



RETAIL

December 2008

MARKET OVERVIEW

Indian retail on the fast-track

- The Indian retail market is the fifth-largest retail destination globally. It is estimated to grow from the US\$ 330 billion in 2007 to US\$ 427 billion by 2010 and US\$ 637 billion by 2015.
- Retail contributes to 10 per cent of India's Gross Domestic Product and provides employment to 8 per cent of India's working population.
- Higher disposable incomes, easy availability of credit and high exposure to media and brands has considerably increased the average propensity to consume over the years.

Indian retail on the fast-track

GRDI

India ranked first for the third consecutive year on the Global Retail Development Index – 2007, conducted by AT Kearney across 30 emerging economies. India is ranked as the most preferred retail destination for international investors.

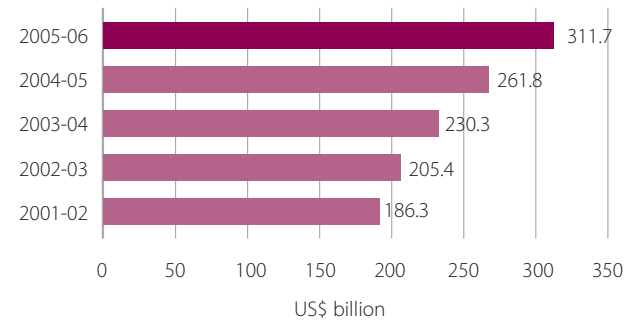
GCCI

India ranked first for the fifth time on the Global Consumer Confidence Index – June 2007, conducted by The Nielsen Company. Indians were judged as the world's most optimistic consumers, with high financial confidence about their income for the next 12 months.

Indian retail revolution

- Modern retail would increase its share in the total retail market to 22 per cent by 2010.
- Indian retail showed a growth rate of 49.73 per cent with a turnover of US\$ 25.44 billion in 2007-2008 as against US\$ 16.99 billion in 2006-2007.
- Organised retail segment is expected to grow from five per cent to about 14 to 18 per cent by 2015.

Total Retail Sales

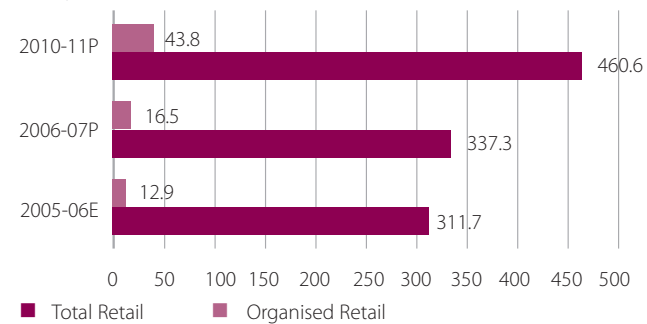


Source: Datamonitor

Indian retail revolution

- The market is witnessing a migration from traditional retailing to modern/organised retailing formats, with an explosive proliferation of malls and branded outlets.
- Modern retailing outlets in India are increasingly matching up to global standards and witnessing intense competition.

Projected Retail Growth



Source: Crisil Research

Exchange Rate: US\$ 1 = INR 41

Transition from traditional to modern retailing

- With a share of over 95 per cent of total retail revenues, traditional retailing continues to be the backbone of the Indian retail industry.
- Over 12 million small and medium retail outlets exist in India, the highest in any country.
- Traditional retail formats are highly popular in small towns and cities with primary presence of neighbourhood “kirana” stores, push-cart vendors, “melas” and “mandis”.

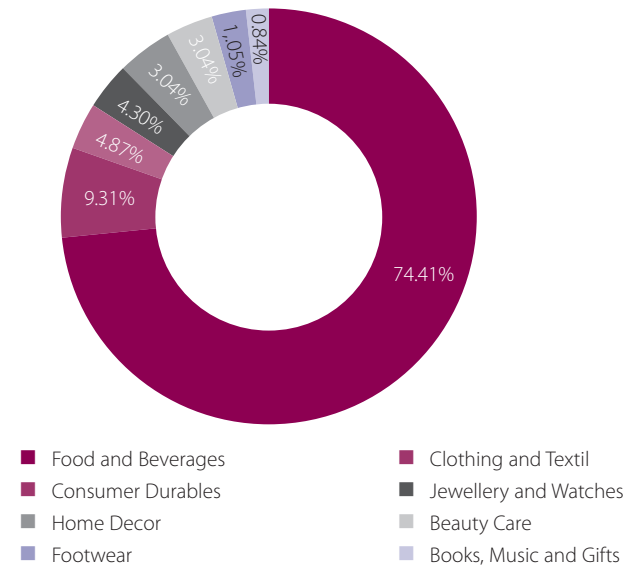
Transition from traditional to modern retailing

- Modern/organised retailing is growing at an aggressive pace in urban India, fuelled by burgeoning economic activity.
- Increasing number of domestic and international players are setting up base in the country and expanding their business to tap this growing market.

