

Retail

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Contents

- ❖ Advantage India
- ❖ Market overview and trends
- ❖ Growth drivers
- ❖ Success stories: Shoppers Stop, Pantaloon
- ❖ Opportunities
- ❖ Useful information

Advantage India

Demand potential

- Rapid urbanization with increasing purchasing power has led to growing demand; consumers have also become more brand conscious
- The untapped rural market has high growth potential

Innovation in Financing

- Collective effort of financial houses and banks with retailers are providing strength to consumers to go for durable products with easy credit

2015E

Market size:
USD574
billion

Advantage India

Increasing investments

- Foreign retailers are continuously entering the Indian market
- Cumulative FDI inflow in retail over April 2000 - August 2012 was USD42.7 million; this is expected to increase further as 51 per cent FDI in multi brand retail is approved and limit is raised to 100 per cent in single brand retail

2012

Market size:
USD450
billion

Policy support

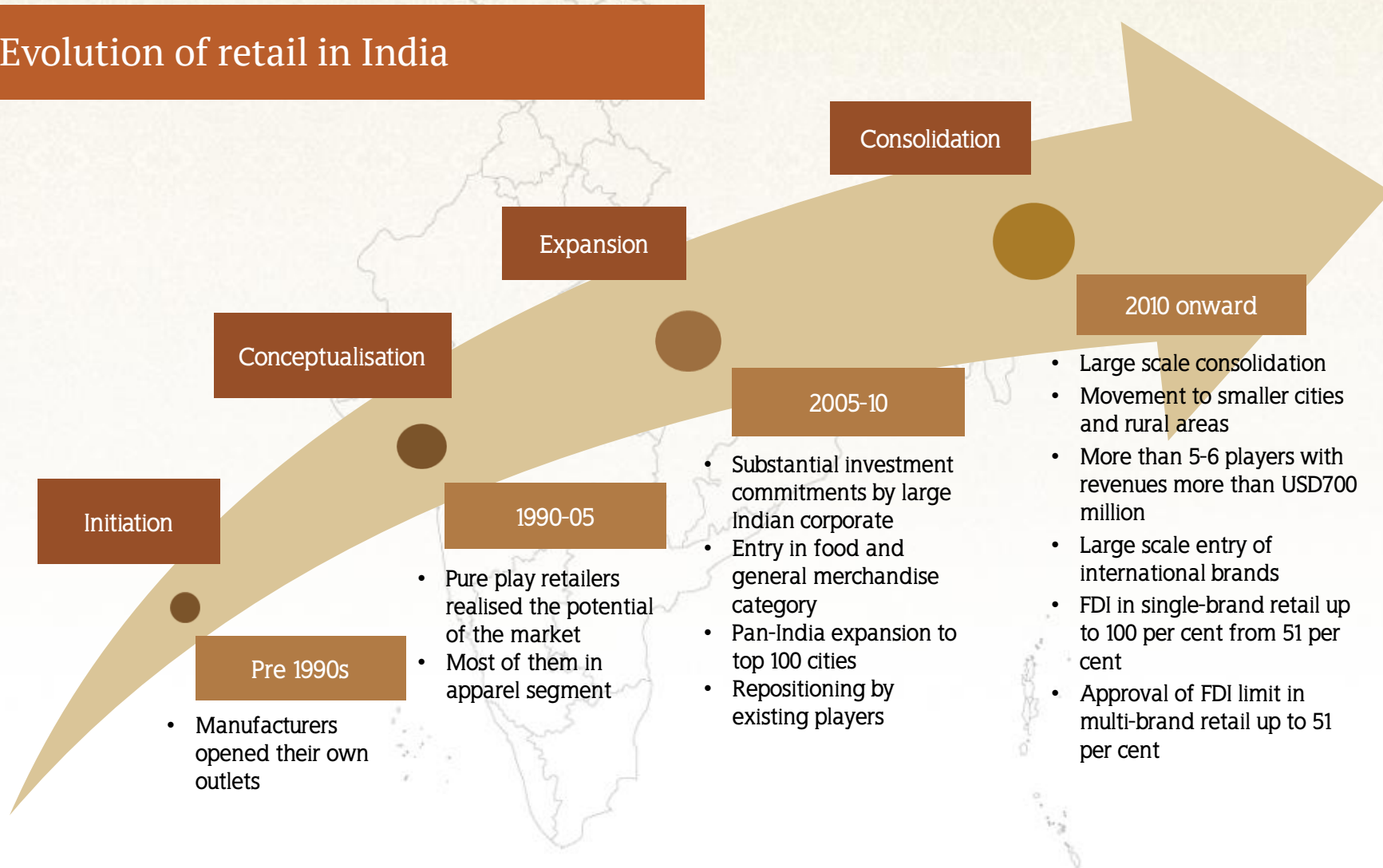
- 51 per cent FDI in multi brand retail
- FDI up to 100 per cent in single brand retail and for cash and carry (wholesale) trading and exports
- Introduction of Goods and Service Tax (GST) as a single unified tax system from August 2012

Source: Business standard, Business Monitor international (BMI), Winning in India's Retail Sector, PWC, Aranca Research
Notes: E - estimate for 2015, FDI - Foreign Direct Investment

Contents

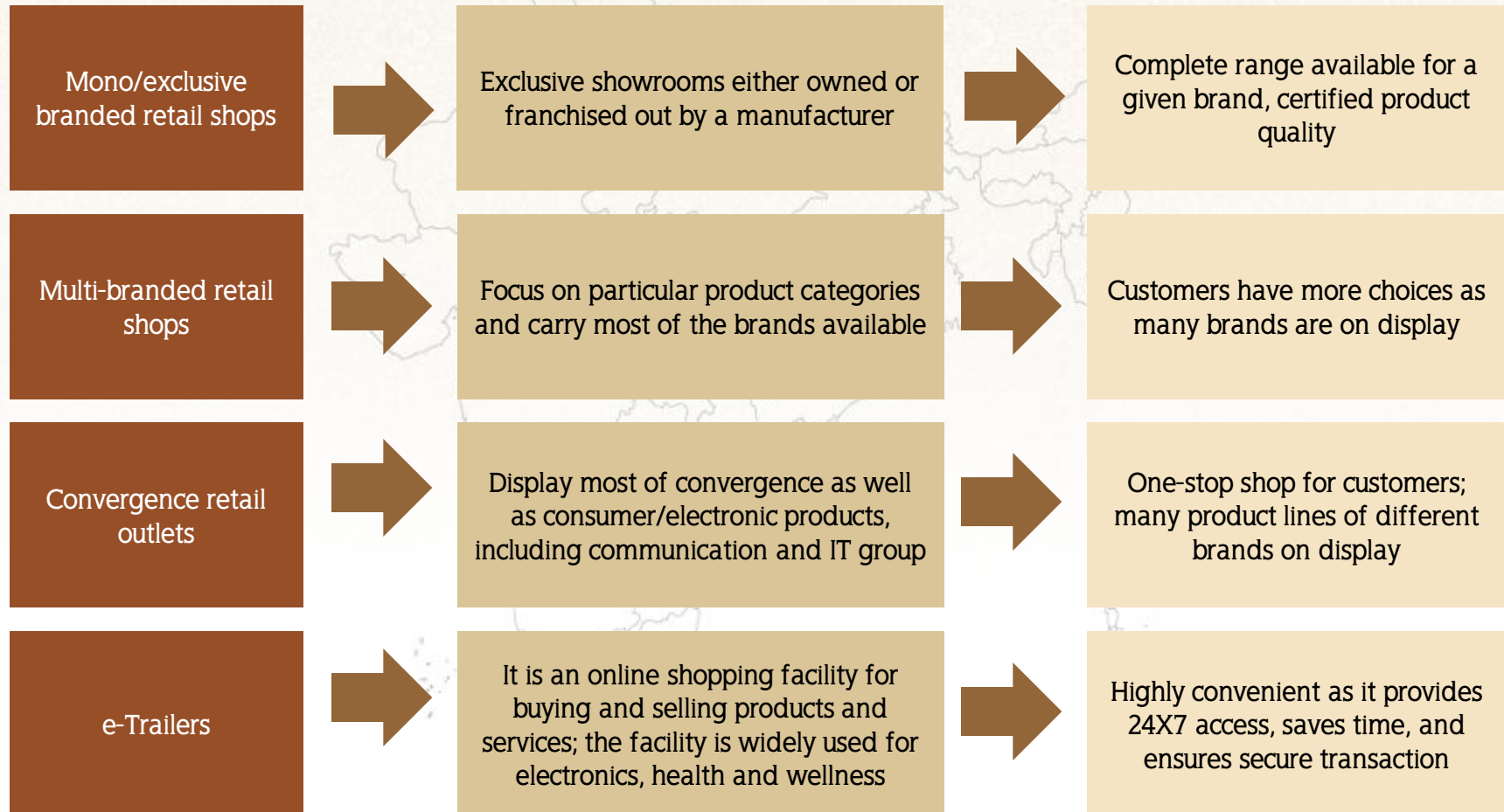
- ❖ Advantage India
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- ❖ Opportunities
- ❖ Useful information

