



India Equities  
Retail

Quarterly Update

**Pantaloon Retail (India) Ltd.**

**BUY**

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**CMP** **Rs 178.9**  
**Target Price** **Rs 223.6**

Investment horizon 12 months  
Sensex 11,001  
Nifty 3,362

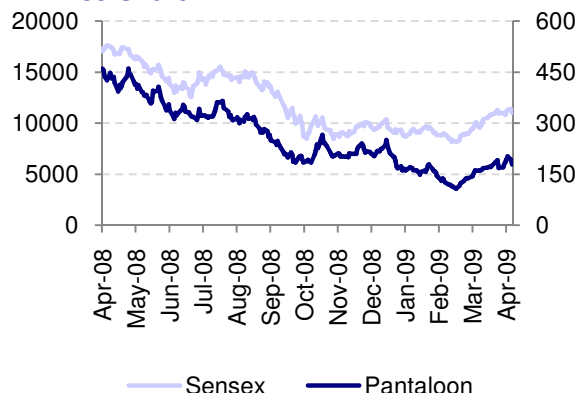
### Stock Details

BSE Code 523574  
NSE Code PANTALOONR  
Reuters Code PART.BO  
Bloomberg Code PF IN  
Market Cap (Rs cr) 3,134.33  
Beta 0.78  
52 W Low / High (Rs) 576.0 / 105.3  
Avg Daily Volume 3,24,640  
Face Value (Rs) 2.00

### Shareholding Pattern (%)

Promoters 46.50  
MF/Banks/Indian FIs 10.84  
FII / NRIs / OCBs 23.43  
Indian Public 19.23

### Price Chart



### Performance Highlights

**Net Sales growth in line with expectations:** Pantaloon Retail India Limited (PRIL) has showed Net Sales growth of 21.2% yoy at Rs 1,642.1bn for 3QFY2009, which was nearly in line with our expectations. This growth was supported by a 24.7% growth in value retail, 20.4% growth in lifestyle retail and 41.5% growth in home retail. On a qoq basis, Net Sales rose by 7.6% qoq and for 9mFY2009, they showed an increase of 27.6% yoy to reach Rs 4,679bn as against Rs 3667.5bn during 9mFY2008

**PRIL continues to expand its retail presence:** The company continues to work towards reaching its retail space target of 10.3mn by FY2009E from 7.9mn sq.ft in FY2008. It now has a retail presence of 9.1 mn sq.ft on standalone basis and more than 12mn sq.ft on consolidated basis.

**Margins continue to expand favorably:** The operating and net profit margins have expanded with EBIDTA margin showing increase of 211bps yoy and 23bps qoq to reach 10.5%. The EBIT margins have expanded by 149bps yoy and 11bps qoq to touch 8.4%. PAT margin has performed better than our expectations, though declining by 28bps yoy and 11bps on qoq basis, and stands at 2.1%.

**Valuation:** We have used Relative Valuation based on EV/EBIDTA and Price/Earnings (P/E) multiple methods for valuing PRIL (standalone). We have valued PRIL (standalone) at Rs 198.7 and Future Capital Holdings at Rs 24.9 for, giving us a target price of Rs 223.6 representing a potential upside of 25%. With the expected results, expansion of EBIDTA margins and aggressive growth plans to increase retail presence India, **we maintain a Buy on the stock considering a 12 month investment horizon with a Target Price of Rs 223.6.**

### Exhibit 1: Quarterly Financials

Particulars	3QFY2009	3QFY2008	YoY (%)	2QFY2009	QoQ (%)
Net Sales	1,642.1	1,354.3	21.2%	1,525.7	7.6%
Total Expenditure	1,469.1	1,240.2	18.5%	1,368.4	7.4%
EBIDTA	173.0	114.1	51.6%	157.3	10.0%
Margin (%)	10.5%	8.4%		10.3%	
Other Income	1.6	1.7	-3.0%	1.5	5.3%
Depreciation	36.9	22.3	65.1%	32.5	13.6%
Interest	84.7	42.9	97.6%	74.2	14.3%
PBT	53.0	50.6	4.8%	52.2	1.6%
Margin (%)	3.2%	3.7%		3.4%	
Total Tax	18.6	18.5	0.8%	18.7	-0.2%
(% of PBT)	35.2%	36.6%		35.8%	
PAT	34.4	32.1	7.1%	33.5	2.5%
PAT Margin (%)	2.1%	2.4%		2.2%	
EPS (Rs)	2.0	2.1	-5.4%	1.9	2.5%

