



RETAIL

April 2010

Contents

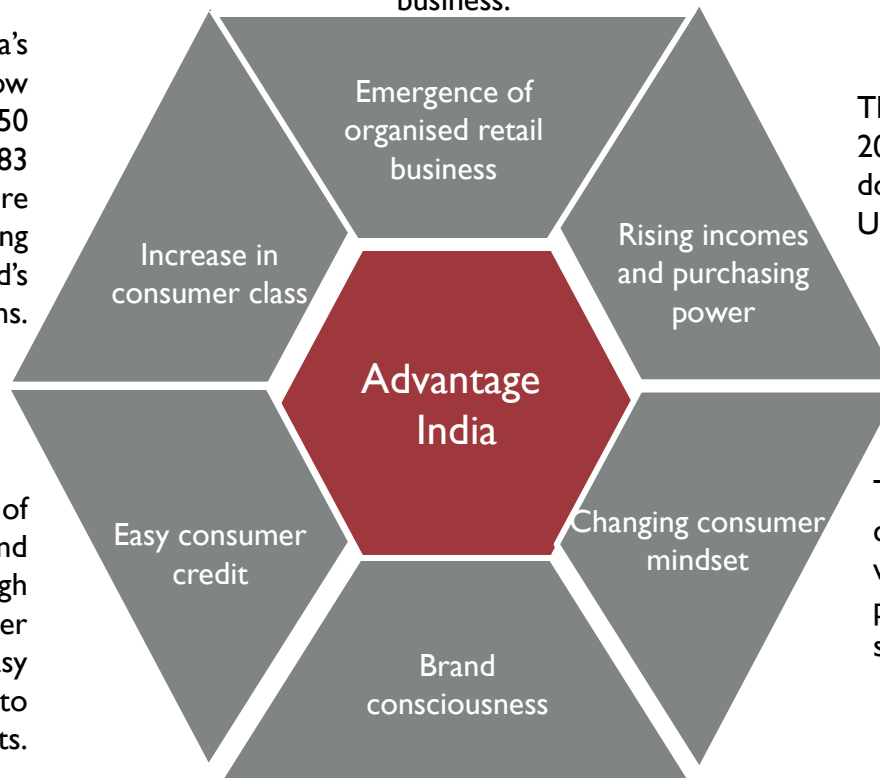
- ❖ Advantage India
- ❖ Market overview
- ❖ Investments
- ❖ Policy and Regulatory framework
- ❖ Opportunities
- ❖ Industry associations

Advantage India

Real estate development in the country, for example, the construction of mega malls and shopping malls, is augmenting the growth of organised retail business.

It is estimated that India's consumer class will grow nearly twelvefold (from 50 million at present to 583 million) by 2025, with more than 23 million people taking their place among the world's wealthiest citizens.

The per capita income in 2009–2010 has more than doubled to US\$ 849 from US\$ 348 in 2000–01.



With the emergence of concepts such as quick and easy loans, EMI, loan through credit cards and loan over phone, it has become easy for Indian consumers to afford expensive products.

The mindsets of the Indian consumer is changing dramatically, with their focus shifting from low price to convenience, value and a superior shopping experience.

There is high brand consciousness among the youth — 60 per cent of India's population is below the age of 30.

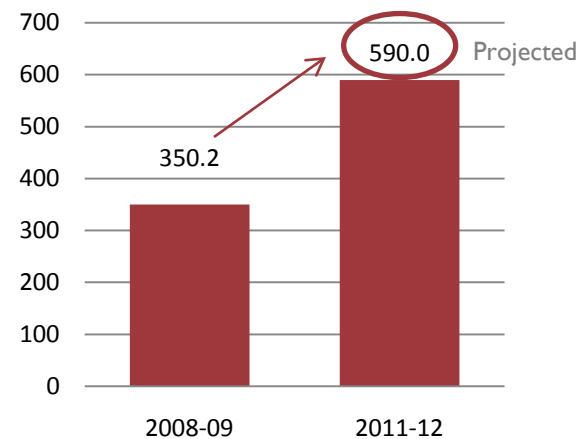
Contents

- ❖ Advantage India
- ❖ **Market overview**
- ❖ Investments
- ❖ Policy and Regulatory framework
- ❖ Opportunities
- ❖ Industry associations

Market overview ... (1/2)

