RETAIL

CONTENTS
❖ Executive Summary.......................... 3
❖ Advantage India............................. 5
❖ Market Overview and Trends............... 7
❖ Porter’s Five Forces Analysis..............25
❖ Strategies Adopted..........................27
❖ Growth Drivers.............................29
❖ Opportunities...............................36
❖ Success Stories.............................41
❖ Useful Information..........................47
Rising income & demand for quality products to boost consumer expenditure

Indian retail one of the fastest growing markets in the world due to economic growth

India’s modern retail to be 3 times in next 5 years

Consumer expenditure estimated to be USD3.6 trillion by 2020 vis-à-vis USD0.627 trillion in 2016

By 2020, retail market in India is projected to reach USD1.3 trillion from USD672 billion in 2016

The modern retail market is expected to grow from USD60 billion to USD180 billion during FY15-FY20

Source: Ernst & Young, Price Waterhouse Cooper, Economic Times, TechSci Research  
Notes: CAGR - Compound Annual Growth Rate, F- Forecast

For updated information, please visit www.ibef.org
EXECUTIVE SUMMARY … (2/2)

Robust consumption, rural markets to augment FMCG market

Increasing participation from foreign & private players to boost retail infrastructure

Rising number of tier-2 & tier-3 cities to enhance supermarket space in the country

FMCG market expected to increase to USD103.7 billion by 2020 from USD 49 billion in 2016

Revenue generated from online retail is projected to grow to USD60 billion by 2017 & USD70 billion by 2020 from USD6 billion in 2015

Supermarkets to total 8,500 by 2016 from 500 in 2006

Source: indiaretailing.com, TechSci Research
Notes: CAGR - Compound Annual Growth Rate, E - Estimate

For updated information, please visit www.ibef.org
Growing demand

For updated information, please visit www.ibef.org

**Demand potential**
- Healthy economic growth, changing demographic profile, increasing disposable incomes, changing consumer tastes and preferences are driving growth in the organised retail market in India
- Rapid urbanisation with increasing purchasing power has led to growing demand

**Innovation in financing**
- Collective efforts of financial houses & banks with retailers are enabling consumers to go for durable products with easy credit
- In January 2016, Bank of India announced reduction in rate of interest on retail loans offered by the bank.

**Increasing investments**
- Foreign retailers are continuously entering the Indian market
- Cumulative FDI inflow in retail for December 2016 stood at USD935.74 million;
- 100 per cent cash & carry operations are gaining significance in India with Thailand’s Siam Makro being the latest entrant in this space, following Metro, Walmart & Booker

**Policy support**
- About 51 per cent FDI in multi-brand retail
- FDI of up to 100 per cent in single-brand retail and for cash & carry (wholesale) trading & exports
- Introduction of Goods & Service Tax (GST) as a single unified tax system from next fiscal year
- To provide a level-playing field to stakeholders, the government is planning to synchronize policies of retail, FMCG & e-commerce within a single policy framework

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Source: Ernst & Young, Technopak, TechSci Research; Notes: SITP - Scheme for Integrated Textile Park, FDI - Foreign Direct Investment, 2021; E - Estimated figure for 2020. For updated information, please visit www.ibef.org
Evolution of Retail in India

Initiation
- Manufacturers opened their own outlets

Pre 1990s
- Manufacturers opened their own outlets

1990–05
- Pure-play retailers realised the potential of the market
- Most of them in apparel segment

2005–10
- Substantial investment commitments by large Indian corporates
- Entry in food & general merchandise category
- Pan-India expansion to top 100 cities
- Repositioning by existing players

Consolidation

2010 onward
- Cumulative FDI inflow from April 2000 to December 2016, in the retail sector, reached USD 935.74 million
- Retail 2020: Retrospect, Reinvent, Rewrite.
- Movement to smaller cities & rural areas
- More than 5–6 players with revenues over USD1 trillion by 2020
- Large-scale entry of international brands
- FDI in single-brand retail up to 100 per cent from 51 per cent
- Approval of FDI limit in multi-brand retail up to 51 per cent
- Rise in private label brands by retail players
- Sourcing & investment rules for supermarkets were relaxed
- E-commerce has emerged as one of the major segments

Source: Technopak Advisors Pvt Ltd, BCG, TechSci Research

For updated information, please visit www.ibef.org
## RETAIL FORMATS IN INDIA

<table>
<thead>
<tr>
<th>Format</th>
<th>Description</th>
<th>Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mono/exclusive branded retail shops</td>
<td>Exclusive showrooms owned or franchised out by a manufacturer</td>
<td>Complete range available for a given brand, certified product quality</td>
</tr>
<tr>
<td>Multi-branded retail shops</td>
<td>Focus on particular product categories &amp; carry most of the brands available</td>
<td>Customers have more choices as many brands are on display</td>
</tr>
<tr>
<td>Convergence retail outlets</td>
<td>Display most of convergence as well as consumer/electronic products, including communication &amp; IT group</td>
<td>One-stop shop for customers; many product lines of different brands on display</td>
</tr>
<tr>
<td>E-retailers</td>
<td>It is an online shopping facility for buying &amp; selling products &amp; services; the facility is widely used for electronics, health &amp; wellness</td>
<td>Highly convenient as it provides 24X7 access, saves time &amp; ensures secure transaction</td>
</tr>
</tbody>
</table>