Source: Company data, Parsoli Research



## Pantaloon Retail

**BUY**

*PRIL's net sales grew by 21.2% yoy and 7.6% qoq in 3QFY2009 to Rs 1,642.1bn*

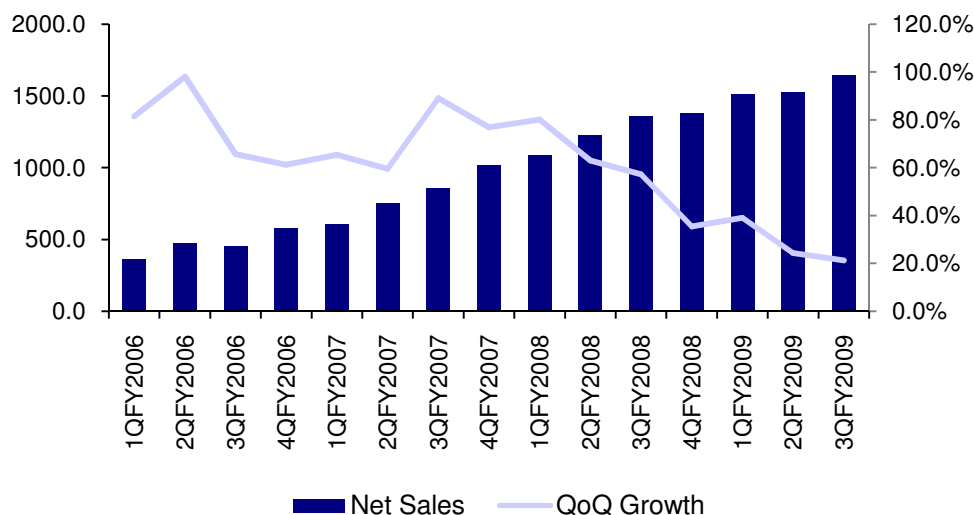
### Key Updates

#### Net Sales growth revival in line with expectations

During 3QFY2009, the company showed Net Sales growth of 21.2% yoy and touched Rs 1,642.1bn as against Rs 1,354.3bn in the corresponding quarter last fiscal. The net sales grew by 7.6% qoq giving a revival to the company's topline which had suffered severely when it had grown by a mere 0.9% qoq in the last quarter. However, the net sales trend over the last few quarters shows us that though the net sales are rising, but there is a declining growth pattern wherein the quarterly net sales have declined from a growth rate of 81.4% yoy in 1QFY2006 to 21.2% yoy in 3QFY2009.

**Exhibit 2: Net Sales - Quarterly Growth**

**Rs cr**



Source: Company data, Parsoli Research

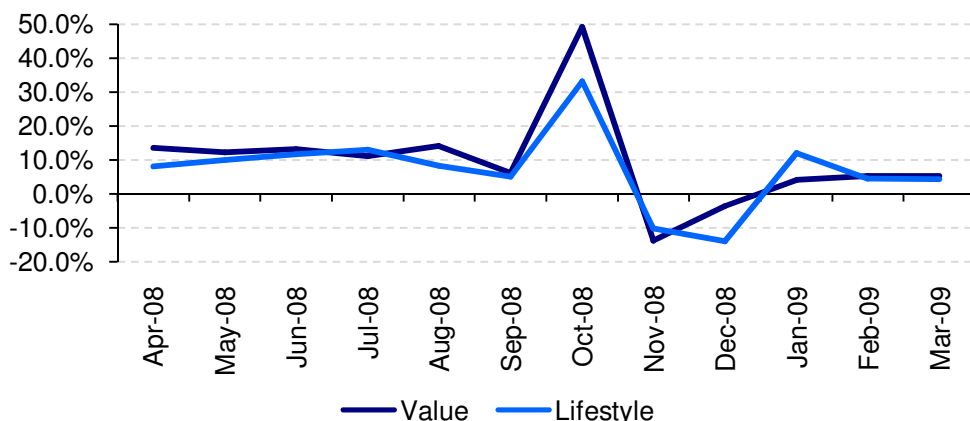
*The company's same store sales growth was 4.8% for value, 7.2% for lifestyle in 3QFY2009 and a negative 8% for home segment*

#### Same Stores Sales Growth picks up but remains single digit

The same store sales growth which had gone negative during November and December 2008 for, both, value and lifestyle retailing was positive during January-March 2009. The 3QFY2009 same store growth was 4.8% yoy for value and 7.2% yoy for lifestyle. The same store growth for home retail remained negative at 8.0% during the quarter continuing its negative trend.

