



Koutons Retail India Limited

Equity Research Desk

(KRIL)

www.koutons.com

September 11, 2007

IPO - ANALYSIS

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Issue Open: September 18, 2007

Sector : Textiles Readymade Apparel

Price Band

Issue Close: September 21, 2007

Rs. 370 - Rs. 415

Issue Summary	(Shares in million)
Total Equity Share in Issue	3.52
Employee Reservation Portion	0.05
Net Issue To The Public	3.47
Of Which Reserved for:-	
QIB	2.08
Non - Institutional	0.35
Retail	1.04
Equity Share Outstanding	
Prior to the issue	27.94
After the issue	30.55

Financial Snapshot	(Rs. In Million)			
	FY 2007	FY 2006	FY 2005	FY 2004
Sales	4,023.97	1,583.44	579.45	310.67
Total Income	4,036.17	1,583.85	581.46	317.53
Optg Profit	702.65	255.75	48.25	22.30
Net Profit	344.87	131.98	19.29	8.82
EPS*	11.29	4.32	0.63	0.29
Share capital	273.44	49.90	48.44	13.44
Res&Surplus	288.40	150.77	18.55	28.82
Networth	561.84	200.67	66.99	42.26
Total Debt	2,094.30	512.58	174.81	116.47
Book Value*	18.39	6.57	2.19	1.38

*The no. of shares are of the post issue equity i.e. 30.55 mn shares.

Company Snapshot

- KRIL has shown a CAGR of 135% in topline, 216% in EBITDA & 239% in bottomline in the last three years.
- Strengths are: Exclusive brand outlets; Wide network of exclusive brand outlets; Low-cost sourcing abilities; Design & merchandising expertise; Wide apparel range; IT Infrastructure; Robust growth in terms of regions covered; The brand name Koutons & Charlie Outlaw.
- Weakness are: High dependency on franchisee for sales of the products; Caters only to men's category; Outsource manufacturing of some products; Manufacturing facilities are set up only in North India.
- Opportunities are: The growing retail market in India; KRIL is planning to foray into garments for kids & ladies; Expanding into new geographies;
- Threats are: Seasonality of the business; Exchange rate fluctuations; Stiff competition faced in this sector with large number of players in the unorganized sector.
- Strategies are: Enhance manufacturing capacity; Increase geographic penetration; Target the growing segment; Strengthen the competitive position & recognition of the brands; Exports of apparel under the brand names.
- The stock is available at a **P/E of 33x & 37x at the lower & upper band of the issue price respectively.**

Shareholding Pattern	(In %)	
	Pre-Issue	Post-Issue
Promoters & PAC	76.13	66.63
Corporate Bodies	23.29	21.32
Others	0.58	0.52
Employees	-	0.16
Public	-	11.37
Total	100.00	100.00
Total no. of shares	27,943,500	30,551,397

Company Valuation

Multiple	KRIL	Industry Avg.
Sales (Rs. in million)	4,023.97	51,377.80
Operating Profit (Rs. in million)	702.65	4,430.80
RONW (%)	61.38	14.60
OPM (%)	17.46	8.62
NPM (%)	8.57	6.74
P/E (370 & 415)	32.78 & 36.76	13.04
Price to Book Value (370 & 415)	20.12 & 22.57	

Objects of the issue:

1. Setting up of exclusive brand outlets of KRIL.
2. Establishment of a new integrated manufacturing facility.
3. Purchase of plant & machinery.
4. Improvement of the information technology network.
5. General corporate purposes.

Industry Scenario

- India tops the annual list of most attractive countries for international retail expansion.
- Retailing in India is currently estimated to be a USD 270 bn industry.
- Growth drivers of the industry are: Changing demographic profile; Rising income level; Consumer spending habit; Urbanization; Retail space; Mall culture; Retail formats preferred in India.
- Indian apparel market trends: i) Malls are expected to be one of the main growth drivers of apparel retailing in India, as such organized retail spaces offer large areas to fashion products; ii) Existing apparel brands & retailers have started exploring the potential of the smaller cities & expanding their retail network. There has been 145% growth on an average in retail presence in 2006 from 30% in 2005; iii) In terms of opening new retail outlets, apparel retailers & brands attained 84% growth in opening up of number of outlets in 2005 to 113% in 2006.
- Globally private labels contribute to 17% of retail sales & are growing at 5% pa. Private labels provide higher margin to the retailers simultaneously offering lower price to the consumers. This is a strategy adopted globally & now is extensively used by Indian retailers.

