



Pantaloon Retail

Relative to sector: **Outperformer**

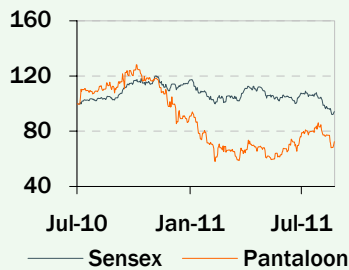
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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 217 mn[^]
Market cap : Rs 57.6 bn[^]
52 week high/low : Rs 528/ Rs 218
Avg. daily vol. (6mth) : 651,400 shares
Bloomberg code : PF IB
Reuters code : PART.BO

Note: [^] Includes class B shares.

Shareholding (%)	Jun-11	QoQ chg
Promoters	44.9	0.0
FIs	24.4	0.3
MFs / UTI	7.7	0.2
Banks / FIs	7.0	0.3
Others	16.1	(0.8)

Financial Summary (Core retail)

Y/E Jun	Net Sales (Rs mn)	Adj. PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs.)	Change YoY (%)	P/E [^] (x)	Incr. RoCE (%)	RoCE (%)	EV/EBITDA [^] (x)	EV/S [^] (x)
2010	88,600	1,804	-	8.8	15.5	-	18.3	11.9	-	-
2011E	109,442	1,897	-	8.7	(0.2)	-	4.2	10.7	-	-
2012E	134,304	2,445	12.3	10.5	19.9	20.4	23.5	11.1	7.8	0.7
2013E	161,875	3,485	15.6	14.9	42.5	14.3	23.8	12.3	6.8	0.6

Source: *Consensus broker estimates, Company, ENAM estimates; [^]Excludes value of investments

FUNDAMENTAL HEADWINDS

Pantaloon Retail's (PRIL) core retail biz grew 15% YoY in rev. terms, while PAT declined 17% YoY. Lower effective tax rate in Q4FY10 led to a sharp decline in adj. PAT on a YoY basis (high base effect). **In fact, during this quarter PBT grew by 38% YoY.**

Softening demand: The ~15% price hike in apparels and decline in consumer sentiments have affected **same-store sales (SSS) growth** in value retailing segment (at 8% vs. 10% in Q3), more than the lifestyle retailing segment (11% vs. 10% in Q3).

Sequential improvement in margins: Core retail opt. margin (at 9.1%) is highest in last 5 qtrs, led by better control on input cost.

Working capital efficiency deteriorates: Increase in core retail inventory by Rs 12 bn in FY11, has pushed up inventory days to 117 days (vs. 99 days in FY10). Consequently, gross debt now stands at Rs 44 bn with D/E at ~1.4x (vs. ~1x in FY10).

Outlook: While we have forecasted 13% addition in retail space for FY12, we believe price hikes will drive 23% growth in revenue and 29% growth in core retail earnings. We expect inventory turns to improve as throughput improves in new stores and electronic stores are shut down. Thus D/E would decline to 1.3x.

Maintain Buy rating (upside of 39%): Our SOTP based target price stands at Rs 377 per share. We value core biz at Rs 328 per share (22x FY13E EPS) and core subs at Rs 49 per share.

Key Triggers: (1) **Realignment** of loss making E-zone will improve PRIL's profitability and ease inventory requirements; (2) Potential opening up of FDI in **multi-brand retailing**; (3) Possibility of **stake sale in non-core subsidiaries** to lower debt.

Key Highlights

- **Same-store sales (SSS) growth weakens further across lifestyle (27% of sales) & value format (63% of sales)** mainly due to a combination of ~15% hike in apparel prices (10% excise duty on branded apparels & soaring cotton prices) & a high inflationary environment. Further, the home & electronics biz (10% of sales) experienced a SSS de-growth of 4.5% YoY due to low residential demand. We anticipate SSS growth to recover in FY12E as consumers will gradually adjust to the new pricing regime and inflation softens. Rising interest cost (D/E at 1.4x) and a stretched balance sheet could strain operating cash flows. Hence, our estimated CAGR in retail space stands at 15% over FY11-13E (v/s 3-yr avg. of 26%). Backed by this growth in deployed retail space, we expect revenues to grow at 22% CAGR in the next 2 years.
- **Realignment of loss making E-zone to improve PRIL's profitability:** the management has decided to revamp the current business model of its electronic format "E-zone" (incurred loss of ~Rs 600 mn in FY10) to a convergence platform for online shoppers. The management intends to revisit several E-zone stores in the country in order to shut down unviable stores or replace them with a different format. PRIL has closed down 2 stores in the current quarter and intends to have a physical presence only in the metropolises. Further, the management is proposing to separate E-zone into a subsidiary and is keen on divesting it, if & when FDI is approved. While the feasibility of the new online format is yet to be proven, we expect lower losses from electronic business to aid 37% CAGR in earnings over FY11-FY13E.
- **Rising inventory & debt a major overhang, situation to improve:** Inventory has increased from Rs 24 bn in FY10 to Rs 36 bn in FY11. Consequently, inventory days have moved up sharply from 99 days in FY10 to 117 days (higher than 4-yr average of 101 days). The increase in inventory can be attributed to: (a) buildup of above-normal expansion led inventories in the home and apparel segments in anticipation of higher same-store sales growth; and (b) high inflation in apparels and foods which has raised the inventory holding cost. We expect inventory levels to revert back to historical average (~100 days in FY13E) as some of this excess inventory is drawn down from