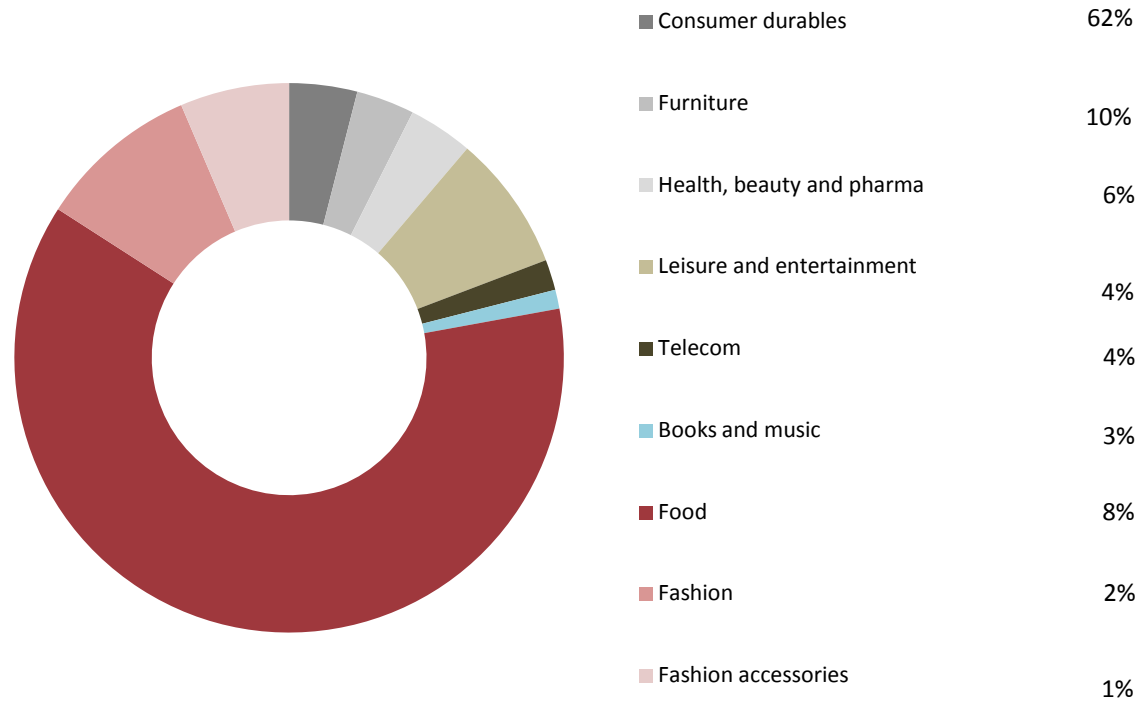
- India's retail market, valued at US\$ 350 billion in 2008-09, is projected to grow at 13 per cent per annum.
- The country's retail sector is the second-largest employer after agriculture, with retail trade employing 35.06 million* and wholesale trade generating an additional employment of 5.48 million.
- Food is the largest segment in terms of its contribution to the total value of the retail market, followed by fashion and fashion accessories.

Indian Retail Market (US\$ billion)



Market overview ... (2/2)

Market segments



Source: Pantaloon Retail India Ltd, 2008-09 annual results analyst presentation, Dt: September 26, 2009

* As per National Sample Survey Organization(NSSO's) Employment and Unemployment Survey for 2004-05
Source: Working Paper No 222, Impact of Organized Retailing on the Unorganized Sector, ICRIER

Organised retail

- India is at an early stage of evolution in organised retail, with its current penetration being 5 per cent, which indicates a huge potential for growth.
- The share of organised retail in total Indian retail trade is projected to grow at 40 per cent per annum.
- Organised retail formats including departmental stores, hypermarkets, supermarkets and specialty stores are fast replacing traditional retail formats such as *kirana* stores (small ‘mom-and-pop’ general stores) due to rising consumer expectations.

Organised retail penetration level (in per cent)	
USA	85
France	80
Japan	66
Malaysia	55
Brazil	36
Russia	33
China	20
India	5

Sources: The retailer, Ernst & Young, January 2009; Working Paper No 222, Impact of Organized Retailing on the Unorganized Sector, ICRIER

Organised retail formats in India* ... (1/2)

Format	Description	Example
Hypermarkets	<ul style="list-style-type: none"> • Average size varies between 50,000 sq ft and 100,000 sq ft • Offer a large basket of products ranging from grocery, fresh and processed food, beauty and household products, clothing and appliances, etc. 	Spencers, Big Bazaar, etc.
Cash-and-carry	<ul style="list-style-type: none"> • Average size — 75,000 sq ft • Offer several thousand stock-keeping units (SKUs) and generally have bulk buying requirements. 	Metro, Bharti-Wal-Mart, etc.
Department stores	<ul style="list-style-type: none"> • Average size varying between 10,000 sq ft and 60,000 sq ft • Offer a large layout with a wide merchandise mix, usually in cohesive categories including fashion accessories, gifts and products for the home 	Shoppers Stop, Lifestyle, etc.
Supermarkets	<ul style="list-style-type: none"> • Large in size and typical in layout • Offer not only household products but also food as an integral part of their services. 	Apna Bazaar, Food Bazaar, etc.

