

Wal Mart of India

Key Data

Market Cap, Rsm	2652
Issued Shares* , mn	21
PriceToBook- FY05F	1.5
Next Result	FY03E

* Fully diluted

Stock Market Data

BSE Code	523574
BSE Index	3921
Avg. Daily Vol- BSE	100000
52 Week High/Low	137/42

Shareholding- June 03

Promoters *	52%
MFs/ UTI	9%
Banks/ Fis	4%
FIIIs	6%
Corporate Bodies	9%
NRIs/ OCBs	0%
Indian Public	20%
Others	1%

* Promoters sold 1.9m shares in a block deal in July 03. At present promoter group hold 43.8% stake in the company.

Shareholders >1%

SBI MF	3.9%
Alliance Capital	3.9%
ICICI	4.4%
The India Fund	3.3%
Arisiag Partners	2.1%
Asuti Financial	2.0%
Panther Industrial	1.1%
Laxmi Mankekar	2.0%

Pantaloon Retail- PRL is ramping up retail space under its three retail brands 'Big Bazar', 'Pantaloon' & 'Food Bazar' quickly. Company has signed up 0.9m retail space to be added by June 05, in addition to existing 0.6m, which would make it the biggest retailer in India with 1.5msqft retail space under management. We expect revenue and earnings to grow at a CAGR of 52% to Rs9.8bn and 88% to Rs470m respectively by FY05F.

Big Bazar- Future revenue driver

We believe, Big Bazar, the discount store of the company would be the future revenue driver of the company. Out of 0.9m new retail space signed up, 67% i.e. 0.6m is been for Big Bazar stores to be opened up in next two years. By FY04, we expect 50%, Rs3bn+, of the revenue to come from this segment. Also the economies of scale has played a role in improving margins to 9.7% in Q3FY03 from 6.0% in Q1FY03.

Pantaloon- High margin business

Pantaloon stores, which offers a complete range to family consumer, is a high margin category. The economies of scale and value added offering has helped company to improve margins to 20.9% in Q3FY03 from 18.3% in Q1FY03. We expect the revenue share of Pantaloon stores to come down to 47% to Rs2.8bn by FY04E.

Food Bazar- Extension of 'Big Bazar' model

After testing discount food stores format in Big Bazar, company is opening exclusive 'Food Bazar' stores in smaller suburbs and cities. We believe the new initiative would not only improve reach & brand equity but would also offer another growth driver with high inventory turnaround.

Equity infusion- Requirement of high growth

Company announced preferential issues to promoters of Rs320m to part finance its expansion plans. It will issue 953,000 equity shares and 213,547 10% FCDs to be converted within 18 months @Rs112.

Year 2005- Entry of global players

Global retailers set to enter in India in year 2005 as a result of WTO pact. We believe global giants would prefer route through existing major Indian retailers including Pantaloon, which should improve valuation further.

Concern- Leveraged balance sheet

Company's turbo speed growth plans and leverage balance sheet, DE 2x (excluding brand valuation) FY02 are the areas of concerns.

Attractive valuation-

We expect revenue and earnings to grow at a CAGR of 52% & 88% to Rs9.8bn & Rs470m respectively by FY05. At CMP, the scrip is attractively trading at 5.6x FY05F earnings, 0.3x Mcap to FY05F sales and 5.3x FY05F EV/EBIDTA. We expect market valuation to FY05F sales to improve at 0.6 (comparable to global broadline retailers), i.e. price target of Rs250. We reiterate **BUY**.

Brief Financial

Yr Jun	Net	PAT	Ch.	EPS	CEPS	PE	EV/	ROE
Rsm	Sales		%				EBITDA	
FY02	2800	70	10%	3.3	5	37.7	16	4%
FY03E	4072	103	46%	4.9	8	25.8	12	6%
FY04F	5992	204	99%	9.7	13	13.0	8	10%
FY05F	9808	470	130%	22.4	27	5.6	5	18%

August 16th, 2003
 Setu Divekar
 setu@spancap.com

Big Bazar- Future revenue driver

New retail space

We believe Big Bazar- a discount store model would be a future revenue driver of the company. At present company has 0.35msqft of space under this brand (including 9,000sqft addition in Gurgaon & 54,000sqft new store in Nagpur) and has signed up for an additional 0.6msqft to be added by June 2005, taking total retail space under this brand to 1msqft approx.