**Exhibit 3: Revenue Growth**

**Rs cr**



Source: Company data, Parsoli Research



## Pantaloon Retail

**BUY**

*PRIL has improved its EBIDTA margin during 3QFY2009 due to cost savings with COGS having declined by 31bps, employee cost by 112bps and manufacturing expenses by 68bps*

*The company carries high amounts of debt resulting in high interest payout and lower PAT margin*

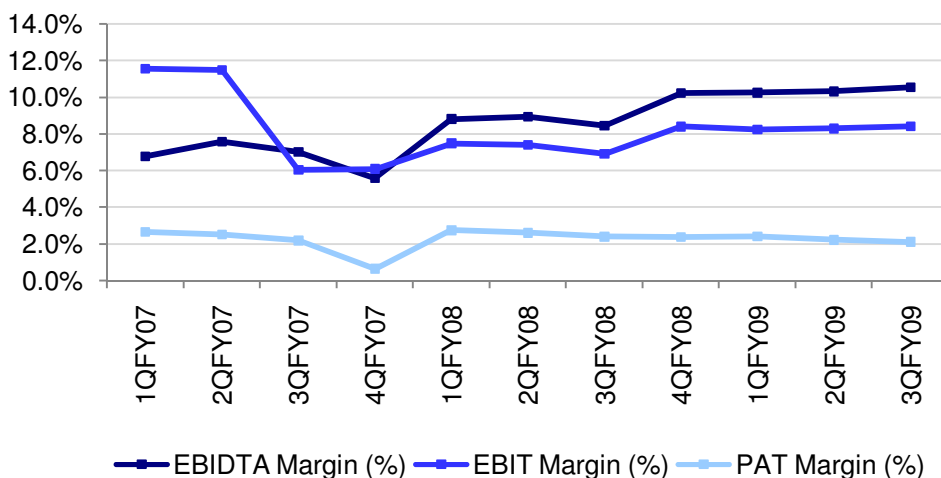
*PRIL is undertaking restructuring of its business formats in order to streamline its operations and is raising funds through preferential allotment of equity shares and warrants*

### EBIDTA Margins expand with cost savings

The company's costs savings have resulted in the expansion of EBIDTA margin by 211bps yoy in 3QFY2009 at 10.5% as against 8.43% in the corresponding quarter last fiscal. On qoq basis also, the EBIDTA margin has improved by 23bps. The total expenditure heads, including, COGS (Cost of Goods Sold), Employee costs and Manufacturing and other expenses have declined and contributed towards EBIDTA margin growth. As a percentage of Net Sales, COGS declined by 31bps, employee costs by 112bps and manufacturing expenses by 68bps. These cost reductions have come mainly due to PRIL's conscious efforts to bring down costs. In addition, the EBIT margin also expanded by 149 bps yoy to reach 8.4% for 3QFY2009 as compared with 6.9% in 3QFY2008.

However, the PAT margin declined marginally by 28bps yoy and stood at 2.1% in 3QFY2009 as against 2.4% in 2QFY2009. The decline can be mainly attributed to the heavy interest burden that the company carries due to high amounts of debt on its books. The interest costs have almost doubled (up by 97.6% yoy) to Rs 84.7cr in 3QFY2009 as compared to Rs 42.9cr in 3QFY2008. By end of FY09, the company is expected to carry total debt of nearly Rs 3,300cr.

**Exhibit 4: Profit Margins**



Source: Company data, Parsoli Research

### Restructuring of business

The company plans to undertake a major realignment of its business operations by setting up separate subsidiaries which will focus on specific business segments. PRIL is expected to be renamed as Future Market & Consumer Group Ltd which would be the operating company for the FMCG and consumer business and would also serve as the holding company for our two other subsidiaries focusing on fashion and retail. The fashion company would be called Future Fashion Merchandising Ltd and the retail company would be named as Future Consumer Enterprise Ltd.

The company recently raised Rs 276cr preference shares which includes Rs 201cr issued to Promoters and their associates. In addition, it has also issued 50lac warrants to Promoters and their associates for Rs 91.5cr. Since PRIL carries high amounts of debt on its books, the company's interest coverage ratio has come down to 1.9x, making it imperative to look for alternative funding sources (apart from debt) for future expansion.



*PRIL (standalone) valued by taking average of EV/EBIDTA and P/E methods gives a fair price of Rs 198.7*

*On SOTP basis, we arrive at a fair value of Rs 223.6 giving an upside of 25%*

**Valuation**

For valuing the company, we have used Relative Valuation based on EV/EBIDTA and Price/Earnings (P/E) multiple methodologies considering FY2010 estimates. We have valued Pantaloon retail operations on a standalone basis. By using the sum of the parts (SOTP) valuation of Pantaloon's standalone retail business and the stake in Future Capital Holdings (FCH), we have arrived at the target price with an investment horizon of 12 months.

