep-06	6 years
Manmohan Agarwal	Head – Supply Chain Management & Men's Ethnic Apparel	Management and supervision of the supply chain and the procurement, production and retailing w.r.t. the men's ethnic apparel	B.Com	30	Aug-02	10 years in the retail industry
Dipu Gupta	Head - Men's Apparel	Management, procurement, production and retailing with respect to the men's apparel business	B.Com	32	Apr-03	10 years in the retail industry
Sunil Hirawat	Head - Accessories	Management and supervision of the supply chain and the procurement, production and retailing with respect to the accessories business	B.Com	38	Jun-03	Over 6 years in the retail industry
Deepak Sharma	Head – Kids' Apparel	Management, procurement, production and retailing with respect to the kid's apparel business	B.A	33	Aug-02	6 years in the retail industry
Pawan Agarwal	Head - Ladies Apparel	Management and supervision of the supply chain and the procurement, production and retailing with respect to the ladies' apparel business	B.A	29	Jun-03	4 years in the retail industry
Ramesh Agarwal	Head - FMCG	Management and supervision of the supply chain and the procurement, production and retailing with respect to the FMCG business	B.Com, CA	46	May-03	20 years in the retail industry
Amit Kumar Chaturvedi	Head - Finance and Accounts	supervision of the formulation and implantation of MIS and active participation in management of the legal, accounts and finance divisions	B.Com, CA	31	May-03	7 years in the retail industry
Arvind Khemka	Head - Projects	Execution and establishment of projects in new locations	B.Com	44	Oct-05	5 years in the retail industry
Arun Gupta	Company Secretary	Ensure compliance with all legal and regulatory requirements for the smooth functioning of the business	B.Com, CS	32	Oct-05	5 years as company Secretary
Ambeek Khemka,	President - Business Development & Corporate Affairs	Identification of new sites for company's showrooms, devising new business strategies and other business ventures	B.Com	35	Feb-07	15 years
Mukesh Tyagi	Manager - Retail	Overseeing the national retail operations	MBA	35	May-07	11 years including 5 years in the retail industry

Source: Company

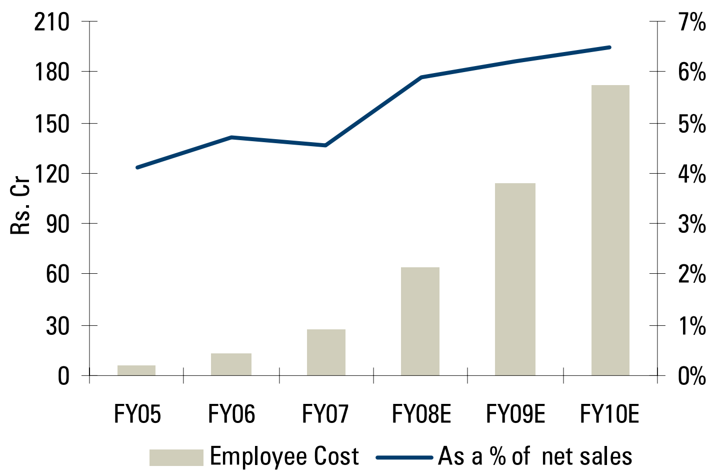
KEY CONCERNS

- **Increasing competition**
  The organized retail industry is on a high growth trajectory. Large Indian players like Reliance Industries, Aditya Birla Group, Bharti Airtel, etc. are entering the industry to tap the huge growth potential opportunities. Even international players like Walmart, Tesco, Metro, etc. are eyeing the Indian retail industry. With increasing number of players entering, the competition is intensifying leading to reduction in margin. Moreover, as Tier-1 cities are saturating with time, all the players will be targeting Tier-2 and Tier-3 cities. This will result in tough competition for Vishal Retail as these competitors have deep pockets, posing a threat to survival. This is despite its cost reduction practices (best margin in the industry) and first mover advantage (presence in areas where no other organized player is present). Vishal Retail, present in the value retailing segment, is more vulnerable to this risk as the price conscious consumers tend to shift from one retailer to another.

- **Execution risk**
  We foresee execution risk increasing as the company grows in size. Although the company is excellent at selecting the location of stores and implementing at rapid pace, the shift of focus of large retailers to tier-2 and tier-3 cities may pose a threat to availability of space at right location and at right price. We foresee a slowdown in the pace of rollouts after 2-3 years due to factors such as availability of space at right price, intense competition and sustainability of profits of stores.

- **Employee retention**
  Due to intense competition, the requirement of skilled manpower is increasing. At the same time, the availability of skilled manpower is declining and attrition rates are increasing throughout the industry. The presence of large number of graduates and under-graduates in the company increases the risk of attrition at store level. We foresee an increase in the employee cost going forward due to company's efforts to attract and retain the employees.