Store	Area, Sqft
Hyderabad	60,000
Kolkata	35,000
Bangalore	40,000
Mumbai- Lower Parel	42,400
Mumbai- Mulund	68,000
Gurgaon*	54,000
Nagpur**	54,000
Existing Retail Space	353,400
Additional Space, by June 2005	600,000
Total Retail space	953,400

* additional 9,000 sqft, ** new store to be opened in August 2003.

Improved realization per footfall

Company's thrust on Big Bazar model is not without reasons as though footfalls in July2003 have been increased by 3% for old stores Y-o-Y, the billing improved by 59% to Rs296/footfall for same Big Bazar stores and 29% to Rs240/footfall for all stores from Rs187/footfall in July2002.

Sales data- July 2003

Particulars	Jul 03	Jul 02	Increase	Jul 03	Jul 02	Increase
	Sales, Rsm		Y-o-Y	Footfalls		Y-o-Y
Big Bazar	205.1	82.8	148%	852,962	443,567	92%
Big Bazar- Same Store	135.2	82.8	63%	456,051	443,567	3%

Realization per footfall

Sales/footfall- All Big Bazar Stores

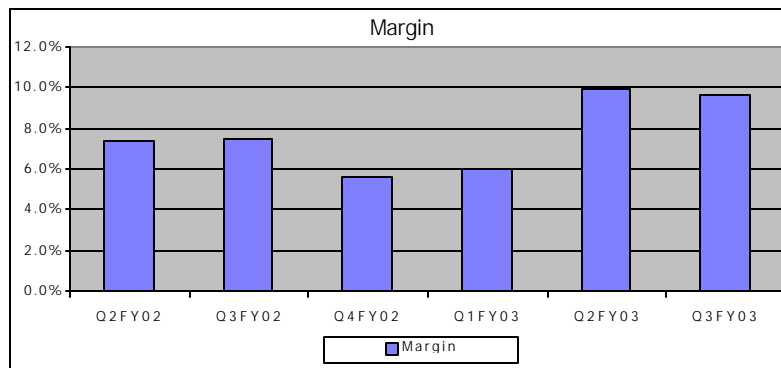
Rs/footfall	Jul 03	Jul 02	Increase
Big Bazar	240	187	29%

Sales/footfall- Same Big Bazar Stores

Rs/footfall	Jul 03	Jul 02	Increase
Big Bazar	296	187	59%

Economies of scale- improved margins

The economies of scale have helped company to cut down cost and to improve business margins in last six quarters. Big Bazar format improved margins from 7.4% in Q2FY02 to 9.7% in Q3FY03.



Pantaloons- High margin business

Steady revenue growth Though the management's focus is clearly on discount format stores, 'Pantaloons' stores would offer steady revenue growth and high margin going forward. Pantaloons brand's margins improved to 20.9% in Q3FY03 from 18.3% in Q2FY02. We expect revenue from 'Pantaloons' brand to grow at a CAGR of 17% to Rs2.8bn by FY04.

New stores Company has started one new store in Gurgaon-Delhi and expected to start two new stores by Sept 2003. Presently company manages 15 pantaloons stores with about 0.3msqft retail space under management (including 2 new stores to be opened in Sept 2003).

Store	Area, Sqft
Ahmedabad	34,000
Chennai- Adyar	4,500
Chennai- Spenser Plaza	22,000
Hyderabad	16,000
Himayat Nagar	9,000
INOX-Pune	8,000
Kanpur	30,000
Kolkata-Gariahat	16,000
Kolkata- Camac	46,000
Mumbai- Lower Parel	50,000
Nagpur	6,000
Thane	6,000
Gurgaon	16,000
Vadodara*	23,000
Vashi*	22,000
Existing Retail Space	308,500
Additional Space, by June 2005	
Bhubneshwar**	30,000
Mumbai- Juhu Centaur**	60,000
Total Retail Space	398,500

* to be opened in Sept 2003, ** opening date not yet finalised.