Source: TechSci Research  
Note: IT - Information Technology
KEY PLAYERS IN INDIAN RETAIL INDUSTRY

Retail

- Grocery
- Food and beverage
- Department stores
- Pharmacy
- Books, music and gifts

Source: TechSci Research
**COMPETITIVE LANDSCAPE IN INDIAN RETAIL SECTOR**

**Departmental stores**
- Pantaloon has 104 stores
- Westside operates 86 stores
- Shoppers Stop has 81 stores in India, as of 2016
- As of 2016, Reliance Retail launched ‘Trends’ in this format & currently has nearly 3383 stores across India

**Hypermarkets**
- Pantaloon Retail is the leader in this format, with 512 Big Bazaar stores & online franchisees
- Aditya Birla Retail (More Hypermarket)- 20 stores
- HyperCITY (16 stores), Trent, Spencer’s (Spencer Hyper), & Reliance are other players

**Supermarkets/ convenience stores**
- Aditya Birla Retail- More Supermarket (499 stores)
- Spencer’s Daily (134 stores)
- Reliance Fresh (700 stores)
- REI 6Ten (350 stores)
- Big Bazaar (512 franchisees stores)

**Specialty stores**
- Titan Industries is a large player, with 430 World of Titan, 174 Tanishq & 336 Titan Eye+ shops
- Vijay Sales, Croma & E-Zone are into consumer electronics
- Landmark & Crossword focus on books & gifts

**Cash & carry stores**
- Metro started the cash & carry model in India; the company operates 16 stores across Mumbai, Kolkata, Delhi, Punjab, Hyderabad & Bengaluru
- As of 2016, Reliance Retail has opened 45 cash and carry stores and is planning to setup 300 more till 2019.

*Source: Company websites, Press Release, TechSci Research*

For updated information, please visit www.ibef.org
## Key Strategies of Indian Retailers

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Retailers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple franchisee model</td>
<td>PepsiCo, Jumboking</td>
</tr>
<tr>
<td>Rural retailing</td>
<td>DSCL</td>
</tr>
<tr>
<td>Collaboration for back-end resource sharing</td>
<td>Aditya Birla, Reliance, Future Group</td>
</tr>
<tr>
<td>Collaborative model for international products</td>
<td>Bharti, Pantaloons</td>
</tr>
<tr>
<td>Vertical integration</td>
<td>Dabur, Nokia</td>
</tr>
<tr>
<td>Increasing market reach</td>
<td>Raymond, Westside</td>
</tr>
<tr>
<td>Innovation in new retail formats</td>
<td>Reliance, Shop18</td>
</tr>
<tr>
<td>Direct sourcing arrangements</td>
<td>Walmart</td>
</tr>
<tr>
<td>Focus on private labels</td>
<td>Spencer's</td>
</tr>
</tbody>
</table>

*Source: KPMG International 2011, TechSci Research*
### STRATEGIES ADOPTED BY INDIAN RETAILERS FOR SALES MAXIMISATION

<table>
<thead>
<tr>
<th>STRATEGY</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Offering discounts</strong></td>
<td>• Most retailers have advanced off-season sales from 15 days to a month with discounts of 20-70 per cent on certain products</td>
</tr>
<tr>
<td></td>
<td>• Higher discounts &amp; other value-added services for members</td>
</tr>
<tr>
<td><strong>Lowering prices</strong></td>
<td>• 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</td>
</tr>
<tr>
<td><strong>Offering value-added services</strong></td>
<td>• Companies offer innovative value-added services, such as customer loyalty programmes &amp; happy hours on shopping deals</td>
</tr>
<tr>
<td></td>
<td>• Offers for senior citizens, contests for students &amp; lottery gains are now very common</td>
</tr>
<tr>
<td><strong>Leveraging partnerships</strong></td>
<td>• To keep customers on shop floors for a longer time &amp; increase conversions, retailers are now pitching to partner with manufacturers, service providers, financial companies, etc. to create a buzz around certain product categories</td>
</tr>
<tr>
<td><strong>Strong supply chain</strong></td>
<td>• Critical components of supply chain planning applications help retailers to maintain profit margins</td>
</tr>
<tr>
<td></td>
<td>• Retailers develop innovative solutions for managing the supply chain problems</td>
</tr>
<tr>
<td></td>
<td>• Innovative solutions like performance management, frequent sales operation management, demand planning, inventory planning, production planning &amp; lean systems can help retailers to get advantage over competitors</td>
</tr>
<tr>
<td><strong>Joint Ventures</strong></td>
<td>• To diversify the product offerings &amp; tab the growing luxury retail segment, retailers are forming joint ventures with foreign luxury brands. Reliance Brands Ltd. formed a joint venture with Bally, a Swiss luxury brand, to exclusively market its products in India</td>
</tr>
</tbody>
</table>

*Source: KPMG International, TechSci Research*
The retail sector in India is emerging as one of the largest sectors in the economy.