Exhibit 11: Increasing employee cost

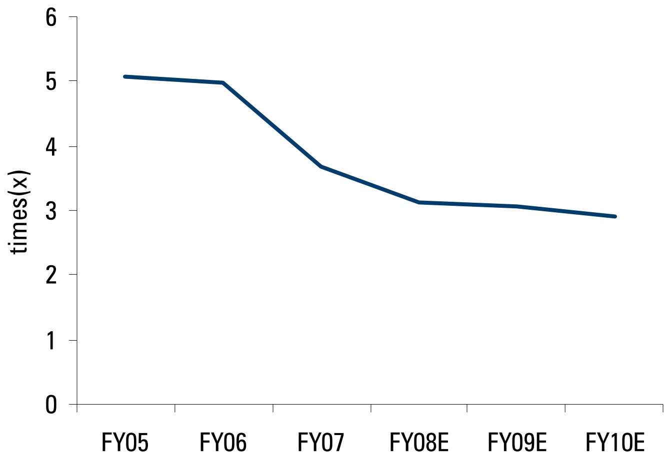


Source: Company, ICICIdirect Research

- **Inventory management**

  The inventory requirement of the company is increasing year-on-year as it is in growth phase. Since the company is expanding at a very rapid pace, it has to keep inventory not only for old stores, but also for new stores and for stores which have not yet started. This results in high inventory requirement which takes time to convert into sales. Also the company is expanding in all the zones of the country, whereas its warehouses are located at few selected cities. This results in high inventory requirement at the distribution centres and the transit period of goods is nearly 3-4 days. With the expansion going on, we expect the inventory turnover to decline for atleast 3 years. As the pace of expansion slows down after 3 years, the inventory turnover may increase resulting in faster conversion of inventory into sales.

Exhibit 12: Inventory turnover to decline further



Inventory Rs. per sq. ft.	FY06	FY07
Vishal Retail	1440.60	1978.05
Pantaloon	1816.59	2074.29
Shoppers' Stop	740.61	977.58

Source: ICICIdirect Research

FINANCIALS

- **Expansion to boost sales, highest growth expected among peers**

The net sales of the company increased from Rs. 49.96 crore in FY03 to Rs. 602.45 cr in FY07, a CAGR of 86.36%. This increase has been due to rapid expansion in retail space (from 88,700 sq.ft. in FY03 to 1.3 mn sq.ft. in FY07) and increase in the product categories (non-apparel and FMCG). We expect the company to increase the total retail space to 5.06 mn sq.ft. by FY10, an addition of 3.8 mn sq.ft. We have assumed the revenue per sq.ft. to decline from Rs. 6687 in FY07 to Rs. 6045 in FY10, due to increase in the share of FMCG products and increase in competition going forward. We believe the net sales of the company will increase to Rs. 2641.73 crore translating into a CAGR of 63.66%, among the highest in the industry.

Revenue to increase at 63.66% CAGR

Exhibit 13: Impressive sales growth

	FY07	FY10	CAGR (%)
Vishal Retail	602.65	2641.73	63.66%
Pantaloon	3236.73	12127.30	55.32%
Shoppers' Stop	827.98	2287.13	40.31%

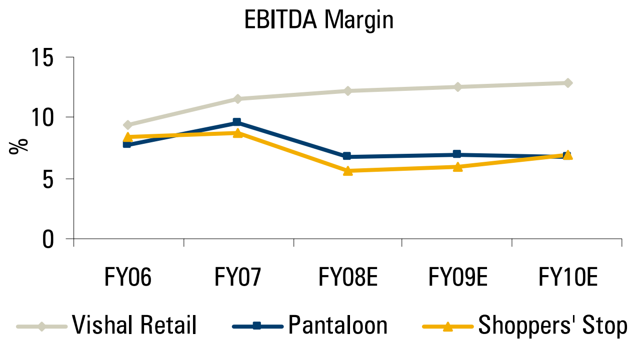
Source: ICICIdirect Research, Reuters

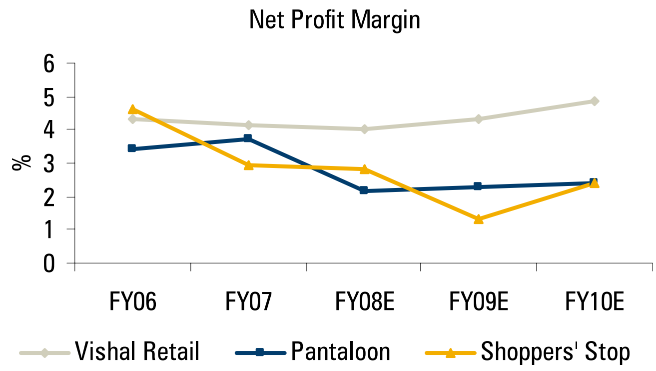
- **Margins to improve further**

The margins of the company are increasing due to its distinct strategy. Approximately 80% of the stores of the company are operating in Tier-2 and Tier-3 cities. Of this, more than 90% of stores are operating in Tier-3 cities where the competition from large players like Pantaloon is very less or almost none. This result in less price competition and the consumers have only one point of purchase. The company's cost efficient practices like own manufacturing facilities, low rentals, cash payment to vendors for cash discount, efficient supply chain management, etc. enables it to keep the costs low. These initiatives enable the company to earn best operating and net profit margin as compared to its peers like Shoppers' Stop and Pantaloon. We expect the EBITDA margin to increase to 12.87% in FY10 as compared to 11.50% in FY07, an increase of 137 bps over the 3 years. The net profit margin is expected to increase at relatively low pace, by 80 bps, due to high interest cost.