Growth across segments

- The food and beverages segment accounts for the largest share over 74 per cent of the total retail pie.
- Traditional retail dominates food, grocery and allied products sector, with grocery and staples largely sourced from the “Kiranas” and push-cart vendors.
- Apparel and consumer durables verticals are the fastest growing verticals.

Share of Verticals



Revenue of Verticals	
Food and Beverages	US\$ 231,951 million
Clothing and Textile	US\$ 29,024 million
Consumer Durables	US\$ 15,171 million
Jewellery and Watches	US\$ 19,390 million
Home Decor	US\$ 9,463 million
Beauty Care	US\$ 6,854 million
Footwear	US\$ 3,268 million
Books, Music and Gifts	US\$ 2,610 million

Source: Crisil Research

Growth across segments

- With high telecom penetration in towns and villages and five million new users having added every month, the mobile phone category is one of the highest growth product categories.
- With the reducing average age of Indians buying homes, the home décor sector is growing rapidly coming down.
- Beauty care, home décor, books, music and gifts segments are gaining traction predominantly in the urban areas and emerging cities.

Increasing penetration of organised retail

- Organised retail in India is largely restricted to the urban and semi-urban regions, with consumer exposure to modern retailing formats like malls and stand-alone stores, etc., for specific product categories.
- Penetration of organised retail is projected to increase to 9.52 per cent in 2009-2010, with revenues from organised retail touching US\$ 43,829 million in 2009-2010.
- Clothing and textiles/apparel segment dominates the organised retail sector with revenues worth US\$ 4.76 billion, contributing to over 36 per cent of the organised retail pie.

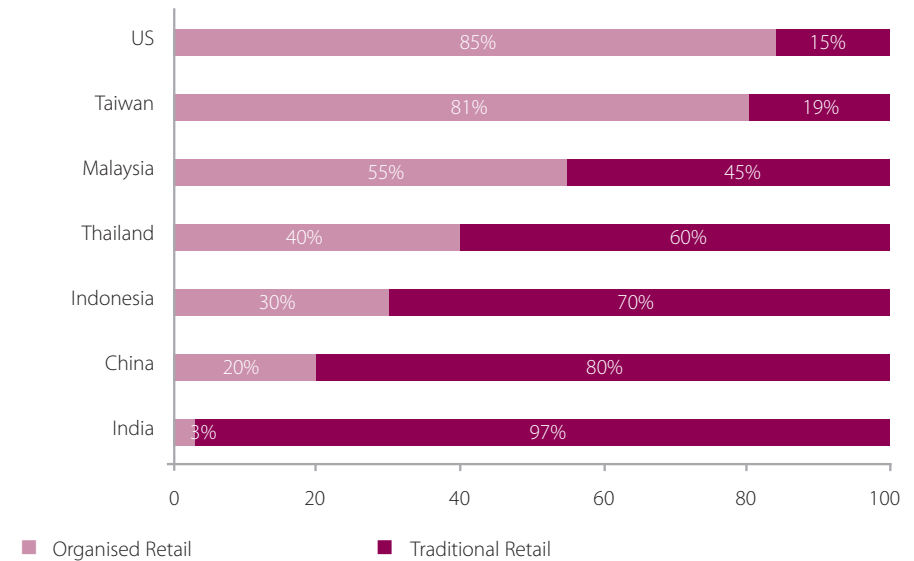
Size of Indian retail market across segments, 2007

Segment	Total retail	Organised retail
Food and grocery	6,422	50
Textile and apparel	980	185
Jewellery and watches	554	30
Consumer durables	415	43
Pharma	364	10
Home solutions	351	32
Books, music and gifts	115	15
Others	1,159	111
Total	10,360	475

Increasing penetration of organised retail

- Apparel is one of the fastest growing verticals, with higher number of domestic and foreign brands, and increasing consumer willingness to pay for quality.
- Footwear has the highest organised retail penetration, primarily due to players like Bata India Pvt. Ltd. and Liberty, with wide distribution network and customer confidence.