The total market size was estimated to be around USD600 billion in 2015, thereby registering a CAGR of 7.45 per cent since 2000.

Retail industry is expected to grow to USD1.3 trillion by 2020, registering growth at a CAGR of 7.46 per cent between 2000-2015.

Source: BCG Retail 2020, Ernst & Young, Deloitte, indiaretailing.com, Economist Intelligence Unit, Euro monitor, TechSci Research

Notes: CAGR - Compound Annual Growth Rate, E - Estimated
Food & Grocery Account for Largest Share in Revenues in India

- By 2020, food & grocery segment is expected to account for 66 per cent of the total revenues in the retail sector, followed by apparel segment.
- Demand for Western outfits & readymade garments has been growing at 40–45 per cent annually; apparel penetration is expected to increase to 30-35 per cent by 2015.

Notes: E- Estimated
Organised Retail Penetration (ORP) in India is low (8 per cent) in 2015 compared with that in other countries, such as the US (85 per cent). This indicates strong growth potential for organised retail in India.

In 2019, it is estimated that organised retail penetration share would reach 13 per cent & unorganised retail penetration would hold a major share of 87 per cent.

**Organised retail penetration (2019)**

- Organised retail penetration: 13%
- Unorganised retail penetration: 87%

**Drivers of organised retail**

**Demand drivers**
- Rising income levels
- Increased urbanisation
- Growing aspiration levels and appetite to experiment
- Credit availability

**Supply drivers**
- New entrants
- Expansion plans of existing players
- Infrastructure augmentation
- Emergence of new categories

*Source: KPMG, Indian Retail Next growth Story 2014, TechSci Research*
The Indian retail market is in its nascent stage; unorganised players accounted for 92 per cent of the market during 2015.

There are over 15 million mom-and-pop stores.

Between FY15-20, organised retail in India is expected to witness a CAGR of 24.57 per cent.

Organised retail is expected to account for 24 per cent of the overall retail market by 2020.

Significant scope for expansion

Source: BCG, KPMG, indiaretailing.com, Deloitte Report, Winning in India’s Retail Sector, TechSci Research

Notes: ‘Mom-and-pop’ stores are small stores that are typically owned and run by members of a family.
<table>
<thead>
<tr>
<th>Retail category</th>
<th>Category share as a % of total market 2014-15</th>
<th>ORP (%)</th>
<th>Approx. gross margin (%)</th>
<th>Key trends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food &amp; beverage</td>
<td>69-70</td>
<td>2-3</td>
<td>3-14</td>
<td>Large market and low ORP presents robust opportunities</td>
</tr>
<tr>
<td>Clothing &amp; textile</td>
<td>11-13</td>
<td>17-20</td>
<td>35-50</td>
<td>High margins, increased preference for branded apparel</td>
</tr>
<tr>
<td>Consumer durables</td>
<td>4-5</td>
<td>15-20</td>
<td>10-20</td>
<td>Wide range of price points &amp; good-after sales service are key differentiators</td>
</tr>
<tr>
<td>Home décor &amp; furnishing</td>
<td>3</td>
<td>5-6</td>
<td>40-50</td>
<td>Housing boom and increasing aspiration levels are driving demand</td>
</tr>
<tr>
<td>Beauty, personal care</td>
<td>8-11</td>
<td>6-10</td>
<td>20-40</td>
<td>Growth driven by new product launches, consumers’ aspirations &amp; expansion plans of organised players</td>
</tr>
<tr>
<td>Footwear</td>
<td>2</td>
<td>16-17</td>
<td>25-35</td>
<td>Lifestyle brands are increasing their product offerings &amp; formats</td>
</tr>
<tr>
<td>Others</td>
<td>3-4</td>
<td>9-30</td>
<td>10-15</td>
<td>Pharmacy retail, stationery retailers, etc</td>
</tr>
</tbody>
</table>

Source: Ministry of Statistics and Programme Implementation, A Report on ‘Retail reforms in India’ by PwC, TechSci Research
Note: ORP - Organised Retail Penetration
Online grocery market is in its nascent stage & in 2015, the online grocery market stood at USD0.6 billion which shows that there is a lot of scope for improvement in the coming years for the online grocery market to grow.

Growing e-commerce sector is augmenting the growth of online grocery market

Indian grocery market is expected to be world’s 3rd largest by 2016, with an estimated revenue of USD 566 billion.