Company Background:-

The company was incorporated on November 25, 1994. KRIL is an integrated apparel manufacturing & retail company in India. KRIL is in the business of designing, manufacturing & retailing apparel **under the "Koutons" & "Charlie Outlaw" brands** through a network of 999 exclusive brand outlets (as of August 20, 2007) across India. As of August 20, 2007 KRIL had 18 in-house manufacturing/finishing units & 14 warehouses which are spread across various locations in & around Gurgaon, Haryana. KRIL has increased their annual finishing & manufacturing capacity from 0.3 mn & 0.6 mn pieces of apparel respectively as of March 31, 2005 to 22.92 mn & 12.36 mn pieces of apparel, respectively as of March 31, 2007. KRIL has also entered into fabricating agreements with various manufacturing units to which they outsource stitching of certain apparel. KRIL has positioned the "Koutons" brand 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 & party wear. KRIL has also recently reinvented & re-launched their old premier brand "Charlie" as "Charlie Outlaw". The "Charlie Outlaw" brand is a casual brand targeted at fashion conscious youngsters in the age group of 14 to 25 years & is positioned as a fashionable & contemporary, value for money brand. As of August 20, 2007, the "Koutons" brand was sold on a total floor area of approx. 482,966 sq. ft. & the "Charlie Outlaw" brand was sold on a total floor area of approx. 360,738 sq. ft.

Company Snapshot:-

- KRIL has shown a **CAGR of 135% in topline, 216% in EBITDA & 239% in bottomline in the last three years**. On a **Y-o-Y basis**, KRIL has grown at a rate of **154% in topline, 175% in EBITDA & 161% in bottomline**. Around 7.7% of the revenue comes in from the Charlie brand & the rest from the Koutons brand.
- **Strengths** are: KRIL operates on a model of **marketing their apparel directly** through a chain of exclusive brand outlets (EBO) & thus are independent of external marketing pressures attributable to the national chain stores, multi brand outlets & other intermediaries; As of August 20, 2007, the **"Koutons" brand** was sold through **566 exclusive brand outlets** & the **"Charlie Outlaw" brand** was sold through **433 exclusive brand outlets**; KRIL is an integrated player with **low-cost sourcing** capabilities; Design & merchandising expertise; KRIL provides a **wide apparel portfolio** which ranges from shirts, non denim trousers, denims, suits, blazers, T- shirts, cargos, capris, sweaters etc; KRIL uses a state of the art information flow system to maintain records relating to sales & inventory & integrate key work flows; In the year 2004, KRIL had 27 EBO's within north India only & **by 2007 it had expanded into 999 EBO's in 395 cities spread across India**; KRIL has in-house designing & merchandising.
- **Weakness** are: **High dependency on franchisee for sales of the products** - Sales affected by the franchisees amounted to 98.72% & 99.01% of the total sales in fiscal 2006 & 2007, respectively; Till recent times, KRIL had been **catering products related to men only**; Outsource manufacturing of some products; KRIL's **manufacturing units are located in & around Gurgaon & Haryana only i.e. North India only**.
- **Opportunities** are: The **growing retail market in India**; KRIL is also **introducing a line of women's apparel** under the "Les Femme" brand & **introducing a brand "Koutons Junior"** which is targeted at children.; **Expanding into new geographies** - KRIL has recently entered the south Indian market in 2007; KRIL is targetting untapped domestic market through inorganic growth; KRIL intends to **target young customers** (between the age 14-45 years) for their brands.
- **Threats** are: **Seasonality of the business**; Exchange rate fluctuations (imports around 28% of it's raw materials); **Stiff competition** faced in this sector with large number of players in the unorganized sector.
- **KRIL ranks number one amongst retailers by the number of outlets.**
- KRIL has received certain awards & recognition. Some of them are: In 2000: Award received for Outstanding Domestic Sales from Clothing Manufacturers Association of India; In 2003: Mr. DPS Kohli was awarded the title of "Entrepreneur of the Year" by the Institute of Trade & Industrial Development; In 2005: Nominated for the Brand of the Year-Men's Casual Wear (Large) by the Clothing Manufacturers Association of India; In 2006: Nominated for the "Chain Store of the Year" at Apex Award, 2006 by the Clothing Manufacturers Association of India; Nominated for the "Brand of the Year - Men's Casual Wear (Large)" at Apex Award, 2006 by the Clothing Manufacturers Association of India; Mr. DPS Kohli was awarded the title of "UDYOG VIBHUSHAN for Excellence in Industrial Performance" by the Institute of Trade & Industrial Development.
- Strategies are: Enhance manufacturing capacity; Increase geographic penetration; Target the growing segment; Strengthen the competitive position & recognition of the brands; Exports of apparel under the brand names.