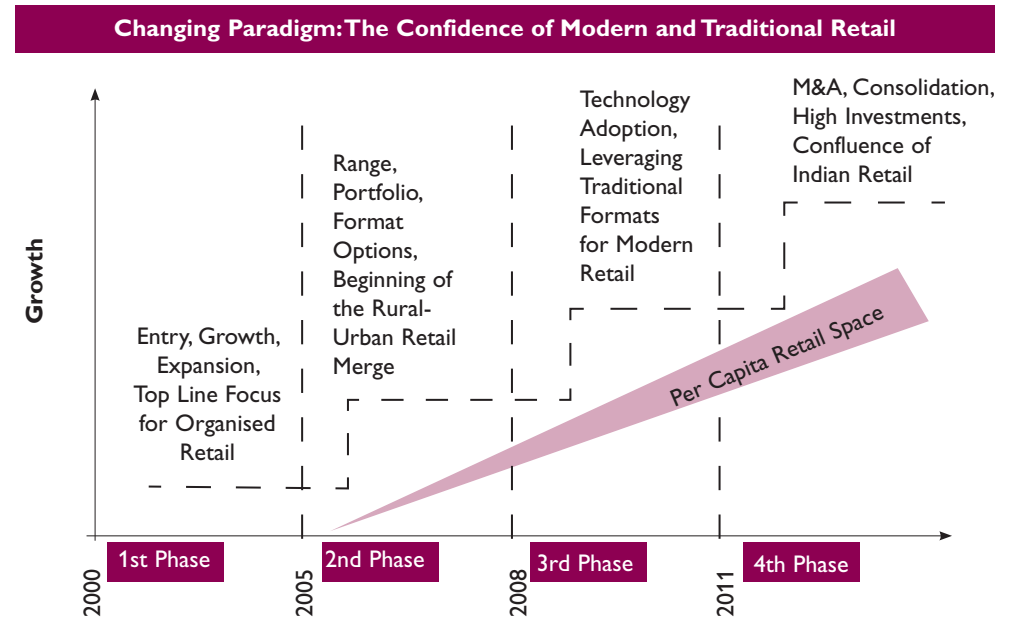
Comparative penetration of organised retail



Source: Ernst & Young research

Future outlook

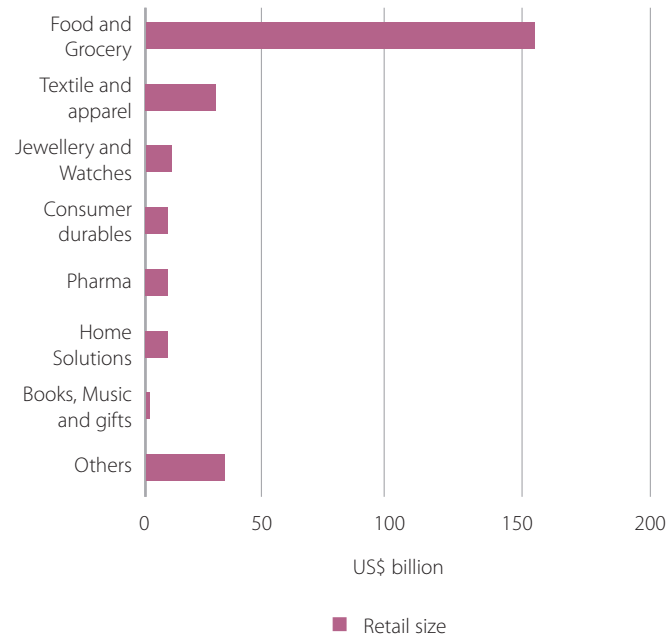
- Retail sector revenues pegged at US\$ 460.6 billion by 2010-11
- Organised retail projected to grow to US\$ 43.8 billion
- Modern retail is expected to adapt and imbibe from the traditional formats
- Unorganised formats converging from organised formats, in the form of mushrooming village malls



Future outlook

- Large Indian retail players have already begun formulating strategies for the rural retail space
- The food and beverages (F&B) sector is expected to touch US\$ 116 billion mark by the end of 2008-2009.