**Notes:** - NCR, Mumbai, Kolkata and Chennai, Bangalore, Pune and Hyderabad

Source: Technopak Advisors Pvt Ltd, Knightfrank, Cushman & Wakefield Research

For updated information, please visit [www.ibef.org](http://www.ibef.org)
India’s ‘grocery’ retail segment is the world’s most attractive

Apparels is the largest retail segment, accounting for 22 per cent in 2014–15

Source: Knightfrank, Technopak Advisors Pvt Ltd, Cushman & Wakefield Research, Euromonitor International
SIGNIFICANT GLOBAL POSITIONING OF INDIAN RETAIL SECTOR

* India is among the highest in the world in terms of per capita retail store availability. India’s strong growth fundamentals, along with increased urbanisation & consumerism, offer immense scope for retail expansion for foreign players.

* With the allowance of 100 per cent FDI in single brand retail investor sentiment will get further push.

* In June 2016, Amazon Inc. has announced to invest an additional USD3 billion in India operations, thereby reaching investment to over US$ 5 billion. Moreover, in 2016, Amazon witnessed growth of 160 per cent in the seller base, over 2015 & attracted 1,40,000 sellers in India.

* In May 2016, Aditya Birla Fashion & Retail Limited (ABFRL) announced to acquire exclusive online & offline rights of Forever 21, an American fast fashion brand, in the Indian market.

* In October 2016, CapitaLand, a listed company in Singapore, announced plans to open 2 more malls in India by the end of 2019.

* World’s largest private equity manager, Blackstone Group, entered India’s retailing sector by setting up a fully owned subsidiary, Nexus Malls. The new entity will own & manage shopping centres in the country.

* Diageo, world’s largest spirits maker plans to open a new business services centre in Bengaluru & give employment to 1,000 people, by end of 2017.

* British brand ‘Marks & Spencer’ plans to open 10 new stores annually, under its joint venture business with Reliance Retail by 2017.

* With an investment of USD 148.74 million, Amway India plans to open 50 retail stores in the country by 2018, for enhancing direct & online sales of its products.

* Various established brands have started their expansion in East India, namely in cities of Bihar, Orissa, Assam & Jharkhand, thereby increasing the retail space supply from 3 million in 2014 to 5.5 million square feet in 2016.

* Bang and Olufsen, a Danish-based stereo system speaker maker, plans to set up its 1st flagship store in Delhi, and is planning to open 8-10 standalone stores in Chandigarh, Hyderabad, Ahmedabad, Ludhiana and Kolkata in this fiscal year.

Source: Dun and Bradstreet, AT Kearney, Indian Retail Market September 2011, Times of India, TechSci Analysis

For updated information, please visit www.ibef.org
SECTOR’S HIGH GROWTH POTENTIAL IS ATTRACTING INVESTORS

* India has occupied a remarkable position in global retail rankings; the country has high market potential, low economic risk & moderate political risk

* In FDI Confidence Index, India ranks 9th (after United States, China, Canada, Germany, UK, Japan, Australia & France)

* India’s net retail sales are quite significant among emerging & developed nations; the country is ranked 3rd (after China & Brazil)

* Overall, given its high growth potential, India compares favourably with global peers among foreign investors

* With investment of around USD511.76 billion, the 1st half of 2016 witnessed the highest annual private equity (PE) in the retail sector, since 2008.

FDI Confidence Index 2016

<table>
<thead>
<tr>
<th>Country</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>2.02</td>
</tr>
<tr>
<td>China</td>
<td>1.82</td>
</tr>
<tr>
<td>Canada</td>
<td>1.80</td>
</tr>
<tr>
<td>Germany</td>
<td>1.75</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.73</td>
</tr>
<tr>
<td>Japan</td>
<td>1.73</td>
</tr>
<tr>
<td>Australia</td>
<td>1.63</td>
</tr>
<tr>
<td>France</td>
<td>1.60</td>
</tr>
<tr>
<td>India</td>
<td>1.60</td>
</tr>
<tr>
<td>Singapore</td>
<td>1.57</td>
</tr>
</tbody>
</table>

Source: AT Kearney 2015 FDI Confidence Index, AT Kearney 2016, TechSci Analysis
Notes: FDI - Foreign Direct Investment
RISING PROMINENCE OF ONLINE RETAIL … (1/2)

- Online retail business is the next generation format which has high potential for growth in the near future. After conquering physical stores, retailers are now foraying into the domain of e-retailing.
- With growth in the e-commerce industry, online retail is estimated to reach USD70 billion by 2020 from USD 3 billion in 2014.
- The government plans to allow 100 per cent FDI in e-commerce, under the arrangement that the products sold must be manufactured in India to gain from the liberalised regime.
- According to ASSOCHAM, the value of online retail purchases made by consumers in India is projected to cross USD100 million by 2017.
- In 2016, online retail industry of the country registered a growth of 12 per cent, over the previous year, with the revenue reaching USD14.5 billion.