Evolution of retail in India



Source: Technopak Advisors Pvt Ltd, Aranca Research

Retail formats in India



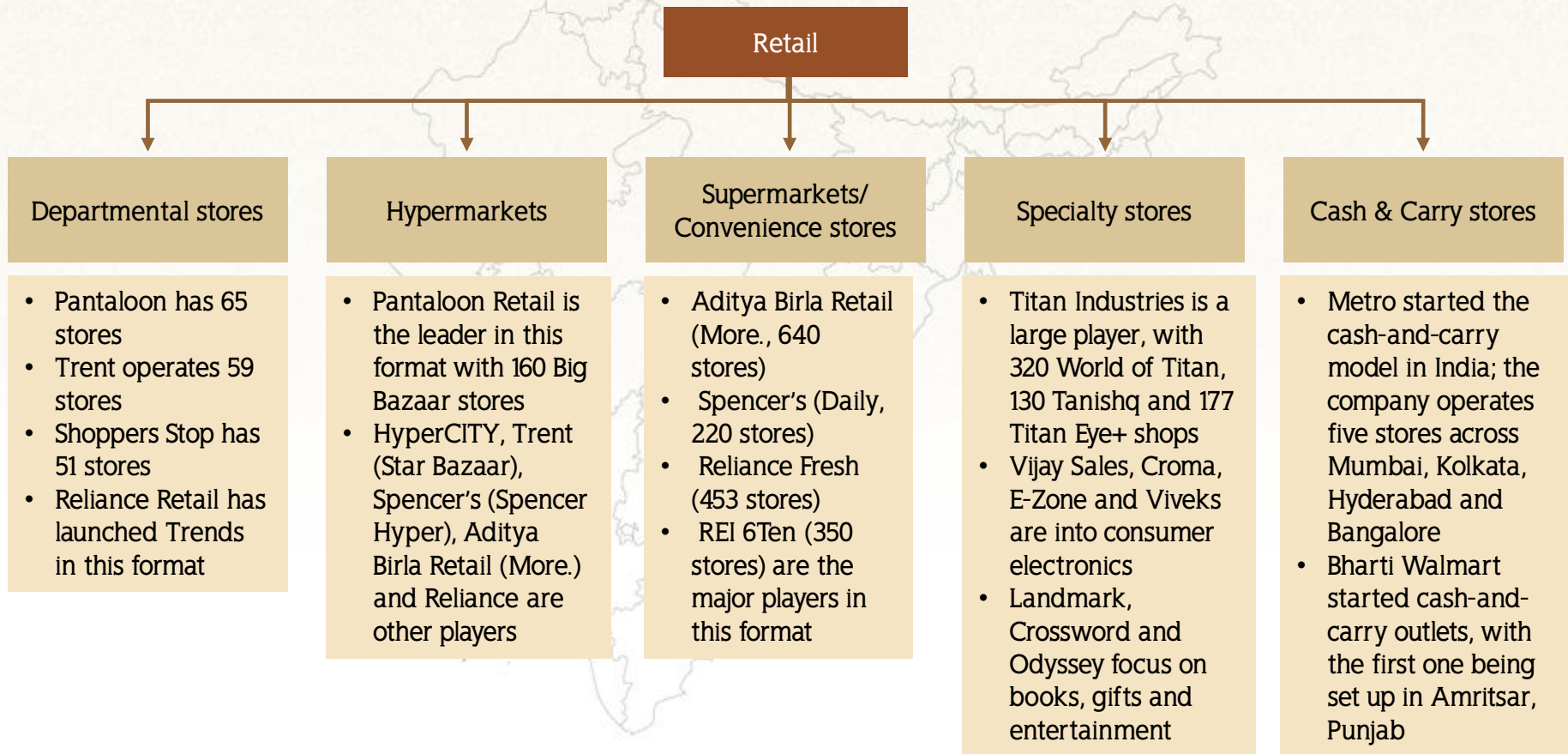
Source: Aranca Research, Notes: IT - Information Technology

Key players in the Indian retail industry



Source: Anarca Research

Competitive landscape in the Indian retail sector



Source: Company websites, KPMG, Aranca Research

Key strategies of Indian retailers

Multiple franchisee model



Rural retailing



Collaboration for back-end resource sharing



Collaborative model for international products



Vertical integration



Increasing market reach



Innovation in new retail formats



Direct sourcing arrangements



Focus on private labels



Source: KPMG international 2011, Aranca Research

Strategies adopted by Indian retailers for sales maximisation

Offering discounts

- Most retailers have advanced off-season sales from 15 days to a month with discounts ranging from 20-70 per cent on certain products
- Higher discounts and other value added services for members

Lowering prices

- Certain retailers adopt 'First Price Right' approach. Retailers do not offer discounts under this strategy - they directly compete on the selling price by offering a best price without any markdowns

Offering value added services

- Companies offer innovative value added services such as customer loyalty programmes, happy hours on shopping deals
- Offers for senior citizens, contests for students, and lottery gains are now very common

Leveraging partnerships

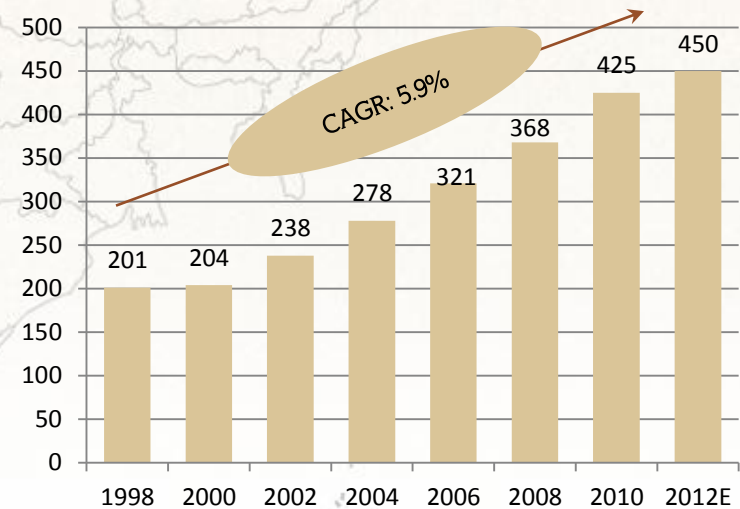
- In order to keep customers on shop floors for a longer time and increase conversions, retailers are now pitching to partner with manufacturers, service providers, financial companies, etc. to create a buzz around certain product categories