Segmental size of Indian retail market



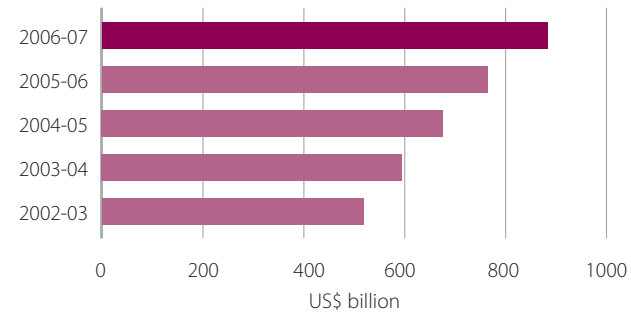
ADVANTAGE INDIA

Advantage India

Fastest Growing Economy

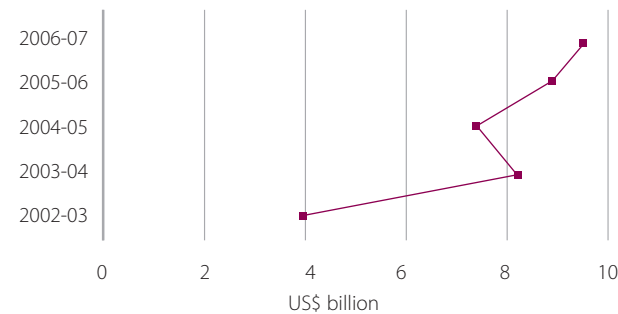
- GDP growth rate of 9.4 per cent posted in 2006-07 is highest ever in last 18 years. With the first quarter growth rate for 2007-08 estimated at 9.3 per cent, the economy is well poised to continue its growth story.
- The fast pace of GDP growth is the driving Indian consumerism; Indian consumers today are more confident and willing to splurge

Gross Domestic Product



Source: Reserve Bank of India

Growth Rate (per cent)



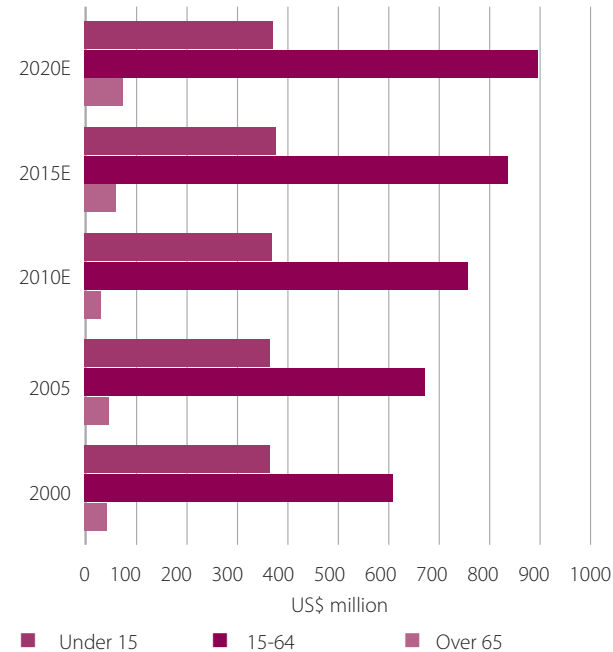
Source: Reserve Bank of India

Advantage India

Young India

- Two-thirds of India’s population is under 35 years age and more than 60 per cent of the population will be in the working age group (15-60) till year 2050.
- The median age of 23, opposed to the world median age of 33, sets the emerging young India apart
- India is home to about 20 per cent of the global population under 25.

Growing Young Population



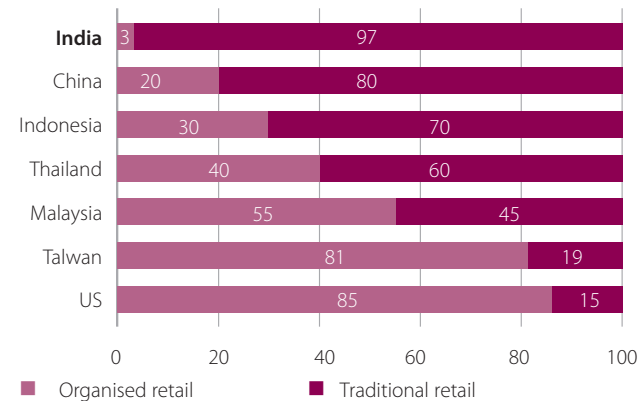
Source: India Census

Advantage India

Potential Untapped Market

- Organised retail penetration is on the rise and offers an attractive proposition for entry of new players as well as scope for expansion for existing players
- Diverse needs of the Indian consumer offers a spectrum of opportunities, spanning from rural retailing to luxury retailing
- India is home to the largest base of consumers, and a steadily rising rich and super rich population
- Impressive retail space availability and growing trend of consumerism in the emerging cities and small towns add to the market attractiveness
- Indian Retailing gaint, Pantaloon Retail India Limited, captures a mere 0.3 per cent of total market in India, compared to Tesco Plc, England’s 14.3 per cent and Walmart USA’s 20 per cent, signaling out the large untapped potential

Share of Organised and Traditional Retail



* 2004-05 figures.

