



## **Provogue India Ltd - (NSE Code – PROVOGUE) Demerger – An Arbitrage opportunity**

*Risk Arbitrage/Special Situation – Alpha Plus Portfolio recommendation for the month of Jan'12*

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# Provogue India Ltd



Dear Alpha Plus members,

We would like to bring to your notice an interesting arbitrage opportunity in the case of Provogue India Ltd (NSE Code: PROVOGUE, BSE Code: 532647).

## Some insights into the Demerger – Arbitrage opportunity in PROVOGUE India

On 2<sup>nd</sup> Sep'11, Provogue informed the exchanges that the Board of Directors have:

1. Approved the Scheme of Arrangement wherein the **Retail Centric Real Estate Development Division** (“the Demerged Undertaking”) of the Provogue (India) Ltd (“the Demerged Company”) is proposed to be transferred to ‘Castle Mall Private Ltd’ (“the Resulting/Transferee Company”), which shall be followed by amalgamation of ‘Prozone Enterprises Private Ltd’ (“the Transferor Company”), a subsidiary of Provogue India into the Resulting Company.”
2. Approved the share entitlement ratio of 1:1 for demerger i.e., the Resulting/Transferee Company shall issue 1 equity share of Face Value Rs. 2/- each, to the shareholders of Provogue for every 1 equity share of Rs. 2/-, held by shareholders in Provogue.

# Prozone and Retail centric real estate division

Provogue has well established Apparels and accessories retailing operations, while besides that it undertakes real estate development through Prozone enterprises (a 75 per cent subsidiary), a joint venture with UK-based Capital Shopping Centres Group (holds 25% in Prozone), to unlock value of its land bank.

CSC is one of the UK's largest listed property companies, a real estate investment trust (REIT) and a constituent of the FTSE-100 Index. CSC owns and operates 10 of the UK's top 25 shopping centres. **In 2006, Provogue India sold 25% of its equity stake in Prozone enterprises to CSC for Rs 202.5 crore, thus valuing Prozone enterprises at Rs 810 crore.**

Prozone's first mall in Aurangabad, became operational in October 2010 while two further Shopping Centres in Nagpur and Coimbatore are in advanced stages of development. To capitalize on its investment in retail infrastructure, the company has acquired sufficient land around the Shopping Centre plots to enable mixed-use development of Office Blocks, Hotels and Residential Communities on land adjacent to the retail infrastructure, which will optimize value from the original investments in strategic land parcels.

**The total land bank under Prozone is around 150 acres.**

Due to the high demand for housing, especially in Tier II cities, Prozone is considering developing residential assets, thus generate sufficient income to retire the Shopping Centre construction loans and leave a debt free retail infrastructure asset.

Omni Infrastructure Private Limited, an SPV of Prozone is in process of setting up a residential township in Indore. In Phase One, around 11 buildings of Ground + Stilt + 15 stories, each having 660 apartments will be built on approximately 11 acres, with total saleable area of around 1 million square feet.

# Consolidated Balance sheet

(Rs. in Lacs)

Particulars	Schedules	As at 31.03.2011	As at 31.03.2010
<b>I. SOURCES OF FUNDS</b>			
Share Holders Funds			
Share Capital	1	2,287.14	2,287.14
Share Application Money		-	46.55
Reserves & Surplus	2	99,927.56	80,837.69
		<b>1,02,214.70</b>	<b>83,171.38</b>
Minority Interest	3	28,671.11	21,237.70
Loan Funds			
Secured Loans	4	32,567.76	37,691.67
Unsecured Loans	5	5,186.67	1,901.33
		<b>37,754.43</b>	<b>39,593.00</b>
		<b>1,68,640.24</b>	<b>1,44,002.08</b>
<b>II. APPLICATION OF FUNDS</b>			
Fixed Assets	6		
Gross Block		63,279.56	39,492.84
Less : Depreciation		6,261.85	4,402.03
Net Block		57,017.71	35,090.81
Capital Work in progress including capital advances		9,621.87	29,803.67
Share in Joint Ventures		140.56	140.36
		<b>66,780.14</b>	<b>65,034.84</b>
Goodwill on Consolidation	7	11,808.85	8,484.61
Investments	8	16,447.34	11,511.18
Deferred Tax Assets (Net)		1,548.86	474.37
Current Assets, Loans & Advances			
Inventories	9	31,892.54	22,469.35
Sundry Debtors	10	21,625.25	15,142.86
Cash & Bank Balances	11	3,448.67	4,142.50
Loans & Advances	12	26,686.88	26,134.77
		<b>83,653.34</b>	<b>67,889.48</b>
Less : Current Liabilities & Provisions	13	11,598.29	9,392.40
Net Current Assets		<b>72,055.05</b>	<b>58,497.08</b>

Provogue has a strong balance sheet as it could issue shares at a huge premium to the institutional investors.

In the past the company has allotted shares at Rs 90 and Rs 220 to institutional investors and thus pile on reserves for the purchase of more than 150 acres of land bank.

Besides, as on 31<sup>st</sup> Mar'11 company also held investments in Liquid funds and bonds worth Rs 110 crores.

At current market capitalization of Rs 250 crores, considering the strength of the Balance sheet and existing Apparels and accessories operations, we believe there's adequate margin of safety.

