India

Area ('000 sq km)¹: 3,300
(US 9,600 – EU25 3,981 – World 133,700)

Capital²: New Delhi
(Number of inhabitants: 19.7 million)

Population (million): 1,095
(US 296 – EU25 459 – World 6,000)

Median age: 25 years

Nominal GDP (USD billion): 797.8
(US 12,487 – EU25 13,447 – World 44,183)

Nominal GDP (USD billion at PPP): 3,824.6
(US 12,487 – EU25 12,657 – World 59,763)

GDP per head (USD at PPP): 3,491.7
(US 42,129 – EU25 27,538 – World 9,962)

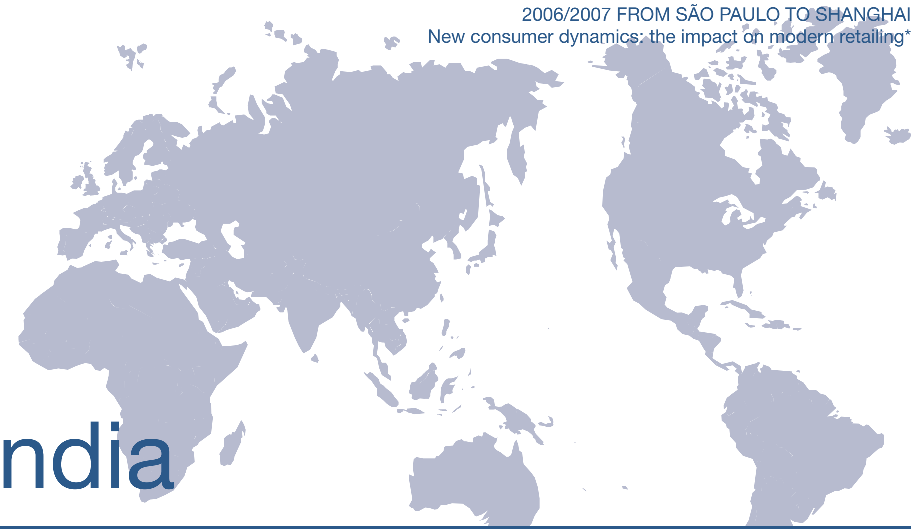
Currency³: Indian Rupee (INR)
(USD1 = INR44.1)

Languages³: Hindi, English and other regional languages

Main religions³: Hindi, Muslim, Christian

Government type³: Federal Republic

Sources: ( ) Economic Intelligence Unit 2006 data,
(¹) World Bank 2005, (²) City Population,
(³) CIA Fact book



India

ECONOMIC OVERVIEW

India is currently undergoing an economic revolution which is generating fast-paced changes and development.

GDP AND CPI

Services driven GDP growth

Optimistic macroeconomic drivers such as a stable 8% annual growth, rising foreign exchange reserves of close to USD140 billion, consistent and flowing foreign direct investment (FDI) of close to USD8 billion, and an export surge in excess of 20%, all together enabled the Indian economy to expand in 2005. The sustained growth in the services sector has had an especially positive impact on the Indian economy.

Many reforms are underway

Indeed with GDP growth set between 7 and 8% for the third consecutive year, fuelled by strong consumption and productive investments, the Indian economy is in good health. Monetary, budget and external accounting tensions should not be under-estimated but remain under control for now. In order to pursue and amplify this movement, a number of liberalising reforms have been engaged for the Indian market and the improvement of infrastructure.

Very attractive investment destination

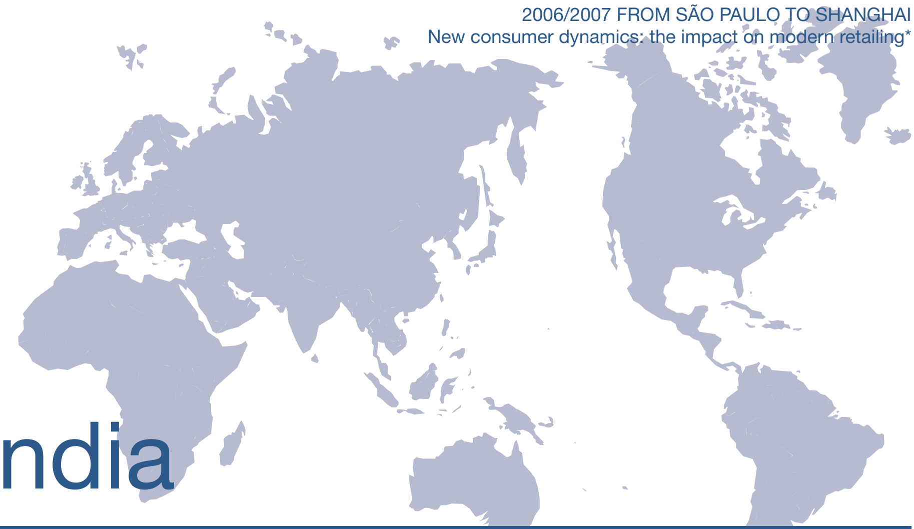
With a rapidly expanding consumer base (private consumption currently accounts for 61% of India's GDP[1]) and stabilised consumer price index rate at 4.2%, India is a now preferred investment destination. India has surpassed the US to become the second-most favoured destination for foreign direct investment (FDI) in the world after China[2].

GDP and CPI

	2002	2003	2004	2005
GDP growth (%)	3.6	8.3	8.5	8.5
CPI (%)	4.3	3.8	3.8	4.2

Source: EIU, July 2006

1 Morgan Stanley, "India and China: News Tigers of Asia, Part II." (June 2006)
2 AT Kearney's FDI Confidence Index



India

UNEMPLOYMENT

Steady decrease in unemployment

Unemployment

	2002	2003	2004	2005
Unemployment rate (%)	10.3	8.3	9.1	8.9

Source: EIU, July 2006

Unemployment has decreased slightly from 9.1% in 2004 to 8.9% in 2005. It is predicted to decrease in the coming years.

ECONOMIC FORECAST

A very positive economic outlook but government action is required

Key economic forecasts

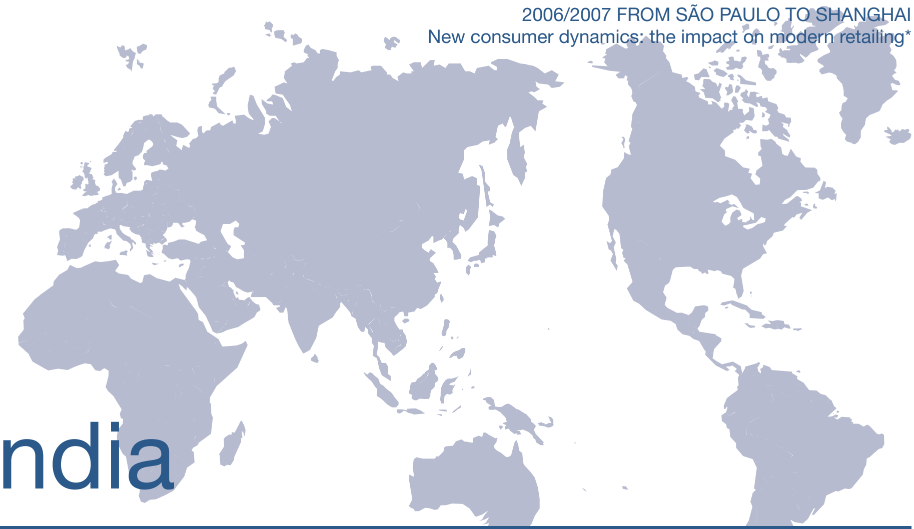
	2006	2007	2008
GDP growth (%)	7.5	7.4	7.0
CPI (%)	4.8	4.1	4.4
Unemployment rate (%)	7.8	7.4	6.9

Source: EIU, July 2006

While India has a high growth future ahead, it will need to deal with key development issues in order to realise its full potential, namely[3]:

- Address protectionism of certain industries and sectors.
- Mobilise capital more efficiently in order to streamline infrastructure development.
- Continue to establish Special Economic Zones (SEZs) in areas without land title disputes. SEZs could become cities with their own regulatory and bureaucratic infrastructure, which would enable India to accelerate urbanisation and economic development.
- Consider selling state-owned assets in order to kick start a planned USD100 billion infrastructure programme as the motor to India's modernisation.

3 Morgan Stanley, "India and China: News Tigers of Asia, Part II." (June 2006)



India

REGULATORY ENVIRONMENT

Tempered liberalisation of retail industry regulations

FOREIGN DIRECT INVESTMENT

Foreign direct investment is open to single brand retailers

Steady increases in FDI

	2002	2003	2004	2005
FDI (INR m)	273,530.2	201,379.6	248,062.4	295,293.4
FDI (USD bn)	5.6	4.3	5.5	6.7

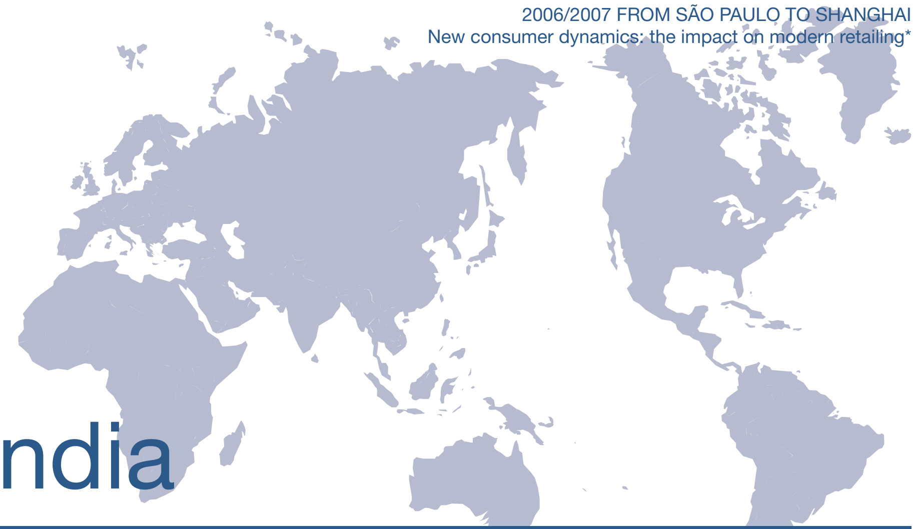
Source: EIU, July 2006

Foreign investment in India is governed by the Foreign Direct Investment (FDI) Policy of the Government of India and the Foreign Exchange Management Act, 1999 (FEMA). Foreign investment is permitted in virtually all activities without prior Government approvals, except for a few strategic sectors. The FDI policy is framed by the Department of Industrial Policy & Promotion (DIPP), the Ministry of Commerce & Industry and the Government of India. It is implemented by the Reserve Bank of India (RBI) for cases falling under the automatic route (i.e. not requiring prior approval); and the Foreign Investment Promotion Board (FIPB) at the Ministry of Finance, if approval is required.