Dropped realization per footfall Though the revenue from Pantaloons stores improved in July2003, average realization per footfall dropped and now is comparable to its discount stores format. The trend clearly vindicates management's decision to concentrate on discount store brands.

Sales data- July03

Particulars	Jul 03	Jul 02	Increase	Jul 03	Jul 02	Increase
	Sales, Rsm		Y-o-Y	Footfalls		Y-o-Y
Pantaloons	167.6	133.5	26%	596,561	415,666	44%
Pantaloons- Same Store	148.9	129.3	15%	536,482	393,227	36%

Realization per footfall

Sales/footfall- All Pantaloons Stores

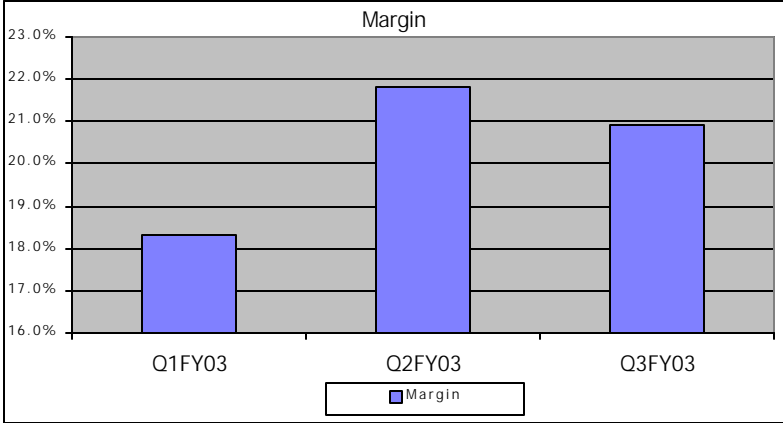
Rs/footfall	Jul 03	Jul 02	Increase
Pantaloons	281	321	-13%

Sales/footfall- Same Pantaloons Stores

Rs/footfall	Jul 03	Jul 02	Increase
Pantaloons	278	329	-16%

Higher margin business

Pantaloon family stores offers a complete range of high value products to family shopper. And despite the drop in realization per footfall, the steady revenue growth and higher margin 20%+ should help company in maintaining its overall EBIDTA margin above 8%, which is comparable to global peers. We expect an improvement of 20 basis points in an overall EBIDTA margin by FY05F as a result of sustained Pantaloon margin.



New initiatives-

Food Bazar

To improve reach

Though the concept is not new and brand already is already present as a sub-brand of the larger 'Big Bazar' brand, extension of this brand on standalone basis would help company in improving reach which otherwise wouldn't be possible in the smaller towns and suburbs. The extension of brand in smaller consumer centres would offer tremendous growth potential and higher inventory turnover going forward.

New stores

Two new stores are expected to start operations by August 2003 in addition to six existing stores in Big Bazar.

Store	Area, Sqft
Hyderabad	6,000
Kolkata	6,000
Bangalore	6,000
Mumbai-Lower Parel	10,000
Mumbai- Mulund	15,000
Gurgaon	15,000
Existing Retail Space (In Big Bazar)	58,000
Additional Space, by Aug 2003	
Vashi	7,500
Nagpur	5,000
Total Retail Space	70,500

Gold Bazar

Company forayed into Rs400bn gold retail market by launching sub-brand 'Gold Bazar' in Mumbai's two Big Bazar stores. In a crowded gold marketing company is banking on Zero weight reduction on exchange, 100% gold purity, insurance offered through ICICI lombard, free cleaning and cash back guarantee in case of non-satisfaction. The gold retailing will be managed by Mumbai based 'Chintamani Jewellers'.

Considering Indian's obsession towards gold and consumers' search for quality products at affordable prices would offer another high growth area for the company.

Victoria-

A new seamless mall 'Victoria' is coming up in Bangalore. Company has signed up 100,000sqft for the proposed mall and will be positioned as an another mother brand besides 'Pantaloon' and 'Big Bazar'.

Discount to global peers

Valuation

Pantaloon's valuation is at discount to its global broadline retailers.