Source: Ernst & Young Retail Report

Advantage India

Abundant Availability of Skilled Labour

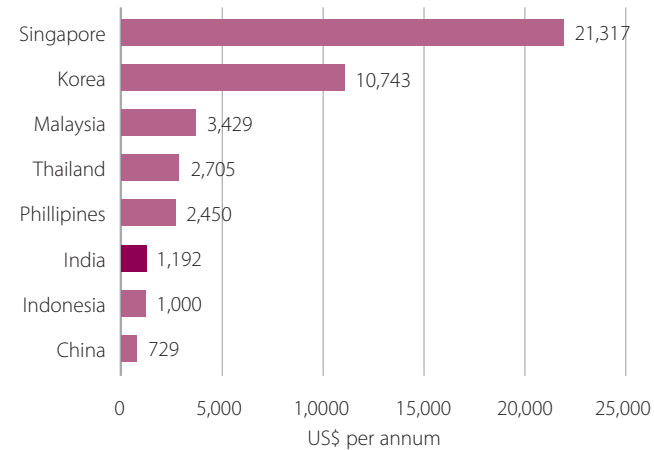
- Over 37 million students were enrolled in about 150,000 pre-college institutes and over 11.7 million in 14,000 higher education institutions in 2005-06.
- Retail management is a sought after education stream amongst students, with over 15 premier institutes offering specialised courses in Retail Management.
- Indian Institute of Retail, New Delhi; RPG Institute of Retail Management, Mumbai; and The Retail Academy, Ahmedabad are some of the institutes focusing on the education needs of the retail sector.

Advantage India

Low Cost of Operations

- Existing players are increasingly turning to Tier II and Tier III cities for retail establishments and manpower sourcing
- These cities offer significant cost advantage in the form of low-cost skilled resources and attractive lease rentals/real estate prices.
- With well-educated small town graduates turning to the urban cities for employment, these graduates are ideal candidates for sales and marketing executive roles in modern organised retail formats.

Labour cost per worker across Asian countries



Source: Department of Industrial Policy & Promotion

POLICY

Policy and regulatory framework

Policy framework

FDI upto 100 per cent allowed under the automatic route for cash and carry wholesale trading and export trading and FDI upto 51 per cent is allowed, with prior government approval for retail trade in 'Single Brand' products. FDI in retailing of goods under multiple brands, even if the goods are produced by the same manufacturer, is not allowed under the current guidelines.

Policy and regulatory framework

Available routes for foreign players to enter the retail sector

Strategic License Agreements	Cash-and-Carry Wholesale Retailing	Distribution	Franchisee Route	Manufacturing	Joint Venture
<p>This route involves a foreign company entering into a licensing agreement with a domestic retailer or partnering with Indian promoter owned companies.</p>	<p>100 per cent Foreign Direct Investment is allowed in wholesale trading which involves building of a large distribution network.</p>	<p>An international company can set up a distribution office in India and supply products to the local retailers. Franchisee outlets can also be set up in this route.</p>	<p>The entry route, which includes the master franchise and the regional franchise routes is widely used, with a number of international brands to set a presence in India.</p>	<p>A company can establish its manufacturing unit in India along with standalone retailing outlets</p>	<p>International firms can enter into agreements with domestic players and set up base in India. Share of MNCs is restricted to 49 per cent in this route.</p>

Policy and regulatory framework

Indicative list of international players and their chosen entry route

FRANCHISEE

- PIZZA HUT
- DOMINO'S PIZZA
- MARKS & SPENCER
- NIKE
- TOMMY HILFIGER
- SUBWAY

CASH & CARRY WHOLESALE TRADING

- METRO
- SHOP RITE

JONIT VENTURES

- McDONALD'S
- REEBOK

MANUFACTURING

- BATA
- UNITED COLORS
OF BENETTON

DISTRIBUTION

- SWAROVSKI
- HUGO BOSS
- MANGO

Policy and regulatory framework

Related liberalisations for Indian retailing

- Value added tax (VAT) has been introduced and implemented in most states and union territories, and across most industry verticals (except a few like textiles) to resolve the multiple taxation issues and maintain uniform prices across the countries. Octroi has been abolished in many states to further trade in the retail sector.
- Labor laws in India are under the scanner for higher liberalisation, with the government relaxing certain norms or permitting flexibility in the laws for emerging retail hubs such as Bengaluru and Hyderabad. Laws like restriction on working hours, mandatory closure of the store once a week etc. are being modified to suit the modern retailing context, while ensuring no adverse impact on the benefits for employees.