Prior to 1997, while the FDI policy recommended specific FIPB approval in trading, FIPB also considered and approved, on case-by-case basis, applications for the retail-trading segment.

The current policy of the Government of India prohibits FDI in retail trading except for single brand retail that fulfils the following conditions:

- Maximum 51% foreign equity permitted space.
- Prior FIPB/ DIPP approval required.
- Products to be sold should be of a ‘Single Brand’ only.
- Products should be sold under the same brand internationally.
- ‘Single Brand’ product-retailing would cover only products which are branded during manufacturing.
- Any addition to the product/ product categories to be sold under ‘Single Brand’ would require a fresh approval of the Government.



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With the opening of single brand retail to FDI, the Government took a major step in opening the retail sector to FDI. This step towards liberalisation is aimed at attracting investment in production and marketing, improving the availability of branded goods for consumers, encouraging increased sourcing of goods from India and enhancing competitiveness of Indian enterprises through access to global designs, technologies and management practices.

Investment in multi-brand retailing under consideration

The Government is currently deliberating permitting FDI in multi-brand large and medium format retail stores. The primary driver for the proposed change in the FDI policy is to provide an impetus to the agricultural sector and to enable farmers to participate in retailers' plans to move food "from the farm to the plate." The government estimates that between 30 to 40% of the agricultural produce is wasted due to the absence of cold chain facilities. It is hoped that FDI in retail can bring about a revolution in agriculture through value addition, processing and marketing.

FDI in wholesale and export trading has currently been put under the automatic route. The policy does not define wholesale trading but a recent judicial decision suggests the term to include sale to "retailers, industrial, commercial, institutional or other professional business users or to wholesalers and related subordinated services."

PROPERTY/REAL ESTATE

Finding retail space is a challenge

The current retail boom is impacting the commercial real estate sector. Most of the major Indian cities have significant retail projects under construction. Property prices across the country having seen some rationalisation in the past; but an upsurge in demand is ensuring that prices are peaking.

According to Government policy, up to 100% FDI, is permitted under the automatic route in townships, housing, built-up infrastructure and construction-development projects (including housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, city and regional level infrastructure, etc.), subject to certain minimum area and capitalisation conditions, being met.

In most cities, it is difficult to find suitable properties in central and downtown locations for large format retail stores, primarily due to fragmented private holdings and infrequent auctioning of large government owned vacant lands. This has led to a shift in preference to the suburbs of metropolitan cities. While most of the Indian players have ready and easy access to prime real estate locations, foreign companies have to rely upon shopping malls and rentals for their outlets.

India

A range of inhibiting property regulations

Other issues that slow-down the growth of the retail industry include:

- Very high stamp duties on transfer of property, varying by state.
- Urban Land Ceiling Act and Rent Control Acts have distorted property markets in cities, leading to exceptionally high property prices.
- Presence of strong pro-tenancy laws makes it difficult to evict tenants. This problem is compounded by problems of clear titles to ownership.
- Land use conversion is time consuming and complex.
- Time consuming legal process for property disputes.
- City urban planning projects smaller commercial plots and this, along with rigid building and zoning laws, make it difficult to procure retail space.

SALES TAX

A complex regime

Sales tax rates differ from state to state making supply chain management a challenging task for organised retailers. Inter State sale attracts Central Sales Tax while for some categories of products, certain states levy import or entry tax on entry of goods into their territory. Simultaneously, a few States levy exit taxes when the goods are moved for sale outside the territorial barrier of the respective States. Sales tax evasion by small retailers in order to offer lower prices/ fetch higher margins is also a practice prevalent in the local markets. Other than state taxes, local bodies (e.g. municipal corporations, etc.) also levy octroi in some locations.

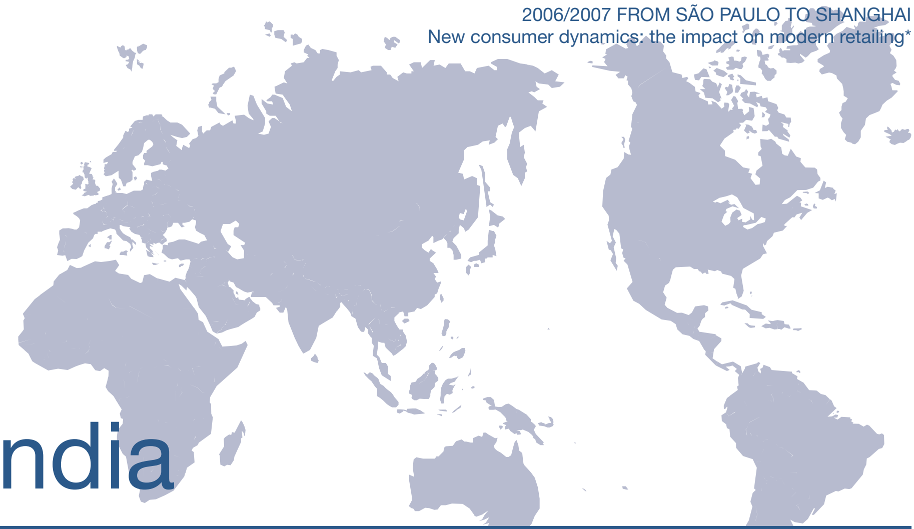
VALUE-ADDED TAX

Ranging between 4 and 12.5%

In order to streamline the domestic commercial taxation system the government introduced Value Added Tax (VAT) as of April 1, 2005. Rates applicable are 4% for most essential goods and 12.5 % for all other items. Besides this, there is a Central Sales Tax (CST) of 4% in respect of inter-state sale which is not available for set-off against final destination-based VAT. Presently, all states except Tamil Nadu and Uttar Pradesh, have implemented VAT. Tamil Nadu and Uttar Pradesh will continue to be governed by the sales tax laws until they switch over to VAT.

In order to harmonise the tax structure, it is proposed that India should move towards a national level Goods and Services Tax (GST) and has proposed to set April 1, 2010 as the date for introducing GST.

VAT has a strong bearing on the retail and consumer sector. Previously, most retail traders are not liable to pay tax, since the tax is being paid by the first seller. Consequently, the retailers who enacted last point sales to consumers were outside the tax net. Under the VAT regime, tax is levied on value addition



India

at each stage of sale, thus, covering all retailers. However, small retailers will be kept out of VAT and only retail traders having annual turnover exceeding a specified limit are required to obtain registration under VAT. Retailers having turnover exceeding the specified limit have the option to pay composition tax or come under VAT. Retail traders already registered under the sales tax regime shall automatically be registered under VAT.

In order to implement VAT successfully, the Government should further develop the organised retail sector in India. In addition, retailers' margins will not be adversely affected as no additional costs are being imposed. The increases in prices, caused by the tax increases, are typically recovered from customers. It is also expected that in the medium term, prices of goods will stabilise and in the longer term, business will grow in overall terms. Over time therefore, the VAT will be good for business.

CUSTOMS CODE

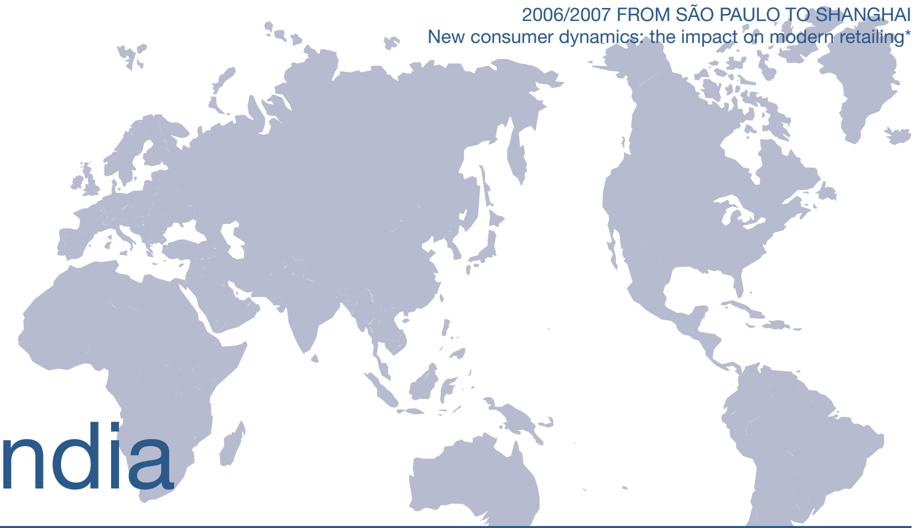
Changing customs barriers

Customs or import duties are levied by the Central Government of India on goods imported into India, based on the nomenclature prescribed for such goods. Duty is levied on the transaction value of the imported goods at the rate specified in the Customs Tariff Act, 1975. The general principles adopted for valuation of the goods under the Customs Act are in conformity with the WTO agreement on customs valuation.

The Central Government reduced the peak rate of basic customs duty chargeable on goods imported into India to 12.5% (for non-agricultural and other specified goods). In some cases, certain goods are fully or partially exempted from levy of customs duty. Most consumer goods generally attract a peak rate of basic duty 12.5%. An additional customs duty equivalent to the excise duty on like-goods manufactured in India is also levied on imports. This is typically levied on the maximum retail price less abatements which have been printed for such goods.

All imports as of March 1, 2006 are also chargeable to an additional duty of customs at 4% instead of sales tax/VAT with few exceptions.

An Education Tax (EC) at 2% is also levied on the aggregate of duties of customs (except safeguard duty, countervailing duty and antidumping duty). Goods attracting customs duties at bound rates under international commitments (for example, IT Agreement, Indo-US Textile Agreement) have been exempted from this cess.