Source: Working Paper No 222, Impact of Organized Retailing on the Unorganised Sector, ICRIER

Organised retail formats in India ... (2/2)

Format	Description	Example
Shop-in-Shop	<ul style="list-style-type: none"> Shops located within the premises of large shopping malls in major cities 	Infinity(Magma Group)
Specialty stores	<ul style="list-style-type: none"> Single-category stores Focus on individuals and group clusters of the same class, with high product loyalty. 	Brand Factory, Food Bazaar, etc.
Category killers	<ul style="list-style-type: none"> Average size — 8,000 sq ft Large specialty retailers focussing on a particular segment, who are able to provide a wide range of choice to consumers, usually at affordable prices, due to the scale they achieve 	The Loft (footwear mall), Central (readymade garments mall), etc.
Discount stores	<ul style="list-style-type: none"> Average size — 1,000 sq ft Offer wide range of products, mostly branded, at discounted prices 	Subhiksha, Levi's factory outlet, etc.
Convenience stores	<ul style="list-style-type: none"> Average size — 800 sq ft Relatively small retail stores located near residential areas 	In & Out, Safal, etc.

Franchising

- The franchisee model has adapted well to Indian market conditions, providing opportunities for a large number of entrepreneurs to work with the support of big brands.
- Global players such as Tommy Hilfiger, SPAR International, Costa Coffee, Hertz, Radisson, Kentucky Fried Chicken (KFC), Domino's Pizza, T.G.I. Friday's, Ruby Tuesday, Subway, Mothercare and McDonald's have become forerunners in India through the franchisee route.
- The franchising reAvolution is, however, not limited to global brands. Many Indian brands, such as Park Avenue, Color Plus, Provogue, Nirulas, Sagar Ratna, Woodlands, Liberty and others have also increased their market presence via this route.

Growth of the franchising sector in India

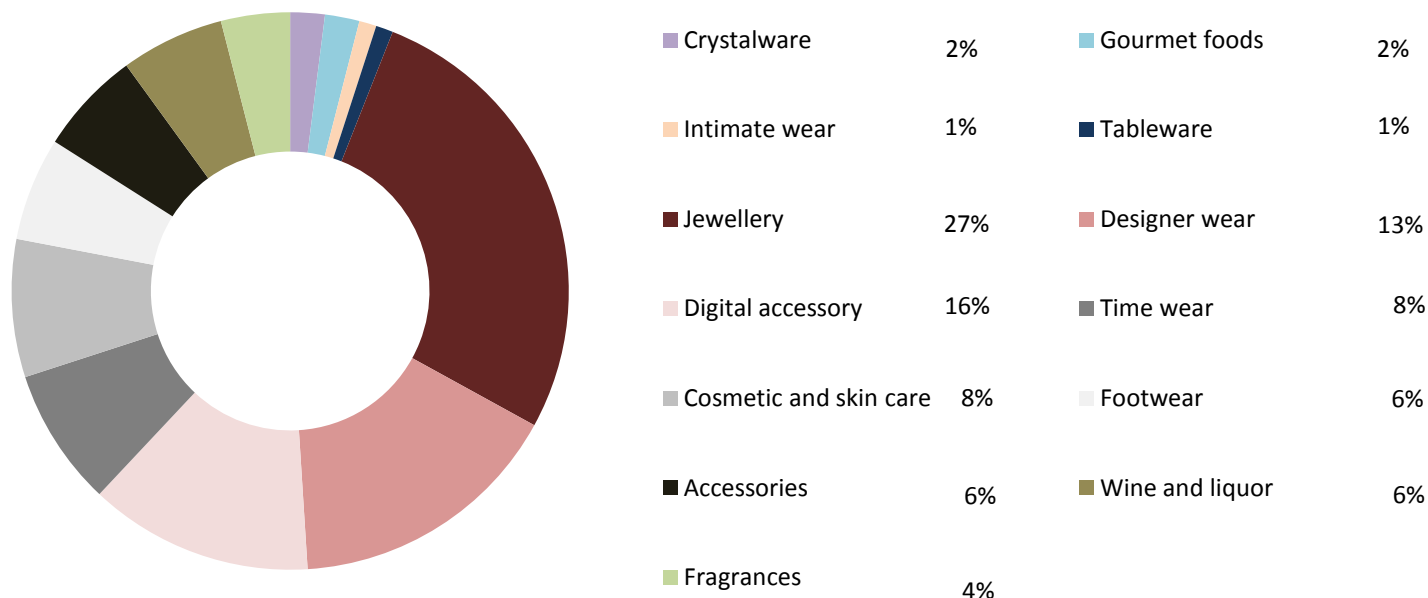
- Presence of more than 600 active franchisors in the country
- Presence of more than 40,000 franchisees (across sectors) in India
- Total manpower directly employed by these franchising businesses about 300,000