Industry Scenario:-

- + India tops the annual list of most attractive countries for international retail expansion.
- + India is the second fastest growing economy in the world, where currently the retail market is valued at USD 270 bn. Food & grocery is the dominant sector followed by clothing, textiles & fashion accessories.
- + Growth drivers of the industry are: India has the youngest consumer profile as compared to the ageing population of USA, UK & Japan etc. Over 65% of the population is below 35 years of age; 54% of the population is below 24 years of age. In contrast, the young population in Europe & Japan is declining; Consumer lifestyles and preferences are changing fast which is a prominent driving factor too. There are more nuclear families proliferating which will result in 3% to 4% increase in aggregate spending over the next 5 years; Immigration is largely responsible for keeping a positive growth rate in US.; Rising income level; Consumer spending habit; Urbanization; Retail space; Mall culture; Retail formats preferred in India.
- + Indian apparel market trends: i) Malls are expected to be one of the main growth drivers of apparel retailing in India, as such organized retail spaces offer large areas to fashion products; ii) Existing apparel brands & retailers have started exploring the potential of the smaller cities & expanding their retail network. There has been 145% growth on an average in retail presence in 2006 from 30% in 2005; iii) In terms of opening new retail outlets, apparel retailers & brands attained 84% growth in opening up of number of outlets in 2005 to 113% in 2006.
- + The Indian Apparel Market's lions share is taken by menswear with 42% value. The women's wear segment has increased its overall market share by 1% to 34% valuing it at Rs 30,380 crores. There is a drop in the kids segment from 18% to 17%. This drop is due to the increase in usage of ready-to-wear branded uniforms.
- + There are several foreign brands that have successfully established their presence in the country. These players may have come in via a tie-up with domestic concerns: (like Benetton), or via the licensee route (like Allen Solly, Arrow). Some brands like Metro come in with Cash and Carry wholesale trading route, while Tommy Hilfiger, Marks & Spencer's, Speedo, Umbro etc retail through franchisee channels.
- + Globally private labels contribute to 17% of retail sales & are growing at 5% pa. Private labels provide higher margin to the retailers simultaneously offering lower price to the consumers. This is a strategy adopted globally & now is extensively used by Indian retailers.

Company*	Multiple (Times)				EPS	Share Price	Dividend/ Share
	EV/EBITDA	P/E	MCAP/SALES	MTBV	(Rs.)	(Rs.)	(Rs.)
KRIL at Rs.370 L	19.07	32.78	2.81	20.12	11.29	370.00	0.00
KRIL at Rs.415 U	21.02	36.76	3.15	22.57	11.29	415.00	0.00
#Pantaloon Retail	58.10	136.21	3.72	13.61	3.60	489.70	0.50
Provogue (India)	52.02	67.60	5.56	4.70	10.03	677.90	1.50
Vishal Retail Limited	25.35	59.05	2.46	11.67	11.19	660.65	0.00
Zodiac Clothing	12.37	14.12	2.88	2.88	28.28	399.20	6.00

*Source : Based on annualised figure of FY07 from RHP & Capitaline. # Figures represent for the year ending June 2007.

Income Statement				
Rs, mn	FY 2007	FY 2006	FY 2005	FY 2004
Net Sales	4023.97	1583.44	579.45	310.67
Materials consumed, CGS & manufacturing exp.	2163.14	922.43	375.66	207.55
Employment Costs	76.2	31.86	22.64	10.55
Administrative & general expenses	86.23	41.34	18.15	12.04
Selling expenses	993.91	332.01	114.71	58.21
Miscellaneous exp. written off	1.84	0.05	0.04	0.02
Operating Expenditure	3321.32	1327.69	531.2	288.37
Operating Income	702.65	255.75	48.25	22.3
Other Income	12.2	0.41	2.01	6.86
Gross Profits	714.85	256.16	50.26	29.16
Finance & Interest charges	149.06	34.37	15.52	13.83
Depreciation	39.67	10.36	4.24	3.72
Profit Before Tax	526.12	211.43	30.5	11.61
Tax	181.25	79.45	11.21	2.79
Profit After Tax	344.87	131.98	19.29	8.82
Extraordinary Items	-	-	-	-
Net Profit	344.87	131.98	19.29	8.82