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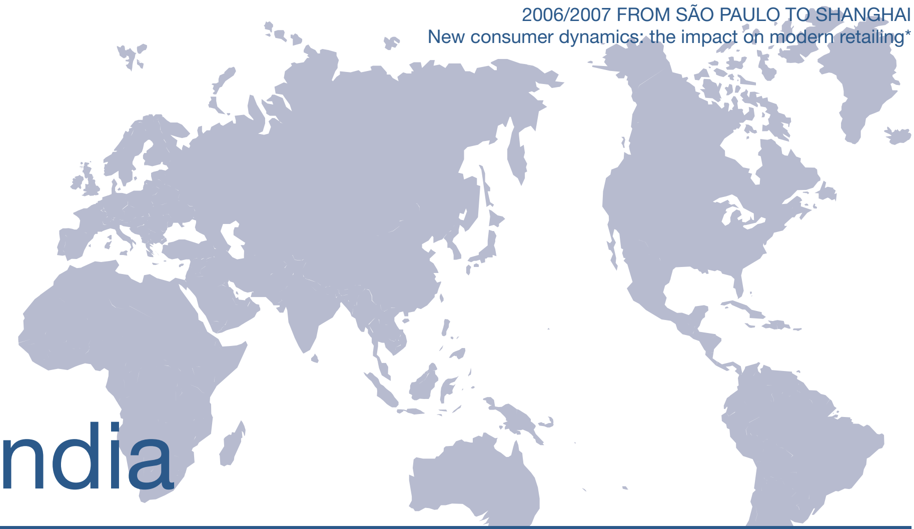
India, as a founding member of the World Trade Organization (WTO), has agreed to bind its Customs Tariff to the rates specified in the Schedule of Concessions in accordance with Article II of the WTO Agreement. These commitments restrict India from raising its tariff levels beyond the limit specified in the Schedule of Concessions. Further, India has gradually removed Quantitative Restrictions (QRs) in accordance with the commitments made to the WTO.

Recent reductions in various customs duty rates below the bound rates indicate the continued efforts of the Government of India to rationalise and align duty rates in accordance with the rates prevailing in the South-East Asian countries. With the implementation of WTO norms and further removal of restrictions from the import regime, the retail sector outlook appears bright.



India

DEMOGRAPHICS AND CONSUMER BEHAVIOUR

A growing population, a youthful workforce and soaring consumer confidence are solid arguments for long-term growth.

POPULATION EVOLUTION

A large and growing workforce

India's population in 2005 is estimated to be 1,095 million. By 2016, India will have the second highest urban population in the world after China.

Population

	2002	2003	2004	2005
Population (m)	1,049.7	1,065.1	1,080.3	1,095.3

Source: EIU, July 2006

POPULATION BY AGE GROUP

A young and consumerist population

More than 50% of India's population is less than 25 years of age, compared to other developed countries, where the majority of the population is ageing baby boomers.

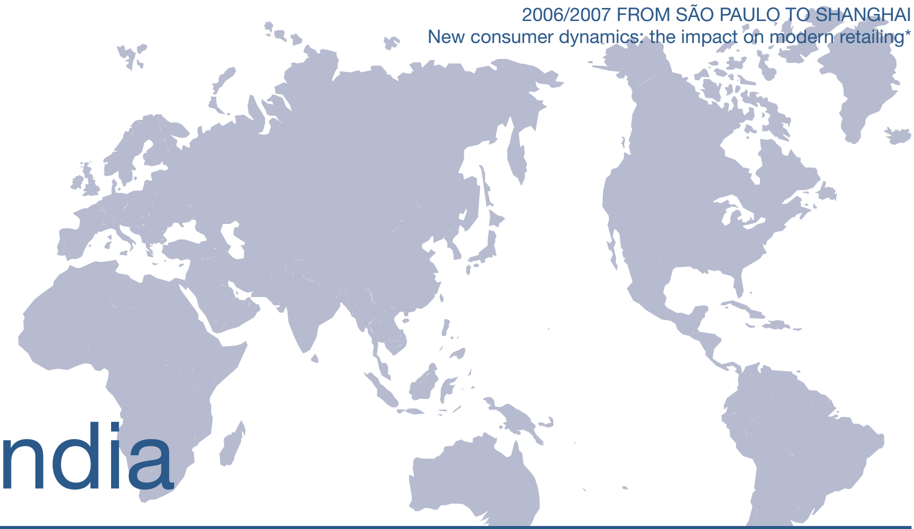
Age profile

% of total population	1999	2004	2009(f)	Trend
0 – 14 years	34.0	31.7	29.6	↓
15 – 64 years	61.4	63.5	65.2	↑
Over 65 years	4.6	4.8	5.2	↑

Source: EIU, July 2006

The consumerist age-bracket (ages of between 15 to 64 years) as a proportion of the Indian population is growing rapidly and will represent more than 65% of the population in 2009. In other words, the ratio of working population to non-working population, defined as the dependency ratio, will increase in the near future.

This will increase the overall purchasing capacity in the country, providing further buoyancy to the retail sector. Members of the consumerist age-bracket are the most likely to prefer and adapt to modern retailing, assuming that they generate adequate incomes and reside in urban areas.



India

URBANISATION OF THE POPULATION

Widening urban/rural gap

The urban population in India is expected to grow at a compounded annual growth rate (CAGR) of 2.4% from 2000 to 2015, representing an increase from 28 to 32% of the total population.

Urban/Rural split

% of total population	1999	2004	2009(f)
Urban	27.4	28.5	30
Rural	72.6	71.5	70

Source: EIU, July 2006

As a consequence of urbanisation, more and more households are emerging with increased purchasing power and a heightened desire to spend their income. Studies in developing countries suggest that, on average, urban households spend 2.5 times more than rural families. Thus, the target market for many organised retail players is the urban population.

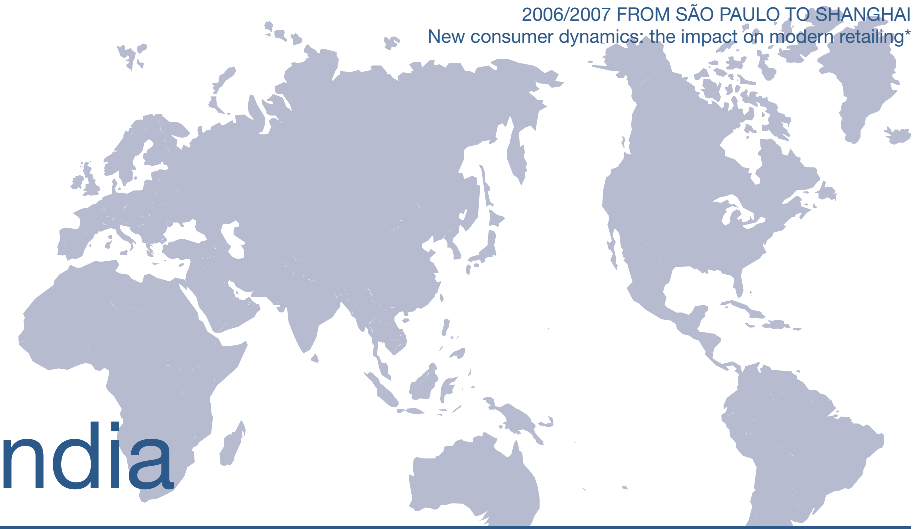
Currently, organised retailing is focused in metropolitan cities and is expected to extend to Tier II cities. The top six Indian cities — Mumbai, Delhi, Chennai, Kolkata, Bangalore and Hyderabad — represent 6% of the population and contribute 14% to India's GDP. These cities account for 68% of organised retail and the by end of 2006, over 60% of shopping malls will be located in these cities. For the next 10 years, growth in organised retailing is expected to occur in urban centres.

INCOME/BUYING POWER

Greater disposable incomes

Rapid economic growth has resulted in greater incomes for the booming Indian middle class. Disposable incomes are expected to increase at an average of 8.5% per annum till 2015. Per capita income in India has been steadily rising from USD460 in 2002 to USD620 in 2005.

Higher numbers of working women have also increased both consumption and purchasing power; the population of working women has increased from 22% in 1991 to 26% in 2001.



India

Income, Expenditure and Savings (USD billion)

	2001-2002	2002-2003	2003-2004	2004-2005
Personal Disposable Income	437	459	514	563
Real Personal Disposable Income Change p.a. %	7.1	5.0	11.8	9.5
Private Final Consumption Expenditure	331	342	382	420
Household Sector Savings	112	126	144	153

Source: Reserve Bank of India

Household earnings

% of households earnings per annum	1995	2000	2005	2010
> USD 1,000	69.8	76.6	94.4	100.0
> USD 3,000	7.4	9.6	22.8	53.8
> USD 5,000	2.0	2.6	6.4	19.2
> USD 10,000	0.3	0.4	1.1	3.3

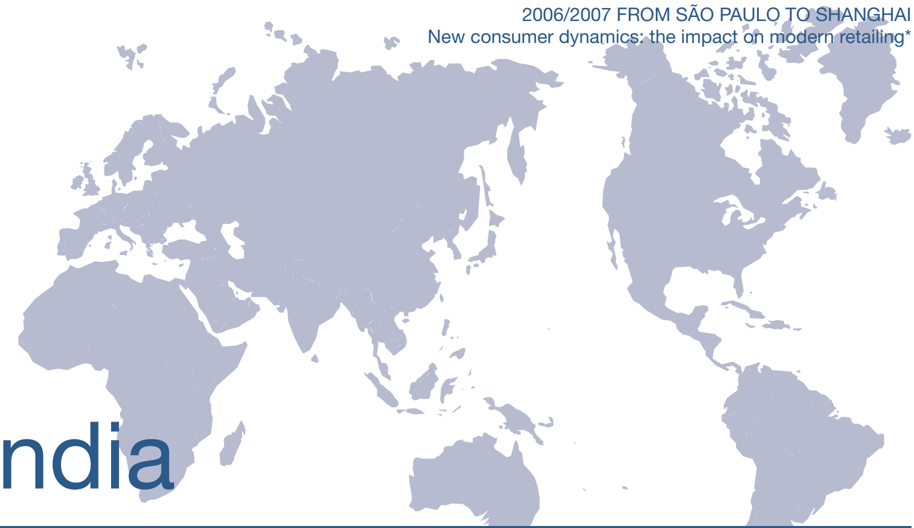
Source: EIU, July 2006

CONSUMER BEHAVIOUR

Rapidly changing, more demanding consumers

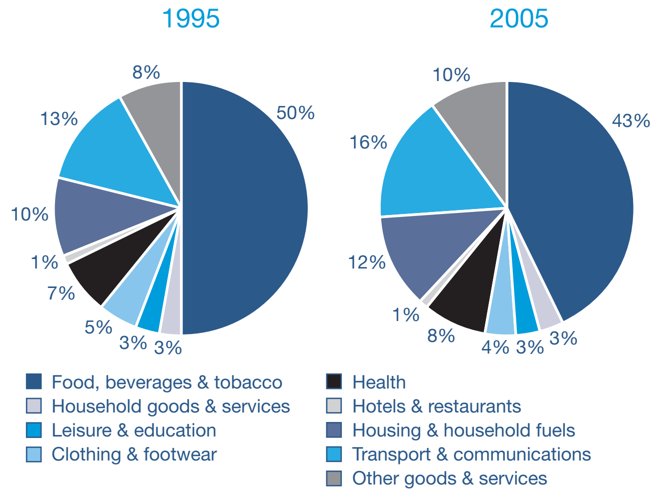
With increasing disposable incomes and the highest ever consumer confidence levels, Indian consumers' ability and desire to spend is growing rapidly. Total private final consumption in India amounted to USD420 billion in 2005 compared to USD382 billion in 2003. It has been growing at almost 10% annually over the last few years.