Source: KPMG International, Aranca Research

Strong growth in the Indian retail industry

- The retail sector in India is emerging as one of the largest sectors in the economy
- By 2012, total market size is likely to touch USD450 billion, thereby marking a CAGR of 5.9 per cent since 1998

Market size over the past few years (USD billion)

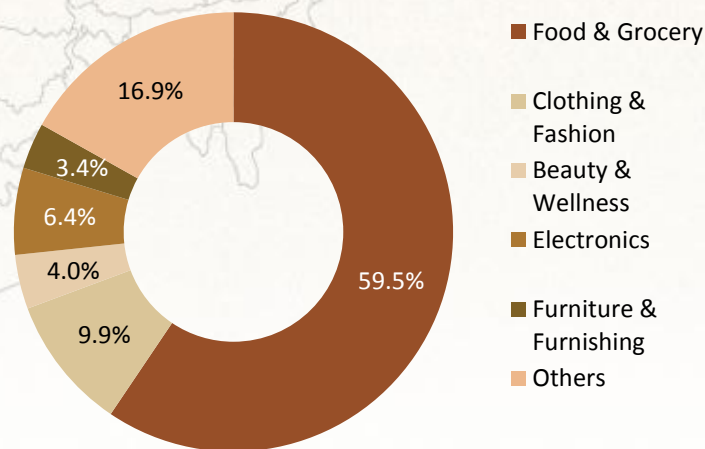


Source: Economist Intelligence Unit, Euro monitor, Aranca Research

Food and groceries account for the largest share in revenues in India

- In 2011, 'Food and Grocery' accounted for nearly 59.5 per cent of total revenues in the retail sector in India; 'Clothing and Fashion' followed with a share of 9.9 per cent
- In 2011, 48 per cent of total household income in India was spent on food and groceries
- Demand for western outfits and readymade garments has been growing at 40-45 percent annually; apparel penetration is expected to increase to 30-35 per cent by 2015

Market break-up by revenues (2011)

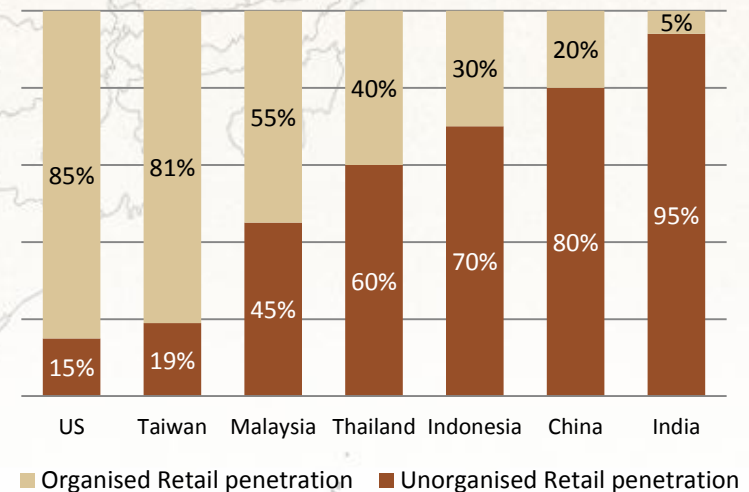


Source: Indian Retail Market September 2011, Deloitte Aranca Research

Organised retail in nascent stage ... (1/2)

- Organised Retail Penetration (ORP) in India is low (5 per cent) compared to other countries such as the US (85 per cent)
- This indicates strong growth potential for organised retail in India

Retail penetration across countries (2011)

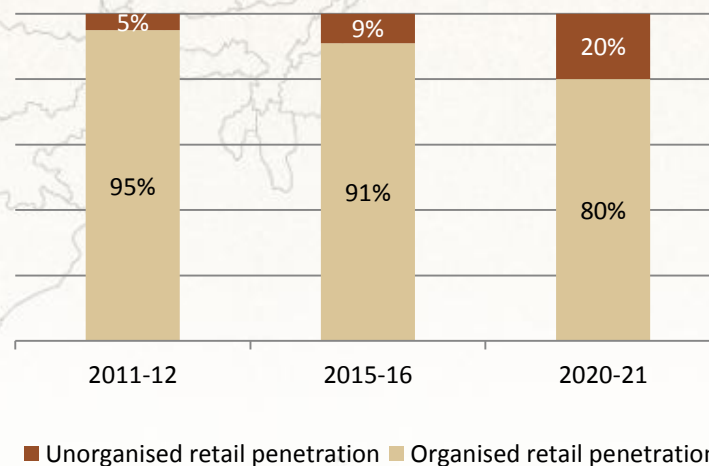


Source: E&Y report, Aranca Research

Organised retail in nascent stage ... (2/2)

- Indian retail market is in its nascent stage; unorganised players control the market with 95 per cent market share during 2011-12
- There are over 12 million mom-and-pop stores
- Organised retail in India is expected to be 9 per cent of total retail market by 2015 and 20 per cent by 2020

Organised retail has huge scope for expansion

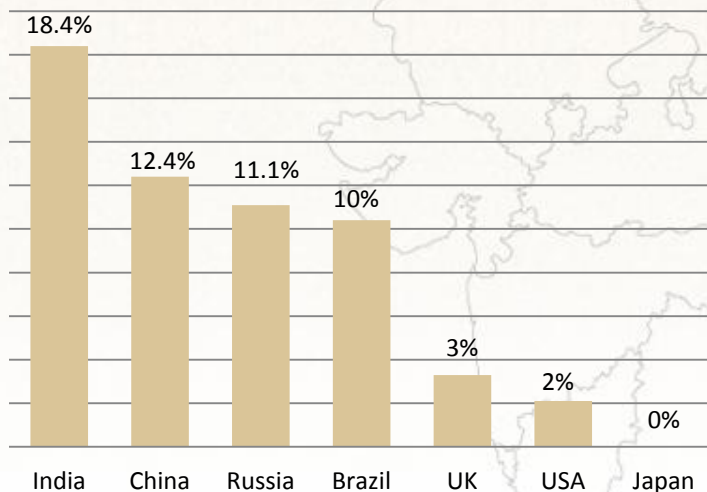


Source: Deloitte report, Winning in India's Retail Sector, Aranca Research

Notes: 'Mom-and-pop' stores are small stores that are typically owned and run by members of a family

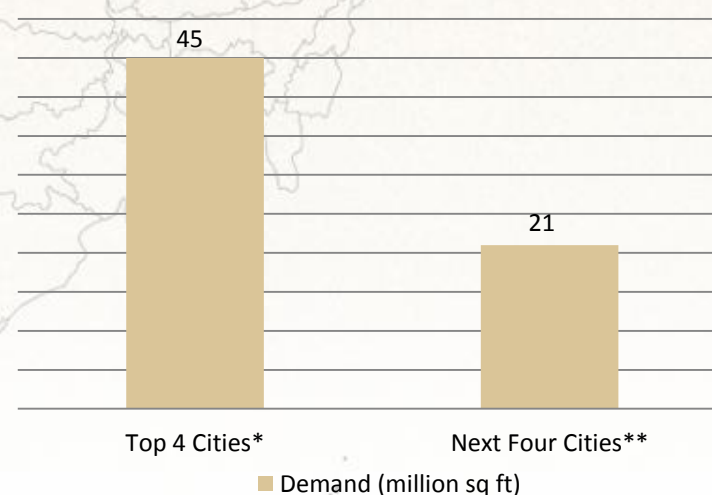
Growth expected across product categories and formats ... (1/2)

Grocery sales growth across countries (2010)