Source: MasterCard Worldwide Insights 4Q 2010, PWC e commerce in India report, ASSOCHAM, TechSci Research
Notes: APMEA - Asia/ Pacific, Middle East and Africa, F - Forecast
The key drivers of online retail are a young population aided by easier access to credit & payment options, increasing internet penetration and speed, 24-hour accessibility & convenient & secured transactions.

Online retailers continue promotional prices in the market, offering a significant boost to e-retailing in consumer durable sector.

Options like cash-on-delivery & manufacturers’ warranty add fuel to this rage. Cash-on-delivery is the most preferred payment option with over 30 per cent of buyers opting for it in India.

The computer peripherals, cameras, mobiles & lifestyle segments account for a majority of total purchases.

E-commerce companies such as Flipkart Internet Pvt. Ltd. & Amazon India are leading the race of scouting commercial real estate space for warehousing.

Source: UN Report ‘The power of 1.8 billion’
PORTERS FIVE FORCES ANALYSIS
## PORTER’S FIVE FORCES ANALYSIS

**Competitive Rivalry**
- Entry of foreign players in the market & e-retailers have intensified competition
- Customers’ low switching cost increases competition
- The Indian retail sector is highly fragmented, which increases competition

**Threat of New Entrants**
- Entry as a retailer is quite simple. However, players need to establish strong distribution channels & achieve economies of scale to compete

**Substitute Products**
- Threat of substitute products is low. However, customers may purchase products from a local store instead of purchasing from a retailer

**Bargaining Power of Suppliers**
- Retailers have low switching costs, which make the supplier power low. Larger retailers can easily switch to different suppliers.

**Bargaining Power of Customers**
- The consumers are price sensitive & have information about the product & its price
- Low switching cost gives customers high bargaining power

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Source: TechSci Research
RETAIL

STRATEGIES ADOPTED
### STRATEGIES ADOPTED

| Strong distribution and logistic network | It is imperative for a retailer to have a strong distribution & logistic network to succeed in this sector. Players follow a distribution network that suits them the best. For example, Shoppers Stop follows a “hub & spoke” model for its distribution network to increase efficiency & productivity. |
| Marketing innovation | In March 2017, PepsiCo Inc. announced the launch of ready to cook breakfast items like khichdi, dosa, idli etc., which would be sold under the brand namely Quaker Nutri Foods. In March 2017, Parle launched Frooti its iconic drink in a fizzy version, it’s the first innovation in the brand since its launch 32 years ago. |
| Focus | Certain players in this sector are focused on a particular segment. For example, Future Retail (FRL) exclusively operates hypermarkets & home retailing businesses. FRL focuses on maintaining its competitive advantage & gaining benefits of scale through focusing on efficiency & productivity. As of February 2017, Tanishq is focusing on expanding its large format-retailing concept, with re-launching their showrooms in Velachery. |
| Omni-channel retailing | Retailers are opting for many channel to maximise sales, Omni-channel retailing is being adopted by many retailers in India. For example, Shoppers Stop is making efforts to be an omni-channel retailer. Ezone has launched an online platform, which has led to increase in sales. In February 2017, Myntra became the 1st e-commerce brand to manage the fashion brand -- Mango’s omni channel presence, globally. |
| Changing the perception | Retailers benefit if consumers perceive their store brands to have consistent & comparable quality & availability in relation to branded products. For this, retailers are providing more assortments for private level brands to compete with supplier’s brand. New product development, aggressive retail mix & everyday low pricing strategy help to get edge over supplier’s brand. |
GROWTH DRIVERS FOR RETAIL IN INDIA

- Favourable demographics
- Easy consumer credit and increase in quality products
- Rise in income and purchasing power
- Change in consumer mindset
- Brand consciousness

Source: TechSci Research
FAVOURABLE FDI POLICY ENCOURAGING INVESTMENT

1991

Liberalisation: FDI of upto 51 per cent allowed under the automatic route in select priority sectors

1997

FDI of upto 51 per cent allowed with prior government approval in single-brand retail

2006

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

2008

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

2012

With a view to improve the ease of doing business, the government has aligned the foreign direct investment policy with NIC code

2015

As per DIPP, FDI equity inflows in Indian retail trading totalled USD935.74 million, during April 2000–December 2016

Notes: NIC - National Industrial Classification Code, DIPP - Department of Industrial Policies and Promotion
INDIAN RETAIL IS SET TO BENEFIT FROM FDI POLICY

Benefits of FDI in Indian retail

- Increase in employment
- Infrastructure investment
- Removing middlemen
- Benefiting Indian manufacturers
- Technological advancement

Sector
- Wholesale cash and carry trading
- Single brand product retailing
- Multi-brand, front-end retail