# Fixed Assets – Freehold land worth Rs 229.17 crores

Schedule "6" : Fixed Assets (At Cost less Depreciation)

Description of Assets	Gross Block					Depreciation				Net Block	
	As At 01.04.2010	Additions during the year	Deductions during the year	Consolidation Adjustment	As At 31.03.2011	Opening upto 31.3.2010	Provided for the year	Adjustments	Upto 31.03.2011	As At 31.03.2011	As At 31.03.2010
- Tangible Assets :											
Owned Assets :											
Freehold Land	23,390.37	-	472.50	-	22,917.87	-	-	-	-	22,917.87	23,390.37
Leasehold Land	3,785.75	-	800.71	-	2,985.04	223.27	48.67	62.92	219.02	2,677.02	3,572.48
Residential Premises	31.75	-	-	-	31.75	3.43	1.42	-	4.85	26.90	28.32
Buildings	1,822.29	18,592.79	-	-	20,415.08	326.66	1,027.44	4.05	1,350.05	19,065.03	1,495.63
Plant & Machinery	1,032.84	5,478.44	-	-	6,511.27	363.54	544.31	-	907.85	5,603.42	669.30
Amusement Games	-	309.08	-	-	309.08	0	17.01	-	17.01	292.07	-
Furniture & Fixtures - Studios	4,607.21	1,912.80	1,909.28	-	4,610.73	1975.48	653.11	902.68	1,725.91	2,884.84	2,631.73
Furniture & Fixtures - Others	1,645.78	347.50	6.32	-	1,996.96	490.61	233.21	1.57	722.25	1,264.71	1,155.17
Office Equipments	460.29	111.24	7.65	-	563.88	153.49	40.99	2.76	191.72	372.16	306.80
Vehicles	918.68	38.98	-	-	957.66	449.30	122.23	-	571.53	386.13	469.38
Computers	571.14	291.35	-	-	862.49	410.46	129.64	-	540.10	322.40	160.68
- Intangible Assets :											
Trade Mark	57.89	-	-	-	57.89	5.79	5.79	-	11.58	46.31	52.10
<b>Total</b>	<b>38,333.99</b>	<b>27,082.18</b>	<b>3,295.46</b>	<b>-</b>	<b>62,120.71</b>	<b>4,402.03</b>	<b>2,823.82</b>	<b>964.00</b>	<b>6,261.85</b>	<b>55,858.85</b>	<b>33,931.96</b>
Share in Joint Ventures	1,158.85	-	-	-	1,158.85	-	-	-	-	1,158.85	1,158.85
<b>Grand Total</b>	<b>39,492.84</b>	<b>27,082.18</b>	<b>3,295.46</b>	<b>-</b>	<b>63,279.56</b>	<b>4,402.03</b>	<b>2,823.82</b>	<b>964.00</b>	<b>6,261.85</b>	<b>57,017.70</b>	<b>35,090.81</b>
Previous Year	33,283.40	6,612.40	402.95	-	39,492.84	3,215.81	1,550.44	364.22	4,402.03	35,090.91	

As can be observed from the above illustration, the book value of land bank held by the company is worth Rs 229.17 crores. This constitutes the land parcels bought around the Shopping Centre plots.

Most of this land bank will be demerged into the resulting/transferee company, resulting into value unlocking for the shareholders. On the same the company will also carry out mixed-use development of Office Blocks, Hotels and Residential communities.



# Regulatory approvals – Only High Court approval pending

In case of demerger opportunities, it's important to keep a track of proceedings and reduce market risk (stocks undergoing de-merger can be volatile, unlike de-listing opportunities such as UTV) by timing the purchase of shares so that there's less time gap between the purchase and the record date (not more than 3 months).

The company has already received the approvals from the following:

- Board of Directors
- Shareholders
- Secured lenders, creditors, etc.

Now only the High Court approval is pending and once this approval is received the stock should start witnessing buying interest from the informed and the smart investors. As per our talks with the Company, the approval from the High Court is expected by the mid Jan'12.

Since Provogue's case is referred to the Hon'ble High Court of Judicature at Bombay, we don't expect much delay in the proceedings. Post court's approval, the company will set the Record date for determining the shareholders eligible for the entitlement of the shares of the resulting company in the ratio of 1:1.

# Investment Strategy

We would suggest the following allocation strategy:

**1<sup>st</sup> Accumulation Range:- 20-22 (3% allocation)**

**2<sup>nd</sup> Accumulation Range:- 16-18 (2% allocation)**

**Note:** We will keep you updated on the Profit booking strategy. In case the stock appreciates by 30-50% before the record date, we will consider complete profit booking.

While if it does not, then we will sell the Provogue shares on the ex-date and retain the entitlement for the shares of the resulting company in the ratio of 1:1. Provogue being a mid-sized reputed company, we expect it to list the shares of the resulting company **Provogue Capital Shopping Centres Ltd.** in 6-9 months from the record date.

	Book complete profits before ex-date	Sell Provogue share on ex-date and wait for the listing of new shares
Expected Investment Duration	3 Months	9-12 Months
Expected Absolute Return	40-50%	70-100%



# Katalyst Wealth – Alpha Plus Portfolio



Katalyst Wealth Alpha Plus Portfolio service is focused on helping individual investors/institutions beat market returns by a wide margin without taking large risks through in-depth research, analysis and follow up on High Quality businesses and Risk Arbitrage/Special Opportunities.

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