Source: IGD International: Indian Retail Forum presentation - 2010

Additional mall space requirement by 2013-14

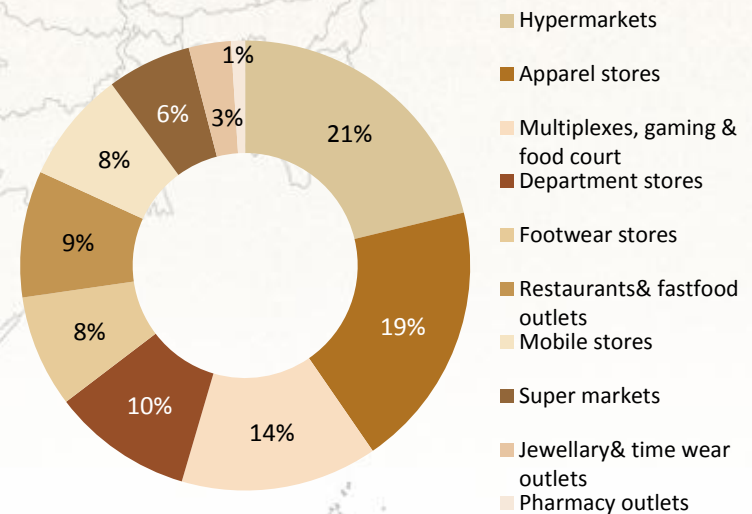


Source: Technopak Advisors Pvt Ltd, Cushman & Wakefield Research
Note: * - NCR, Mumbai, Kolkata and Chennai, ** - Bangalore, Pune, Hyderabad and Ahmadabad

Growth expected across product categories and formats ... (2/2)

- India's 'Grocery' retail segment is the most attractive in the world
- Hypermarkets would be the largest retail segment, accounting for 21 per cent of total retail space by 2013-14

Break-up of all mall space by format (2013-14)



Source: Technopak Advisors Pvt Ltd, Cushman & Wakefield Research

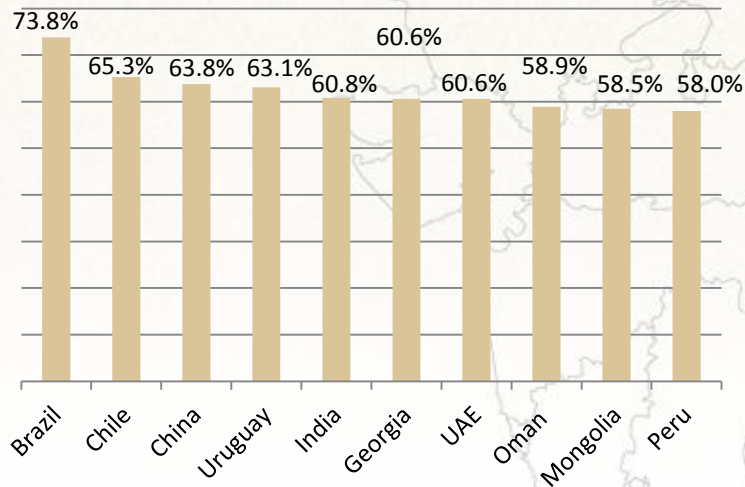
Significant global positioning of the Indian retail sector ... (1/2)

- India is ranked fifth in the Global Retail Development Index in 2012
- India's strong growth fundamentals along with increased urbanisation and consumerism opened immense scope for retail expansion for foreign players
- Rapid emergence of organised retail outlets like mega malls and hypermarkets are augmenting the growth of organised retail in the country
- Constant improvements in supply chains and logistics by retailers for competitive advantage and meeting consumer demands

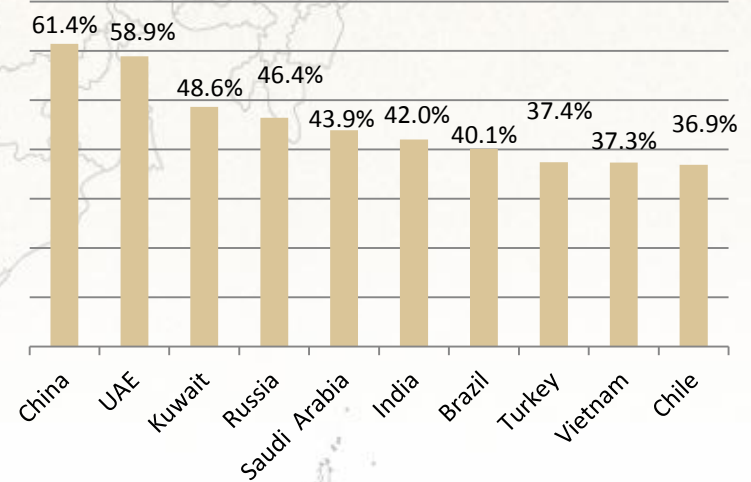
Source: Indian Retail Market September 2011, Aranca Analysis

Significant global positioning of the Indian retail sector ... (2/2)

India ranks fifth in the 2012 Global Retail Development Index



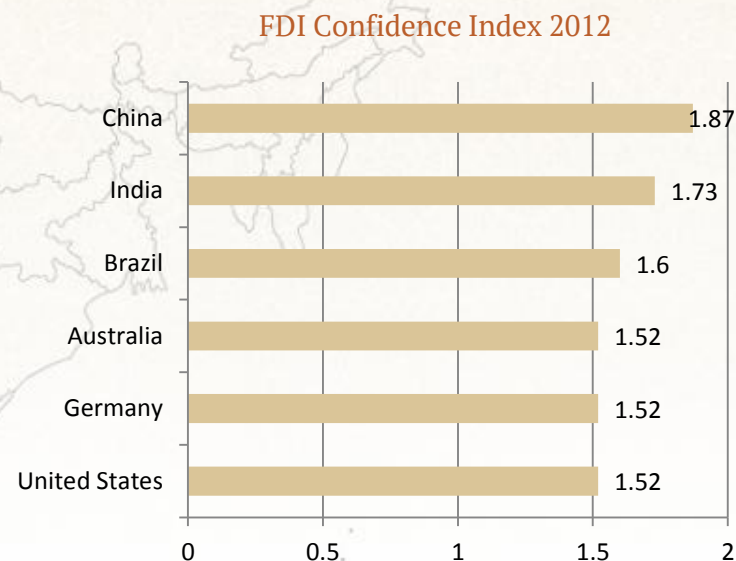
India ranks sixth in the 2011 Global Apparel Index



Source: A.T.Kearney 2011 Global Retail Development Report, Aranca Analysis

High growth potential of the sector is attracting investors ... (1/2)

- India has occupied a remarkable position in global retail rankings; the country has high market potential, low economic risk, and moderate political risk
- In market potential, India ranks second after Brazil
- Net retail sales in India is also quite significant among emerging and developed nations; the country is ranked third after China and Brazil
- From an overall perspective, given its high growth potential, India scores well among foreign investors compared to global economy peers; for example, in the FDI Confidence Index* 2012, India ranks second, up from third position in 2010