Entry route
- Automatic
- Foreign Investment and Promotion Board

FDI limit
- 100%
- 100%
- 51%
FDI POLICY DETAILS ON SINGLE AND MULTI-BRAND RETAIL IN INDIA

51 per cent 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 backend infrastructure (logistics, cold storage, soil testing labs, seed farming & agro-processing units)
- Removes middlemen and provides better price to farmers
- Development in retail supply chain system
- 50 per cent of jobs in retail outlet could be reserved for rural youth & 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), the government reserves the right to procure a certain amount of food grains
- Multi-brand retail would keep food & commodity prices under control
- Will cut agricultural waste as mega retailers would develop backend infrastructure
- Consumers will receive higher quality products at lower prices & with better service

100 per cent 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 retail market
- Any additional product categories to be sold under single brand retail must first receive government approval
NEW GOODS AND SERVICE TAX (GST) WOULD SIMPLIFY TAX STRUCTURE

Supply chain structure
- Introduction of Goods & Service Tax (GST) as a unified tax regime would lead to a re-evaluation of procurement & 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 & improve profitability
- Application of tax at all points of supply chain is likely to require adjustments to profit margins, especially for distributors and retailers

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 & 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 & inventory credit tracking

Source: TechSci Research
Multiple drivers are leading to strong growth in Indian retail through a consumption boom.
Significant growth in discretionary income & changing lifestyles are among the major growth drivers of Indian retail.
Easy availability of credit & use of ‘plastic money’ have contributed to a strong & growing consumer culture in India.
Acceptance and usage of e-retailers by consumers are increasing due to convenience & secured financial transactions.
Expansion in the size of the upper middle class & advertisement has led to greater spending on luxury products & high brand consciousness.

In the graph:
- Real income growth projections.
- Rising per capita income in India.

Source: TechSci Research, IMF.
Notes: E - Estimate, F - Forecasts.
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OPPORTUNITIES
GROWTH VALUE PROPOSITION

Demand Factors
- Higher brand consciousness
- Growing aspiration levels and appetite to experiment
- Growing young population and working women

Supply Factors
- Rapid real estate and infrastructure development
- Emergence of new categories
- Development of supply chain improving efficiency

Indian retail opportunity
- Rising incomes & purchasing power
- Credit availability
- Changing consumer preferences and growing urbanisation
- Easy availability of credit
- Expansion plans of existing players
- R&D, innovation and new product development

Source: KPMG International 2011, TechSci Research
### AMPLE GROWTH OPPORTUNITIES IN INDIAN RETAIL INDUSTRY

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
</table>
| Large number of retail outlets | • India is the 5th largest preferred retail destination globally  
• The sector is experiencing exponential growth, with retail development taking place not just in major cities & metros, but also in Tier-II & Tier-III cities |
| Rural markets offer significant growth potential | • FMCG players are focusing on rural market as it accounted for over 40 per cent of FMCG consumer base in India in 2016  
• With increasing investment in infrastructure, retailers would be able to increase their access to high-growth potential rural markets |
| 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 & the UK markets is 19 per cent & 39 per cent, respectively, while its share in India is just 6 per cent. Stores like Shopper Stop. Lifestyle generates 15 to 25 per cent revenues from private label brands. Growth of online retail is also augmenting the growth of private label brand in India |
| Sourcing base | • India’s price competitiveness attracts large retail players to use it as a sourcing base  
• Global retailers such as Walmart, GAP, Tesco & JC Penney are increasing their sourcing from India & are moving from 3rd-party buying offices to establishing their own wholly-owned/wholly-managed sourcing & buying offices |
| Luxury retailing | • Luxury retailing is gaining importance in India. This includes fragrances, gourmet retailing, accessories & jewellery among many others. The Indian consumer is ready to splurge on luxury items & is increasingly doing so.  
• The Indian luxury market stood at around USD14.7 billion in 2015 & is estimated to reach USD18.3 billion by the end of 2016  
• This will make India the 12th largest luxury retail market in the world by 2020 |

Source: TechSci Research  
Note: FMCG - Fast Moving Consumer Goods  
For updated information, please visit [www.ibef.org](http://www.ibef.org)
Real estate's retail component is an attractive opportunity, which is currently attracting 29 per cent of total investment in real estate.

Of the overall investors, 26 per cent are interested in investing in Tier II and III cities.

Training & warehouse spacing are the other viable options for investments.

Employment opportunities, increased urban amenities & better lifestyle opportunities are attracting rural population towards cities every year.

In 2015, the urban-rural migration reached at 32.7 per cent.

This could be a major driver for the organised retail sector as the working population would consequently increase.

