

INVESTOR'S DELIGHT

13TH SEPTEMBER, 2011

Pantaloon Retail (India) Ltd. (PRIL) – Leading in organized retailing...

NSE/BSE Code	PANTALOONR/523574
Promoter's holding	44.9%
FV	Rs. 2
Equity Capital (Rs in mn)	Rs. 434.2 mn (Core retail business)
Market Capitalization (Rs in mn)	Rs. 60.3 bn
52 week high/low	Rs. 542.5 (13 th September, 2010)/218.3 (11 th February, 2011)
CMP	Rs. 278
Target Price	Rs. 339
Upside	22%
Horizon	9-12 months

FINANCIAL SUMMARY (RS. IN MN)

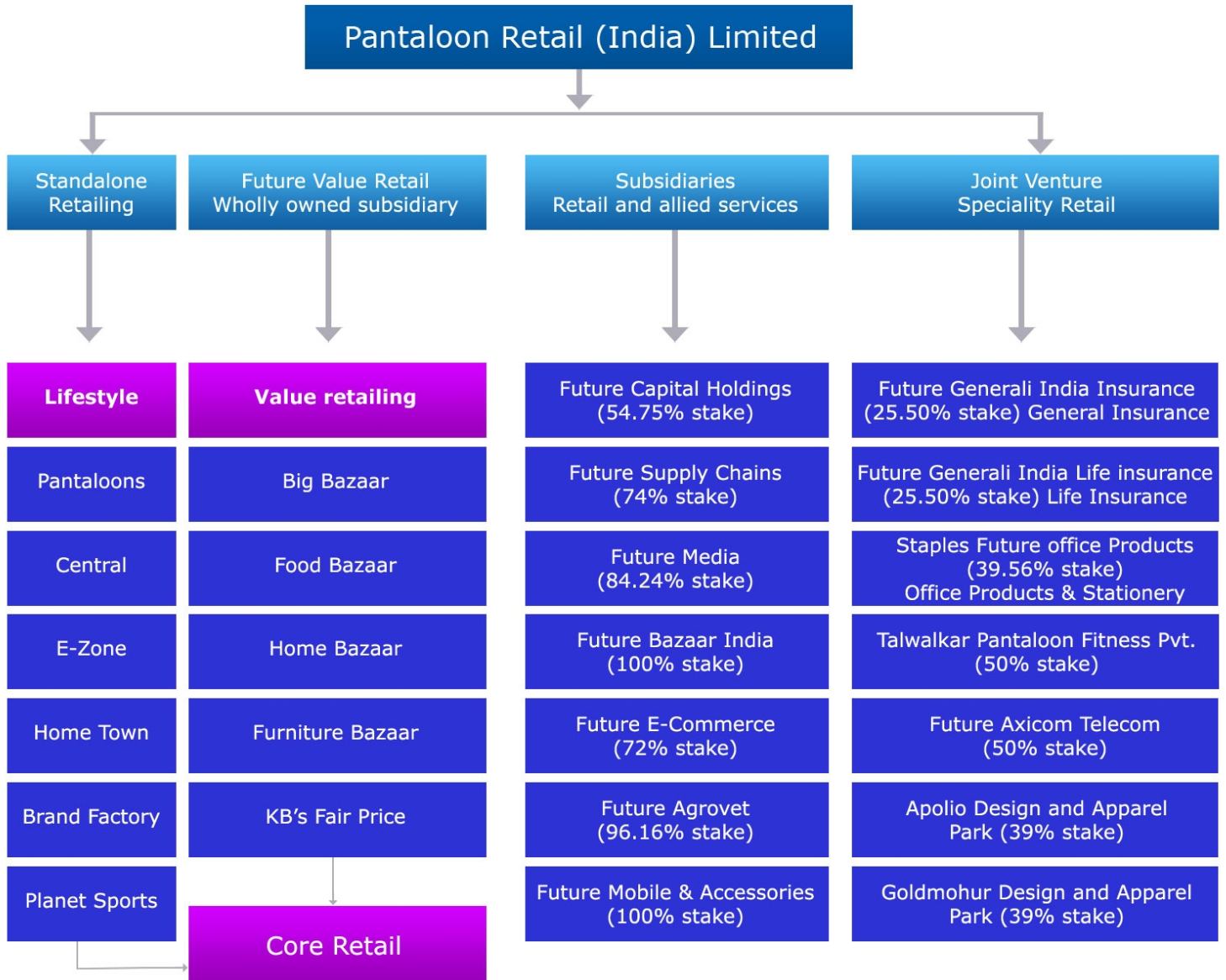
Particulars	FY10	FY11	FY12E*	FY13E*
Net sales	89,261	109,107	134,188	164,875
EBITDA	8,191	9,383	11,607	14,344
EBITDA (%)	9.2	8.6	8.64	8.69
PAT	2,302	1,988	2,433	3,336
PAT (%)	2.6	1.82	1.81	2.02
EPS	10.6	9	11.2	15.4
Outstanding shares (mn)	217	217	217	217
P/E(x)	26	31	25	18
ROE (%)	9	6.7	7.7	9.8