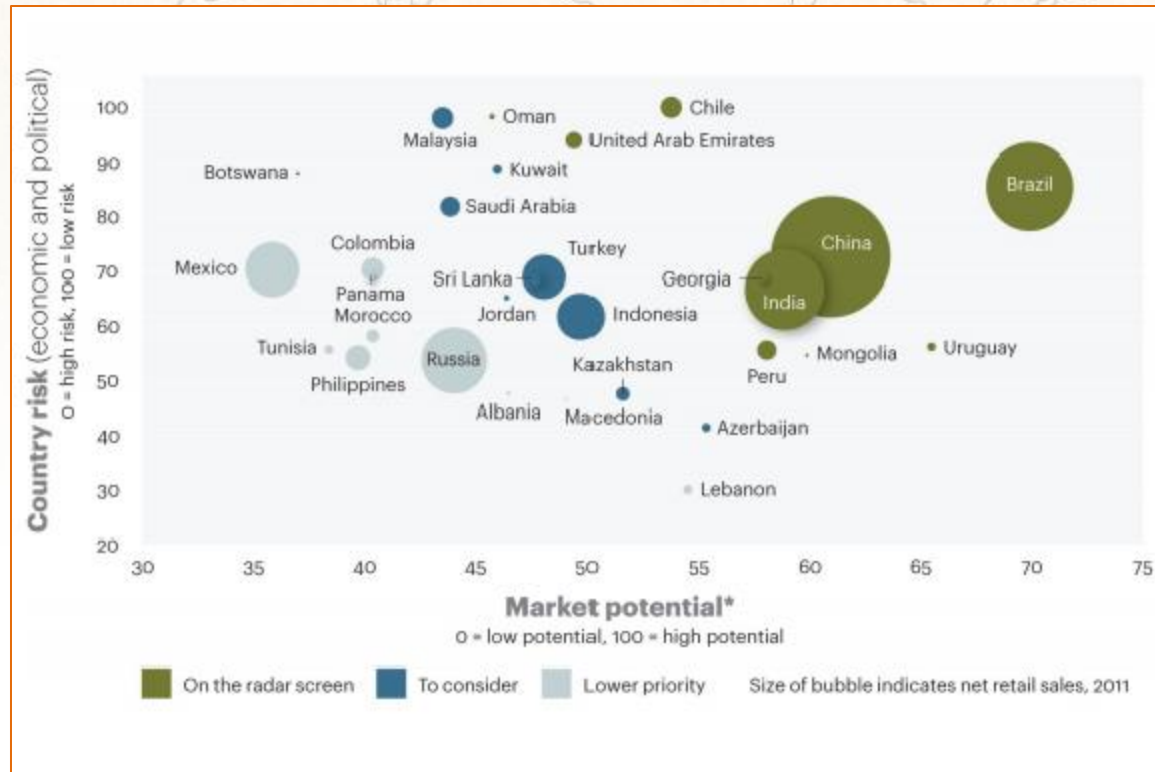
Source: A.T.Kearney 2012 FDI Confidence Index , Aranca Analysis

Note: FDI - Foreign Direct Investment;

*The FDI Confidence Index assesses the impact of political, economic and regulatory changes on FDI preferences

High growth potential of the sector is attracting investors ... (2/2)

2012 GRDI country attractiveness in retail Investment

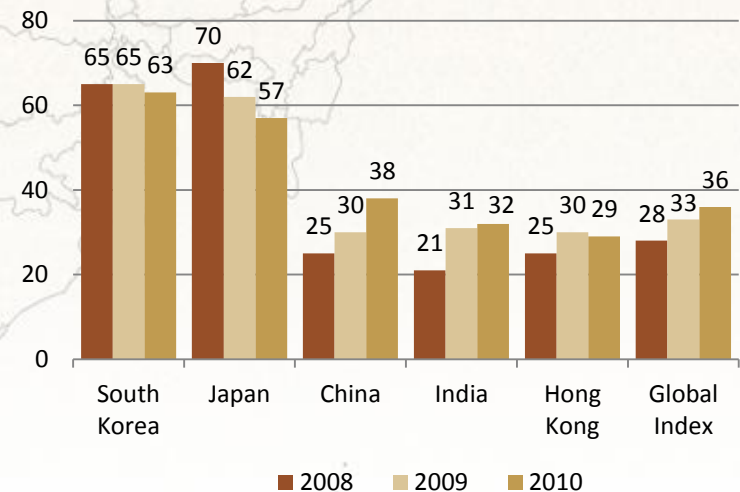


Source: 2012, A.T. Kearney Global Retail Development Index (GRDI), Aranca Research

The rising prominence of online retail

- Online commerce is expected to be next major area for retail growth in India; India's e-trailer segment is expected to grow to a size of USD1.5 billion by 2015
- The key drivers for growing importance of online retail are a young population aided by easier access to credit and payment options; increasing internet penetration and speed, 24-hour accessibility, convenient and secured transactions
- Computer peripherals, camera and mobiles, and lifestyle segments account for a majority of total purchases

APMEA Master card regional online shopping index

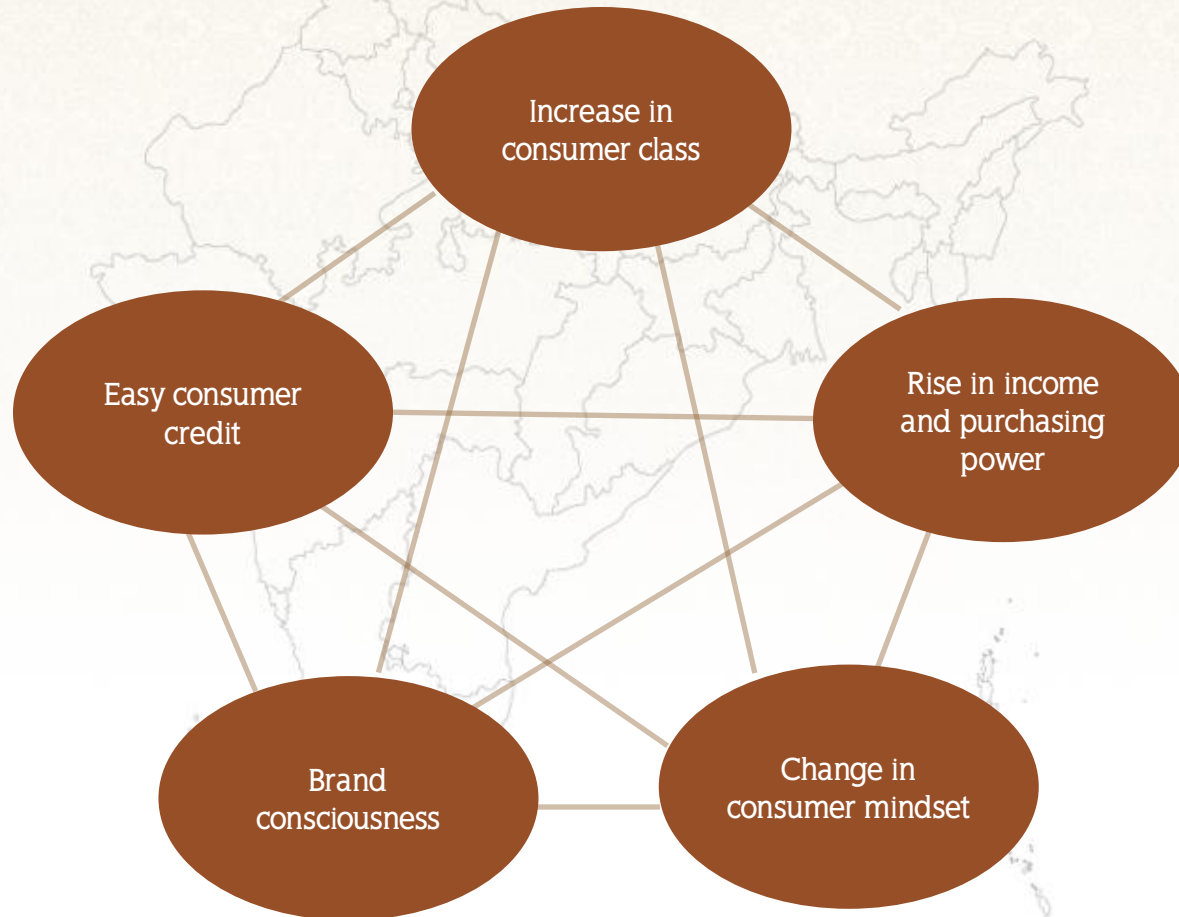


Source: MasterCard Worldwide Insights 4Q 2010, Aranca Research
Notes: APMEA - Asia/ Pacific, Middle East and Africa