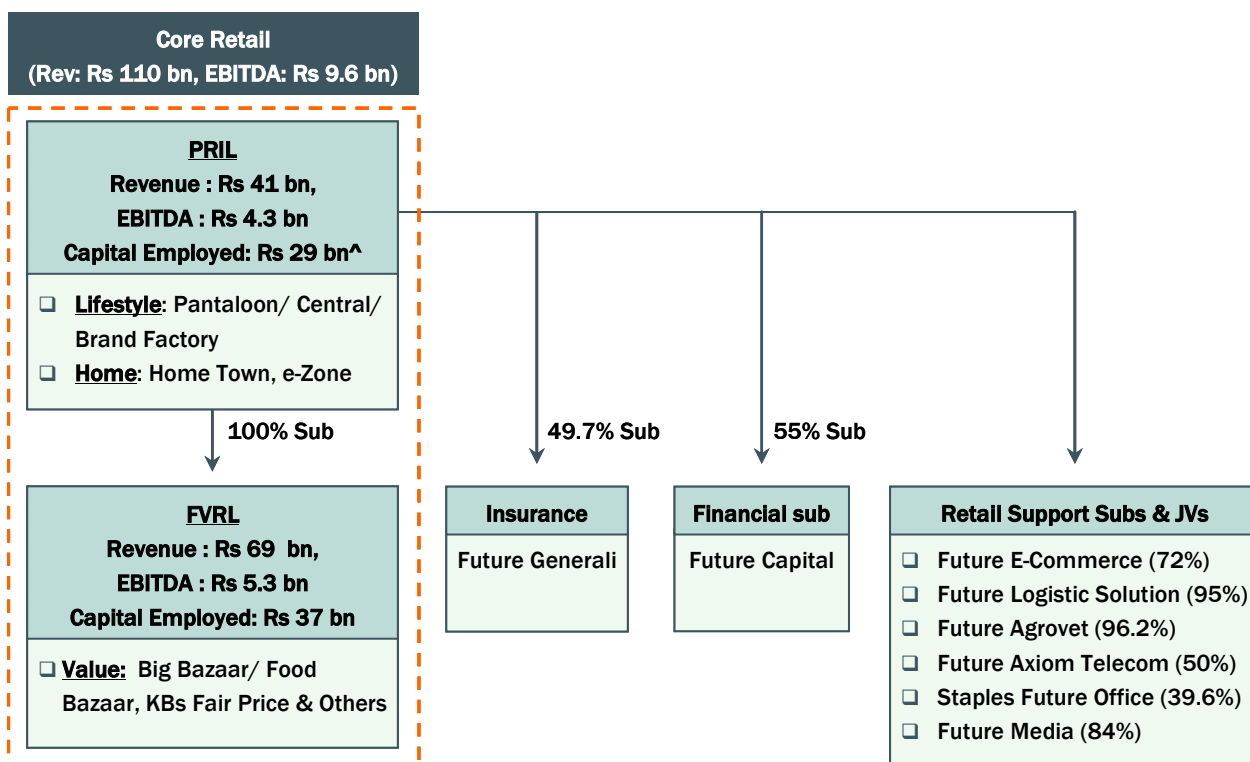
 - ▶ Upcoming festive season & recovery in SSS growth
 - ▶ Improving sales intensity in new stores
 - ▶ Shutting down of E-zone stores

Results update (Core retail)

(Rs mn)	Quarter ended					12 months ended		
	Jun-11	Jun-10	% Chg	Mar-11	% Chg	FY12E	FY11	% Chg
Net Sales	28,604	24,782	15.4	28,119	1.7	134,304	109,442	22.7
EBITDA	2,612	2,048	27.5	2,479	5.4	11,836	9,601	23.3
Other income	41	18	129.8	34	21.4	230	208	10.6
PBIDT	2,653	2,065	28.4	2,512	5.6	12,066	9,809	23.0
Depreciation	736	618	19.1	660	11.6	3,137	2,676	17.2
Interest	1,182	913	29.4	1,096	7.8	5,269	4,288	22.9
PBT	735	534	37.6	757	(3.0)	3,660	2,844	28.7
Tax	244	(60)	-	252	(2.9)	1,214	947	28.3
Minority Interest	-	-	-	-	-	-	-	-
Adjusted PAT	490	594	(17.4)	505	(3.0)	2,445	1,897	28.9
Extra ordinary income/ (exp.)	-	622	-	-	-	-	-	-
Reported PAT	490	1,215	(59.7)	505	(3.0)	2,445	1,897	28.9
No. of shares (mn)	217	206	-	217	-	234	217	-
EBITDA margin (%)	9.1	8.3	-	8.8	-	8.8	8.8	-
PBIDT margin (%)	9.3	8.3	-	8.9	-	9.0	9.0	-
EPS - annualized (Rs.)	9.0	11.5	(21.5)	9.3	(2.9)	10.5	8.7	19.9