EBITDA and net profit margin better than the peers

Exhibit 14: Increasing EBITDA and net profit margin

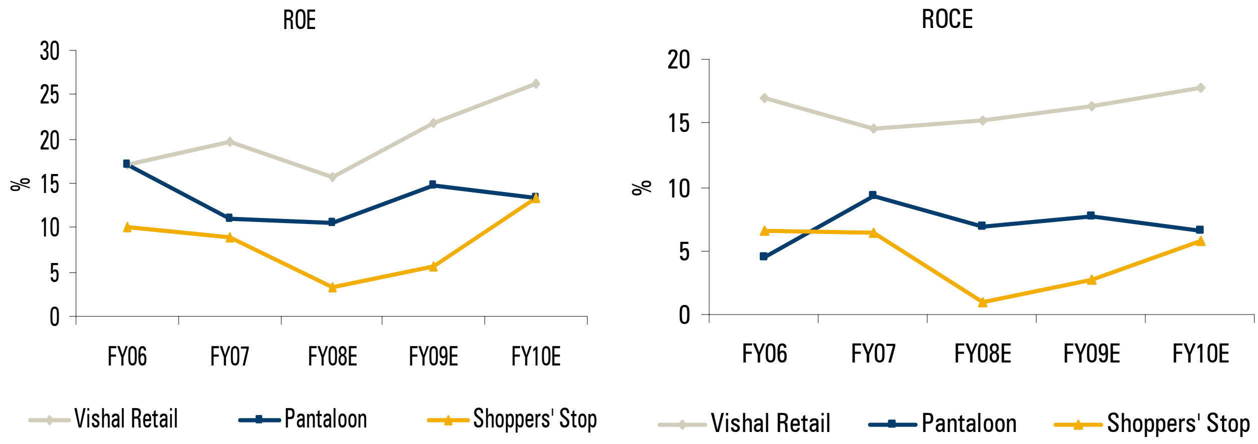




Source: ICICIdirect Research, Reuters

- **Return ratios, among the best in the industry**
  The company is expected to earn ROE and ROCE of 26.22% and 17.82% in FY10 as compared to 19.71% and 14.61% in FY07. This is due to the company's initiatives to reduce costs and increase margins by augmenting the share of private labels in the product mix. The return ratios of the company are better than its peers like Pantaloon Retail and Shoppers Stop.

Exhibit 15: Return ratios



Source: ICICIdirect Research, Reuters

VALUATIONS

Vishal Retail is a retailer in the value segment. The organized retail industry is at a nascent stage in India. Value retailing is the fastest growing model in the retail industry as majority of the population in the country is middle class or lower middle class. We expect value retailing to gain further substance in the industry.

Vishal Retail is on an expansion spree since its inception. We expect the retail space to increase to 5.1 mn sq. ft in FY10 from 1.3 mn sq. ft. in FY07, a CAGR of 59% over FY07-FY10E. Its focus on Tier 2 and Tier 3 cities enables it to keep costs under control due to low rentals and first mover advantage in most of the cities. It enjoys better profitability than its peers due to its cost reduction measures such as manufacturing facility, strong logistics and distribution network, ownership of fleet of trucks, sourcing from local suppliers, etc.

At the current price of Rs. 700, the stock trades at 12.27x its FY10 earnings. In spite of aggressive expansion, the revenue of the company is expected to be one-sixth of that of Pantaloon Retail, the leader in retail industry in the country. The company may dilute its equity going forward to fund its expansion plans and new initiatives, which we have not incorporated in our estimates. Taking these into consideration, we value Vishal Retail at a target price of Rs. 1026 based on 18x FY10 PER, giving a potential upside of 46.6%.

Exhibit 16: Peer Valuation

Peer Valuation	Vishal Retail	Pantaloon Retail	Shoppers Stop
Year End	**FY10E**	**FY10E**	**FY10E**
Net Sales (Rs. Cr)	2641.73	12127.30	2287.13
EBITDA Margin (%)	12.87	6.82	6.99
NPM (%)	**4.84**	**2.43**	**2.38**
RONW (%)	**26.22**	**13.25**	**13.40**
ROCE (%)	17.82	6.50	5.80
EPS (Rs)	57.05	19.01	14.38
Mcap (Rs cr)	1568.80	6241.05	1394.00
CMP (Rs.)	**700.00**	**414.00**	**400.00**
P/E (x)	**12.27**	**21.78**	**27.82**
PEG (x)	0.20	0.50	0.24
Mcap/Sales (x)	0.59	0.51	0.61
EV/Sales	1.00	0.62	0.67
EV/EBDITA (x)	8.00	9.00	9.78

Source: ICICIdirect Research, Reuters

Highest profitability and growth expected among peers

FINANCIAL SUMMARY

Profit & Loss

(Rs. Crore)

