



Vishal Retail

IPO Fact Sheet

Issue details

| | |
|------------------------------------|----------------------|
| Issue opens: | June 11, 2007 |
| Issue closes: | June 13, 2007 |
| Issue size: | Rs110 crore |
| Reservation for employees: | 3 lakh shares |
| Face value: | Rs10 |
| Break-up of fresh issue to public: | |
| - QIB's portion: | 60% of the net issue |
| - Retail portion: | 30% of the net issue |
| - Non-institutional portion: | 10% of the net issue |
| Price band: | Rs230-270 |

Objects of the issue

Vishal Retail Ltd (VPL) is planning to raise Rs110 crore to set up 22 outlets all over India. Out of the proposed 22 stores, 13 stores covering an area of 434,000 square feet have already been tied up.

Company background

As of April 30, 2007, VRL has been operating 50 retail stores, including two stores that are operated by franchisees. These 50 stores are spread over about 1,282,000 square feet and located in 18 states across India.

VRL started as a retailer of ready-made apparels in Kolkata in 2001. In 2003, it acquired the manufacturing facilities of Vishal Fashions Private Ltd and M/s Vishal Apparels. Subsequently, with the evolution of the retail industry in India and the change in consumer aspirations, the company diversified its portfolio of offerings to include other retail goods. Currently, it sells ready-made apparels, and a wide range of household merchandise and other consumer goods such as footwear, toys, watches, toiletries, grocery items, sports items, crockery, gift and novelties.

Key positives

Targeting the tier-II and tier-III cities

The company is increasing its geographical presence in tier-II and tier-III cities where the major retail giants are neither

present nor have any intention of going in the near term. This eliminates competition for VRL and enables it to capture market share in locations where a majority of its target customers are located.

| Cities | No of stores | |
|--------------|--------------|----------|
| | Till now | Upcoming |
| Tier I | 7 | 3 |
| Tier II | 3 | 1 |
| Tier III | 40 | 28 |
| Total Stores | 50 | 32 |

Focusing on middle class group

The company believes in the concept of "value retailing", targeting the middle-income and lower middle-income groups, which constitute the majority of the population in India. It sells a vast range of merchandise across apparels and accessories, fast moving consumer products, food products and consumer durables with over 74,000 stock keeping units.

Backward integration to help reduce costs

In order to reduce costs and take advantage of economies of scale VRL has embarked on backward integration of its products. It has an apparel manufacturing plant located at Gurgaon, Haryana. For ensuring efficiency in the supply chain, it has set up seven regional distribution centres located around Kolkata (West Bengal), Thane (Maharashtra), Jaipur (Rajasthan), Ghaziabad (Uttar Pradesh), Ludhiana (Punjab), Gurgaon (Haryana) and Delhi. These distribution centres—spread over 47,1426 square feet—give a proper back-up and facilitate replenishment in a shorter time period. It also has an in-house fleet of 41 trucks which helps it to transport and deliver its products in a cost and time efficient manner.

Key negatives

Competition

The Indian retail industry is highly competitive. Competition is characterised by many factors, including assortment, advertising, price, quality, service, location, reputation, and

the availability of credit and retail space. VRL also faces competition from the other retail formats including Internet sales, door-to-door sales and the sale of household products directly from home.

Negative cash flows in recent fiscals

VRL has had negative cash flows for the last three years and in FY2007 its inventory piled up significantly. As per the management, the shifting of the management information system to the SAP ERP system has resulted in delayed and improper receipt of critical sales data which has led to some inventory build-up to overcome the replenishment requirements of the stores.

Closure of stores

During FY2007 VRL opened 27 stores, shifted one store and closed down three stores. In FY2006 it had opened 11 stores and closed down one store whereas in FY2005 it had opened four stores and closed down two stores. Further, in FY2003 it had opened seven stores and closed down five stores.

Valuations

VRL offers its share in a price band of Rs230-270, which leads to a market capitalisation of Rs600 crore (at the higher band of Rs270). The FY2007 earnings per share works out to Rs11 on the post-issue equity capital. At Rs270, the stock is trading at 25x FY2007 earnings and the valuation is reasonable when compared with its peers. Given the fact that foreign investment is not permitted in domestic initial public offerings, the expected buying interest from foreign investors post-issue could be a trigger for the stock.