Food, beverages and tobacco are the largest single component of private final consumption (around 40%). Its share has been steadily declining from 48% in 2000 to 43% in 2005, mainly due to changes in consumers' spending preferences towards more non-essential, lifestyle-oriented purchases.



India

Composition of average household expenditure: 1999 vs 2005



Source: EIU, July 2006

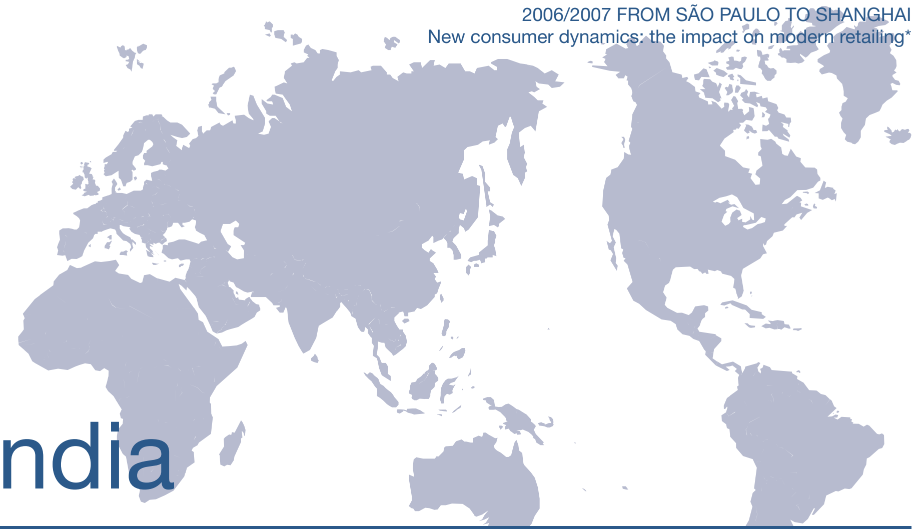
Lifestyles/Shopping habits

More leisure and luxury-oriented shopping habits

Indian consumers' lifestyles and shopping habits are rapidly evolving. Discretionary spending witnessed a 16% increase for the urban upper and middle classes. Lifestyle habits are shifting from austerity to complete self-indulgence and Indians are now unapologetic about spending lavishly on non-essential goods such as luxury watches, cars, hi-tech products etc.

There is an easier acceptance of luxury and an increased willingness to experiment with mainstream fashion. Expenditure on personal care items and clothing has increased since there is greater emphasis on "looking and feeling good". Similarly with new shopping malls offering multiplexes, restaurants and bars, video game centres, etc in both large and smaller cities, shopping has evolved from a need-based activity to a leisure pastime. Therefore, expenses on activities, such as watching movies and eating out, have increased considerably.

With the growth of middle class families, home textiles and electronics/consumer durables are increasingly becoming a means to demonstrate prosperity while at the same time creating a comfortable home environment. Finally, credit friendliness, drop in interest rates and easy availability of finance have changed mindsets of this segment. Capital expenditure such as jewellery, houses and cars is shifting to becoming redefined as consumer revenue expenditure. The number of credit cards issued has grown at a CAGR of 26% in the last 5 years to touch 15.5 million by March 2005.



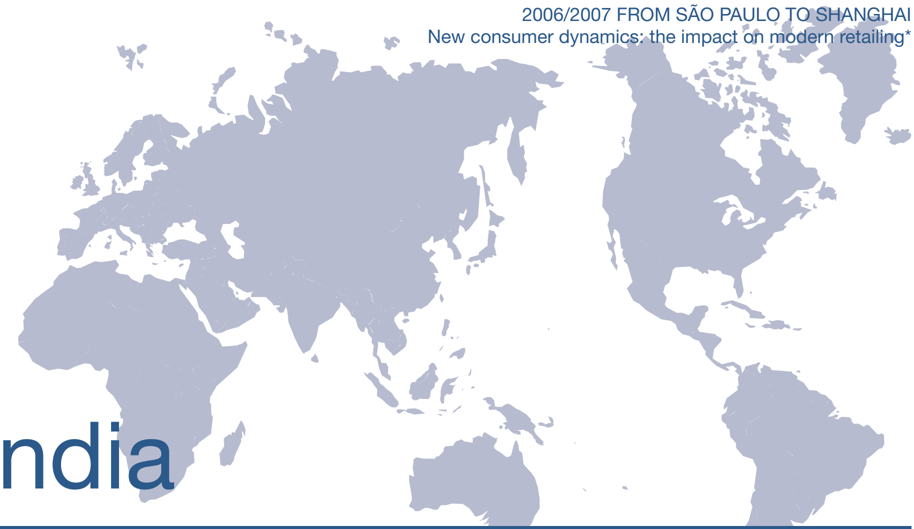
India

Price/Brand sensitivity

Stronger brand consciousness

Indian consumers' purchasing habits and preferences are evolving towards a strong predilection for brands. Consumers equate brands with an intangible value for which they are willing to pay premium prices. There is a high degree of differential pricing structures between branded and unbranded goods in India.

There are also differences between urban and rural consumers. Rural consumers are economically, socially and psychologically different from their urban counterparts and are definitely more price-sensitive. To address this issue, most FMCG companies have introduced products (such as tea, shampoos, biscuits) in smaller packs and sachets to make the product more affordable for rural consumers and obtain a share of wallet.



India

RETAIL AND CONSUMER SECTOR PERFORMANCE

Strong growth perspectives in consumer goods are further reinforcing the potential of the retail sector in India.

MAJOR CONSUMER GOODS PLAYERS

The FMCG market is set to treble

The consumer goods market should grow from USD11.6 billion in 2003 to USD33.4 billion by 2015. Penetration levels and per capita consumption in most product categories like jam, toothpaste, skin care, hair wash, etc. suggest that market potential is yet to be leveraged.

Since 2003, consumer goods firms have been struggling with cost issues, competition from domestic and foreign companies and a declining share of wallet from consumers preferring to purchase durables, luxury goods and automobiles. However, the sector is currently experiencing an upswing; in February 2006, the FMCG sector registered a 10.6% growth (year-on-year) in sales, representing the highest rate of growth since 2001. Increasing growth, estimated to be between 3 to 4%, is attributed to higher rural demand, enhanced retail sales and a healthy economy. Growth occurred across all major categories (except for packaged tea).

Industry watchers estimate that the average growth in rural and semi-urban markets has been twice that of the total industry growth of 12 to 15% over 2005-2006. As such, the FMCG sector is projected to grow at a compounded rate of 10% by 2012. More than 50% of growth is expected to derive from rural and semi-urban segments. Analysts estimate that FMCG penetration in rural markets is quite low and products such as soaps, detergents, cold drinks, consumer durables, toothpastes, batteries, biscuits, salted snacks, mosquito repellents, etc will fuel growth in rural markets.

India

Major consumer goods players

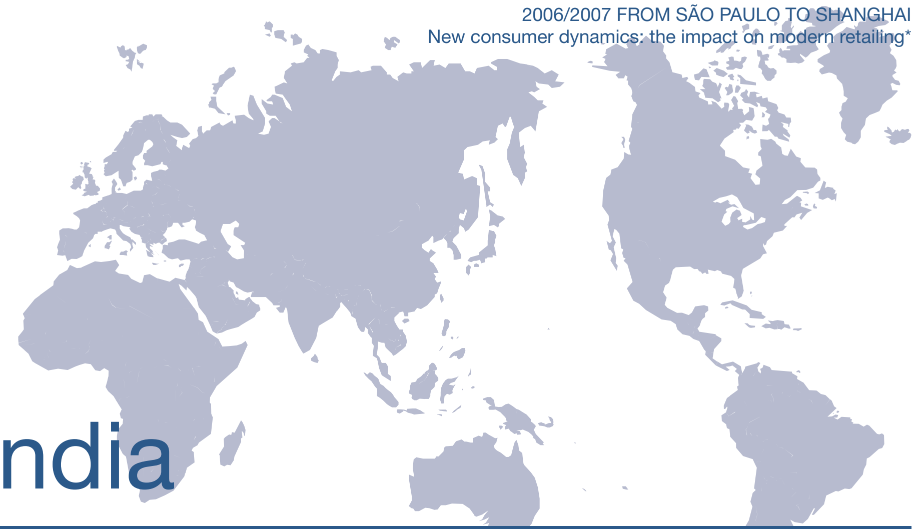
Company	Product Offerings	2005 sales (USD m)
ITC Limited	Cigarettes, Food, Stationery, Safety Matches, Incense, Hotels, Agri Business	3,018
Hindustan Lever Limited	Home and Personal Care, Food & Beverages	2,658
Nestlé India	Food & Beverages	587
Nirma Limited	Consumer and Industrial	477
Brittania India Limited	Dairy and Bakery	358
Dabur India Limited	Health and Personal Care, Food Products	305
Glaxo Smithkline Consumer Healthcare Limited	Health Food and Drinks	242
Colgate-Palmolive India	Oral, Personal and Household Care	238
Marico	Beauty and Wellness, Hair Care, Skin Care, Healthy Foods	212
Procter & Gamble Hygiene and Health Care Limited	Health and Feminine Care	165

Source: Capitaline

Food and beverages

Government spurred growth

The Indian F&B sector is showing indications of revival, after a period of sluggish growth for four years, and is yielding returns of 50 per cent in 2005. Government initiatives are also spurring the growth of the F&B market. The Indian Railway Catering and Tourism Corporation (IRCTC), an autonomous body under the Railway Ministry, created a plan to open 2,000 stalls which would serve food to travelers. The Railway Ministry is planning to invite F&B companies to open stalls across India.



