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

Demand potential
- India’s growing population and urbanisation offers a huge market for organised retail
- Increasing economic prosperity and change in consumption pattern drives retail demand

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

Increasing investments
- FDI up to 100 per cent is allowed under the automatic route in cash & carry (wholesale)
- Foreign retailers are entering into Indian market to share a huge profit

Policy support
- Government is planning to remove the old tax systems to simplify the tax calculation and avoid double taxation in Indian retail
- New Goods and Service Tax (GST) will simplify the tax structure

Market size: USD543 billion 2014E
Market size: USD353 billion 2010

Source: Business Monitor International (BMI), India Retail Report Q3 2010, Aranca Research
Notes: E – estimated figure for 2014
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Evolution of retail in India

Pre 1990s
- Manufacturers opened their own outlets

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

1990
- Conceptualisation

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

2010 onward
- Large scale consolidation
- Stiff competition
- Movement to smaller cities and rural areas
- More than 5–6 players with revenues totalling more than USD700 million
- More aggression from international players

Source: Technopak Advisors Pvt Ltd, Aranca Research

For updated information, please visit www.ibef.org
Retail formats in India

Mono/exclusive branded retail shops

→

Exclusive showrooms either owned or franchised out by a manufacturer

→

Complete range available for a given brand, certified product quality

Multi-branded retail shops

→

Focus on particular product categories and carry most of the brands available

→

Customers have more choices as many brands are on display

Convergence retail outlets

→

Display most of convergence as well as consumer/electronic products, including communication and IT group

→

One-stop shop for customers; many product lines of different brands on display

Source: Aranca Research
Notes: IT- Information Technology
Key players in the Indian retail industry

Source: Aranca Research
### Competitive landscape in the Indian retail sector

#### Departmental stores
- Pantaloon has 48 stores
- Trent operates 40 stores
- Shoppers Stop has 30 stores
- Reliance Retail has launched Trends in this format

#### Hypermarkets
- Pantaloon Retail is the leader in this format with 145 Big Bazaar stores
- HyperCITY, Trent (Star Bazaar), Spencer’s (Spencer Hyper), Aditya Birla Retail (More.) and Reliance are other players

#### Supermarkets/Convenience stores
- Aditya Birla Retail (More., 500 stores)
- Spencer’s (Daily, 188 stores)
- Reliance Fresh
- KB Fair Price Shop (123 stores)
- REI 6Ten (350 stores) are the major players in this format

#### Specialty stores
- Titan Industries is one of the largest players, with 300 World of Titan, 130 Tanishq and 70 Titan Eye+ shops
- Vijay Sales, Croma, E-Zone and Viveks are into consumer electronics and Landmark, Crossword and Odyssey focus on books, entertainment and gifts

#### Cash & Carry stores
- Metro started the cash-and-carry model in India; the company operates five stores across Mumbai, Kolkata, Hyderabad and Bangalore
- Bharti Walmart started cash-and-carry outlets, with the first one being set up in Amritsar, Punjab

*Source: KPMG International 2011, Aranca Research*
Key strategies of Indian retailers

- Multiple franchisee model
  - PEPSICO
  - JUMBO KING

- Collaborative model for international products
  - bharti
  - Pentathlon Retail (India) Limited

- Innovation in new retail formats
  - Reliance
  - HOME SHOP 18

- Rural retailing
  - DSCL

- Vertical integration
  - DABUR
  - NOKIA

- Collaboration for back-end resource sharing
  - Reliance Industries Limited
  - future group

- Direct sourcing arrangements
  - Walmart

- Increasing market reach
  - Raymond
  - WESTSIDE

- Focus on private labels
  - Spencer's

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
- The discounts on offer have gone up 30–40 per cent, sometimes even 50 per cent on certain products

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 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 ... (1/2)

→ The retail sector in India is emerging as one of the largest sectors in the economy, with total market size of USD425 billion in 2010

→ The industry has been expanding at a compound annual rate of 6.4 per cent since 1998

Market size over the past few years (USD billion)

Source: EIU, Euro monitor, Aranca Research
Strong growth in the Indian retail industry ... (2/2)

→ In 2010, textiles accounted for the largest share (38.1 per cent) in Indian retail business, followed by food and grocery (11.5 per cent) and consumer durables (9.1 per cent)

→ Health and beauty segment contributes the lowest (0.8 per cent) of total sector revenue

Market break-up by revenues (2010-11)

Source: PWC - Jan 2011, Aranca Research
Organised retail in nascent stage

... (1/2)

- Organised Retail Penetration (ORP) in India is low (6 per cent) compared to other countries such as the US (85 per cent)

- This points towards strong growth potential for organised retail in India given near double-digit economic growth projections in the coming decades

### Retail penetration across countries (2010-11)

<table>
<thead>
<tr>
<th>Country</th>
<th>Organised Retail penetration</th>
<th>Unorganised Retail penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>85%</td>
<td>15%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>81%</td>
<td>19%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>55%</td>
<td>45%</td>
</tr>
<tr>
<td>Thailand</td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>70%</td>
<td>30%</td>
</tr>
<tr>
<td>China</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>India</td>
<td>94%</td>
<td>6%</td>
</tr>
</tbody>
</table>

*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.