Contents

- ❖ Advantage India
- ❖ Market overview and trends
- ❖ Growth drivers
- ❖ Success stories: Shoppers Stop, Pantaloon
- ❖ Opportunities
- ❖ Useful information

Growth drivers of retail in India



Source: Aranca Research

Favourable FDI policy encouraging investment

FDI up to 100 per cent allowed under the automatic route in Cash & Carry (wholesale)

Government proposed introducing FDI in multi-brand retail (2008); follows up in 2012 by approving plan to raise the FDI limit to 51 per cent

1991

2006

2012

1997

2008

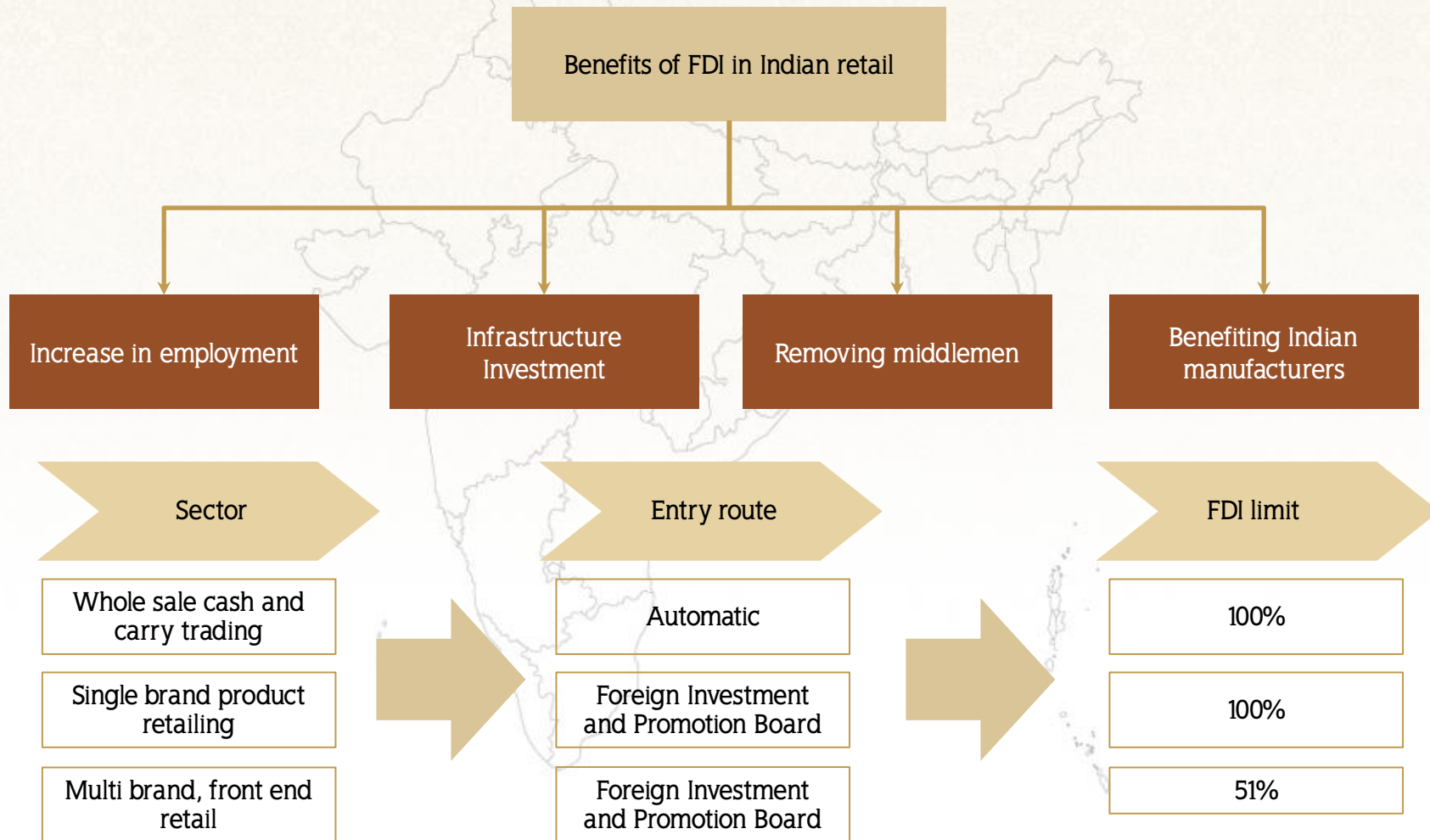
Liberalisation: FDI up to 51 per cent allowed under the automatic route in select priority sectors

FDI up to 51 per cent allowed with prior government approval in single-brand retail

Government approved 51 per cent FDI in multi-brand retail and increased FDI limit to 100 per cent (from 51 per cent) in single brand retail

Source: Aranca Research

Indian retail is set to garner the benefits of FDI policy



FDI policy details on single and multi brand retail in India

51% FDI in multi brand retail
Status: Policy passed



- Minimum investment cap is USD100 million
- 30 per cent procurement of manufactured or processed products must be from SMEs
- Minimum 50 per cent of total FDI must be invested in back-end infrastructure (logistics, cold storage, soil testing labs, seed farming and agro-processing units)
- Removes the middlemen and provides a better price to farmers
- Development in the retail supply chain system
- 50 per cent of the jobs in the retail outlet could be reserved for rural youth and a certain amount of farm produce could be required to be procured from poor farmers
- To ensure the Public Distribution System (PDS) and Food Security System (FSS), government reserves the right to procure a certain amount of food grains
- Multi brand retail would keep food and commodity prices under control
- Will cut agricultural waste as mega retailers would develop backend infrastructure
- Consumers will receive higher quality products at lower prices and better service

100% FDI in single brand retail
Status: Policy passed



- Products to be sold under the same brand internationally
- Sale of multi brand goods is not allowed, even if produced by the same manufacturer
- For FDI above 51 per cent, 30 per cent sourcing must be from SMEs
- Consumerism of the retail market
- Any additional product categories to be sold under single brand retail must first receive additional government approval

New Goods and Service Tax (GST) would simplify tax structure

Supply chain structure

- Introduction of Goods and Service Tax (GST) as a unified tax regime will lead to a re-evaluation of procurement and distribution arrangements
- Removal of excise duty on products would result in cash flow improvements

Pricing and profitability

- Elimination of tax cascading is expected to lower input costs and improve profitability
- Application of tax at all points of supply chain is likely to require adjustments to profit margins, especially for distributors and retailers

Goods and Service Tax (GST)

Cash flow

- Tax refunds on goods purchased for resale implies a significant reduction in the inventory cost of distribution
- Distributors are also expected to experience 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 in order to record transactions in line with GST requirements
- Appropriate measures need to be taken to ensure smooth transition to the GST regime - through employee training, compliance under GST, customer education and inventory credit tracking

Source: Aranca Research

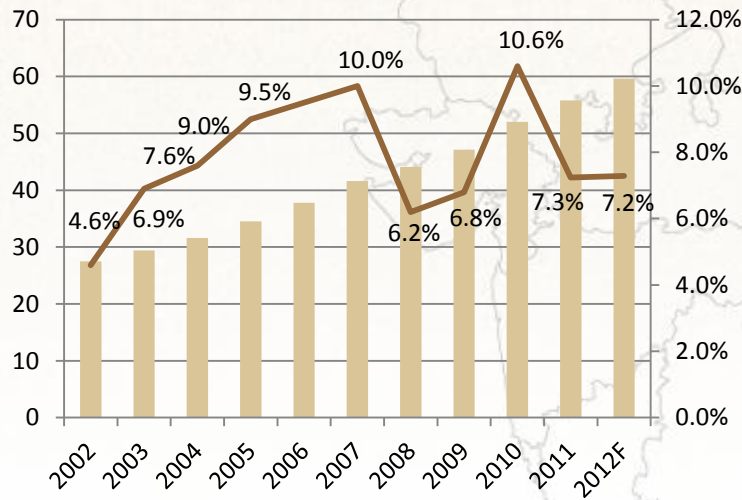
Income growth will drive organised retail demand ... (1/2)