India

MAJOR RETAIL PLAYERS

A high potential industry necessarily dominated by domestic players

Comprised of organised and traditional retail formats, India's retail market is estimated to be worth USD350 billion:

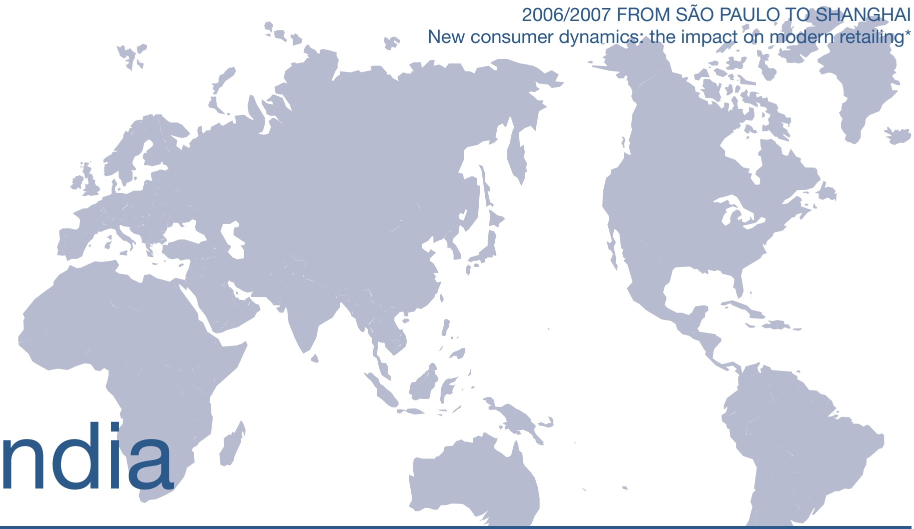
- Organised retail is estimated at USD8 billion. Organised retail is growing at over 30% annually.
- Of India's 12 million retail outlets, more than 80% are operated by small family businesses using household labour.

The retail industry represents 13% of GDP and accounts for 6% of India's workforce. Burgeoning growth rates in the retail industry are attributed to:

- Growth in India's economy
- Changing consumption and expenditure patterns
- Rising incomes

Top 5 major retail players

Retailer	Existing formats	Brand name	Number of stores	Total retail space ('000 sq ft)	Total sales 2004-05 (USD mn)	Expansion Plans
Pantaloon Retail India Ltd.	Department Stores	Pantaloon	13	1,948	241	Invest around USD125 mn between FY06-FY08. Open 80-100 more stores across formats
	Hypermarkets	Big Bazaar	18	N/A	N/A	Triple total retail area by FY08 to 6.5 mn sq ft
	Supermarkets	Food Bazaar	9	N/A	N/A	Enter into furniture and home retailing
	Seamless Malls	Central	3	N/A	N/A	
RPG Retail	Hypermarkets	Spencer's	3	480	96	Open 21 hypermarkets and supermarkets in next one year
	Music Stores	Music World	225	N/A	N/A	Open another 100 MusicWorld stores by FY08
	Supermarkets	Spencer's	49	N/A	N/A	May go for an IPO next year to raise capital



India

Shopper's Stop Ltd.	Department Stores	Shopper's Stop	20	1,000	96	Add 2 mn sq ft of retail space FY08
	Books & Music Stores	Crosswords	33	N/A	N/A	Entering hypermarket format,18 stores planned by FY08
	Home Furnishings	Home Stop	N/A	N/A	N/A	Setting up speciality stores for Home Solutions
Landmark Group (based in Dubai)	Department Stores	LifeStyle	8	370	67	Set up 25 new departmental stores by FY08 Invest USD65 million over the next 5 years
						Enter into Hypermarkets, home improvement and fast fashion
Trent India Ltd.	Department Stores	Westside	19	350	52	Add 640,000 sq ft of retail space
	Hypermarkets	Star India Bazaar	1	N/A	N/A	Open 17 stores under the departmental and hypermarket format by FY08
	Books & Music Stores	Landmark	4	N/A	N/A	

Industry estimates suggest that USD412 billion will be invested in the retail sector by 2011. The majority of this investment will be directed towards the two most popular retail formats: hypermarkets and supermarkets. According to product category, half of the investment could be directed to food-related retail and the remaining share would be allocated to non-food retail.

Food retail channels

An industry in transition

Although independently-owned local grocery stores are still the most prevalent format, larger supermarkets and convenience chains are emerging in organised food retailing. Organised food retailing in India is worth USD666 million and will increase to USD33,333 million by 2015. The sector is estimated to grow at 30% annually.

India

Hypermarkets
Drivers for growth

Hypermarkets offer several product categories including fresh foods often sold in bulk, typically stocking 60% food and 40% non-food items. Hypermarkets are expected to fuel retail growth since food and grocery stores account for 76% of consumer expenditure.

Supermarkets
Preferred for their location

Supermarkets are frequented by consumers who prefer convenience, quality and hygienic surroundings. Pantaloon Retail (Food Bazaar) is the largest supermarket operator in India in terms of market value.

Convenience stores
Attached to the petroleum industry

Convenience stores are typically located near petrol pumps and serve motorists. State-owned Bharat Petroleum Corporation Limited plans to add 10 “In & Out” convenience stores in New Delhi by the end of the 2006 to 2007 as part of its retail outlet expansion plan.

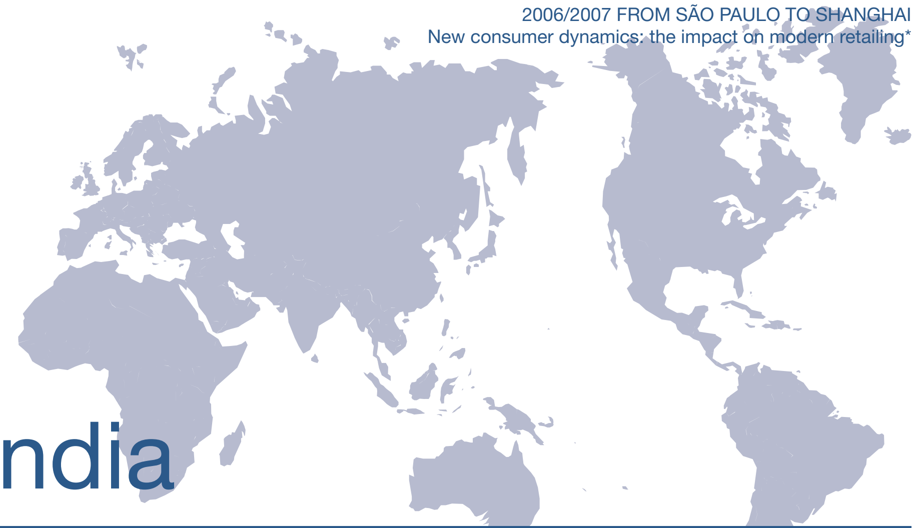
Discount stores
A nascent format

An emerging retail concept is discount stores providing 8-10% on Maximum Retail Price (MRP). Chennai-based Subiksha is the largest discount store operator at present.

Food and Grocery—2005-2006

Retail Format	Group name	Store brands	Number of stores	2005 net sales (USD m)
Hypermarkets	Pantaloon Retail	Big Bazaar	27	249
	Tata Trent	Star India Bazaar	1	55 (FY 2004-2005)
	RPG	Spencers (Giant)	N/A	N/A
Supermarkets	Nilgiris	Nilgiris	32	N/A
	RPG & DFI	Foodworld	92	89
	Apna Bazaar	Apna Bazaar	80	31
	The Piramal Group	TruMart Daily	9	N/A
	Home Stores India Limited	Sabka Bazaar	27	
	Trinethra Super Retail	Trinethra	50	
	Pantaloon Retail	Food Bazaar	38	
Discount Stores	Viswapriya	Subiksha	160	64
Convenience Stores	Bharat Petroleum Company	In & Out	580	N/A
Cash and Carry	METRO Cash & Carry	METRO	2	72

Sources: Industry



India

Rural retail formats

A new and emerging segment

Estimated to be worth USD28.6 billion, India's rural retail market is an attractive market for retailers. With 70% of India's population (700 million people) residing in rural areas, retailers are beginning to aggressively target this segment. In order to cater to the needs of the rural market, companies such as Godrej and DCM Shriram Consolidated are launching "one stop shops" for farmers and their communities.

Traditionally, rural families relied on self-produced grain, vegetables and milk to meet their dietary needs. However, as an emerging trend, rural families are spending larger amounts of their incomes towards purchasing food items. For example, the average family of six in an Indian village is spending Rs.1,800 each month, or one-third of its income to purchase daily food items such as processed and semi-processed foods like milk, milk products, beverages, eggs, meat, fish, cooking oil, spices, sugar, salt, fruits and vegetables.

Perhaps the most stunning finding is that, as a proportion of income, rural families match urban consumers in spending patterns. For example, both rural and urban families spend eight percent of their monthly bill on vegetables. In absolute terms, overall rural spend on non-cereal food items is Rs.55 less than for urban families.

Mini case examples of how some Indian companies are setting up "one stop shops" for rural communities are provided below:

Godrej Aadhaar	TATA Agrico	DCM Shriram Consolidated Limited
This rural retail unit of Godrej Agrovet Limited, provides end-to-end solutions for the agricultural sector. Aadhaar embarked upon social initiatives that target rural India (screening movies, holding kite flying competitions, staging dance performances) as an innovative means to make further inroads with farmers. Aadhaar is planning to set up more than 1,000 stores across rural India by 2010.	In April 2006, Tata Agrico, the agricultural unit of Tata Steel Limited, partnered with Godrej Agrovet to sell agricultural tools. The goal of this venture was to enable farmers to access and learn how to use Tata Agrico's agricultural implements at reasonable prices. Tata Agrico's tools will be sold through Godrej Agrovet's 22 Aadhaar outlets.	The company plans to set up 35 rural/semi-urban utility marts over 2006 - 2007. Positioned as a one-stop shop, this "Hariyali Kisaan Bazaar Chain" will cater to a variety of farmers' needs by providing access to: • Petrol pumps • Access to retail banking • LPG outlets • Motorcycle showroom Outlets will span between two to three acres and will cost approximately $444,000 each.

India

Speciality retail

Specialty Retail is a booming segment

Specialty retailers are offering niche products in alternative medicine, books, clothing and apparel, home furnishings, music, jewellery, alcohol and wine, watches.