Source: The Retailer- Optimism in times of adversity, Ernst & Young, October 2008

Luxury retail market

- With the rise in disposable incomes and increasing urbanisation, the number of luxury goods consumers is increasing rapidly.
- Currently valued at US\$ 3.5 billion, the Indian luxury retail market is expected to grow to US\$ 30 billion by 2015, at an estimated growth rate of 25 per cent per annum, making India the twelfth-largest luxury retail market in the world.

Luxury market segments



Source: The Retailer, Ernst & Young, July 2008

Market analysis

Rural consumption

- Robust consumption in the rural economy is one of the key factors that has contributed to India’s consistent growth, even during the 2008–09 global economic slowdown. This can be attributed to the fact that rural India accounts for more than 70 per cent of all Indian households and close to two-fifths of the country’s total consumption pie.
- According to industry estimates, India’s rural economy constitutes 45 per cent of its GDP.
- A large number of organisations derive a significant proportion of their overall sales from small cities, which reflects the growing economic importance of India's rural consumer.
- Retail and fast-moving consumer goods (FMCG) players have begun devising exclusive marketing strategies to tap the rural consumer base.

Company	Category	Per cent sales from rural markets
Hindustan Unilever	Household products	45
Dabur India	Personal products	40
Dish TV	Media	33

Source: The Retailer, Ernst & Young, October 2009

Key players* ... (1/3)

Player	Store brands (products)
Tata Group	Landmark (books and music), Croma (multi-brand electronics), World of Titan (watches), Tanishq (jewellery), Titan Eye+ (eye wear), Westside (lifestyle retail store), Star Bazaar (hypermarket chain), Fashion Yatra (family fashion store)
Future Group	Central (shopping mall), Big Bazaar (hypermarket), Pantaloons (fashion outlet), Blue Sky (sunglasses), Brand Factory (multi-brand readymade garment), KB's Fair Price (essential products), Navaras (jewellery), Planet Store (multi-brand sports and lifestyle speciality retail), aLL (fashion garments), Ethnicity (Indian ethnic wear), Home Town (home needs), eZone (electronics), Furniture Bazaar (home furniture), Electronics Bazaar (under Big Bazaar, electronics stores), Home Bazaar (satellite version of Home Town), Collection I (lifestyle furniture), Gen M & One Mobile (mobile phones), M-Port (electronics), Shoe Factory (footwear) and Depot (books and music)

Key players* ... (2/3)

Player	Store brands (products)
Reliance Group	Reliance Fresh (neighbourhood store), Reliance Mart (supermarket), Reliance Super (mini-mart), Reliance Digital (consumer durables and information technology), Reliance Trends (apparel and accessories), Reliance Wellness (health, wellness and beauty), iStore (Apple products), Reliance Footprint (footwear), Reliance Jewels (jewellery), Reliance TimeOut (books, music and entertainment), Reliance AutoZone (automotive products and services) and Reliance Living (home ware, furniture, modular kitchens and furnishings)
RPG Group	Spencers (multi-format retail store), Music World (music and home video store) and Books & Beyond (book store)
K Raheja Group	Shopper's Stop (clothing, accessories, fragrances, cosmetics, footwear and home furnishing store), Crossword (book store), Inorbit Mall (fashion, lifestyle, food and entertainment) and Hyper City (hypermarket)

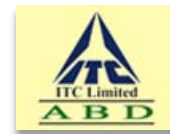
Key players* ... (3/3)

Player	Store brands (products)
Landmark Group	Lifestyle (garments and accessories), Home Centre (household and furniture, garment and retail), Splash (high street fashion brand) and Funcity (family entertainment brands)
Bharti Group	Field Fresh (fresh and processed fruits and vegetables — multiple-format store)
Mahindra Group	Mom and Me (infant and maternity care)
Aditya Birla Group	More (supermarket and hypermarket formats, earlier known as “Trinethra”)
Vishal Retail	Vishal Mega Mart (multiproduct stores)

* This list is indicative

Key trends ... (1/4)

- **Emergence of multiple franchisee model** — This model is largely adopted by companies offering products in value and semi-premium branded segments to enable greater scale, limit dependence on a few players and leverage local hands-on knowledge of the market. Jumbo King, the Mumbai-based snack major, and PepsiCo India are following this model.
- **Rural retailing** — Rural India accounts for more than 70 per cent of all Indian households and close to two-fifths of the total consumption pie. Retail companies have realised the importance of tapping the rural consumer base. For example, DCM Shriram's *Hariyali Kisaan Bazaar* and ITC's *Chaupal Sagar*.