Source: PwC, Cushman & Wakefield, TechSci Research
# Recent M&A Deals in the Indian Retail Sector

<table>
<thead>
<tr>
<th>Acquirer name</th>
<th>Target name</th>
<th>Year</th>
<th>Deal type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berger Paints</td>
<td>Chugoku Marine Paints</td>
<td>April 2017</td>
<td>Collaboration</td>
</tr>
<tr>
<td>Myntra</td>
<td>InLogg</td>
<td>April 2017</td>
<td>Acquisition</td>
</tr>
<tr>
<td>Flipkart owned Myntra</td>
<td>HRX</td>
<td>August 2016</td>
<td>Acquisition</td>
</tr>
<tr>
<td>Myntra</td>
<td>MotoGP</td>
<td>August 2016</td>
<td>Collaboration</td>
</tr>
<tr>
<td>Aditya Birla Fashion and Retail</td>
<td>Forever 21 (India Business)</td>
<td>May 2016</td>
<td>Acquisition</td>
</tr>
<tr>
<td>Idein Ventures.</td>
<td>Infurnia</td>
<td>Jan 2016</td>
<td>Joint Venture</td>
</tr>
<tr>
<td>Paytm</td>
<td>Near.in</td>
<td>Dec 2015</td>
<td>Acquisition</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>Flipkart</td>
<td>June 2015</td>
<td>Private Equity</td>
</tr>
<tr>
<td>InnoVen Capital</td>
<td>Sportsbiz Private Limited</td>
<td>July 2015</td>
<td>Private Equity</td>
</tr>
<tr>
<td>Snapdeal</td>
<td>Exclusively.in</td>
<td>Feb 2015</td>
<td>Acquisition</td>
</tr>
<tr>
<td>Kalyan Jewellers India Pvt Ltd</td>
<td>Warburg Pincus</td>
<td>Oct 2014</td>
<td>Private Equity</td>
</tr>
<tr>
<td>Celio</td>
<td>Future Lifestyle Fashions Limited</td>
<td>Oct 2014</td>
<td>Private Equity</td>
</tr>
<tr>
<td>Flipkart</td>
<td>Myntra.com</td>
<td>May 2014</td>
<td>Acquisition</td>
</tr>
<tr>
<td>Soft Bank</td>
<td>Snapdeal</td>
<td>Oct 2014</td>
<td>Private Equity</td>
</tr>
<tr>
<td>Warburg Pincus</td>
<td>Biba Apparels</td>
<td>Dec 2013</td>
<td>Private Equity</td>
</tr>
<tr>
<td>Hassan Food Co</td>
<td>Bush Foods Overseas Pvt Ltd</td>
<td>Apr 2013</td>
<td>Acquisition</td>
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<tr>
<td>Trent Ltd</td>
<td>Landmark Ltd</td>
<td>Feb 2013</td>
<td>Acquisition</td>
</tr>
<tr>
<td>Future Venture India Ltd</td>
<td>Big Apple (convenience store)</td>
<td>Sep 2012</td>
<td>Acquisition</td>
</tr>
<tr>
<td>Peter England Ltd</td>
<td>Pantaloons Retail India Ltd</td>
<td>Sep 2012</td>
<td>Acquisition</td>
</tr>
<tr>
<td>Pantaloons Retail India Ltd</td>
<td>R&amp;R salons</td>
<td>May 2012</td>
<td>Private Equity</td>
</tr>
</tbody>
</table>

Source: Bloomberg and Thomson ONE Banker, TechSci Research

For updated information, please visit www.ibef.org
SUCCESS STORIES
- Revenues expanded at a CAGR of 2.4 per cent during FY08–15

- Under Future Fashion, the company owns a portfolio of 24 leading brands & covers more than 98 cities

- Big Bazaar ranked the 3rd most trusted brand & the most trusted retailer for providing quality services during 2016

- As of November 2016, the company has agreed to buy retail business of Hyderabad-based ‘Heritage Foods Ltd.’ As a part of the deal, Heritage Foods will get a 3.65 per cent stake or freshly issued shares worth USD44.06 million in ‘Future Retail’

- In January 2017, Future Lifestyle Fashions raised USD37.19 million in a subsidiary that houses Lee Cooper brand of clothing.

- In February 2017, Future Retail has entered into an agreement to sell the UK based -- Laura Ashley’s home furnishing merchandise, through their own operating stores & websites in India.

- In November 2016, Future Consumer Ltd. entered into an equal joint venture with UK’s largest wholesaler, Booker Group, to develop the company’s cash-and-carry business in India. Future Consumer is investing USD 7.47 million in the company.