Y/E March 31	FY07	FY08E	FY09E	FY10E
Net Sales	602.7	1092.9	1831.0	2641.7
Growth (%)	*108.93%*	*81.35%*	*67.54%*	*44.28%*
Cost of Goods Sold	346.3	624.3	1037.9	1490.2
Gross Profit	256.4	468.6	793.1	1151.6
Gross Profit Margin (%)	*42.54%*	*42.88%*	*43.32%*	*43.59%*
Employee	27.4	64.5	113.5	171.7
% to NS	*4.55%*	*5.90%*	*6.20%*	*6.50%*
Manufacturing and Administration	30.2	49.2	78.7	108.3
% to NS	*5.01%*	*4.50%*	*4.30%*	*4.10%*
Selling and Distribution	131.7	229.5	380.8	541.6
% to NS	*21.86%*	*21.00%*	*20.80%*	*20.50%*
Total Expenditure	535.6	967.5	1611.0	2311.7
Operating Profits	67.0	125.4	220.0	330.0
Operating Profit Margin (%)	***11.12%***	***11.48%***	***12.02%***	***12.49%***
Other Income	2.3	7.0	8.5	10.0
EBITDA	69.3	132.4	228.5	340.0
EBITDA Margin (%)	*11.50%*	*12.12%*	*12.48%*	*12.87%*
Depreciation	15.3	25.8	43.9	58.4
EBIT	54.0	106.7	184.6	281.6
EBIT Margin (%)	*8.97%*	*9.76%*	*10.08%*	*10.66%*
Interest	14.8	37.6	61.9	81.9
PBT	39.3	69.1	122.8	199.6
PBT Margin (%)	*6.52%*	*6.32%*	*6.71%*	*7.56%*
Taxes	14.3	24.9	44.2	71.9
Effective Tax Rate (%)	36.42%	36.00%	36.00%	36.00%
Profit After Tax	25.0	44.2	78.6	127.8
Growth (%)	*100.3%*	*76.9%*	*77.8%*	*62.6%*
PAT Margin (%)	*4.15%*	*4.04%*	*4.29%*	*4.84%*

Operating margin expected to increase due to increasing share of private labels and cost efficient practices

Balance Sheet (Rs. Crore)

Y/E March 31	FY07	FY08E	FY09E	FY10E
Equity	18.33	22.40	22.40	22.40
Reserves and Surplus	108.44	258.54	337.11	464.89
Total Shareholders Funds	126.76	280.94	359.51	487.28
Total Loan Funds	243.21	417.95	773.17	1092.60
Net Deferred Tax Liability	1.80	3.18	5.64	9.63
Total Capital Employed	**371.77**	**702.07**	**1138.32**	**1589.51**
Gross Block	132.84	221.98	399.08	550.88
Less: Accumulated Depreciation	25.77	51.52	95.42	153.82
Net Block	107.06	170.46	303.66	397.07
Capital Work in Progress	1.09	0.00	0.00	0.00
Inventory	249.15	450.00	750.00	1070.00
Debtors	0.12	0.30	0.50	1.00
Cash and bank Balance	15.15	42.98	28.48	20.48
Loans and Advances	58.04	131.15	219.72	317.01
Other Current Assets	8.25	9.97	26.47	49.84
Gross Current Assets	330.70	634.40	1025.17	1458.33
Gross Current Liabilities	67.08	102.79	190.52	265.88
Net Current Assets	263.62	531.61	834.66	1192.45
Total Assets	**371.77**	**702.07**	**1138.32**	**1589.51**

Equity dilution expected in FY09, but not factored in the estimates

Cash Flow

(Rs. Crore)

Y/E March 31	FY07	FY08E	FY09E	FY10E
Net profit before tax	39.29	69.07	122.78	199.64
Depreciation	15.29	25.75	43.90	58.39
Interest	14.56	37.62	61.85	81.94
Others	2.67	0.00	0.00	0.00
Operating Profit before WC Changes	71.81	132.43	228.53	339.98
WC Changes	-167.18	-240.85	-318.77	-367.79
Cash Generated from Operations	-95.37	-108.42	-90.25	-27.80
Direct Taxes Paid	-7.13	-22.79	-40.52	-65.88
Prior Period Adjustments	0.00	0.00	0.00	0.00
Cash from Operating activities (A)	**-102.50**	**-131.21**	**-130.76**	**-93.69**
Purchases of fixed assets and Cap WIP	-95.56	-88.06	-177.10	-151.80
Others	0.48	0.00	0.00	0.00
Cash from Investing Activities (B)	**-95.08**	**-88.06**	**-177.10**	**-151.80**
Proceeds from Issue of Equity Shares	29.00	109.97	0.00	0.00
Net loans	188.16	174.75	355.21	319.43
Interest Paid	-12.69	-37.62	-61.85	-81.94
Cash from Financing Activities (C)	**204.47**	**247.10**	**293.36**	**237.49**
Net Increase in Cash and Cash Equivalents (A+B+C)	6.89	27.83	-14.50	-8.00
Cash at Beginning	8.27	15.15	42.98	28.48
Cash at End	15.15	42.98	28.48	20.48