Key trends ... (2/4)

- **Collaborative model for international products** — Joint ventures (JVs) are emerging as the preferred model for new entrants, wherein foreign players leverage the knowledge of the local player and focus on key issues such as quality, pricing, promotions and brand management. Key examples include the Bharti Group JV with Wal-Mart for retail and wholesale retail and the Staples JV with Pantaloon Retail Ltd to launch its products in the Indian market.



bharti



Pantaloon
Retail (India) Limited
a 'future group' venture

Sources: The Retailer, Ernst & Young, October 2009; Retail rivals close ranks to beat blues 'The Economic Times, August 10, 2009

Key trends ... (3/4)

- **Vertical integration** — Retail companies are looking at integrating their business models vertically to explore additional sources of revenues. For example, Dabur India Ltd's retail foray into health and beauty retail business through a retail chain known as 'NewU', and Nokia opening its concept stores.
- **Collaboration in back-end resource sharing** — Another interesting trend in the Indian retail market is the collaboration of back-end resources by aligning their sourcing operations and sharing private labels, logistics, warehouses and hiring details on a transactional payment basis. For example, the Future Group, the Aditya Birla Group, the RPG Group and the Reliance Group have come together to reduce their operational costs and improve margins.



Key trends ... (4/4)

- **Increasing market reach** — Retail companies now seek to increase their footprint in Tier II, III, IV cities and towns to capture the domestic demand. For example, the Raymond Group has plans to open more than 200 stores across the country by mid-2011 and the Tata Group's retail venture, Westside, is planning to expand its franchisee base in Tier II and Tier III cities.
- **Innovation in new retail formats** — Retailers are not only investing in their operations, but are also exploring the possibility of adopting new business models or formats. For example, Reliance Retail has devised a new business model under which it will open small employee-friendly retail outlets at the premises of large corporate organisations. The Network18 group has ventured into online and on-air retail marketing and distribution through HomeShop18.



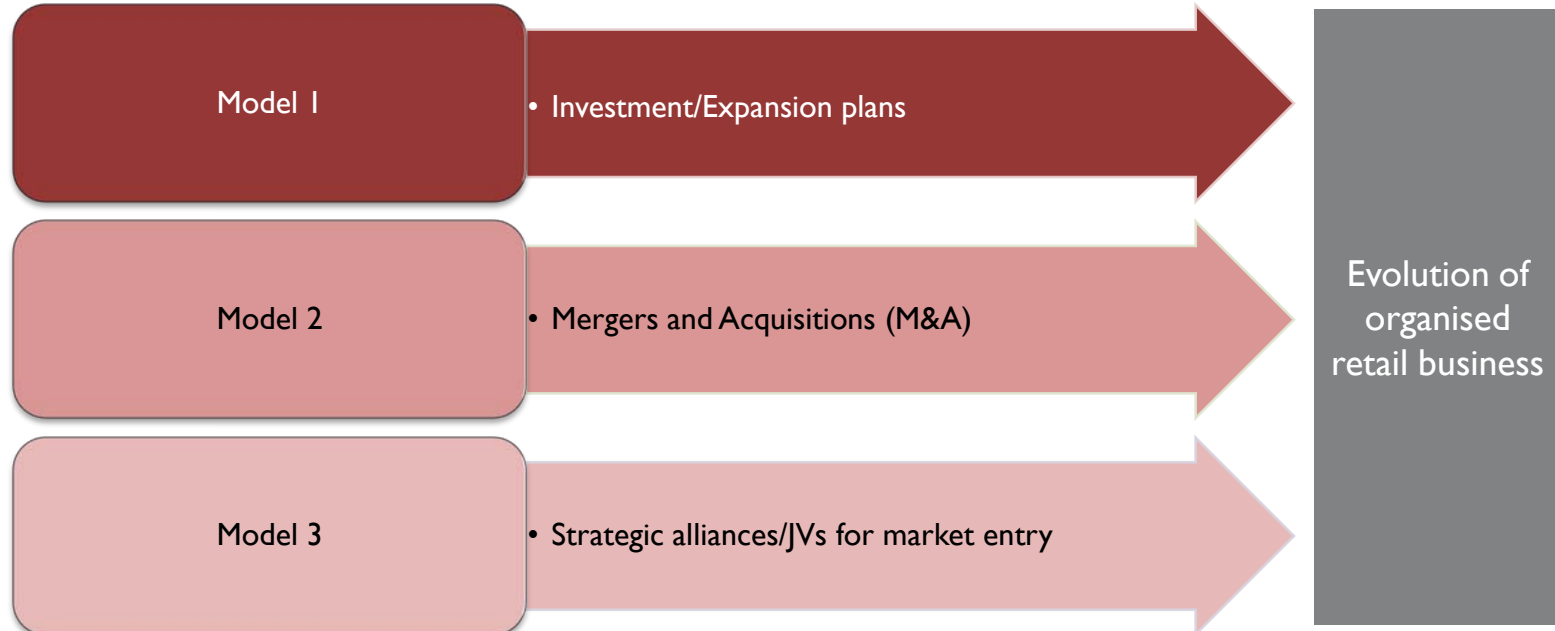
Sources: Raymond to open 200 stores, The Hindu, January 10, 2010; Westside plans expansion via franchise route in small cities, The Economic Times, May 22, 2008; Reliance Retail to open outlets at corporate, The Economic Times, January 10, 2010

