

IPO Note

IPO Details

Face Value	Rs. 10
Price Band (Rs)	Rs. 370-415
Issue Opens	September 18, 2007
Issue Closes	September 21, 2007
Bloomberg	KUTN IN
BRLM	JM Financial Consultants Pvt. Ltd.
Registrar to issue	Karvy Computershare Pvt. Ltd.
Shares on offer for sale	3.52 mn

Pre issue shareholding pattern

Shareholders	% Stake
Promoters	76.1
Non-Promoter Group	23.9

Post issue shareholding pattern

Shareholders	% Stake
Promoters	66.6
Non-Promoter Group	33.4

Segmented Allocation

QIBs	2,084,663
Non-Institutional	347,444
Retail	1,042,332
Employee Reservation Portion	50,000

IPO Details	Lower End	Upper End
Price Band	370	415
Equity Shares prior to issue (mn)	27.9	27.9
Fresh Issue of shares (mn)	2.6	2.6
Total Equity Shares (mn)	30.6	30.6
Share Capital (mn)	Rs. 305.5	Rs. 305.5
Implied market cap (mn)	Rs. 11,304.0	Rs. 12,678.8
Debt (mn) (as on 31/03/2007)	Rs. 2,094.3	Rs. 2,094.3
Cash (mn) (as on 31/03/2007)	Rs. 172.6	Rs. 172.6
Implied EV (mn)	Rs. 13,225.7	Rs. 14,600.6

Koutons Retail India Ltd

Subscribe

Koutons Retail India Ltd (KRIL), an integrated apparel manufacturing retail company, is involved in the business of designing, manufacturing and retailing apparel. The Company offers a wide range of men's apparel, under the brands 'Koutons' and 'Charlie Outlaw', with 999 exclusive brand outlets (EBOs) in 221 cities spread across northern India. KRIL has 18 in-house manufacturing/finishing units and 14 warehouses in and around Gurgaon, Haryana. The annual finishing and manufacturing capacity of the Company stood at 22.9 mn and 12.4 mn pieces of apparel respectively in FY07. KRIL plans to open 140 new EBOs across the country in the next two years. The Company also plans to cater to the women and children apparel segments.

KRIL plans to raise Rs. 1.30-1.46 bn by offering 2.6 mn equity shares with an offer for sale of 0.92 mn shares, having a face value of Rs. 10 each at a price band of Rs. 370-415. The proceeds will primarily be utilized to set up EBOs, establish a new integrated manufacturing facility, purchase plant and machinery and to improve the Company's information technology network.

Valuation and Recommendations

On pre-issue basis, KRIL is valued at a P/E of 26x and 29.2x, a significant discount of 34.9% and 27% to the industry's average of 40x, at the lower and upper price band, respectively. Additionally, the Company's ROE of 21.2% is more than its peers average of 17%. The only cause of concern is the declining inventory turnover ratio which according to the Company is due to its aggressive expansion strategy. Based on our analysis, we believe that the issue is attractively priced and there is sufficient room for upside at the upper price band of Rs. 415. Hence, we recommend investors to subscribe to the issue.

Peer comparison

Valuation	P/E	EV/EBITDA	EV/Revenue	ROE
Provogue India	71.8x	51.3x	6.9x	17.4%
Zodiac	14.3x	11.9x	1.4x	20.5%
Kewal Kiran Clothing	19.6x	12.7x	2.4x	14.8%
Pantaloons Retail India	65.1x	44.7x	3.1x	22.2%
Vishal Retail	52.6x	27.9x	3.1x	19.7%
Raymond	14.3x	12.9x	1.6x	7.0%
Industry Average	39.6x	26.9x	3.1x	17.0%
Koutons Retail India Ltd.				
Higher Band	29.2x	20.8x	3.6x	21.2%
Lower Band	26.0x	18.8x	3.3x	21.2%
Premium/(Discount) to Industry Average				
Higher Band	(26.4)%	(22.7)%	17.8%	25.0%
Lower Band	(34.4)%	(30.0)%	6.7%	25.0%

IPO

Issue details

KRIL plans to raise Rs. 1.30 bn to Rs. 1.46 bn through an IPO of 2.6 mn equity shares having a face value of Rs. 10 each at a price band of Rs. 370 – Rs. 415. Additionally, the issue comprises of an offer for sale of 0.92 mn shares. Pre issue, the promoters held 76.1% of the issued and paid-up share capital of the Company. After the issue, the promoters will own 66.6% of the post-issue paid-up equity share capital. The Company has allocated 2.1 mn shares of the net issue for QIBs, 0.3 mn shares for non-institutional buyers and 1.0 mn shares for retailers. The Company has reserved 0.05 mn shares for its employees.