Ratio Analysis

Y/E March 31	FY07	FY08E	FY09E	FY10E
Margins (%)				
Operating	11.12%	11.48%	12.02%	12.49%
PAT	4.15%	4.04%	4.29%	4.84%
Asset based ratios (%)				
RONW / ROE	19.71%	15.73%	21.86%	26.22%
ROCE / ROI	14.61%	15.26%	16.30%	17.82%
Gearing (x)				
Debt / Equity	1.92	1.49	2.15	2.24
Liquidity Ratios (x)				
Current Ratio	4.93	6.17	5.38	5.48
Quick Ratio	3.72	4.38	3.94	4.03
Per Share (Rs)				
Earnings	13.63	19.73	35.08	57.05
Book Value	69.17	125.43	160.51	217.56
Cash EPS	21.98	31.23	54.68	83.12
Turnover				
Inventory (days)	99.13	116.75	119.61	125.73
Debtor (days)	0.06	0.07	0.08	0.10
Creditor (days)	20.94	21.16	22.92	24.18
Market Cap. (Rs Crore)	1466	1791.84	1791.84	1791.84
EV (Rs Crore)	1694.06	2166.81	2536.52	2863.96
Valuations (x)				
P / E	58.68	40.54	22.80	14.02
P / BV	11.56	6.38	4.98	3.68
Mcap / Sales	21.98	31.23	54.68	83.12
EV / EBIDTA	25.27	17.27	11.53	8.68
EV / Sales	2.81	1.98	1.39	1.08
Du Pont Analysis				
PAT/PBT	0.64	0.64	0.64	0.64
PBT/EBIT	0.57	0.52	0.54	0.59
EBIT/Sales	0.12	0.12	0.12	0.13
Sales/Assets	1.62	1.56	1.61	1.66
Assets/Equity	2.93	2.50	3.17	3.26

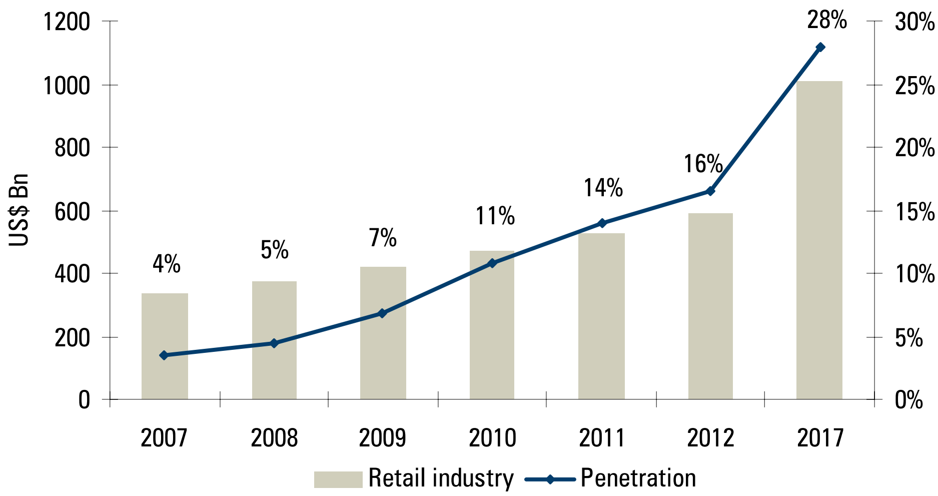
ANNEXURE: RETAIL INDUSTRY

Organised retail expected to grow at 37% CAGR over 2007-17

Retailing is the world's largest private industry amounting to around US$ 7 trillion in sales. It is amongst the fastest growing sector in India. Retailing in India is highly fragmented and organised retailing is at a very nascent stage. There are about 12 mn outlets in the country, of which 80% are run by small family businesses which use only household labour. India has one of the highest retail densities in the world at 6% (12 million retail shops for about 209 million households). According to KSA Technopak estimates, the retail industry is expected to grow from US$ 336 bn in 2007 to US$ 1011 bn in 2017, CAGR of 11.7%. During this period the penetration of the organised retail industry is estimated to increase from 4% in 2007 to 28% in 2017. Consequently, the organized retail industry is expected to grow from US$ 12 bn in 2007 to US$ 282 bn in 2017, CAGR of 37%.

Penetration of organized retail expected to increase to 28% by 2017

Exhibit 17: Increasing penetration of organized retail



Source: KSA Technopak

India as a destination of retail industry

India has been ranked first, for the three consecutive years, in the Global Retail Development Index (GRDI) 2007. This index identifies the window of opportunities to help retailers make strategic investments in new exciting markets. It ranks the top 30 emerging countries for retail development using 25 macroeconomic and retail specific variables.

India tops as the retail destination for past 3 consecutive years

Exhibit 18: Window opportunity analysis, GRDI 2007

Country	2007 Rank	2006 Rank
India	1	1
Russia	2	2
China	3	5
Vietnam	4	3
Ukraine	5	4
Chile	6	6
Latvia	7	7
Malaysia	8	14
Mexico	9	19
Saudi Arabia	10	17

Source: AT Kearney

According to the index, India has entered the peaking stage, i.e. it is developing quickly and is ready for modern retail. This means that next 3-4 years is the best time for the foreign retailers and other Indian corporate retailers to enter into India. It is also the perfect time for the existing players to undergo aggressive expansion.

India entered peaking stage, ready for modern retail

- **Food and apparel – biggest opportunity**

  Food and grocery is the largest vertical in the retail industry with 74.4% market share in the retail industry. However, its penetration into the organised retail is only 1%. According to the National Sample Survey Organisation (NSSO) 60th round, 54%of the rural and 42 % of the urban population expenditure was on food. This explains the tremendous growth opportunity for this vertical in the organised retail industry.