	PE	Mcap/Sales	OPM
Global Peers	CY02	X	5Year Avg
Wal-Mart Stores	31.7	1.0	7.3%
Target Corporation	17.4	0.8	9.9%
Costco Companies Inc.	20.1	0.4	4.0%
May Department Stores Co.	15.9	0.6	15.8%
Federated Department Stores Inc.	15.6	0.5	13.3%
Average, excluding WalMart	17.3	0.6	
Pantaloon, FY05F	5.6	0.3	8.2%

Pantaloon's global peers are trading at 0.6x to sales compared to pantaloon's 0.3x to FY05F sales. While Wal Mart & Target Corp. are expected to grow at a CAGR of 12.4% and 10%, Pantaloon's revenue is expected to grow at a CAGR of 52% through FY05F. We expect Pantaloon's market valuation to match its global peers (excluding Wal Mart), i.e. 0.6x FY05F sales going forward.

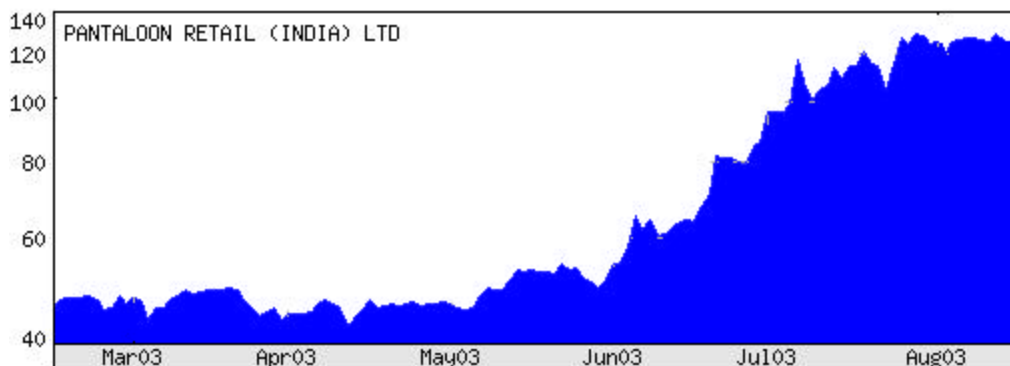
Also we expect company's earnings to grow faster at a CAGR of 88% to Rs470m through FY05F than revenue as economies of scale to cut cost going forward.

At CMP, the scrip is attractively trading at 5.6x FY05F earnings, 0.3x Mcap to FY05F sales and 5.3x FY05F EV/EBIDTA. We reiterate **BUY** with a price target of Rs250.

Shareholding Pattern- Shareholders with more than 1% holding

Category	No of Shares	% Holding
Indian Promoters		
Laxminarayan Biyani (On behalf of M/s Bansil Mills, Firm)	756,494	4.16
Gopikishan Biyani (On behalf of M/s Bansil Mills, Firm)	685,300	3.77
Anil Biyani (On behalf of M/s Bansil Mills, Firm)	564,900	3.11
Kishore Biyani	298,656	1.64
Gopikishan Biyani	262,100	1.44
Laxminarayan Biyani	253,600	1.39
Vijay Biyani	251,000	1.38
Sunil Biyani	245,800	1.35
Anil Biyani	241,500	1.33
Rakesh Biyani	240,300	1.32
PFH Entertainment Ltd.	2,009,800	11.05
Pantaloon Industries Ltd.	809,553	4.45
Varnish Trading Pvt. Ltd.	858,900	4.72
Manz Retail Pvt Ltd.	492,400	2.71
Total Promoters	7,970,303	43.83
Mutual Funds		
SBI Mutual Fund	713,274	3.92
Alliance Capital Mutual Fund	712,800	3.92
Total Mutual Funds	1,426,074	7.84
Financial Institution		
ICICI Trusteeship Services Ltd.(ICICI Equity Fund)	799,017	4.39
Total FIs	799,017	4.39
FII's		
The India Fund, Inc.	607,910	3.34
Arisaig Partners (Asia) Pte Ltd	373,421	2.05
Total FII's	981,331	5.4
Private Corporate Bodies		
Asuti Financial Services Pvt. Ltd.	368,900	2.03
Panther Industrial Products Ltd.	200,000	1.1
Total PCBs	568,900	3.13
Resident Indians		
Laxmi Shivanand Mankekar	357,000	1.96
Public	357,000	1.96
Total > 1% holders	12,102,625	66.55

