



## 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
<b>Profit and Loss</b>				
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
<b>Expenditure</b>				
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
<b>Balance sheet</b>				
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
<b>Current liabilities &amp; provisions:</b>				
(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

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