

25th September 2010

Cantabil Retail India Limited

Recommendation: **Subscribe**

Issue Summary

Price Band (Rs)	127	135
Bid Lot	50 shares	
Face Value	Rs.10	
Opens on	22 nd Sep'10	
Closes on	27 th Sep'10	
Total no of shares to be raised	77.7 8 Lk	82.6 8 Lk

Pre-issue share capital	Rs. 8.55 cr	
Post-issue share capital	Rs 16.33 – 16.8 cr	
Issue Size	Rs 105 cr	
Post Issue Market Cap	n.a	n.a
P/E on 3M Annualized FY11	9.01	8.75

Net Issue	No. of Shares	%
QIB's	n.a	50
Non Institutional	n.a.	15
Retail	n.a.	35
Total	n.a.	100%

n.a : not available

Company & Business Profile

Cantabil Retail India Limited engages in designing, manufacturing, branding, and retailing apparels under the CANTABIL and La FANSO names in India. The company offers a range of formalwear, party-wear, casuals, and casual clothing for men, women, and kids. Its apparel portfolio includes shirts, tops, trousers, suits, blazers, denims, T-shirts, pullovers, jackets, shorts, cargos, and accessories, such as ties, belts, socks, caps, and handkerchiefs. As of August 31, 2009, it operated a network of 381 exclusive retail outlets. The company was incorporated in 1989 and is based in New Delhi, India. The promoters of the company are Mr.Vijay Bansal, and Mr.Deepak Bansal.

Presently it has 3 in-house manufacturing / finishing units and 4 warehouses located in Delhi. It also has 3 third party dedicated units manufacturing exclusively for it. It has fabricating arrangements with 73 manufacturing units to which it outsource cutting and stitching. Its manufacturing and finishing facilities are sufficiently backed by facilities for product development, design, and fabric testing to ensure quality apparels for its customers. It is setting up a garment-washing unit at Sonipat Haryana, which is under advance implementation and is slated to start operation by the end of December 2010. In order to meet its growth plans and to reduce its dependence on third party fabricators, it is proposing to set up a large integrated manufacturing facility at Bahadurgarh.

CRIL operates retail outlets in two models: company owned and franchisee managed (COFM) and franchisee owned and franchisee operated (FOFO). As on 31 July 2010, the company had 143 outlets under COFM model and 268 outlets under FOFO model covering metros, large cities and Tier II cities. Nearly 65% of the stores of the company were under the FOFO model. The floor area of retail outlets of Cantabil and La FANSO brands was 2.38 lakh sq ft and 0.80 lakh sq ft, respectively. Cantabil constituted nearly 79.5% of the total sales of the company in FY 2010.

Shareholding Pattern

	Pre-issue	Post Issue
	% holding	% holding
Promoter & Promoter Group	100	50.7-52.3
Non-promoter group	Nil	49.3-47.8

Objects of the Issue

The objects of the Issue are to raise funds for :

Particulars	Amount proposed (Rs in cr)
Establishment of new integrated manufacturing facility	31.63
Expansion of Exclusive Brand Outlets	24.98
Additional Working Capita	30.00
Debt Repayment	20.00
General Corporate Purposes	*
Expenses for the Issue	*
Total	*

Investment Positives:

Retail network of 411 outlets: Currently, CRIL has a network of 411 outlets (Cantabil - 270, La Fanzo - 141), predominantly in North (230) and West (113), with total area under operation of 3.17 lakh sq.ft. Out of this, 268 stores are operated under *Franchisee owned/leased and Franchisee operated (FOFO)* model, while the rest under *Company owned/leased and Franchisee managed (COFM)*. It intends to open 180 new outlets in the next two years; 80 in FY11e and 100 in FY12e.

Bahadurgarh manufacturing facility to reduce dependence on third parties: Presently, CRIL has three in-house manufacturing/finishing units and four warehouses located in Delhi. They also have third-party dedicated units manufacturing exclusively for CRIL and fabricating arrangements with 94 manufacturing units to which CRIL outsources cutting and stitching. CRIL is proposing to set up a large integrated manufacturing facility at Bahadurgarh to reduce its dependence on third-party fabricators and to meet growth needs.

Exclusive Brand Outlets: The company plans to have at least 20% of the upcoming outlets in Tier II cities and towns. Enhancing its presence in Tier II cities will improve its brand presence.

Concerns

Dependency of Third Party: CRIL depends on third parties for significant portion of its sales and for management of its retail outlets. If these third parties do not continue to assist it in its retail store management and sales, its revenue could be adversely affected which could have an adverse effect on its business.

Large portion of Raw Material: Raw materials including Fabric, which constitutes the largest portion of CRIL's material costs, are sourced from external suppliers. Fluctuation in the price, availability and quality of fabric could cause delay and increased cost

Businesses depend on Manufacture: Business of CRIL's is dependent on its manufacturing facilities, which are located geographically in one area. The loss of or

shutdown of operations at any of its manufacturing facilities could have an adverse effect on its business and results of operations.

Seasonal Demand: CRIL's business is seasonal in nature as a substantial part of its sales are realized during second half of the financial year. Any substantial decrease in its sales during this period could have a material adverse affect on its financial performance

Financials

Paticulars	FY 2008	FY 2009	FY 2010
Net Sales	73.01	137.29	201.83
Other Income	0.35	1.03	0.94
Stock Adj	13.85	16.46	60.87
Total Income	87.21	154.78	263.64
Total Expenditure	79.26	137.86	231.97
EBITDA	7.95	16.92	31.67
Growth %	-	-	87.17
Interest	2.55	5.75	6.99
EBTDA	5.4	11.17	24.68
Depreciation	0.93	1.61	2.34
Profit Before Tax	4.47	9.56	22.34
Provision for Tax	1.58	3.3	8.02
Profit after Tax	2.86	6.21	14.68
EPS-Pre issue	3.45	7.49	17.4
EPS-Post issue	-	-	8.75

Peer Group Comparison

Particular	CMP 24 /09/10	EPS	P/E Ratio	RONW (%)	Lat.BV
Kewal Kiran Clothing Ltd	393.35	28.45	13.82	19.92	142.08
Koutons Retail India Ltd	292.85	25.26	11.59	20.54	165.21
Provogue India Ltd	63.10	2.55	24.75	4.07	61.44
BRFL	266.9	17.05	15.65	11.28	170.63
Raymond	375.1	4.86	77.18	0.85	191.1
Zodiac Clothing Co.Ltd	352.80	16.81	20.99	16.35	110.91
Cantabil Retail India Ltd	N.A	8.75	15.4	49.66	34.54

Valuation

Cantabil Retail is a discount apparel company with a Retail Focused Strategy that is looking to raise Rs 105 crore (\$23mm) that should give it a market cap of around Rs 190 crore (\$42mm). The company has shown good growth albeit from a low base in the past. However the growth rate has slowed down. While margins have improved slightly the company still has a high debt burden of almost 2x debt/equity. The company uses its own and franchise retail outlets to sell clothes to consumers. There is nothing to distinguish the company from its peers.

Book Running Lead Managers:

- SPA Merchant Bankers Ltd

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