Source: Company, Ajcon Research, * street estimates numbers represent core retail business (PRIL+FVRL)

ABOUT THE COMPANY

It is a leading Indian retail company with presence across most sectors of organized retail. The company, entered modern retail in 1997 with the opening of its department store format Pantaloons. In 2001, PRIL launched Big Bazaar, a hypermarket chain, followed by Food Bazaar, a supermarket chain. A five format company, two years back, it now operates over 20 formats which include Central (seamless malls located in city centers), Collection I (home improvement products), Depot (books, music, gifts and stationeries), aLL (fashion apparel for plus-size individuals), Shoe Factory (footwear), and Blue Sky (fashion accessories). It has recently launched its e-tailing venture, futurebazaar.com. Future Value Retail Limited (FVRL) is a wholly owned subsidiary of Pantaloon Retail (India) Limited. This entity was formed keeping in mind the growth and the current size of the company's value retail business, led by its format divisions, Big Bazaar and Food Bazaar. The company operates total 482 retail stores, out of which 149 is accounted by Big Bazaar stores in over 70 cities across the country, covering an operational retail space of over 15.1 million square feet. A subsidiary company, Home Solutions Retail (India) Limited, operates Home Town, a large-format home solutions store, Collection i, selling home furniture products and eZone focussed on catering to the consumer electronics segment. Pantaloon Retail is the flagship company of Future Group, a business group catering to the entire Indian consumption space.

COMPANY STRUCTURE



Source: Company, Ajcon Research

MAJOR MILESTONES

1987

- Company incorporated as Manz Wear Private Limited. Launch of Pantaloons trouser, India's first formal trouser brand.

1991

- Launch of BARE, the Indian jeans brand.

1992

- Initial public offer (IPO) was made in the month of May.

1994

- The Pantaloon Shoppe – exclusive menswear store in franchisee format launched across the nation. The company starts the distribution of branded garments through multi-brand retail outlets across the nation.

1995

- John Miller – Formal shirt brand launched.

1997

- Company enters modern retail with the launch of the first 8,000 square feet store, Pantaloons in Kolkata.

2001

- Three Big Bazaar stores launched within a span of 22 days in Kolkata, Bangalore and Hyderabad.

2002

- Food Bazaar, the supermarket chain is launched.

2004

- Central - India's first seamless mall is launched in Bangalore.

2005



- Group moves beyond retail, acquires stakes in Galaxy Entertainment, Indus League Clothing and Planet Retail.
- Sets up India's first real estate investment fund Kshitij to build a chain of shopping malls.

2006

- Future Capital Holdings, the company's financial is formed to manage over US\$1.5 billion in real estate, private equity and retail infrastructure funds. Plans forays into retailing of consumer finance products.
- Home Town, a home building and improvement products retail chain is launched along with consumer durables format, Ezone and furniture chain, Furniture Bazaar.
- Future Group enters into joint venture agreements to launch insurance products with Italian insurance major, Generali.
- Forms joint ventures with US office stationery retailer, Staples.

2007

- Future Group crosses \$1 billion turnover mark.
- Specialized companies in retail media, logistics, IPR and brand development and retail-led technology services become operational.
- Pantaloon Retail wins the International Retailer of the Year at US-based National Retail Federation convention in New York and Emerging Retailer of the Year award at the World Retail Congress held in Barcelona.
- Futurebazaar.com becomes India's most popular shopping portal.