Peer group comparison

| FY2007 | Vishal Retail | Pantaloon Retail* | Shoppers Stop | Trent* |
|----------------------|---------------|-------------------|---------------|--------|
| Net sales (Rs cr) | 603 | 3,255 | 899 | 467 |
| PAT (Rs cr) | 25 | 72 | 26 | 40 |
| NPM (%) | 4.1 | 2.2 | 2.9 | 8.6 |
| EPS (Rs) | 11.0 | 5.1 | 7.5 | 27.7 |
| Same store sales (%) | 12 | 15 | 21 | 20 |
| Inventory Turnover | 5.0 | 5.01 | 9.54 | 7.61 |
| P/E | 24.5 | 88.2 | 80.7 | 25.1 |

*Estimated

Financials

| Particulars | Rs (cr) | | | |
|---|---------|-------|-------|------|
| | FY07 | FY06 | FY05 | FY04 |
| Profit and Loss | | | | |
| Sales | 602.6 | 288.4 | 146.3 | 88.1 |
| Other income | 2.3 | 0.6 | 0.1 | 0.1 |
| Increase/ (Decrease) in inventory | 166.2 | 40.7 | 15.4 | 8.0 |
| Total income | 771.2 | 329.8 | 161.8 | 96.2 |
| Expenditure | | | | |
| Cost of goods sold | 512.4 | 214.4 | 104.8 | 66.5 |
| Staff costs | 27.4 | 13.5 | 6.0 | 3.0 |
| Manufacturing and administrative expenses | 30.2 | 18.0 | 13.5 | 8.8 |
| Selling & distribution expenses | 131.7 | 56.9 | 28.6 | 14.9 |
| Interest | 14.8 | 2.9 | 1.0 | 0.2 |
| Depreciation | 15.3 | 5.4 | 2.9 | 1.5 |
| PBT | 39.3 | 18.7 | 5.0 | 1.3 |
| Tax | 13.4 | 6.1 | 1.5 | 0.4 |
| Fringe benefit Tax | 0.3 | 0.1 | 0.0 | 0.0 |
| Provision for deferred tax | 0.6 | 0.0 | 0.4 | 0.6 |
| PAT | 25.0 | 12.5 | 3.0 | 0.4 |

| Particulars | Rs (cr) | | | |
|--|---------|-------|------|------|
| | FY07 | FY06 | FY05 | FY04 |
| Balance sheet | | | | |
| Equity share capital | 18.3 | 16.5 | 14.8 | 12.0 |
| Preference capital | - | 5.6 | - | - |
| Reserves & surplus | 108.4 | 50.7 | 15.5 | 1.2 |
| Net worth | 126.8 | 72.8 | 30.3 | 13.2 |
| Share application money | - | - | 0.1 | 8.0 |
| Secured loans | 216.3 | 47.6 | 19.6 | 1.0 |
| Unsecured loans | 26.9 | 7.4 | 3.1 | 7.1 |
| Total debt | 243.2 | 55.1 | 22.7 | 8.1 |
| Deferred tax | 1.8 | 1.2 | 1.1 | 0.7 |
| Capital employed | 371.8 | 129.0 | 54.2 | 30.0 |
| Net block | 108.2 | 40.1 | 18.6 | 9.8 |
| Current assets, loans and advances | 330.7 | 119.1 | 45.7 | 26.5 |
| Current liabilities & provisions: | | | | |
| (a) Current liabilities | 46.7 | 22.4 | 8.6 | 5.8 |
| (b) Provisions | 20.4 | 7.9 | 1.6 | 0.6 |
| Capital deployed | 371.8 | 129.0 | 54.2 | 30.0 |

The views expressed in this report are our views only and have been arrived at after a thorough analysis of the public offering details. The note is advisory in nature, but is not a Recommendation under our "Stock Idea" category. It may/may not be considered as a "Stock Idea" by our analysts at a later date.

Disclaimer

"This document has been prepared by Sharekhan Ltd.(SHAREKHAN) This Document is subject to changes without prior notice and is intended only for the person or entity to which it is addressed to and may contain confidential and/or privileged material and is not for any type of circulation. Any review, retransmission, or any other use is prohibited. Kindly note that this document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction.

Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from publicly available data or other sources believed to be reliable. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. We do not represent that information contained herein is accurate or complete and it should not be relied upon as such. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

SHAREKHAN & affiliates may have used the information set forth herein before publication and may have positions in, may from time to time purchase or sell or may be materially interested in any of the securities mentioned or related securities. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of SHAREKHAN."