- 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, Aranca Research
Growth expected across product categories and formats ... (1/2)

Grocery sales growth across countries (2010)

<table>
<thead>
<tr>
<th>Country</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>18.4%</td>
</tr>
<tr>
<td>China</td>
<td>12.4%</td>
</tr>
<tr>
<td>Russia</td>
<td>11.1%</td>
</tr>
<tr>
<td>Brazil</td>
<td>10%</td>
</tr>
<tr>
<td>UK</td>
<td>3%</td>
</tr>
<tr>
<td>USA</td>
<td>2%</td>
</tr>
<tr>
<td>Japan</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: IGD International: Indian Retail Forum presentation-2010

Additional mall space requirement by 2013–14

<table>
<thead>
<tr>
<th></th>
<th>Demand (million sq ft)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 4 Cities*</td>
<td>45</td>
</tr>
<tr>
<td>Next Four Cities**</td>
<td>21</td>
</tr>
</tbody>
</table>

Source: Technopak Advisors Pvt Ltd, Cushman & Wakefield Research
Note:*: NCR, Mumbai, Kolkata and Chennai,**: Bangalore, Pune, Hyderabad and Ahmadabad
India’s Grocery retail segment is the most attractive in the world

Hypermartks would be the largest retail segment, accounting for 21 per cent of total retail space by 2013–14

**Source**: Technopak Advisors Pvt Ltd, Cushman & Wakefield Research
Significant global positioning of the Indian retail sector ... (1/2)

→ With a score of 63, India ranks fourth among the surveyed 30 countries in terms of global retail development

→ India’s strong growth fundamentals along with increased urbanisation and consumerism opened immense scope for retail expansion for foreign players

→ Favourable demographic conditions and higher per capita disposable income of young population boosts demand for retail in India

→ Consumers in India are spending more money on non food purchases. They are becoming more brand conscious

→ In the Global Apparel Index survey, India was ranked sixth after China, Russia and three middle east nations
Significant global positioning of the Indian retail sector ... (2/2)

India ranks Fourth in the 2011 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 attracts 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
High growth potential of the sector attracts investors … (2/2)

2011 GRDI country attractiveness in retail Investment

Source: 2011, A.T. Kearney Global Retail Development Index (GRDI), Aranca Research

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Growth drivers of retail in India

- Increase in consumer class
- Easy consumer credit
- Rise in income and purchasing power
- Brand consciousness
- Change in consumer mindset

Source: Aranca Research
Favourable FDI policy encouraging investment

- **1991**: Liberalisation: FDI up to 51 per cent allowed under the automatic route in select priority sectors.
- **1997**: FDI up to 51 per cent allowed with prior government approval in single-brand retail.
- **2006**: Government mulls over the idea of allowing 100 per cent FDI in single-brand retail and 50 per cent in multi-brand retail.
- **2008**: FDI up to 100 per cent allowed under the automatic route in Cash & Carry (wholesale).
- **2010**: Government proposes to allow FDI in multi-brand retailing; decision likely in the near future.

*Source: Aranca Research*
New Goods and Service Tax (GST) would simplify tax structure

Production and distribution structure
- The abolition of Central Sales Tax (CST) in favour of GST would lead to a re-evaluation of procurement and distribution arrangements
- Removal of excise duty on products would result in cash flow improvements

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

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

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
- Brand consciousness and demonstration effect supports retail sales to a large extent
- Easy availability of credit and use of ‘plastic money’ have contributed to a strong and growing consumer culture in India
Income growth will drive organised retail demand ... (2/2)

Real income growth projections

Source: IMF, Aranca Research

Gross domestic product per capita growth

Source: IMF, Aranca Research
Pantaloons: India's leading retailer in multiple retail formats... (1/2)

Profitability of Pantaloons over the years

Source: Company Annual report, Aranca Research
Pantaloons: 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 Indian retail and its customers

Pantaloons Retail India Ltd (FY11)