Contents

- ❖ Advantage India
- ❖ Market overview
- ❖ **Investments**
- ❖ Policy and Regulatory framework
- ❖ Opportunities
- ❖ Industry associations

Investments ... (1/6)

- The organised retail industry is at a nascent stage of development and is witnessing considerable activity in terms of investments and expansions.



Investments ... (2/6)

Investment/Expansion plans*	
Company	Plans
Shoppers Stop Ltd	Currently operates 30 stores in India; plans to add eight stores with an investment of US\$ 28 million in 2010
Pantaloon Retail India Ltd	Plans to invest nearly US\$ 83 million to expand its various retail formats by June 2010
Spencer's Retail Ltd	Currently operates 220 stores and plans to open at least 12 large-sized stores in 2010 with an estimated investment of around US\$ 28 million
Gucci Group NV, Netherlands	Acquired a 51 per cent stake in its Indian franchisee, Luxury Goods Retail Private Ltd, with an investment of US\$ 217,000, to open single-brand stores
Retail Food Group, Australia	Plans to enter the Indian market in 2010 with its four global brands — Michel's Patisserie, Donut King, Brumby's Bakery and 'bb's café; has ambitious investment plans to clock revenues worth US\$ 87 million from the Indian market within five years from the commencement of operations

*This list is indicative

Source: Retailers upbeat on 2010; line up Rs 600 cr for investment, <http://business.rediff.com>, December 29, 2009; Gucci can open single-brand stores in India, Financial Express, December 04, 2009; Lifestyle plans 50 stores by '13', www.mydigitalfc.com, December 03 2009; Timex to open new stores, launch two lifestyle products, The Economic Times, November 02, 2009; Raymond to open 200 stores, The Hindu, January 10, 2010

Investments ... (3/6)

Investment/Expansion plans*	
Company	Plans
Lifestyle International Pvt Ltd	Plans to open 50 more stores across India by 2012–13, which will include 35 lifestyle stores to retail apparel, cosmetics and footwear, as well as about 15 Home Centres stores that will sell home furnishing goods, among others
Timex group, USA	Plans to nearly double its retail stores by mid-2011 to around 120 from its existing 68 outlets, with an estimated investment of US\$ 1.25 million
Raymond Ltd	Opened 100 stores in the last three months and plans to open another 200 or more stores in the next 18 months

*This list is indicative

Investments ... (4/6)

M&A in the Indian retail sector*			
Acquirer Name	Target Name	Year	Format
India Hospitality Corp, USA (hospitality)	Treasure Food and Beverage (retail restaurants)	November 2009	Acquisition
Gitanjali Gems Ltd (retail jewellery)	Spectrum Jewellery Pvt Ltd, Thailand (diamonds and other precious stones)	October 2009	Acquisition
Gitanjali Gems Ltd (retail jewellery)	Alliance Jewelleries Pvt Ltd, Lebanon (designer of gold and diamond studded jewellery)	October 2009	Acquisition
Gitanjali USA Inc, a wholly owned subsidiary of Gitanjali Gems Ltd (retail jewellery)	Diamlink Inc, USA (diamonds and diamond-studded jewellery)	July 2009	Acquisition
Gruppo Coin, Italy (fashion retail)	Brandhouse Retails Ltd (fashion retail)	February 2009	JV
Inditex, Spain	Trent Ltd (retail)	February 2009	JV

*This list is indicative

Source: Bloomberg accessed on December 04, 2009

Investments ... (5/6)