Policy and regulatory framework

Related liberalisations for Indian retailing

- The government is working towards reducing impediments by introducing a single-window clearance mechanism. This would reduce the entry and establishment timelines for new players in the market and facilitate timely and hassle free approvals.
- The government is expected to adopt a calibrated approach in land and rent reforms to improve the real estate regulatory environment and facilitate easy access to retail space for international investors.

Policy and regulatory framework

- The government is releasing large tracts of undeveloped land for retail development in the Mumbai and National Capital Region (NCR). This is soon to be followed by other State Governments, with associated benefits for the Governments in the form of access to impressive revenues from sale of land and tax collection from retail developments.
- Solutions to problems related to lease rentals and pro-tenancy laws, which significantly deter international investors, are being pursued by the government, with initiatives such as Special Economic Zones (SEZs), allotment of government controlled land etc.

Policy and regulatory framework

- The Agricultural Produce Marketing Committee Act (APMC), which curtails direct sourcing of agricultural produce (grocery, food grains etc) is proposed to be amended soon, with a Draft Model Act being legislated by the government. The new act promotes direct marketing to corporates by farmers, setting up of farmers'/consumers' market and contract farming.
- The government is encouraging contract farming, as it provides incentives to both the farmers and the corporate retailers, with the former gaining access to a larger market and the latter to a direct raw material procurement source at competitive prices. The Government is currently pursuing development and modernisation of eight strategically located “mandis” with availability of cold storage, sorting and grading facilities.






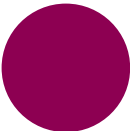









KEY TRENDS & DRIVERS

Metros leading the way

Maturing metros: Delhi and Mumbai

- Six million Indian households are classified as 'rich' with annual income over US\$ 4,700 and over half of them live in Delhi, Mumbai and Bangalore.
- 62 per cent of the market for premium products in India is also concentrated in these three cities.
- 85 per cent of India's retail market is concentrated in the country's eight largest cities.
- One million households at the top of India's income map constitute the 'super-rich' in the country. Growing by 20 per cent every year, this segments' buying behaviour is in line with its corresponding international counterparts. While this segment is a worthy target for high-end premium products, it is not the key driver of the organised retail sector.

Metros leading the way

Map of India's income classes			
	1994-95	1990-00	2005-06
<ul style="list-style-type: none"> • RICH (Annual income > US\$ 4,700) Benefit Maximisers: Own cars, PCs 	1 million households 	3 million households 	6 million households 
<ul style="list-style-type: none"> • CONSUMING (US\$ 1,000-4,700) Cost-benefit optimizers: Have block of branded consumers goods, 70% of two-wheelers. refrigerators, washing machine 	29 million households 	55 million households 	75 million households 
<ul style="list-style-type: none"> • CLIMBERS (US\$ 500-1,000) Cash-constrained benefit seekers: Have at least one major durable (mixer, sewing machine/television) 	48 million households 	66 million households 	78 million households 
<ul style="list-style-type: none"> • ASPIRANTS (US\$ 350 - 500) New entrants into consumption: Have bicycles, radios, fans 	48 million households 	32 million households 	33 million households 
<ul style="list-style-type: none"> • DESTITUTES (Less than US\$ 350) Hand-to-mouth existence: Not buying 	35 million households 	24 million households 	17 million households 

Source: Rao and Natarajan, National Council for Applied Economic Research, 1996

Metros leading the way

Delhi

- Delhi/NCR, the fashion capital of India and home to the highest number of rich and super-rich households, contributed close to US\$ 12,683 million to 2005-06 retail revenues.
- National Capital Region (NCR) contributes US\$ 16,342 million of retail revenues in 2005-06, and is projected to open doors to a market worth US\$ 19,522 million by 2010-11.
- NCR has the highest mall space availability and the highest number of affluent households.