- Revenue: USD1.9 billion
- Operational retail space: 16 msf
- 1000 stores in 73 cities
- Employees: 30,000

Source: Company Annual report, Aranca Research

For updated information, please visit www.ibef.org
Shoppers Stop: The leader in diversified market strategy ... (1/2)

Shoppers Stop sales growth (USD million)

- FY 07: 184.4
- FY 08: 247.9
- FY 09: 288.1
- FY 10: 322.3
- FY 11: 397.3

CAGR: 21.2%

Shoppers Stop’s diversified portfolio

- FY 05
  - Apparels: 65%
  - Non Apparels: 35%
- FY 11
  - Apparels: 59%
  - Non Apparels: 41%

Source: Company Annual report, Aranca Research

For updated information, please visit www.ibef.org
Shoppers Stop: The leader in diversified market strategy ... (2/2)

→ 123 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

Source: Company Annual report, Aranca Research
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Growth value proposition

Demand Factors

- Growing young population
- Increasing number of working women
- Rising disposable incomes
- Changing consumer preferences and growing urbanisation

Supply Factors

- Real estate development
- Easy availability of credit
- Development of supply chain improving efficiency
- Rapid construction of organised retail infrastructure

Indian Retail Opportunity

Source: KPMG International 2011, Aranca Research
Ample growth opportunities in the Indian retail industry

Large number of retail outlets
- India has one of the largest number of retail outlets in the world
- 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
- In the next phase of the retail revolution in India, retail companies are expected to tap the rural segment as key driver of growth
- FMCG players are focusing on rural market as it constitutes over 33 per cent of FMCG consumer base in India

Private label opportunities
- The organised Indian retail industry has begun experiencing an increased level of activity in the private label space, which is expected to grow further in the near future
- 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: ASSOCHAM India, Aranca Research
Notes: FMCG - Fast Moving Consumer Goods
Retail real estate is an attractive opportunity, currently attracting 29 per cent of the total investments.

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.
Employment opportunities and increased urban amenities are attracting huge rural population towards cities for better lifestyle.

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)

Source: Cushman & Wakefield Research
<table>
<thead>
<tr>
<th>Company</th>
<th>Partnership Details</th>
</tr>
</thead>
</table>
| 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
## Major 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>Shoppers Stop Ltd</td>
<td>HyperCITY Retail India Pvt Ltd (hypermarket)</td>
<td>June 2010</td>
<td>Acquisition</td>
</tr>
<tr>
<td>TPG Capital, Bain Capital</td>
<td>Lilliput Kidswear Ltd (branded kidswear retail)</td>
<td>April 2010</td>
<td>Private Equity</td>
</tr>
<tr>
<td>Gitanjali Gems Ltd</td>
<td>Morellato India Private Ltd (watch and jewellery retail)</td>
<td>January 2010</td>
<td>Divestiture</td>
</tr>
<tr>
<td>TVS Shriram Growth Fund</td>
<td>Landmark (department store)</td>
<td>November 2009</td>
<td>Divestiture</td>
</tr>
<tr>
<td>India Hospitality Corp, USA</td>
<td>Treasure Food and Beverage (retail restaurants)</td>
<td>November 2009</td>
<td>Acquisition</td>
</tr>
<tr>
<td>Gitanjali Gems Ltd</td>
<td>Spectrum Jewellery Pvt Ltd, Thailand (diamonds and other precious stones)</td>
<td>October 2009</td>
<td>Acquisition</td>
</tr>
<tr>
<td>Gitanjali Gems Ltd</td>
<td>Alliance Jewelleries Pvt Ltd, Lebanon (designer of gold and diamond studded jewellery)</td>
<td>October 2009</td>
<td>Acquisition</td>
</tr>
<tr>
<td>Gitanjali USA Inc</td>
<td>Diamlink Inc, USA (diamonds and diamond-studded jewellery)</td>
<td>July 2009</td>
<td>Acquisition</td>
</tr>
<tr>
<td>Gruppo Coin, Italy</td>
<td>Brandhouse Retails Ltd (fashion retail)</td>
<td>February 2009</td>
<td>JV</td>
</tr>
<tr>
<td>Inditex, Spain</td>
<td>Trent Ltd (retail)</td>
<td>February 2009</td>
<td>JV</td>
</tr>
<tr>
<td>RPG Group</td>
<td>Cellucom Group(Dubai) , Au Bon Pain(USA) , Chad Valley(UK)</td>
<td>November 2007</td>
<td>JV</td>
</tr>
</tbody>
</table>

*Source: Bloomberg and Thomson ONE Banker, Aranca Research*
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Industry associations

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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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