Speciality stores – 2005 - 2006

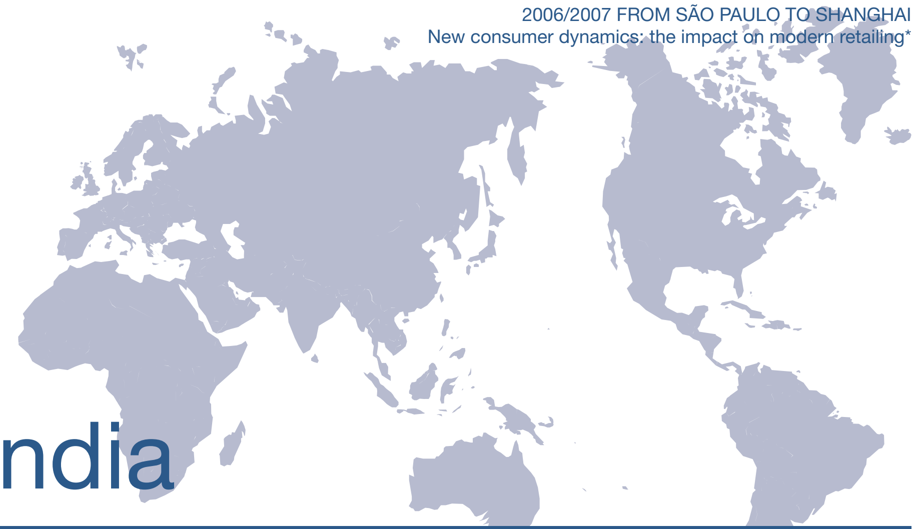
Specialty format	Group name	Store brands	Number of stores	2005 net sales (USD m)
Home Equipment (electrical goods, furniture)	Godrej & Boyce Retail Division	Godrej	35	N/A
	Home Stores India Limited	The Home Store	14	N/A
	Vivek Group	Vivek's	20	23
Books, Music, Jewellery, etc	RPG	Music World (music)	235	N/A
	RPG	Health & Glow (personal care)	35	N/A
	Bennett Coleman & Co. Limited	Planet M (music)	123	18
	Rosy Blue Group	Orra (jewellery)	30	N/A
	Tata	Tanishq (watches)	83	144 (year ended March 31, 2005)
	K Raheja	Crossword (books)	31	N/A

Sources: Industry

Clothing

Estimated to be worth USD15 billion

The premium or branded apparel market in India is estimated at about USD422 million and growing by 20% annually. The purchase of apparel, alongside jewellery and eating out, constitutes 45% of credit card expenditure. International single-brand retailers such as Guess, Esprit, Mango and Tommy Hilfiger have established a retail presence in this attractive retail market, while others like Next, Debenhams, Giordano, etc. are looking to enter the market following its liberalisation.



India

Watches
Very popular segment

Although the watch segment is the highest penetrated category in organised retail, the USD622 million industry is largely concentrated in unorganised retail and the grey market (60% share)[4]. The fashion watch market is growing by 20 to 25% annually in India with demand stemming from IT Business Process Outsourcing (BPO) professionals in metropolitan cities. Industry sources estimate that 28 million watches are sold annually, with an annual growth rate of 30%[5]. India is emerging as an important market and companies like Swatch Group, Titan Industries Limited, Citizen, Rado and Omega have major expansion plans for India.

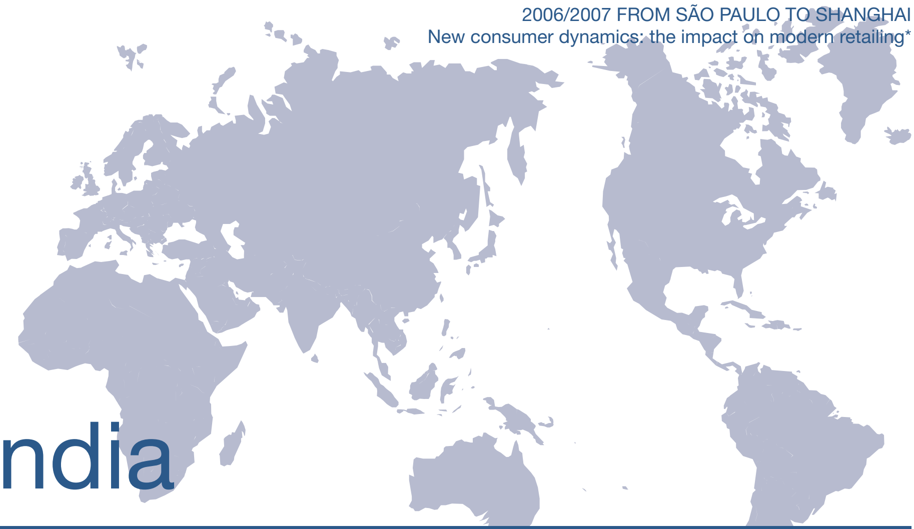
Department stores and malls
A premium modern retail format

Department stores typically cover between 3,000 and 5,000 square metres and offer several brands and product categories. They are often located in metros and mega-metros, although now retailers are expanding operations into smaller towns[6]. Leading department stores are below:

Key Department Stores	Promoter group	Number of stores	2005 net sales (USD m)	Future plans
Shoppers Stop	K Raheja Group	20	96	Plans to open 19 stores by end 2008
Westside	Trent Limited	19	31	Plans to add 12 department stores by FY08
Lifestyle	Landmark Group	8	76	Will add 27 department stores and 8 home centres by FY 09
Globus	R Rahej Group-Real Estate	12	N/A	Plans to add 13 new stores by end 2006
Pantaloon	Pantaloon Retail	13	47	Plans to have a total of 20 stores by FY09

Sources: Industry, Fitch

4 SSKI India
5,6 IMAGES KSA Technopak. "India Retail Report: 2005."



India

Shopping malls

The clear way forward

With less than 30 operational malls in 2003, India is expected to have approximately 220 malls by 2007, out of which 125 will be in the six metropolitan cities. Out of the approximately 70 million square feet of retail space under development in India, 41 million square feet are in Mumbai, Delhi, Hyderabad, Chennai, Bangalore, Ahmedabad and Pune. An emerging trend in India is specialty malls, including the Gold Souk, the Auto Mall and The Homeland.

Upcoming malls in India (till 2007)	
Metropolitan cities	No. of malls
National Capital Region	60
Mumbai	28
Hyderabad	15
Bangalore	9
Kolkata	9
Chennai	4
Subtotal	125
Mini Metropolitan cities	No. of malls
Pune	9
Ahmedabad	5
Tier II Cities	81
Total	220

Luxury retail

Very high potential with newly prosperous consumers

The number of foreign luxury retailers had begun to swell even before the Government allowed 51% FDI in joint ventures for chains selling single brands. Others waiting to enter India include Gucci and Giorgio Armani, which will open four stores in Mumbai and New Delhi by 2008. India's first Versace boutique opened in an upmarket Mumbai mall next to an opulent Swarovski store. The Italian luxury brand, which plans to expand quickly in China and India, is the latest to enter India on the heels of other luxury retailers including HUGO BOSS, Burberry, Cartier, CHANEL, Louis Vuitton and Tommy Hilfiger. Though traditionally the Indian consumer has always been perceived as a price-conscious one, the mindsets of consumers and retailers are slowly evolving.

India

Over the past few years, the twin attributes of design and quality have come to acquire increasing significance for the consumer. An estimated 1.5 million households constitute the 'rich consumer' segment (annual income above USD22,990) in the country. Growing by around 20% every year, this segments' buying behaviour is in line with its international counterparts. The market for luxury goods in India, estimated at USD450 million, is booming with international brands now present across categories of higher-end automobiles, entertainment electronics, men's clothing, women's jewellery, women's accessories, including handbags and footwear, watches, gourmet food and wines, as illustrated below:

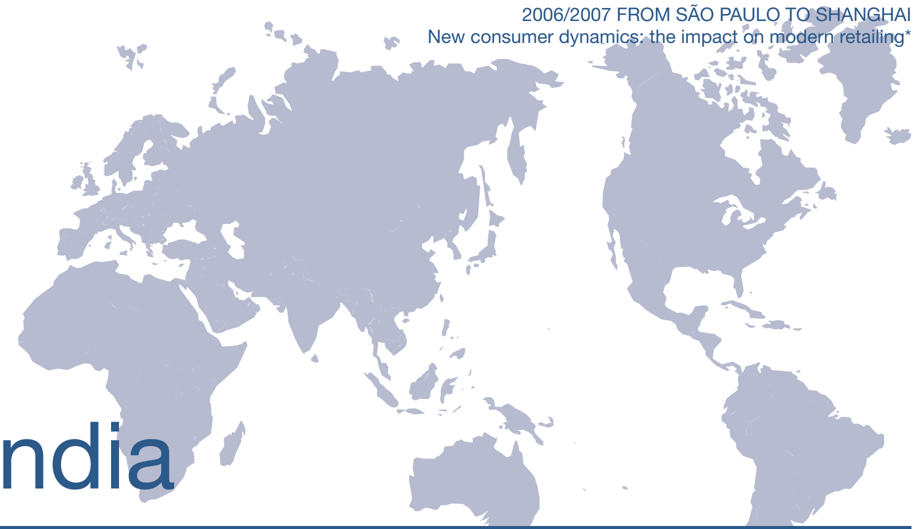
Categories	Luxury Brands Present
Apparel	HUGO BOSS, Burberry, Aigner
Handbags, footwear	Louis Vuitton, Bulgari, Nine West, Salvatore Ferragamo
Watches	Cartier, Boucherer, Mont Blanc, Omega, Breguet, Baume & Mercier
High-end Cars	Porsche, Mercedes Benz, BMW, Lexus, Audi

E-COMMERCE
A nascent retail format

Indian retailers are beginning to employ Internet shopping initiatives as part of aggressive expansion strategies. With 50 million internet users and as the fourth-largest online nation after the United States, China and Japan, India is an attractive online retailing destination. Approximately 7% of India's online users shop online and when they do, they are usually purchasing travel services, books, electronic items, or conduct online banking. Sources estimate that the total Internet business in India is worth over INR22 billion (USD488.8 million). Major retailers, including Pantaloon, Shoppers' Stop and Globus want to harness the potential of online retailing by establishing e-retailing portals.

M&A ACTIVITY
An impressively busy year

The year 2005 to 2006 was a record year for Indian corporate finance activity with 625 deals valued at INR734 billion (USD16.3 billion), compared with 353 deals amounting to INR234 billion (USD5.2 billion) in the previous year, representing a growth of over 200%. Global private equity players such as 3i, Blackstone Group and Carlyle announced plans to invest in India. Among various sectors, Telecom and IT continued to generate the most deal activity with 34% and 11% of the total M&A deal value respectively. Indian companies are also embarking upon major foreign acquisitions. 2005 witnessed 100 such transactions worth USD2.4 billion, representing growth of 39% over the previous year.