2008

- Future Capital Holdings becomes the second group company to make a successful Initial Public Offering in the Indian capital markets.
- Big Bazaar crosses the 100-store mark, marking one of the fastest ever expansion of a hypermarket format anywhere in the world.
- Total operational retail space crosses 10 million square feet mark.
- Future Group acquires rural retail chain, Aadhar present in 65 rural locations.



SALES AND MARGINS ACROSS FORMATS

Business division	Revenue per sq. ft	Gross margins (%)
Big Bazaar	8,500	25-27
Food Bazaar	14,000	15-17
Pantaloon	8,500	40-45
Central	8,200	30-35
Home town (including electronics)	5,000	25-28
E-Zone	10,000	10-12

Segment	Gross margin (%)	EBITDA margin (%)
Fashion	35-40	14-15
Food	15-17	3-5
Home - Electronics	10	2-3
Home - Furniture	35	14
Home-Home Fashion	35-40	15
General Merchandise	30	17-18
KB Fairprice	10	2

Revenue Mix	% of total sales
Big Bazaar and Food Bazaar	70
Pantaloon	13
Central	12
Others	5

Source: Company

INVESTMENT RATIONALE

Multi brand retail - Big Opportunity

India has already allowed FDI of up to 51% in the single brand retail and 100% in cash and carry format of the business. Lot of action has been witnessed in terms of multi brand retail. As per press reports in July, 2011, the Committee of Secretaries recommended up to 51% foreign direct investment (FDI) in politically sensitive multi brand retail. The CoS also recommended that FDI should be allowed only in 36 large cities which have population of over one million. There was, however, no official confirmation on recommendations of the CoS.

On approval from the Cabinet, this move would open the doors for global giants like WalMart and Carrefour. As per industry sources, a foreign retailer, however, will have to commit at least US\$100 mn investment, and 50% of FDI component have to be deployed in the back-end infrastructure, like warehousing and cold storage.

With this action, a good amount of interest would be generated from retailers from over the world. We believe Pantaloon Retail would be a major beneficiary. The company might look at having strategic tie-ups with global retailers in home, electronics and sports goods. Many global retailers like Wal-Mart are waiting in the wings for a full-scale entry into India's multi-brand retail segment, dominated by mom & pop stores. We believe this will be positive for the Indian retail sector as it will stimulate investment, especially in logistics and cold-chain development, and can enhance retail sector growth. FDI, which dipped 25% to USD 19.42 bn in 2010-11 from USD 25.83 bn in the previous fiscal, provides a strong case for the government to amend the policy on retail investment which will help boost the country's FDI.

PRIL Business structure – FDI ready, opening up of multi brand retail to be a tailwind for the company

All the key businesses of Pantaloon Retail are FDI ready and we expect it to be a major beneficiary of FDI in retail because of its enviable stature and expansion plans.

Monetization of non retail assets – “Trigger”

The company has invested ~Rs. 12 bn in Future Capital, Future E- Commerce, Future Supply Chain, Real Estate and Insurance business. It plans to monetize its non retail assets over the next 12-18 months. Pantaloon Retail would use the proceeds of monetization to repay debt. The valuation of these businesses is estimated to be worth Rs. 30-40 bn.

Expansion as per plan on track

It is in the process of adding 2-2.5 mn sq. ft space each in FY12E and FY13E. 60% of the expansion would be funded by internal accruals. The company plans to roll out 50-60 Pantaloon stores nationally in the next three years, doubling its presence from about 60 stores to around 120 stores. As per the management, most of this expansion will take place in South which currently account for 20% of sales.

Restructuring of loss making E- zone would improve profitability

Considering the losses that the company has incurred in the past, the management has decided to re think about its strategy and restructure the electronics business. The company plans a convergence platform for online shoppers. The management would revamp the electronics business by replacing them with a different platform or shutting down of stores. In the past, the company has closed two stores in unviable locations. The management intends to form a new subsidiary for E- zone for divestment when FDI is approved in India.

OUTLOOK AND VALUATION

At the CMP, the stock trades at P/E of 31x at FY11 EPS. With due consideration to factors like a) expected opening up of multi brand retail to provide opportunity for the company, b) expansion plan as per track, c) revamping of E-Zone business to improve profitability of PRIL, d) monetization of non retail assets to assist in repayment of debt, e) ongoing festive season to improve same store sales growth, we believe the correction in the stock provides huge room for upside and investors can consider accumulate the stock for a horizon of 9-12 months with a target price of Rs. 339 (22x at estimated FY13 EPS).

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