**PRIL (Standalone)**

The stock currently trades at an EV/EBIDTA of 9.4x for FY2009E and 7.6x for FY2010E. The current industry average multiple stands at 16.3. By assigning a target multiple of 7.5x on our FY2010 EBIDTA estimates of Rs 832.0cr, we arrive at a target price of Rs 174.9 per share. The stock currently trades at a P/E multiple of 21.7x FY2009E and 14.0x FY10E earnings with the industry average multiple at 17.4. The industry P/E multiple trades at a discount as Shoppers' Stop's current EPS is zero due to consecutive losses in the last three quarters. We have assigned a multiple of 17.4x in line with the industry average to value the stock. This target multiple on our FY2010 EPS estimates of Rs 12.8 gives a target price of Rs 222.5 per share.

By taking an average of target price from EV/EBIDTA and P/E multiple, we arrive at a fair price of Rs 198.7 for PRIL (Standalone).

**Future Capital Holdings (FCH)**

PRIL's holding in FCH has been valued on the basis of current market value of the stake in the company. This gives us a price per share of Rs 24.9 per share.

**Exhibit 24: Valuation of PRIL's stake in FCH**

No. of shares (cr)	6.35
Price per share (Rs)	125.60
Market cap (Rs cr)	797.91
PRIL's equity shares in FCH (cr)	3.48
Value of PRIL's stake	436.84
Price per share (Rs)	24.93

Source: Company data, Parsoli Research

By summing value of PRIL's standalone business and its subsidiary FCH, we have arrived at a fair value of Rs 223.6 representing a potential upside of 25% with an investment horizon of 12 months.



**Pantaloon Retail**

**BUY**

*PRIL's space addition target of 2.5mn sq.ft per year till 2011, cost savings and sound business strategy will pave the way for higher revenue generation of Rs 8,175.4cr in FY2010E*

*We recommend a target price of Rs 223.6 over 12 months horizon on the back of better sales turnover and PAT margins*

**Future Outlook and Conclusion**

Our long-term outlook for the retail sector remains positive. The currently slowdown has affected growth in organized retail but it has also enabled cost rationalizations with survival of only those businesses that are driven by a sound strategy. Though most of the businesses in the sector are reeling under pressure due to a number of reasons including funding requirements, lack of operational effectiveness etc., we expect PRIL to continue to perform well. As indicated in the Initiating coverage report, the company had revised its space expansion plans from an annual addition of 4mn sq.ft to 2.5mn sq.ft during FY2009-FY2011. Still, PRIL's growth and expansion plans remain quite aggressive in spite of the retail and economic slowdown. The company has given strong results for 3QFY2009 and we expect that it will be able to achieve our revenue target for FY2009. In view of the current market scenario, we believe that for FY2010E, the company will fall short of our target for Net sales by 5.7%. We are, therefore, revising our Net Sales estimates to Rs 8,175.4cr, representing 26.5% yoy growth. With the strong performance given by the company in 9mFY2009, we have given an upward revision to our EBIDTA estimates by 9% for FY2009 and 17% for FY2010, respectively. We believe that the company cannot manage to fund its growth plans via debt and expect that the debt burden will not grow much during FY2010 as the company will look for alternative funding options. The PAT margins are expected at 2.2% and 2.7% for FY2009 and FY2010, respectively.

In view of the better performance by the company with quarterly net sales growth of 21.2% yoy and expectation for PAT growth during FY2009 and FY2010, we expect the stock to perform well for 12 months horizon. **We maintain a BUY on the stock with a Target Price of Rs 223.6.**



## Financial Statements

Exhibit 1: Profit & Loss Statement					Rs cr
	FY2007	FY2008	FY2009E	FY2010E	FY2011E
<b>Net Sales</b>	3,236.7	5,048.9	6,460.6	8,175.4	10,595.3
<i>% chg</i>	73.2%	56.0%	28.0%	26.5%	29.6%
Total Expenditure	3,021.1	4,588.4	5,793.8	7,343.4	9,607.9
<i>% chg</i>	75.4%	51.9%	26.3%	26.7%	30.8%
<b>EBIDTA</b>	215.6	460.5	666.8	832.0	987.4
<i>Margin (%)</i>	6.7%	9.1%	10.3%	10.2%	9.3%
Other Income	92.0	3.8	5.9	8.0	8.0
Depreciation & Amortisation	36.9	83.4	136.2	171.7	228.2
Interest	89.8	185.3	312.3	323.7	314.6
<b>PBT</b>	181.0	195.6	224.2	344.6	452.5
<i>Margin (%)</i>	5.6%	3.9%	3.5%	4.2%	4.3%
Total Tax	61.0	69.7	79.6	120.6	158.4
<i>(% of PBT)</i>	33.7%	35.6%	35.5%	35.0%	35.0%
<b>PAT</b>	120.0	126.0	144.6	224.0	294.1
<i>% chg</i>	87.0%	5.0%	14.8%	55.0%	31.3%
<i>Margin (%)</i>	3.7%	2.5%	2.2%	2.7%	2.8%

Source: Company data, Parsoli Research

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