Metros leading the way

Mumbai

- Home to a large percentage of high net worth individuals, Mumbai contributes close to US\$ 10,195 million of the total retail revenue
- The retail opportunity for this metro is projected at US\$ 14,927 million for 2010-11
- Mumbai is home to different income groups, from the aspirants to the super rich; each having significant contribution to the retail revenues through various retailing formats

Source: Crisil Research

Emerging retail hubs

Cities on the Fast-track

- Bengaluru, Hyderabad, Chennai and Kolkata contribute to US\$ 15,511 million worth retail revenues, and projected to touch US\$ 25,610 million by 2010-11
- Retail activity in Bengaluru, Hyderabad and Chennai is growing at an exceptional rate, with phenomenal increase in mall space by the day
- Most of the retail sector giants have a footprint in these cities, with future plans of expanding base, owing to the rapid transition of households from lower income groups to higher income groups

Emerging retail hubs

- With the growth of the IT/ITeS sectors concentrated in these cities, the disposable incomes have increased rapidly over the years
- Bengaluru is considered the Silicon Valley of India, with almost all the domestic and international IT giants having a their presence here
- These cities are projected to experience continued robust economic growth in the coming years

Emerging retail hubs

Metros-in-the-making

- The emerging and potential cities like Pune, Ahmedabad, Jodhpur, etc. account for about US\$ 15,619 million of retail revenues. The combined retail potential of these cities is expected to soar to US\$ 23,563 million by 2010-11.
- Pune is the fastest emerging destination for the services sector, closely followed by Ahmedabad. These cities are now among the chosen business destinations by corporate houses.
- The migration from traditional retail to the modern formats is largely noticeable in these two cities, with explosive increase in the mall space availability and branded outlets.
- Approximately 315 hypermarkets are expected to come into existence in tier-I and tier-II cities across India by the end of 2011.
- 52 leading towns are likely to emerge as retail hubs by 2011 with tier-III towns gaining market potential to host five or more hypermarkets.

India as the sourcing hub

Emergence of India as Retail Sourcing Hub

- Riding on the back of a strong manufacturing industry, India is fast emerging as an important global sourcing hub for top international brands
- Wal-Mart's sourcing operations were estimated at US\$ one billion, Tesco's around US\$ 100 million and Marks & Spencer around US\$ 145 million
- Textiles dominated the sourcing scenario through the 1990s, with the dawn of the new millennium ushering in wider markets for consumer goods and footwear.
- Unilever sources major chunk of their FMCG products from its wholly owned Indian subsidiary, Hindustan Unilever Limited
- Adidas, Next and Calvin Klein are expected to increase sourcing from India, with Adidas opening its first office in Bengaluru.

India as the sourcing hub

Increasing Technology Adoption

- With modern retail store formats growing in size, players are increasingly deploying advanced information technology tools for managing their supply chain, warehousing and logistics requirements.
- Retail constituted eight per cent of IT export revenues in 2005-06, and was also one of the key sectors driving the domestic IT expenditure.
- Apart from industry giants, the small scale retailers are also embracing IT solutions to spruce up their operations.
- Big league IT firms like IBM India, Oracle, SAP are developing solutions smaller retailers, such as merchandising solutions, solutions for store-level point of sale (POS) needs and hardware requirements, collaboration tools.

Click-to-buy phenomenon

Online Retailing

- Increase in the number of broadband and dial-up internet connections, limited personal time, increased use of plastic money, and large young population that spends a considerable time online are facilitating growth of online shopping.
- Players like Rediff.com, eBay.in, Indiatimes.com were the first entrants in the Indian online retail space, clocking impressive revenues through online transactions. Recent players to enter this niche market include the Pantaloons Retail India Ltd., through its Futurebazaar.com venture.

Click-to-buy phenomenon

- There is a growing trend among retailers maintaining their own portals for easy consumer access, facilitating online purchase of merchandise like Tata Indicom's i-choose.in, G&B's godrejlifespace.com.
- Many smaller retail portals are mushrooming on the world wide web, meeting niche Indian consumer requirements like ethnic apparel, handicrafts and jewellery.
- With value-added services like cash-on-delivery to facilitate online transactions by consumers without credit/debit card, unique bidding schemes etc, e-commerce is fast gaining acceptance in India

Emerging rural retailing

- Rural hypermarkets are growing at a blistering pace, providing multiple services from creating a platform to buy and sell farm produce to banks and restaurants.
- ITC Choupal Saagar: Currently there are 14 outlets in operation, and ITC plans to increase the number to 700 over the next 7-10 years. Choupal Saagar retails products and also acts as a procurement hub for ITC's e-choupals where farmers are offered better rates for their produce, as compared with the prevalent mandi rates for the same.
- DSCL's Hariyali Kisan Bazaar: Over 70 outlets and proposed to touch 200 over the next 12 months.

Emerging rural retailing

- Indian Oil Corporation's Kisan Seva Kendra: Offers fuel, agri-produce, FMCG and value added services across a network of over 1400 outlets.
- Reliance Retail and Pantaloon Retail are expected to venture more aggressively into the rural retailing space.
- Asian Development Bank would lend US\$ 150 million for revival of Khadi. This will bolster employment in the rural areas.