Stock Price Movement



Income Statement

Rsm	FY02	FY03E	FY04F	FY05F
Op. Income	2800	4072	5992	9808
Expenditure				
COGS	1861	2810	4125	6750
Labour Charges	65	163	240	392
Commission	71	126	186	304
Others	580	646	953	1561
Total Exp.	2577	3746	5504	9008
Op. Profit	223	326	488	800
Other Income	7	12	2	5
Gross Profit	230	338	490	805
Interest	112	170	200	215
Depreciation	42	60	73	90
PBT	75	109	217	500
Tax	5	7	13	30
PAT	70	103	204	470

Balance Sheet

Rsm	FY02	FY03E	FY04F	FY05F
Share Capital	173	182	210	210
Share Premium	234	269	561	561
Res & Surplus	1309	1412	1616	2087
Networth	1717	1863	2387	2858
Secured Loan	1095	1300	1400	1800
Unsecured Loan	3	10	10	25
Total Loan	1098	1310	1410	1825
Def. Tax. Liab.	18	18	18	18
Total Liability	2833	3191	3815	4701
Application of Funds				
Gross Block	777	1173	1423	1623
Brand Valuation	1177	1177	1177	1177
Depreciation	94	154	227	317
Net Block	1860	2196	2373	2483
CWIP	63	35	10	15
Investment	51	51	51	51
Current Asset	1325	1594	2403	3810
Inventory	874	1200	1800	2950
Debtors	177	255	375	625
Cash	40	19	28	35
Other C.Assets	0	0	0	0
Loans & Adv.	233	120	200	200
Current Liability	459	675	1000	1625
Provision	12	15	25	35
Net C. Assets	854	904	1378	2150
Misc Exp.	6	5	4	2
Total Assets	2833	3191	3815	4701

Price Sensitivity

	FY02	FY03E	FY04F	FY05F
Price/ EPS	3.3	4.9	9.7	22.4
75	22	15	8	3
110	33	23	11	5
145	43	30	15	6
180	54	37	19	8
215	64	44	22	10
250	75	51	26	11

Cash Flow Statement

Rsm	FY02	FY03E	FY04F	FY05F
Sources of Fund				
Net Profit	53	103	204	470
Depreciation	42	60	73	90
Inc in Sh. Cap	40	9	29	0
Inc in Sh. Prem.	86	35	292	0
Inc in Loans	402	212	100	415
Inc in Def Tax Liab	18	0	0	0
Inc in C. Liab	201	216	325	625
Inc in Prov	3	3	10	10
Total	845	636	1033	1610
Appl. of Funds				
Dividend	0	0	0	0
Div. Tax	0	0	0	0
Inc in Gross Blk	365	396	250	200
Inc in Brand Value	0	0	0	0
Inc in CWIP	-16	-28	-25	5
Inc in Investment	0	0	0	0
Inc in Inventory	311	326	600	1150
Inc in Debtors	47	78	120	250
Inc in Loans & Adv	122	-113	80	0
Inc in Misc Exp	-1	-1	-1	-1
Total	828	657	1024	1604
Op. Cash Bal	24	40	19	28
Inc in Cash	17	-21	9	7
Cl. Cash Balance	40	19	28	35

Key Ratios

	FY02	FY03E	FY04F	FY05F
Growth				
Income	59%	45%	47%	64%
Earnings	10%	46%	99%	130%
Margin				
OPM	8%	8%	8%	8%
NPM	2%	2%	3%	5%
Return				
ROE	4%	6%	10%	18%
ROA	3%	3%	6%	11%

Other Ratios

	FY02	FY03E	FY04F	FY05F
Mcap To Sales(x)	0.9	0.7	0.4	0.3
Sales To Gross(x)	1.4	1.7	2.3	3.5
Inventory Days	114	108	110	110
Receivable Days	23	23	23	23

PE Sensitivity

	FY02	FY03E	FY04F	FY05F
PE/ EPS	3.3	4.9	9.7	22.4
5	17	24	49	112
10	33	49	97	224
15	50	73	146	335
20	67	98	194	447
25	83	122	243	559
30	100	146	291	671