Cash Flow Statement				
Rs, mn	FY 2007	FY 2006	FY 2005	FY 2004
Cash flow from operations	710.78	256.37	50.74	29.81
Cash for working capital	(2,606.52)	(453.76)	(27.39)	(50.62)
Taxes (paid)/received (Net of TDS)	(159.18)	(37.47)	(8.65)	(1.75)
Others	42.45	3.69	1.15	-
Net Operating Cash Flow - A	(2,012.47)	(231.17)	15.85	(22.56)
Net purchase of fixed assets	(368.90)	(85.20)	(15.50)	(5.91)
Net sale / (purchase) of Chit funds	17.08	4.92	(25.18)	(0.95)
Misc. expenditure not written off	(7.69)	(0.12)	(0.26)	-
Interest received (Revenue)	0.96	0.01	0.07	0.14
Net Cash Flow From Investing - B	(358.55)	(80.39)	(40.87)	(6.72)
Proceeds from equity	1,087.24	1.46	5.32	-
Proceeds / Repayment from borrowings	1,581.72	337.76	58.34	43.45
Net Interest paid	(146.79)	(34.33)	(15.52)	(13.83)
Net Cash Flow From Financing - C	2,522.17	304.89	48.14	29.62
Net Cash Flow (A+B+C)	151.15	(6.67)	23.12	0.34
Opening Cash	21.42	28.09	4.97	4.63
Closing Cash	172.57	21.42	28.09	4.97

Balance Sheet				
Rs, mn	FY 2007	FY 2006	FY 2005	FY 2004
Sources of Funds				
Equity Share Capital	273.44	49.90	48.44	13.44
Reserves & Surplus	288.40	150.77	18.55	28.82
Share Premium Account	1,070.94	-	-	-
Miscellaneous expenditure (not written off)	(6.24)	(0.39)	(0.32)	(0.11)
Networth	1,626.54	200.28	66.67	42.15
Working Capital Loans	1,522.82	282.41	110.83	86.31
Secured Loans	101.52	43.39	22.16	7.76
Unsecured Loan	469.96	186.78	41.82	22.40
Loan Funds	2,094.30	512.58	174.81	116.47
Deferred Tax Liability, net	19.42	2.14	0.24	0.12
Total Liability	3,740.26	715.00	241.72	158.74
Application of Funds				
Gross Block	505.98	137.08	51.88	36.60
Less: Depreciation	70.36	30.69	20.33	16.31
Net Block	435.62	106.39	31.55	20.29
Capital work in progress	-	-	-	-
Net Fixed Assets	435.62	106.39	31.55	20.29
Investments	-	-	-	-
Current Assets				
Inventories	3,738.40	977.32	191.67	146.99
Sundry Debtors	203.92	81.58	51.97	43.17
Cash & Bank	172.57	21.42	28.09	4.98
Loans & Advances	509.85	172.95	74.87	17.89
Less: Current Liabilities & Provisions	1,320.10	644.66	136.43	74.58
Net Current Assets	3,304.64	608.61	210.17	138.45
Total Assets	3,740.26	715.00	241.72	158.74

Key Ratios	FY 2007	FY 2006	FY 2005	FY 2004
RONW	61.38%	65.77%	28.80%	20.87%
OPM	17.46%	16.15%	8.33%	7.18%
NPM	8.57%	8.34%	3.33%	2.84%



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IPO - ANALYSIS

Objects of The Issue:-

Sr. No.	Proposed Expenditure Program	Amount (INR,mn)
1.	Setting up of the exclusive brand outlets of KRIL.	412.15
2.	Establishment of a new integrated manufacturing facility.	301.85
3.	Purchase of plant & machinery to increase the finishing & manufacturing capacity.	100.00
4.	Improvement of the information technology network.	55.75
5.	General corporate purpose.	[•]
6.	Issue expenses.	[•]
	Total	[•]

At the lower band & the upper band, KRIL would be raising approximately Rs.1.3 bn & Rs.1.46 bn respectively. Post issue, the market cap based on the lower & upper band would be approximately Rs. 11.3 bn & Rs.12.68 bn respectively. The objects of the issue has not been appraised by any bank or any financial institution or an independent organization.

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