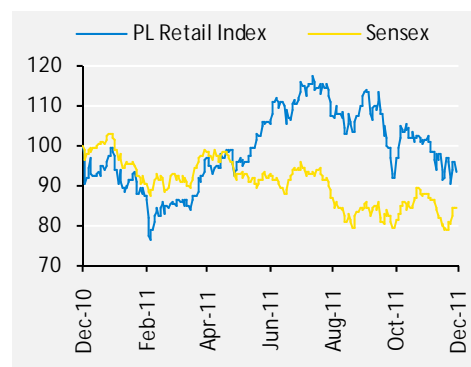


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PL Retail Index v/s Sensex



Source: Bloomberg

Stock Performance

(%)	1M	6M	12M
Sensex	(4.3)	(8.8)	(15.9)
PL Retail Index	(9.2)	(17.2)	(8.1)
Jubilant Foodworks	6.0	4.6	36.4
Pantaloon Retail	(3.2)	(29.2)	(53.2)
Shopper's Stop	6.1	(8.1)	1.4
Trent	(8.0)	(7.0)	8.5
Titan Ind.	(13.9)	(14.7)	1.1

Government has suspended 51% FDI in Multi-Brand Retail till a consensus is reached amongst all stakeholders (Political parties, State governments etc). Proposal has faced widespread political (government allies, opposition parties) as well as trader's opposition ever since it was announced in a cabinet meeting. We don't expect government to explicitly rollback the proposal given that it will reinforce the perception of "policy paralysis" and will be seen as giving in to political pressure. However, given the perceived political cost attached to the proposal and impending state government elections, primarily UP (most populous state which accounts for ~15% of Lok Sabha members) we believe it will be a while before government ventures to bring this reform back as it lacks the requisite numbers as its key allies (DMK, TMC) are opposed to the Retail FDI reforms. While there exists a remote possibility of some give and take/ appeasement of allies, watering down of proposal (26% instead of 51%, starting with top 10 metros instead of 1mn plus towns etc) **we believe evolving a consensus amongst all stakeholders is a cumbersome process and will take its own time and will be a drag on the sector.** Going by the fate of several other policy proposals, we will be positively surprised if the proposal goes through during the term of this government.

■ **A step back for the government; a set-back for the sector:** After much flip-flop and endless debate (DIPP had floated discussion paper in July'10), Government had cleared the politically sensitive reform, only to suspend it now till wider consensus is reached amongst stakeholders. Proposal had faced widespread opposition from political parties (opposition as well as government allies), trader's lobbies and had stalled the working of Indian Parliament for 10 days since the proposal was announced. The announcement had created positive sentiments around the sector with the assumption of inflow of capital and foreign expertise post the clearance of FDI. We don't expect the government to revive this legislation anytime soon given the lack of numbers and impending state government elections in next 12 months. We expect the proposal to remain in cold storage and meet the same fate which several other government proposals have met (Urea policy, GST, DTC, Land Acquisition etc). We will be positively surprised if it goes through during the tenure of current government.

■ **Media speculation on Future Cap stake sell:** As per media report (Economic times dated 7th Dec'11), Pantaloon is about to announce the Future Capital stake sell to Deccan Chronicle for ~Rs6-7bn. **We spoke to management and it has denied this transaction.** Media report also mentions "**Industrial Investment Trust (IITL) has purchased Pantaloon's 26% stake in its insurance joint venture Future Generali Life for Rs 250-300 crore**". If both these deals indeed fructify, PF will be able to raise ~10bn and mitigate the strain on debt and cash flow. Core retail debt stands at ~Rs45bn. We estimate an interest cost saving of ~Rs500mn for FY12e, potentially resulting in ~30% upgrade to our FY12e EPS (Rs8.5)

■ **Maintain ACCUMULATE on PF:** While the FDI proposal is now being put in abeyance, we anyways didn't expect it to immediately solve the current challenges of high leverage, high inventory and lack of FCF generation for PF. While fundamental concerns of slowing same store growth and high leverage putting pressure on cash flows remain, we believe current price discount the same. Any stake sell announcement on non-retail subs will be key trigger.

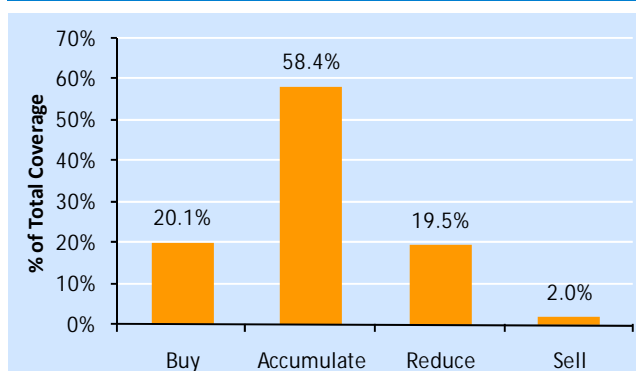


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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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