Source: Company, ENAM Research

Current Pantaloon Org. Structure



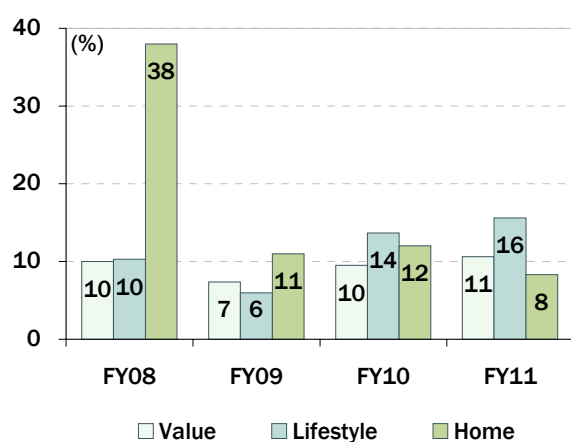
Source: Company, ENAM Research

SOTP valuations

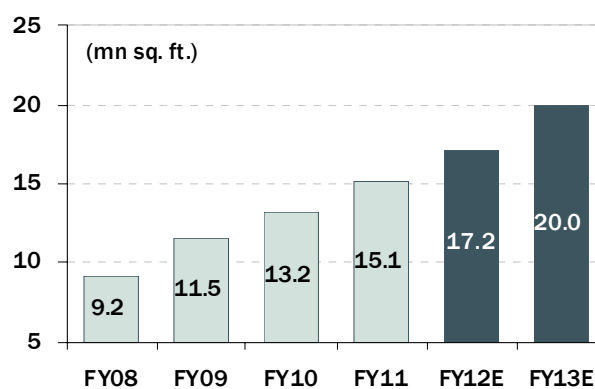
	FY11E	FY12E	FY13E	Valuation Basis
Core Retail				
Sales (Rs mn)	109,442	134,304	161,875	
Adj. PAT (Rs mn)	1,897	2,445	3,485	
Diluted EPS (Rs)	8.7	10.5	14.9	
Value per share				
Core Retail			328	22x FY13E earnings
Future Capital (55% ownership)			16	25% discount to Market cap.
Future Generali (50% ownership)			32	Appraisal Value
SOTP			377	

Source: Company, ENAM Research

SSS growth



Core Retail* selling space



Source: Company, ENAM Research; Note: *Includes HSRIL and FVRL.

Store rollouts

	No of stores		(mn sq ft)	
	FY11	FY10	FY11	FY10
PRIL				
Pantaloon	59	48	1.7	1.2
Central & Brand Factory	32	25	2.6	2.0
eZone	42	41	0.5	0.5
Home town	12	11	1.2	1.1
Others	130	114	0.5	0.3
Total (A)	275	263	6.4	5.6
FVRL				
BB	149	132	7.6	6.8
Food Bazaar	56	53	0.6	0.4
KBs FairPrice	214	123	0.2	0.1
Others	63	33	0.4	0.3
Total (B)	482	328	8.8	7.7
Total Core retail (A+B)	757	591	15.2	13.2

Source: Company, ENAM Research

Financial Summary (Rs mn)

PRIL (Lifestyle+Home)	FY11	FY12E	FY13E
Sales	40,974	48,729	57,070
COGS	26,496	31,216	36,501
<i>Gross Margin %</i>	<i>35.3</i>	<i>35.9</i>	<i>36.0</i>
EBITDA	4,337	5,459	6,402
<i>% of sales</i>	<i>10.6</i>	<i>11.2</i>	<i>11.2</i>
PAT	767	1,111	1,434
<i>% of sales</i>	<i>1.9</i>	<i>2.3</i>	<i>2.5</i>

FVRL (Value)	FY11	FY12E	FY13E
Sales	69,148	86,289	105,525
COGS	51,778	65,036	79,626
<i>Gross Margin %</i>	<i>25.1</i>	<i>24.6</i>	<i>24.5</i>
EBITDA	5,263	6,378	7,967
<i>% of sales</i>	<i>7.6</i>	<i>7.4</i>	<i>7.5</i>
PAT	1,130	1,334	2,051
<i>% of sales</i>	<i>1.6</i>	<i>1.5</i>	<i>1.9</i>

Core Retail (PRIL+FVRL)	FY11	FY12E	FY13E
Sales	110,123	135,018	162,595
COGS	78,274	96,252	116,128
<i>Gross Margin %</i>	<i>28.9</i>	<i>28.7</i>	<i>28.6</i>
EBITDA	9,601	11,836	14,369
<i>% of sales</i>	<i>8.7</i>	<i>8.8</i>	<i>8.8</i>
PAT	1,897	2,445	3,485
<i>% of sales</i>	<i>1.7</i>	<i>1.8</i>	<i>2.1</i>

Source: Company, ENAM Research

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