Exhibit 19: Changing consumption pattern

Particulars	Market Size US$ bn (2006)	% Share (2006)	Market Size US$ bn 2010	% Growth (2005-10)	% Share (2010)	Market Size US$ bn (2015)	% Growth (2010-15)	% Share 2015
Food, Beverages and Tobacco	195	65%	256	7.00%	60%	342	6%	54%
Personal Care	15	5%	23	11%	5%	35	9%	5%
Apparel	21	7%	33	11%	8%	50	9%	8%
Footwear	5	2%	7	11%	2%	11	9%	2%
Furnishings	4	1%	7	15%	2%	12	12%	2%
IT & Consumer Durables	14	5%	24	15%	6%	43	12%	7%
Furniture	9	3%	16	15%	4%	28	12%	4%
Jewellery & Watches	15	5%	24	12%	6%	37	9%	6%
Medical Care & Health Services	8	3%	12	12%	3%	21	12%	3%
Recreation	2	0.60%	3	17%	1%	7	15%	1%
Others	12	4%	23	18%	5%	53	18%	8%
Total	300	100%	427	9%	100%	637	8.40%	100%

Source: Images Retail India 2007

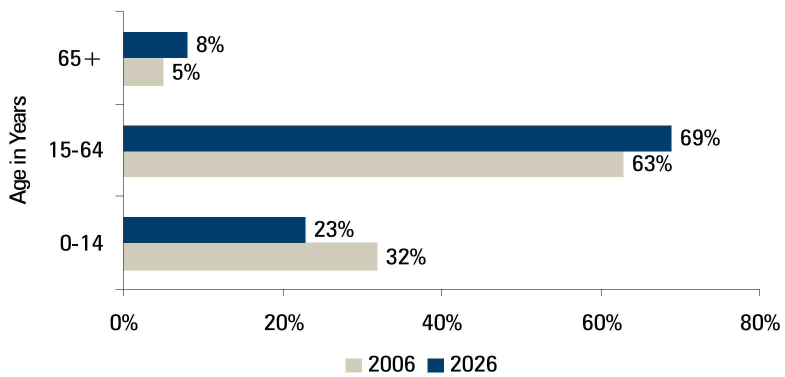
- **Growth Drivers:**

  Favorable demographics

  The demographic proposition of the country is shifting year on year. The contribution of working population (15-64 years) is growing. Approximately 63% of population is in the working age group of 15-64 years. According to Census of India, it is expected to increase to 69% in 2026. This will increase the overall purchasing power of the country propelling growth in the retail industry.

69% of population in 2026 expected to be in working group

Exhibit 20: Share of Population by Age group



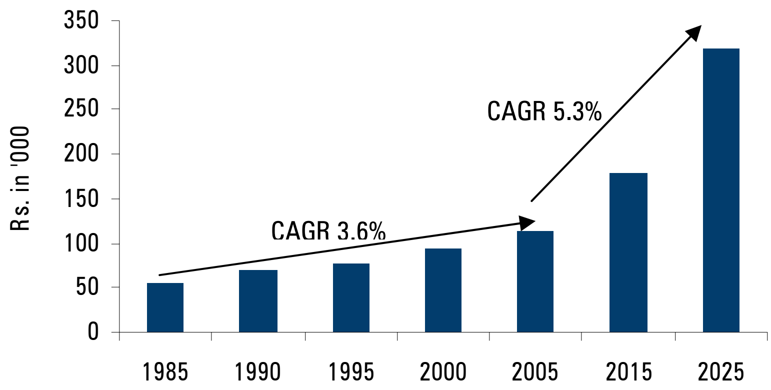
Source: Census of India 2001 estimates

Increasing income

According to MGI, Indian income is expected to triple over the next two decades. Average real household disposable income has increased from Rs. 56470 in 1995 to Rs. 113,744 in 2005, CAGR of 3.6%. It is expected to grow from Rs.113,744 in 2005 to Rs. 318,896 by 2025, CAGR of 5.3%. With the rise in the disposable income, the consumers will have more money to spend resulting in higher consumption. According to MGI, increasing household income will contribute 80% to the consumption growth.

Increasing household income to contribute 80% of consumption growth

Exhibit 21: Growing Average household income

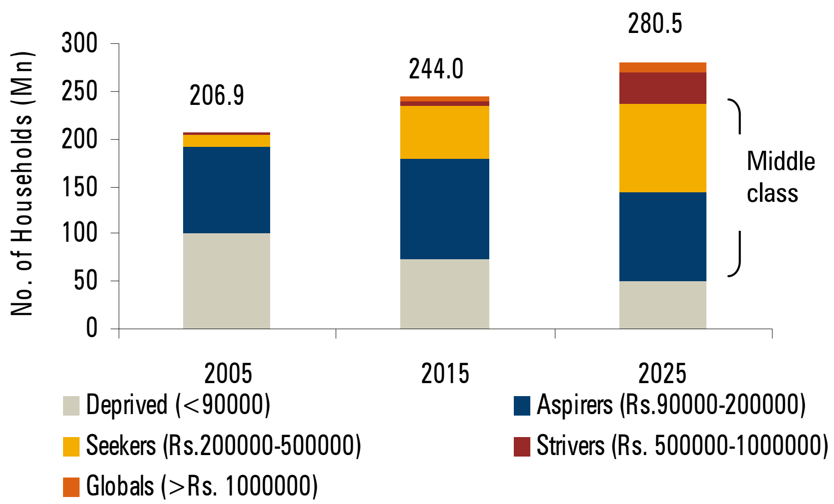


Source: MGI, ICICIdirect Research

Rising middle income group

Despite significant progress, India today remains dominated by people living in the deprived and aspirer classes. According to MGI, the middle class currently constitutes just 13 million households i.e. 5% of the population. By 2025, India will transform itself into a nation of strivers and seekers with 128 million households i.e. 41% of the population in the middle class. According to MGI, middle class will expand to the point where it will command 60% of the total consumption by 2025.