Source: Reuters Knowledge, TechSci Research
Notes*: March 2015 to September 2015, CAGR - Compound Annual Growth Rate
FUTURE RETAIL: INDIA’S LEADING RETAILER IN MULTIPLE RETAIL FORMATS … (2/2)

Pantaloons 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

Future Retail Ltd (FY16)
- Revenue: USD1.05 billion for 12 months
- Operational retail space: 11.57 msf
- Over 738 stores in 122 cities
- Employees: 32,012

Source: Company Annual Report, TechSci Research
Note: msf - Million Square Feet

For updated information, please visit www.ibef.org
SHoppers Stop: The Leader In Diversified Market Strategy … (1/3)

- The company owns 172 stores in 25 cities with 4.81 million sq ft space across 8 store formats
- Successfully introduced a number of international brands
- Improved product mix & brand profiles to attract new customers
- Over 3.3 million customers are a part of the First Citizen Loyalty Programme
- Won best loyalty programme award at the Loyalty Summit 2014 in large format retail category

Source: Company Annual Report, TechSci Research
Note: First Citizen Loyalty Programme is a membership scheme for its members to avail discounts and promotional offers
SHOPPERS STOP: THE LEADER IN DIVERSIFIED MARKET STRATEGY … (2/3)

Shoppers Stop's diversified portfolio

Source: Company Annual Report, TechSci Research
Note: CAGR - Compound Annual Growth Rate

For updated information, please visit www.ibef.org
SHoppers Stop: Leader in Diversified Market Strategy … (3/3)

Footfalls (in million)

<table>
<thead>
<tr>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td>23</td>
<td>23</td>
<td>31</td>
<td>37</td>
<td>40</td>
<td>46</td>
<td>46</td>
<td>45</td>
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</tbody>
</table>

Average selling price (INR)

<table>
<thead>
<tr>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
</tr>
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<tbody>
<tr>
<td>759</td>
<td>821</td>
<td>856</td>
<td>913</td>
<td>977</td>
<td>1062</td>
<td>1087</td>
<td>1118</td>
<td>1136</td>
</tr>
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</table>

Members ('000)

<table>
<thead>
<tr>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
<th>FY16</th>
</tr>
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<tbody>
<tr>
<td>1013</td>
<td>1277</td>
<td>1611</td>
<td>2017</td>
<td>2503</td>
<td>2880</td>
<td>4126</td>
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</table>

Average transaction size (INR)

<table>
<thead>
<tr>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
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<tbody>
<tr>
<td>1720</td>
<td>1843</td>
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<td>2207</td>
<td>2311</td>
<td>2481</td>
<td>2667</td>
<td>2754</td>
<td>2681</td>
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</tbody>
</table>

Source: Company Annual Report, TechSci Research
Notes: (1) - Up to September 2015

For updated information, please visit www.ibef.org
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

For updated information, please visit www.ibef.org
FDI: Foreign Direct Investment

FMCG: Fast Moving Consumer Goods

FY: Indian Financial Year (April to March)

So FY10 implies April 2009 to June 2010

IT: Information Technology

MoU: Memorandum of Understanding

MT: Million Tonnes

MTPA: Million Tonnes Per Annum

SEZ: Special Economic Zone

USD: US Dollar

Wherever applicable, numbers have been rounded off to the nearest whole number
### Exchange rates (Fiscal Year)

<table>
<thead>
<tr>
<th>Year</th>
<th>INR equivalent of one USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004–05</td>
<td>44.81</td>
</tr>
<tr>
<td>2005–06</td>
<td>44.14</td>
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<tr>
<td>2006–07</td>
<td>45.14</td>
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<tr>
<td>2007–08</td>
<td>40.27</td>
</tr>
<tr>
<td>2008–09</td>
<td>46.14</td>
</tr>
<tr>
<td>2009–10</td>
<td>47.42</td>
</tr>
<tr>
<td>2010–11</td>
<td>45.62</td>
</tr>
<tr>
<td>2011–12</td>
<td>46.88</td>
</tr>
<tr>
<td>2012–13</td>
<td>54.31</td>
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<tr>
<td>2013–14</td>
<td>60.28</td>
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<tr>
<td>2014–15</td>
<td>61.06</td>
</tr>
<tr>
<td>2015–16</td>
<td>65.46</td>
</tr>
<tr>
<td>2016-2017E</td>
<td>66.95</td>
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</tbody>
</table>

### Exchange rates (Calendar Year)

<table>
<thead>
<tr>
<th>Year</th>
<th>INR equivalent of one USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>43.98</td>
</tr>
<tr>
<td>2006</td>
<td>45.18</td>
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<tr>
<td>2007</td>
<td>41.34</td>
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<td>2008</td>
<td>43.62</td>
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<td>2009</td>
<td>48.42</td>
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<tr>
<td>2010</td>
<td>45.72</td>
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<td>2011</td>
<td>46.85</td>
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<td>2012</td>
<td>53.46</td>
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<tr>
<td>2013</td>
<td>58.44</td>
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<tr>
<td>2014</td>
<td>61.03</td>
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<tr>
<td>2015</td>
<td>64.15</td>
</tr>
<tr>
<td>2016 (Expected)</td>
<td>67.22</td>
</tr>
</tbody>
</table>

Source: Reserve bank of India, Average for the year
India Brand Equity Foundation ("IBEF") engaged TechSci to prepare this presentation and the same has been prepared by TechSci in consultation with IBEF.

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