Partnership with international players*	
Company	Partnership arrangements
Reliance Group (Reliance Industries Ltd)	<ul style="list-style-type: none"> • Marks & Spencer — to open 50 stores to sell women's, men's and children's clothing and homeware over the next five years • Pearle Europe — to launch a chain of optical stores • Vornado Realty Trust — to collectively invest US\$ 500 million to acquire, develop and operate retail shopping centres in key cities • Office Depot Inc — to launch 250 standalone stationery stores by 2010 • Hamleys, UK — exclusive pan-India franchise arrangement to open 20 Hamley's toy outlets by 2015, with an investment of US\$ 26 million
Future Group	<ul style="list-style-type: none"> • The Future Group owns a retail licence from Staples Inc USA to retail more than 700 products and carry the latter's entire range of technology and stationery products • Axiom Telecom LLC, UAE — to distribute and service telecom products • Celio SA — to open Celio's retail garment branded stores in India • Clarks International, UK — to sell its premium international footwear label • Fashion Box Group, Italy — to sell its luxury denim brand 'Replay'

*This list is indicative

Source: Marks & Spencer joins with Reliance to open 50 stores in India, <http://www.telegraph.co.uk>, April 19 2008; Retail, Pearle Europe in JV for optical products, www.highbeam.com, March 4, 2008; Reliance ties up with Vornado, www.indianrealtynews.com, August 14, 2010; Reliance Retail talked to Office Depot-paper, www.reuters.com; Reliance Retail to launch Hamleys toy shops here, Financial express, August 13, 2008; Future Group opens the first 'Staples' store in India, www.inrnews.com, December 05, 2007; Pantaloon Retail enters into joint venture with Axiom Telecom LLC, UAE, www.inrnews.com, July 20, 2007;

Investments ... (6/6)

Partnership with international players*	
Company	Partnership arrangements
RPG Group	<ul style="list-style-type: none"> • Cellucom Group, Dubai — to offer mobility solutions and offer a better shopping experience by sharing its knowledge of mobile technology in a consumer-friendly ambience • Au Bon Pain, USA — to set up 100 standalone dining and bakery café outlets • Chad Valley, UK (owned by Woolworths plc.) — to offer its range of toys through standalone exclusive stores and shop-in-shop formats within the same layout
K Raheja Group	<ul style="list-style-type: none"> • Mothercare plc, UK — to sell its brand of maternity and baby/children's clothes • Argos, UK — to open its unique format of catalogue stores
DLF Group	<ul style="list-style-type: none"> • Mothercare plc, UK — entered a new joint venture in India with DLF Brands Ltd to complement its India business footprint in segments such as maternity clothing, baby clothes and nursery items
Tata Group	<ul style="list-style-type: none"> • Tesco — entered a deal with the retail arm of the Tata Group, to supply products, services and expertise to the latter's hypermarket business, Star Bazaar

*This list is indicative

Source: Pantaloon in JV with menswear firm Celio, www.livemint.com, April 17, 2008; Future Group - Clarks Joint Venture For Promoting Clarks Footwear in India', www.india-server.com/news/future-group-clarks-joint-venture-for-13875.html, October 10, 2009; <http://www.rpggroup.com/cellucom.html>; RPG-Narula JV carts in Au Bon Pain cafe chain, <http://sify.com>, July 07, 2008; Spencer's partners UK-based Woolworths for Chad Valley toy retail brand news, www.domain-b.com, June 09; Shoppers Stop, HyperCITY sign MoU with UK's Home Retail, The Economic Times, February 24, 2007; Mothercare accelerates its expansion plans in India, www.fibre2fashion.com, November 20, 2009; Tesco teams up with Tata to enter Indian grocery market, www.independent.co.uk, August 13, 2008

Contents

- ❖ Advantage India
- ❖ Market overview
- ❖ Investments
- ❖ **Policy and Regulatory framework**
- ❖ Opportunities
- ❖ Industry associations

Policy and regulatory framework ... (1/4)

The FDI policy of the Indian Government and the Foreign Exchange Management Act of 1999 governs foreign investment in the country.

FDI policy in retail trade			
Sector/Activity	FDI cap/Equity	Entry route	Other conditions
Wholesale cash-and-carry trading (not specifically a retail sale)	100 per cent	Automatic	Subject to FDI guidelines for trading, issued by the Department of Industrial Policy and Promotion (DIPP)
Trading for exports	100 per cent	Automatic	
Trading of items sourced from small-scale sector	100 per cent	Foreign Investment Promotion Board (FIPB)	
Test marketing of items for which a company has received approval for manufacturing	100 per cent	FIPB	
Single brand product retailing	51 per cent	FIPB	

Source: The retailer, Ernst & Young, July 2008

Policy and regulatory framework ... (2/4)

Goods and Service Tax (GST)

- GST, which is expected to be introduced in India with effect from April 1, 2011, aims to establish an economically efficient tax system that is neutral in its application, attractive in terms of distribution and removes the tax cascading prevalent in the existing system.
- Implementation of GST is expected to simplify the supply chain for consumer goods, make cash flow improvements by removing the excise duty on goods manufacturing, lower business input costs and enable enhanced profitability due to the elimination of tax cascading, etc.