Exhibit 22: Growing middle class

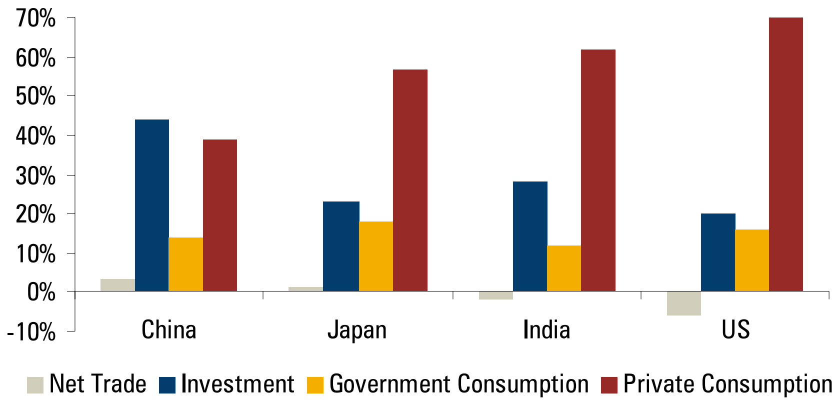


Source: MGI, ICICIdirect Research

Increasing consumption

India has entered into a virtuous cycle in which rising income leads to increasing consumption, creating more business opportunities and employment, further fuelling GDP and income growth. India's growth has been largely fuelled by domestic consumption (62% of GDP) as compared to Asian peers like China (47% of GDP).

Exhibit 23: Domestic consumption as % to GDP

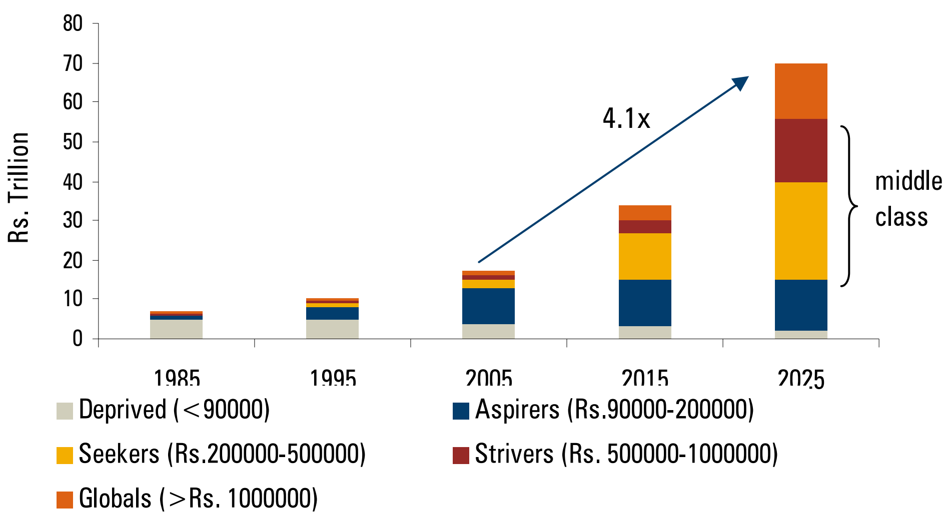


Source: MGI

Aggregate consumption expected to increase 4.1x

The combination of increasing household income (contributing 80% to consumption growth) and growing population (contributing 16% to consumption growth) is expected to increase the overall consumer spending. According to MGI, aggregate consumption in India is expected to grow (in real terms) from Rs. 17 trillion today to Rs. 34 trillion by 2015 and Rs. 70 trillion by 2025, a fourfold increase. India is expected to become the world's fifth largest consumer market by 2025 from the current twelfth largest consumer market at present.

Exhibit 24: Aggregate consumption – dominating middle class



Source: McKinsey Global Institute (MGI)

Increasing proportion of working women

The propensity to consume is higher in working women as compared to housewives. According to the Census report, the population of working women increased to 26% in 2001 as compared with 22% in 1991. The buying behavior of the working women is different than their counterpart due to higher disposable family income and less available time. The working women prefer to go to a one-stop shop for purchasing regular products, which augurs well for organized retailing formats.

Propensity to consume higher in working women

Exhibit 25: Average spend: working women vs. housewives

Category	Spend
Household goods	2.2
Eating out	2.0
Music	2.5
Gifts	2.9
Mobile phones	3.8
Computer peripherals	4.1