Issue objective

The IPO is being carried out to raise funds for the following purposes:

- Setting up of exclusive brand outlets of the Company involving a cost of Rs. 412.2 mn.
- Establishment of a new integrated manufacturing facility with an outlay of Rs. 301.9 mn.
- Purchase of plant and machinery, worth Rs. 100 mn, to increase the finishing and manufacturing capacity of the Company.

- Improvement in the Company's information technology network involving a cost of Rs. 55.8 mn.
- Raising funds for general corporate purposes.
- Meeting the issue expenses.

Promoters

Mr. Davinder Pal Singh Kohli (Chairman-cum-Wholetime Director), aged 48 years, has been actively involved in the business of the Company since its incorporation and is responsible for strategic planning and business development. Mr. Bhupinder Singh Sawhney (MD), aged 46 years, looks after the development of new products and brands. Mr. Gurmeet Singh Sawhney (Deputy MD) who is 36 years old has played a key role in the expansion of the Company and the development of its brands.

Investment Rationale

Tremendous top line growth with high operating margins...

KRIL has shown phenomenal growth over the past few years. Revenue grew at a CAGR of 132.8% over FY04-FY07, while net profit registered a CAGR of 235.3% over the same period. EBITDA and net profit margins, which stood at 17.5% and 8.6% for FY07, are more than the industry average. The Company's sales growth has been driven by an increase in the number of EBOs from 74 in FY05 to 999 till date coupled with an increase in sales from the existing EBOs. Moreover, the Company has been able to successively reduce its operating expenses as a percentage of revenue, thus increasing its margins. It is expected that KRIL will continue to grow at a fast pace given its plans to add another 140 EBOs in the next two years and to increase its operational efficiency by integrating the manufacturing facilities.

Margin Analysis	EBITDA	Net Profit
Provogue India	13.4%	8.0%
Zodiac	11.5%	8.7%
Kewal Kiran Clothing	18.9%	13.2%
Pantaloons Retail	7.0%	4.1%
Vishal Retail	11.1%	4.1%
Raymond	12.4%	4.8%
Industry Average	12.4%	7.1%
Koutons Retail	17.5%	8.5%

...However declining inventory turnover ratio pose a risk

The Company's inventory surged 409.9% in FY06 to Rs. 977.2 and 282.5% in FY07 to Rs. 3,738.4 mn whereas sales grew by only 173.3% and 154.1% respectively. Its inventory turnover ratio has successively declined for the last

three years. Increasing investments in inventory has even led to negative operating cash flows. This is a serious concern for the Company. However, the Company believes that the significant decline in the turnover ratio is a consequence of rapid expansion as the new stores will take some time to catch up on sales.

Largest retail network with an efficient business model

The Company has recently increased its retail presence from 687 EBOs in March'07 to current 999. Among the organized apparel retailers, KRIL has the largest retail network with 999 EBOs in 221 cities with a total floor area of 0.84 mn square feet. The Company follows a business model of marketing the manufactured apparel directly to the customer through a chain of exclusive franchisee stores, which frees it from external marketing pressures and dependence on intermediaries. Moreover, this franchisee model enables the Company to save on rental costs which affect retail margins.

Positive demand environment

With rising income levels, escalating consumer spending, urbanization, and robust retail space growth, the organized apparel retail sector in India is witnessing rapid demand growth. KRIL's proposed ramp up of retail operations is targeted at capitalizing on this positive demand environment. The Company is striving for a pan-India presence by opening up EBOs all across the country. Moreover, the proposed enhancement of the Company's manufacturing capacities would enable it to increase economies of scale, making it more price-competitive.