- Multiple drivers are leading to strong growth in Indian retail through a 'consumption boom'
- Significant growth in discretionary income and changing lifestyles are counted among the major growth drivers of Indian retail
- Easy availability of credit and use of 'plastic money' have contributed to a strong and growing consumer culture in India
- Increasing acceptance and usage of e-trailers by consumers due to convenience and secured financial transactions
- Expansion in the size of the upper middle class and advertisement has led to greater spending on luxury products and high brand consciousness

Source: Aranca Research

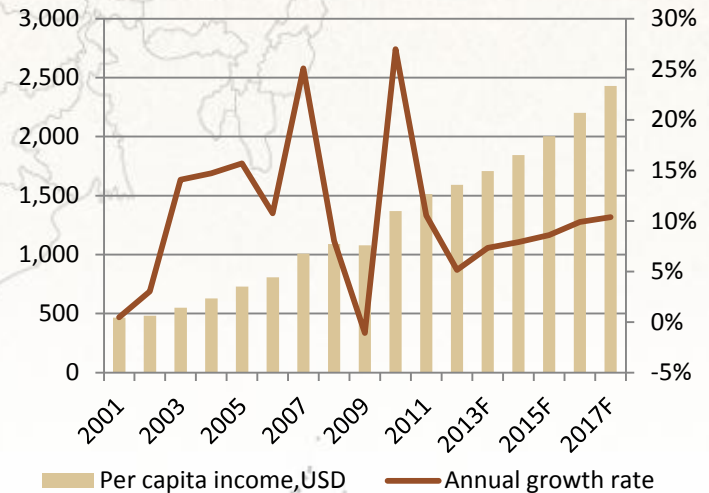
Income growth will drive organised retail demand ... (2/2)

Real income growth projections



Source: IMF, Aranca Research

Rising per capita income in India



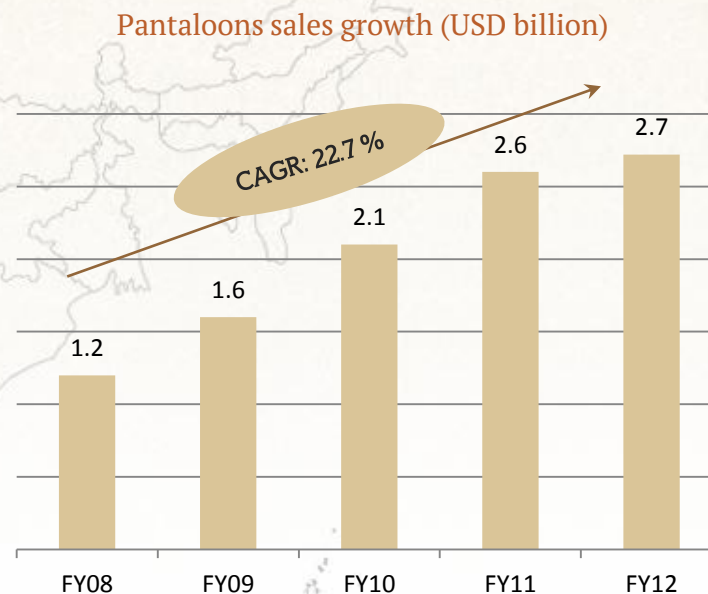
Source: IMF, Aranca Research

Contents

- ❖ Advantage India
- ❖ Market overview and trends
- ❖ Growth drivers
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Pantaloon: India's leading retailer in multiple retail formats ... (1/2)

- Revenues expanded at a robust CAGR of 22.7 per cent during FY08-12
- FY12 revenues stood at USD2.72 billion



Source: Company Annual report, Aranca Research
Notes: FY12* (the figures are for nine months ending March 2012 as their financial year ending is 30 June)

Pantaloon: India's leading retailer in multiple retail formats ... (2/2)

Pantaloon Retail Success factors

Ground-up Development

The Right JV's at the Right Time

Winning Team

Versatile Retailing

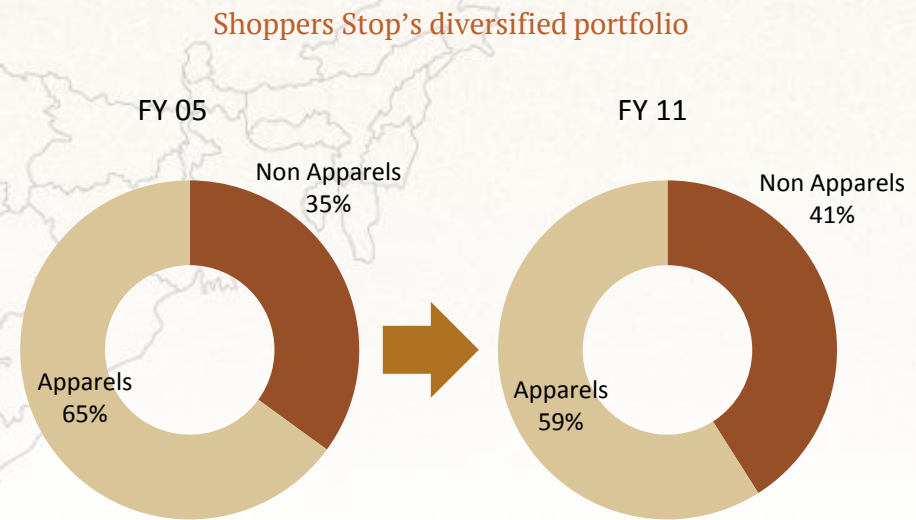
Multiple Formats, Multiple Brands-A Comprehensive Retail Experiment

Has a good understanding of the Indian retail sector and its customers



Source: Company Annual Report, Aranca Research
Note: msf- million square feet

Shoppers Stop: The leader in diversified market strategy ... (1/2)

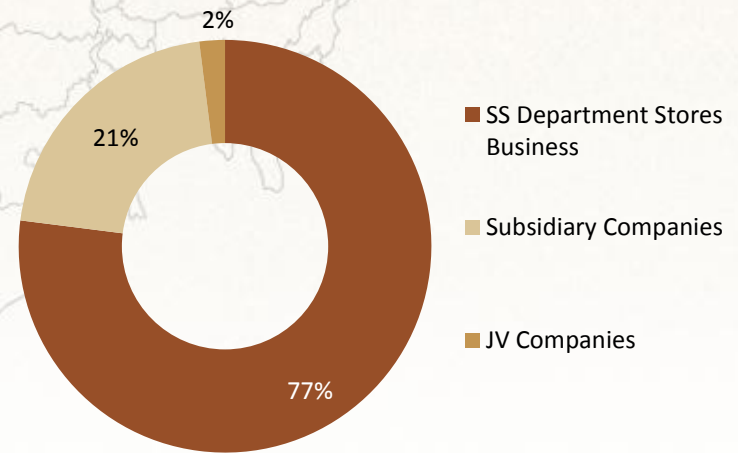


Source: Company Annual Report, Aranca Research

Shoppers Stop: The leader in diversified market strategy ... (2/2)

- 177 stores in 18 cities with 3.4 million sq ft space across 8 store formats
- Successfully introduced a number of international brands
- Improved product mix and brand profiles to attract new customers
- Over 2.5 million customers are a part of the First Citizen Loyalty Programme

Shoppers Stop business format (2011)