India

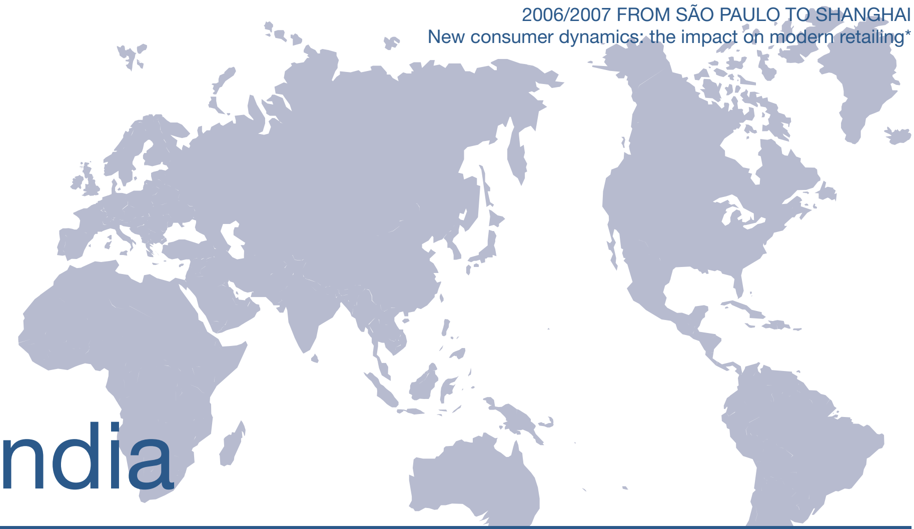
International acquisitions by Indian consumer goods players

Since 2005, the FMCG sector has been experiencing an increase in M&A activity, with the food segment accounting for 5% of the total M&A deal value. As the domestic market is beginning to mature, FMCG players are looking to enter international markets and have chosen acquisition as the preferred route:

Select Retail & Consumer Deals

Year	Acquiree/JV Company/ Target	Acquirer	Nature of business	Stake	Consideration (USD million)*
2005	Liberty Shoes Limited	Pantaloon Industries	Retail (Footwear)	51%	2.8
2005	Indus-League Clothing Limited	Pantaloon Industries	Retail Clothing	68%	5.3
2005	Odyssey India Limited	Deccan Chronicle Holdings	Leisure retail chain (books, music, toys)	100%	13.6
2005	Home Solutions Retail India Limited (Pantaloon Subsidiary)	Unitech India (Real Estate Group)	Retail (Home Furnishings)	33%	5.5
2005	Premier Foods Plc, UK (Brands Typhoo, London Fruit & Herb)	Apeejay Surrendra group	FMCG (Tea)	100%	153
2006	Nutrine Confectionery Company Limited	Godrej Beverages & Foods	FMCG	100%	55.5
2006	Bistro Hospitality	TGI Friday's, USA	Restaurant (Food Retail)	25%	N/A
2006	Hair oil brand Nihar from Hindustan Lever Limited	Marico	Personal Care	100%	55.5-66.6
2006	Eight O'Clock Coffee Company, USA	Tata Coffee	FMCG (Coffee)	100%	220
2006	Bouvet-Ladubay (wine brand of French champagne group Taittinger)	United Breweries Group	Wine	100%	15

* 1 USD = INR 45; 1 USD = GBP 0.52

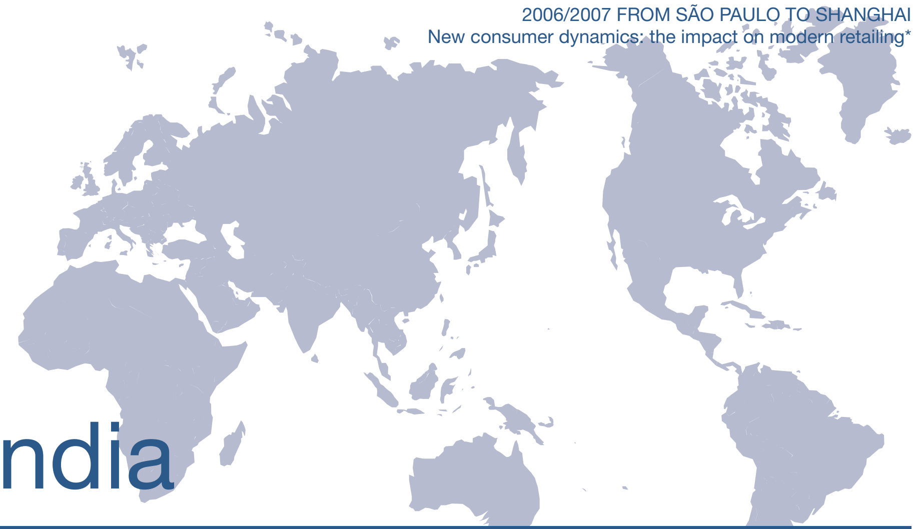


India

M&A as a strategy for retail format diversification

2005 was a significant year for M&A activity in Indian retail. To expand into new formats and offer a wider variety of products, retailers actively scouted for joint-venture opportunities and acquisitions. Pantaloon Retail, active on this front, entered into strategic alliances with Planet Sports, Liberty Shoes and Unitech Group to expand its range of premium offerings, footwear and home solutions products.

With the addition of global retailers entering the Indian market, competition is increasing for domestic retailers. With the relaxation of FDI norms, the retail and consumer sector is expected to witness increased activity in the coming year. In the first five months of 2006, India recorded an overall USD16 billion worth of mergers and acquisitions, signaling an increasing number of fast-track companies and sustained acceleration of FDI flows.



India

RETAIL AND CONSUMER CHALLENGES, OPPORTUNITIES AND EMERGING TRENDS

While the low rate of penetration of the modern trade presents a huge opportunity for retailers, the vast size and fragmented nature of the market also raise a host of specific challenges.

CHALLENGES

Lack of Infrastructure and Logistics

India is a fragmented country with 70% percent of the population residing in rural areas. The absence of a strong infrastructure and logistics system means that reaching consumers and transporting goods is difficult. With growing urbanisation the necessity of robust roads, highways and public transport systems are essential.

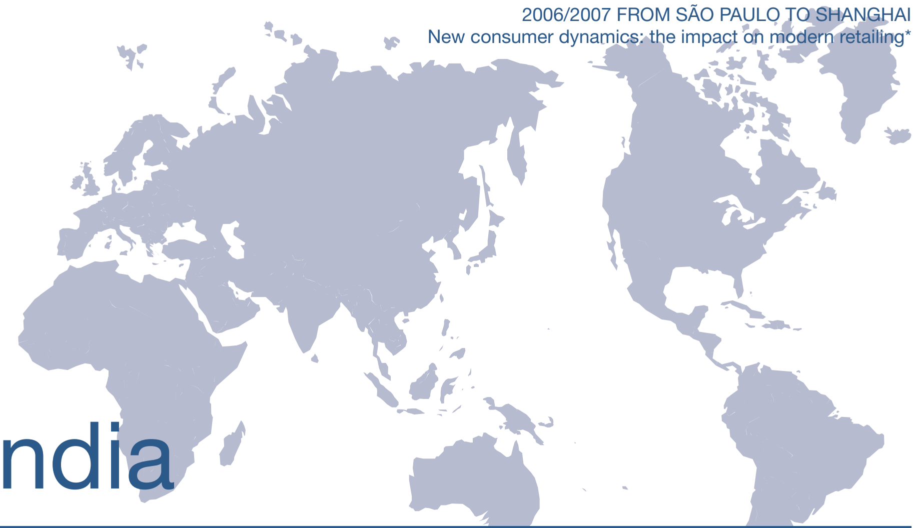
For example, the average daily traffic volume on highways of 39,000 passenger car units exceeds the highway capacity of 15,000 units. In addition, the average load carried by trucks in India of 7 tonnes is very low by global standards. Logistics costs are currently between 10-12% of total GDP.

The Indian government is making investments into funding state highways; as a result, an overall decline of logistics costs will occur.

Supply Chain Bottlenecks

Adopting technology-based solutions will enable retailers to improve customers' shopping experiences, manage profitability and address operational challenges. A competitive retail environment will force Indian retailers to upgrade and adopt key technologies such as bar-coding, point of sale (POS) systems, handheld terminals (HHTs), and tablet personal computers (PCs) in order to improve efficiency and supply chain management. Global factors are also encouraging the adoption of these technologies in India such as:

- Increasing demand from overseas buyers to accept only bar-coded products.
- Worldwide demand for efficient and automated supply chains for product movement from point of manufacture to its point of sale/consumption.
- Global movement towards closer integration between suppliers and buyers as a requirement for lowering end product costs.



India

Radio Frequency Identification (RFID) technology and bar-coding are two technologies that Indian retailers could adopt in order to improve efficiency, manage stock, improve billing time and enhance customer service.

Retailers' increased bargaining power

In April 2006, Pantaloon, India's largest retailer contacted approximately 20 FMCG companies and demanded 5% higher margins for products sold at its Big Bazaar and Food Bazaar outlets. Pantaloon demanded higher margins based on the following:

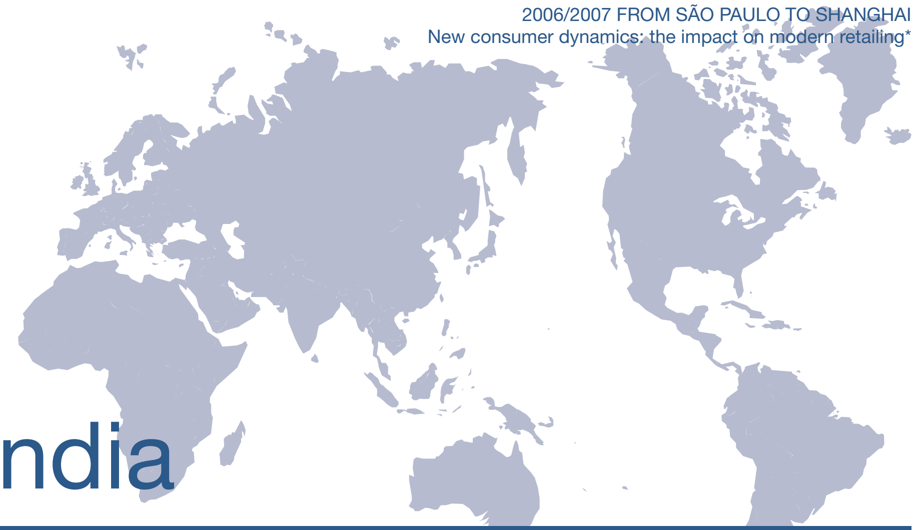
- Future consumption patterns.
- Higher throughput per store, costs of contact and increased expenses of modern retail operations.
- Increased visibility of FMCG brands through modern retail formats.

Despite significantly higher costs of operations, retailers earn the same margins as local mom-and-pop establishments i.e. between 8-12%. In this high-growth retail industry, FMCG companies, which have traditionally dominated this fragmented marketplace and enjoyed high profits, will now have to address retailers' increased bargaining powers.

Availability and high costs of real estate

Availability of quality retail space is critical to enable the anticipated rapid growth of modern retailing in India. Though the country is expected to have 220 malls and 87 million square feet of retail space by 2007, there is lack of efficient management amongst malls; only three to four malls in India are run as a central operating unit. Ownership is fragmented and this lack of central management typically leads to poor levels of mall management and maintenance. Appropriate location of malls, adequate infrastructure (i.e. parking space, proper layout and design) and professional mall management are some of the key features that retailers look for in identifying rental space.