Diversification of product portfolio

KRIL has a wide apparel portfolio ranging from shirts, denims, non-denim trousers, suits, blazers, T-shirts, cargos, capris and sweaters. The Company manufactures and retails a complete range of men's apparel. Besides, KRIL plans to diversify its product portfolio by introducing a line of women's apparel under the 'Les Femme' brand and 'Koutons Junior' for children. This will enable the Company to cater to the varied demands of its customers and reduce its dependence on the men's apparel segment.

Outlook

With revenue CAGR of 132.8% over FY04-07 and better operating margins than its peers, KRIL has shown a remarkable financial performance. Moreover, the largest retail network in the country gives it a competitive edge over more established and well-known industry players like Madura Garments, Raymond, Provogue and Levi Strauss India. This coupled with the fact that it follows an effective franchisee business model, makes it a quality performer. With the proposed increase in the number of EBOs, integration of the Company's manufacturing facilities, and geographical and product portfolio diversification, KRIL is well poised to capitalize on the positive demand environment.

However, a cause of concern for the Company is its declining inventory turnover ratio as it is in expansion phase. Its inventory turnover ratio has declined from 3.02 in FY05 to 1.08 in FY07.

On a pre-issue basis, KRIL's PE of 26x and 29.2x at the lower and upper price band respectively, is at a significant discount of 34.9% and 27% to the industry's average of 40x. Moreover, its EV/EBITDA multiple is also at a significant discount to the industry's average. At the upper price band of Rs. 415, we believe that the issue is attractively priced. Based on our valuation and analysis of the Company's business, we recommend investors to subscribe to the issue.

Company Background

The Company was originally incorporated on November 25, 1994 as Charlie Creations Pvt. Ltd and subsequently on June 27, 2006, it was converted into a public limited company and its name was changed to Koutons Retail India Ltd. KRIL is an integrated apparel manufacturing retail company involved in the business of designing, manufacturing and retailing apparel under the 'Koutons' and 'Charlie Outlaw' brands through a network of 999 EBOs in 221 cities across India, with a total floor area of 0.84 mn square feet. The Company caters to the men's apparel segment, offering products such as shirts, denims, non-denim trousers, suits, blazers, T-shirts, cargos, capris and sweaters. The Company has 18 in-house manufacturing/finishing units and 14 warehouses in and around Gurgaon, Haryana. The annual finishing and manufacturing capacity of the Company stood at 22.9 mn and 12.4 mn pieces of apparel respectively in FY07. The Company has its registered office in New Delhi.

Disclaimer

This report is not for public distribution and is only for private circulation and use. The Report should not be reproduced or redistributed to any other person or person(s) in any form. No action is solicited on the basis of the contents of this report.

This material is for the general information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be considered as an offer to sell or the solicitation of an offer to buy any stock or derivative in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Indiabulls Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. You are advised to independently evaluate the investments and strategies discussed herein and also seek the advice of your financial adviser.

Past performance is not a guide for future performance. The value of, and income from investments may vary because of changes in the macro and micro economic conditions. Past performance is not necessarily a guide to future performance.

This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed here in reflect judgments at this date and are subject to change without notice. Indiabulls Securities Limited (ISL) and any/all of its group companies or directors or employees reserves its right to suspend the publication of this Report and are not under any obligation to tell you when opinions or information in this report change. In addition, ISL has no obligation to continue to publish reports on all the stocks currently under its coverage or to notify you in the event it terminates its coverage. Neither Indiabulls Securities Limited nor any of its affiliates, associates, directors or employees shall in any way be responsible for any loss or damage that may arise to any person from any error in the information contained in this report.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject stock and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without Indiabulls Securities Limited prior written consent.

The information given herein should be treated as only factor, while making investment decision. The report does not provide individually tailor-made investment advice. Indiabulls Securities Limited recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. Indiabulls Securities Limited shall not be responsible for any transaction conducted based on the information given in this report, which is in violation of rules and regulations of National Stock Exchange or Bombay Stock Exchange.