Source: Company Annual Report, Aranca Research
Note: First Citizen Loyalty Programme is a membership scheme for its members to avail discounts and promotional offers

Contents

- ❖ Advantage India
- ❖ Market overview and trends
- ❖ Growth drivers
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- ❖ Opportunities
- ❖ Useful information

Growth value proposition

Demand Factors

Higher brand consciousness

Rising incomes and purchasing power

Growing young population and working women

Changing consumer preferences and growing urbanisation

Indian Retail Opportunity

Supply Factors

Rapid real estate and infrastructure development

Easy availability of credit

Development of supply chain improving efficiency

R&D, innovation and new product development

Source: KPMG international 2011, Aranca Research

Ample growth opportunities in the Indian retail industry

Large number of retail outlets

- India is the fifth largest preferred retail destination globally
- The sector is experiencing exponential growth, with retail development taking place not just in major cities and metros, but also in Tier-II and Tier-III cities

Rural markets offer significant growth potential

- FMCG players are focusing on rural market as it constitutes over 33 per cent of FMCG consumer base in India
- With increasing investment in infrastructure, retailers will be able to increase their access to high-growth potential rural market

Private label opportunities

- The organised Indian retail industry has begun experiencing an increased level of activity in the private label space
- Private label strategy is likely to play a dominant role as its share in the US and the UK markets is 19 per cent and 39 per cent, respectively while its share in India is just 6 per cent

Sourcing base

- India's price competitiveness attracts large retail players to use it as a sourcing base
- Global retailers such as Walmart, GAP, Tesco and JC Penney are increasing their sourcing from India and are moving from third-party buying offices to establishing their own wholly-owned/wholly-managed sourcing and buying offices

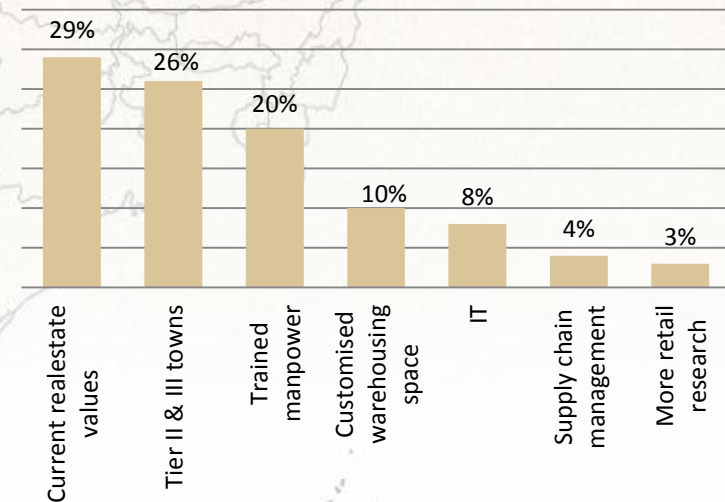
Source: Aranca Research

Notes: FMCG - Fast Moving Consumer Goods

Attractive investment segments ... (1/2)

- Retail component of real estate is an attractive opportunity which is currently attracting 29 per cent of total investment in real estate
- 26 per cent of the overall investors are interested in investing in Tier II and III cities
- Training and warehouse spacing are the other viable options for investments

Investment options in organised retail India

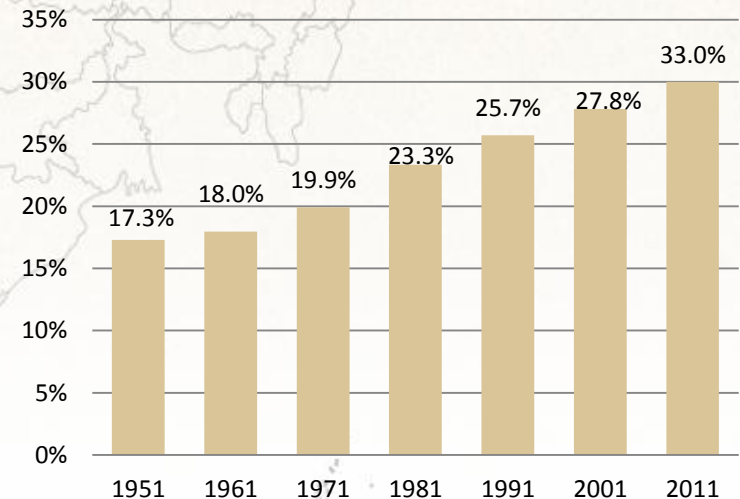


Source: Indian Retail Market September 2011, Deloitte, Winning in India's retail sector, pwc, Aranca Research

Attractive investment segments ... (2/2)

- Employment opportunities, increased urban amenities and better lifestyle opportunities are attracting rural population towards cities for better life style every year
- In 2011, the urban-rural migration was at 33.0 per cent, up from 27.8 per cent in 2010
- This could be a major driver for the organised retail sector in future as the working population would consequently increase

Migration trend towards urban areas
(Urban population as share of total) (2011)



Source: Cushman & Wakefield, Aranca Research

Strong growth potential attracting high foreign investment

Reliance Industries Limited

- Partnership arrangement with Marks & Spencer to open 50 stores
- Exclusive franchise agreement with Hamley's to open 20 Hamley's toy stores with an investment of USD26 million in April 2010

Future Group

- Partnership with Clarks International UK to sell premium footwear label

RPG Group

- Partnership with 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

DLF Group

- Mother care plc partnered with DLF Brands Ltd for maternity clothing, baby clothes and nursery items

Tata Group

- Tesco signed a deal worth USD115 million with the retail arm of Tata Group, wherein the former will supply products, services and expertise to the latter's hypermarket business Star Bazaar

Source: KPMG international 2011, Aranca Research

Recent M&A deals in the Indian retail sector

Acquirer Name	Target Name	Year	Deal Type
Future Venture India Ltd	Big Apple (convenience store)	Sep 2012	Acquisition
Peter England Ltd	Pantaloons Retail India Ltd	Sep 2012	Acquisition
Pantaloons Retail India Ltd	R&R salons	May 2012	Private Equity
Phoenix Mills Ltd	Classic Housing Projects Pvt Ltd	March 2012	Acquisition
Flipkart online services Pvt Ltd	eTree Marketing Pvt Ltd	February 2012	Acquisition
Gitanjali Gems Ltd	Crown Aim, China	December 2011	Acquisition
Shoppers Stop Ltd	Gateway Multichannel Retail India Ltd	November 2011	Acquisition
TTK Prestige Ltd	Triveni Bialetti Pvt Ltd	September 2011	Acquisition
TV18	On-graph Technologies Pvt Ltd	July 2011	Acquisition
Pantaloons Retail India Ltd	Home Solutions Retail(India) Ltd	August 2010	Acquisition
Shoppers Stop Ltd	HyperCITY Retail India Pvt Ltd (hypermarket)	June 2010	Acquisition
TPG Capital, Bain Capital	Lilliput Kidswear Ltd (branded kidswear retail)	April 2010	Private Equity

Source: Bloomberg and Thomson ONE Banker, Aranca Research

Contents

- ❖ Advantage India
- ❖ Market overview and trends
- ❖ Growth drivers
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- ❖ Opportunities
- ❖ Useful information

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

Glossary

- **FDI:** Foreign Direct Investment
- **FMCG:** Fast Moving Consumer Goods
- **FY:** Indian Financial Year (April to March)
 - So FY10 implies April 2009 to March 2010
- **IT:** Information Technology
- **MoU:** Memorandum of Understanding
- **MT:** Million tonnes
- **MTPA:** Million tonnes per annum
- **SEZ:** Special Economic Zone
- **USD:** US Dollar
 - Conversion rate used: USD1= INR48
- Wherever applicable, numbers have been rounded off to the nearest whole number

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