Resplendent luxury market

- Affluent households account for just about 4.5 per cent of the national population, but account for more than 22 per cent of the total retail sales, clocking US\$ 62,340 million revenues.
- The number of affluent households are projected to increase to 8.5 per cent, translating into a retail opportunity worth US\$ 152,000 million in 2010-11
- Delhi and Mumbai are the prime contributors to the luxury retail space, with the highest density of luxury brand outlets

Resplendent luxury market

- The location these outlets are typically limited to five-star hotels and high-end mall spaces, with limited footfalls and consumer exposure.
- Players have aggressive expansion plans in the pipeline, the investor confidence reinforced by the booming sales.
- The two Louis Vuitton stores in Mumbai and Delhi averaged monthly sales of US\$ 13 million for 2005-06, and Hugo Boss is expanding to other metros, propelled by its 30 per cent sales growth in India.

Leisure and entertainment

- Entertainment retail is redefining Indian lifestyles with multiplexes, gaming zones, etc. mushrooming as much as the malls.
- Huge entertainment and leisure opportunity owing to the fact that there exist 10 screens per million population in India compared to 40 screens in the European market and 117 in the US.
- The total leisure and entertainment revenues were pegged at US\$ eight billion for 2005-06, a 14 per cent increase over 2004-05.
- Organised retail grew at an average rate of 30 per cent over 2004-05, and is expected to maintain its pace for the coming years, with Indian players investing heavily in this market.
- Reliance Infotech's Adlabs and Shopper's Stop's Timezone have aggressive expansion plans in the pipeline, with retailers exploring the JV option with international giants

Source: E&Y Research

Operator	Multiplexes	Screens in 2005-06	Screens projected for 2010-11
Adlabs Cinemas	22	80	225
Cinemax	11	36	141
DT Cinema	3	6	NA
E-City Ventures	25	95	1500
Inox Leisure Ltd	15	54	165
M2K Cinemas	2	5	NA
PVR Ltd	21	82	208
Prasad IMAX	2	5	NA
Pyramid Saimira	290	325	2000
Shringar	7	30	235
Waves Cinemas	3	13	200

Source: CB Richard Ellis

Cashing-in on the transit channels

- Fast paced infrastructure development, including development of new international airports and metro rails is opening up new avenues for retail
- The Airport Authority of India is embarking on the upgradation of 9 metro airports and 15 non-metro airports, with plans to spruce up the retail space in the airports as well
- The joint-venture between shopper's Stop and The Nuance Group AG has won the contract for setting up duty-free and duty-paid retailing outlets at the upcoming Bengaluru and Hyderabad International Airports

Cashing-in on the transit channels

- Mass Rapid Transit System, currently in operation in Delhi, and in the pipeline in other metro cities like Bengaluru and Hyderabad is also expected to offer immense retailing potential
- With 53 metro stations in operation and 79 stations proposed to come up by 2010 in Delhi's Metro Rail, several retailers are in the fray to capitalise on the commercial potential
- After the Delhi Metro Rail Corporation awarded Omaxe Limited, the Chawri Bazaar Commercial Development". Omaxe has entered into a consortium agreement with Vishal Retail, a Delhi based retailing major.

Other opportunities

Special Economic Zone (SEZ) synergies

- 154 Special Economic Zones are notified as on October 3, 2007, spread over states and union territories of India.
- SEZs offer ample retail opportunities, with a percentage of SEZ area earmarked for retailing in the non-processing zone.
- The size of the area in the retailing space is calculated considering various parameters like type of SEZ, projected size of the residential population in SEZ, and population in the catchment area.
- IT/ITeS based SEZs offer impressive retailing opportunities; the target segment for such SEZs would be the urban population with high-disposable incomes.

Other opportunities

Tourism Related Opportunities

- With tourists inflow increasing impressively with each passing year, tourism holds the key to a large retailing opportunity. In 2005-06, approximately 4.45 million foreign tourists arrived in India, a 13.5 per cent growth over 2004-05.
- Retailing of regional handicrafts and artifacts has the potential to capture the interest of foreign tourists, given the rich and diverse cultural heritage of India
- The Indian Tourism Board's Dilli Haat (a crafts bazaar located in Delhi) retails the regional crafts of various states, attracting a large number of tourists.
- The concept is fast gaining traction in other destinations in India such as Jaipur, Mumbai and Hyderabad.

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