Source: KSA Consumer Outlook, 2002, Cris Infac

Increased credit available

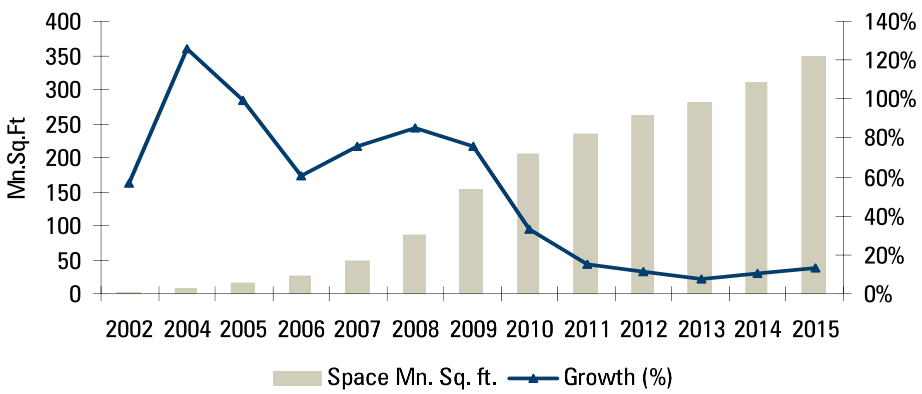
The ease of payments (ability to spend without cash) due to the use of debit and credit cards has resulted in increase in total spending. With the launch of Easy Monthly Installment (EMI) cards, the purchasing power of the consumers has increased tremendously. The use of plastic money, i.e. debit cards and credit cards, has increased significantly over the past 3-4 years. India has approximately 75 mn cards (25 million credit cards and 50 million debit cards) under circulation and has been growing 30% y-o-y. According to industry estimates, India has the potential to grow to at least 55 mn credit cards by 2010-11.

Increased mall space

Malls are being increasingly accepted as venue for shopping and entertainment in the urban areas. It has become a destination where the whole family can shop, dine and have fun. As a result the number of malls has seen a sudden rise in the past 3-4 years due to rising income and consumer's willingness to spend. The mall space in the country has increased from 3.7 mn sq. ft. in 2002 to 26.9 mn sq. ft. in 2006 and is estimated to increase to 350 mn sq.ft. by 2015.

Mall space expected to increase at 33% CAGR during 2006-15

Exhibit 26: Mall Space

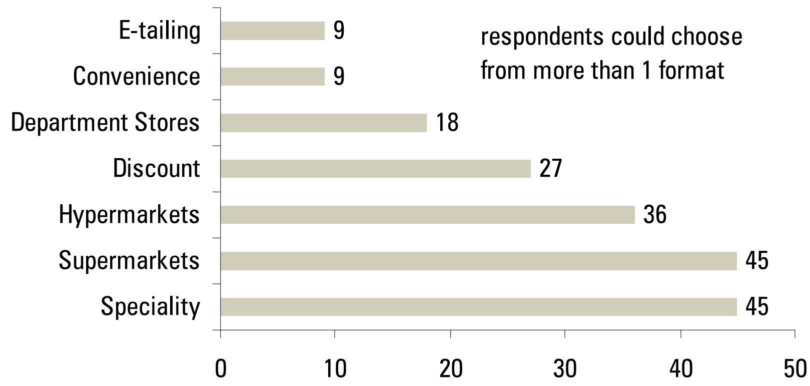


Source: Images Retail F&R Research

- ## Value retailing

Value retailing includes stores offering lower prices, better variety and a better shopping experience. India's majority population is and expected to be in middle class income group. This group, by nature, prefers value retailing formats like hypermarkets, supermarkets, discount and convenience stores. Since value retail stores serve as one-stop shop for the customers, it is more convenient and time saving for this working group to purchase products at these stores. In a survey conducted by KPMG, the respondents chose the value retailing formats like supermarkets, hypermarkets, discount stores, etc to have the most potential growth in India.

Exhibit 27: Increasing preference for hypermarkets



Source: KPMG in India Retail Survey 2005

- ## Penetration in Tier 2 and tier-3 expected to rise

With the approaching saturation of Tier-1 cities and metros and increasing competition, the retailers are eyeing to open stores in Tier-2, Tier-3 and Tier-4 cities. These cities are plush with high income/high net-worth consumers and mall developers are exploiting the potential. Besides the commonly listed tier-II and tier-III cities like Indore, Nagpur, Ahmedabad, Pune, Mysore, Kochi, Hyderabad, Sonepat, Lucknow, Ludhiana and Jaipur, there are numerous smaller cities where modern malls are coming up. These non-extinct urban centres that accounted for only 3.57 lakh sq.ft. of mall space in 2004 are expected to boast of 4.7 crore sq.ft. of mall space three years from now as compared to 3.35 crore sq.ft. mall space in the National Capital Region (NCR) at the time.

Organised retailing in small-town India is growing at 50-60 percent a year compared to the 35-40 percent growth in the major cities of India. About 200 tier-III cities with a population of less than two million, and another 500 rural towns have the potential to become prominent rural hubs, where organised retailing can effectively set base – each of these 700 centres will on average be catering to about 1000 villages.

Organised retailing in small town expected to grow at 50-60% per year

Exhibit 28: Average Land Space per unit of Land Area

City	Average Land Space per unit of Land Area
Pune	1.50
Greater Mumbai	1.79
Sonepat	1.92
West-Other Centres	2.02
Delhi & NCR	2.05
East-Other centres	2.08
Kolkata	2.24
Bangalore	2.44
Lucknow	2.48
North-Other Centres	2.48
Nagpur	2.61
Mysore	2.70
Indore	2.84
Ahmedabad	2.96
Jaipur	3.17
Kochi	3.53
Ludhiana	3.65
Chennai	3.67
South-Other Centres	3.74
Hyderabad	4.65

Source: Images Retail F&R Research

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: ±10% return;
Underperformer: -10% or more.

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