Policy and regulatory framework ... (3/4)

Key areas of retail business influenced by GST

Production and distribution structure

The abolition of Central Sales Tax (CST) is likely to warrant a re-evaluation of procurement and distribution arrangements. Removal of excise duty on products may result in cash flow improvements, since GST will be paid on sale/supply rather than on the product.

Pricing and profitability

The elimination of tax cascading is expected to lower business input costs and improve profitability. The application of tax at all points in the supply chain is likely to require adjustments being made to profit margins, especially for distribution and retailers.

Policy and regulatory framework ... (4/4)

Key areas of retail business influenced by GST

Cash flow

Tax refunds on goods purchased for resale imply a significant reduction in the inventory cost of distribution. Distributors are also expected to enjoy the cash flow from collection of GST in their sales, before remitting it to the government at the end of the tax-filing period.

System changes and transition management

Changes need to be made to accounting and IT systems to record transactions, in line with GST requirements. Appropriate measures need to be taken to ensure a smooth transition to the GST regime, for example, through employee training, compliance under GST, customer education and inventory credit tracking.

Contents

- ❖ Advantage India
- ❖ Market overview
- ❖ Investments
- ❖ Policy and Regulatory framework
- ❖ **Opportunities**
- ❖ Industry associations

Opportunities

- India has one of the largest number of retail outlets in the world. The sector is witnessing exponential growth with retail development taking place not only in major cities and metros, but also in Tier-II and Tier-III cities.
- In the next phase of the retail revolution in the country, retail companies are expected to tap the rural segment further as their key engine of growth. FMCG players are focussing on the rural market as it constitutes over 33 per cent of India's FMCG consumer base. For example, ITC is tapping into the rural retail market through its e-Choupal and Choupal Sagar rural hypermarkets.
- India is also receiving greater attention in terms of its offering a price-competitive sourcing base for large retail players. Global retailers such as Wal-Mart, GAP, Tesco, JC Penney, etc., are stepping up their sourcing from India and moving from third-party buying offices to establishing their own wholly-owned/wholly-managed sourcing and buying offices.

Source: ASSOCHAM Financial Pulse "Prospects in Indian Retail Sector", December 2009; Dabur India Ltd Investor presentation, February 2009

Contents

- ❖ Advantage India
- ❖ Market overview
- ❖ Investments
- ❖ Policy and Regulatory framework
- ❖ Opportunities
- ❖ **Industry associations**

Industry associations

Retailers Association of India

111/112, Ascot Centre,
Next to Hotel Le Royal Meridien, Sahar
Road, Sahar, Andheri (E),
Mumbai – 400099.
Tel: 91- 22 - 28269527 - 28
Fax: 91- 22- 28269536
E-mail: info@rai.net.in
Website: www.rai.net.in

The Franchising Association of India

A-13, Kailash Colony
New Delhi – 110048
Tel: 91- 11- 2923 5332
Fax: 91- 11- 2923 3145
Website: www.fai.co.in

Note

Wherever applicable, numbers in the report have been rounded off to the nearest whole number.

Conversion rate used: US\$1 = INR48

DISCLAIMER

India Brand Equity Foundation (“IBEF”) engaged Ernst & Young Pvt Ltd to prepare this presentation and the same has been prepared by Ernst & Young in consultation with IBEF.

All rights reserved. All copyright in this presentation and related works is solely and exclusively owned by IBEF. The same may not be reproduced, wholly or in part in any material form (including photocopying or storing it in any medium by electronic means and whether or not transiently or incidentally to some other use of this presentation), modified or in any manner communicated to any third party except with the written approval of IBEF.

This presentation is for information purposes only. While due care has been taken during the compilation of this

presentation to ensure that the information is accurate to the best of Ernst & Young and IBEF’s knowledge and belief, the content is not to be construed in any manner whatsoever as a substitute for professional advice.

Ernst & Young and IBEF neither recommend nor endorse any specific products or services that may have been mentioned in this presentation and nor do they assume any liability or responsibility for the outcome of decisions taken as a result of any reliance placed on this presentation.

Neither Ernst & Young nor IBEF shall be liable for any direct or indirect damages that may arise due to any act or omission on the part of the user due to any reliance placed or guidance taken from any portion of this presentation.