With most Indian cities undergoing rapid urbanisation, increasing costs of retail space are a growing concern among retailers. The preferred form of real estate acquisition is through long term leases. With the demand for commercial properties remaining strong, the cost of real estate in most top tier cities has been soaring in the past two years, thereby escalating the lease rentals for organised retailers. The current average lease rentals across some of the top cities in India range from Rs.88 per square feet per month to as high as Rs.120 per square feet per month. On average, lease rentals account for between 7-8% of the revenue and 40-45% of the non-material cost for retailers. Unless real estate costs stabilise, most retail business will take a longer time to break even.



India

Inadequate availability of skilled labour

With new players entering the retail industry and existing players planning massive expansion, there has been a surge in demand for skilled retail resources. However, this demand is not being met by a readily available supply of talent. There is a growing concern about the paucity of trained retail personnel both at the store and managerial levels.

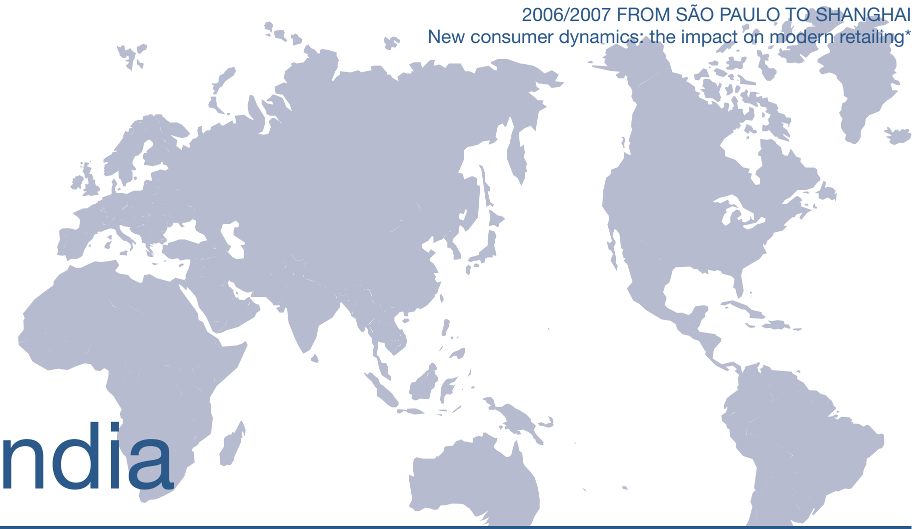
While there should be no manpower shortfall in India, given its large working population, the gap lies in finding people with the right hard and soft skill-sets, like customer orientation and selling. Proactive training is a key imperative for Indian retailers. Some retailers are partnering with management institutes to develop specific training programmes for staff. For example, Pantaloon has partnered with a management institute to offer specialised courses in retail management. Some retailers have taken the step of establishing their own retail schools, such as RPG Institute of Retail Management.

Fraud in retail

Fraud and theft (i.e. employee pilferage, shoplifting, vendor frauds and inaccuracy in supervision and administration) costs between USD0.12 to 1.13 billion annually; this constitutes approximately 2% of the organised retail sector's revenues. These losses occur despite the use of CCTV (Closed Circuit Television) and anti-shoplifting systems by large retailers. The loss due to retail theft or inventory shrinkage is about 0.3% of retail revenues in India, compared to 0.5% globally. Ultimately, consumers are the most hurt by employee theft since they pay a higher price for goods. Shoppers Stop Chief Executive Officer states, “We focus on reduced shrinkage and the introduction of a perpetual inventory count system. There is also a loss prevention team to track this down.” Shoppers Stop's inventory shrinkage declined from 0.61% from last year to 0.54% in 2005.

Tapping the rural Indian market

The spending patterns of rural consumers are evolving. Instead of producing the largest part of their own food, rural families are spending larger amounts of their funds towards basic food items such as eggs, milk products, vegetables, beverages and processed foods. This “commercialisation of food” represents a tremendous opportunity for organised food retailing in rural India.



India

OPPORTUNITIES

Low penetration of modern trade

India's retail market is largely dominated by unorganised players, representing a major growth opportunity for modern trade. The share of organised retail, currently at 4%, is expected to increase by 9-10% by 2010[7]. It will offer scale and increased visibility to products and brands. Organised retailing will enhance the economy through increased employment, agriculture and sourcing of products and services from India[8]. For consumers, it will also provide increased access and reach to products and services. With consumers' changing habits and preferences and their ability to use several retail formats, India's retail industry is evolving towards an inevitable modernisation.

Young, upwardly mobile consumers

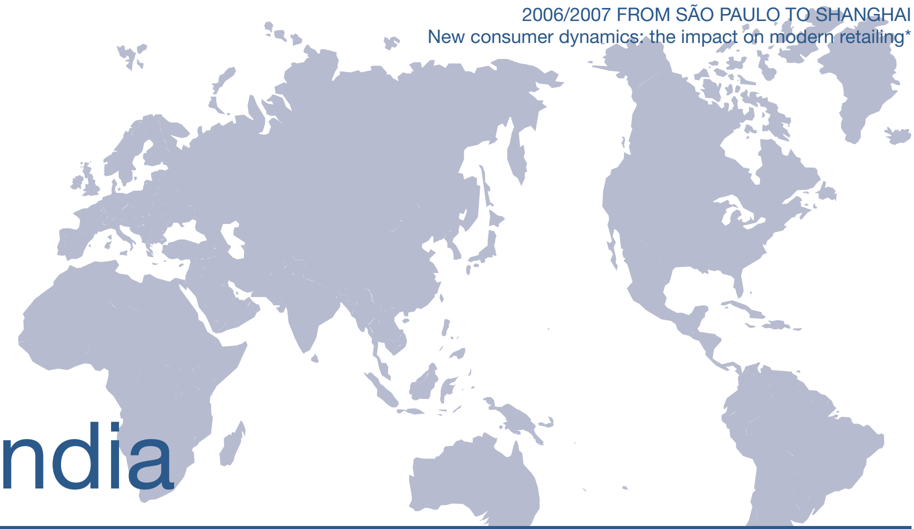
With the IT/BPO boom in India, a whole younger generation has access to a disposable income that their parents could only dream of in their youth. India's population, with a median age of 24, is the youngest consumer segment in the world. It presents an attractive and lucrative opportunity for retailers. Young Indian consumers are unapologetic about indulging their desires and with the advent of easier access to credit, a "buy now, pay later" culture is slowly emerging. These consumers are increasingly spending on a wide variety of products and services including eating out, movies and theatre, clothing, consumer durables/electronics and personal care items[9].

Franchising as a preferred entry route

FDI restrictions in retailing have not deterred prominent international players from entering India and franchising has, thus far, been the preferred entry route. US-based Tommy Hilfiger, Netherlands-based SPAR International and UK-based Costa Coffee all chose franchising as the mode for entry into India. Estimates from the Franchising Association of India reveal that nearly 800 franchise systems are operating in India and new franchise developments are worth USD110 million annually.

Till 2006, FDI in retail was not allowed and franchising was the only mode of entry available. Even with 51% FDI introduced in January 2006 in single brand retail, many companies prefer franchising as an entry route to test the market till further control is allowed. Franchising operations are becoming more popular in geographically vast and culturally diverse nations such as India. The size and spread of the Indian market coupled with local variances of consumer preferences implies that expansion through local franchisees enables entrants to understand market realities.

7,8 PricewaterhouseCoopers, "The Rising Elephant: Benefits of Modern Trade to Indian Economy."
9 KSA Technopak Consumer Outlook.



India

TRENDS

Increasing competition in the retail market

New entrants such as Reliance, Bharti Enterprises and the AV Birla Group will compete against well-established retailers, such as Pantaloon Retail, Shoppers' Stop, Trent, Spencer's and Lifestyle stores. Foreign retailers are keenly evaluating the Indian market and identifying partners to forge an alliance with in areas currently permitted by regulations.

With an estimated initial investment of USD750 million, Reliance is planning to launch a nationwide chain of hypermarkets, supermarkets, discount stores, department stores, convenience stores and specialty stores. These 5,500 stores will be located in 800 cities and towns in India.

Increase in private labels

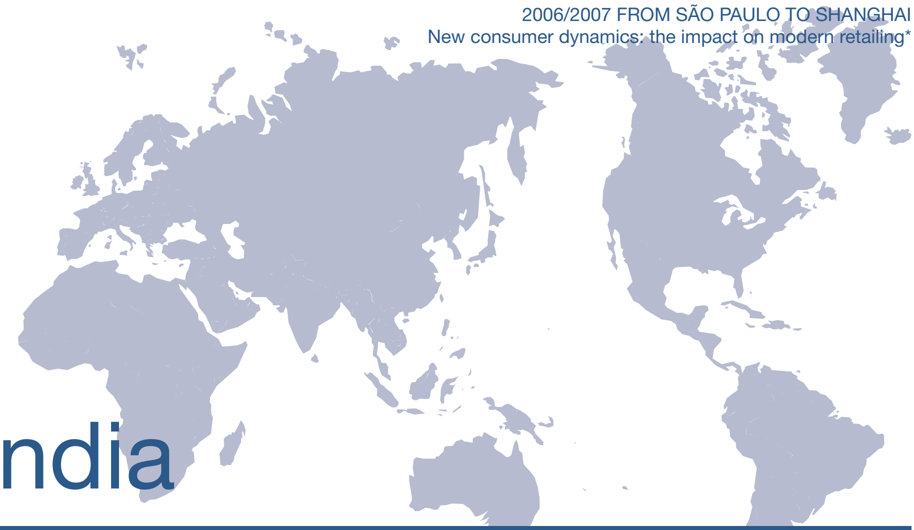
With the emergence of organised retail and modern retail formats, private labels have been gaining significance. They enhance the profitability levels of product categories, increase retailers' negotiation powers and create consumer loyalty. More retailers are introducing their own brands in all categories, including apparel, accessories, footwear or groceries. For example, many apparel retailers like Westside, Globus and Pantaloon offer between 50 to 80% of private labels within their stores. These own brands also do not have to manage intermediaries since retailers maintain oversight of the supply chain.

FMCG is another sector where private label penetration has been on a rise. According to AC Nielsen, private label penetration is growing among FMCG products in most supermarkets with groceries accounting for 45.9% of private labels, packaged foods for 25.7% and homecare items for 16.4%. In India, retailers' private labels are cheaper by 20 to 25% as compared with organised FMCG majors.

New product categories

With exposure to international trends and lifestyle, consumers are demanding more specialised products, two of which are examined below:

- Jewellery—Industry watchers estimate that the gems and jewellery industry in India will grow by between 15 to 20% in 2006. As one of the fastest growing sectors in the Indian economy, the industry accounted for 15% of India's total exports in 2005. In value terms, total gem and jewellery exports grew to USD17 billion in 2005. In light of the significant growth potential, the government plans to create a committee to study the industry's potential. It is estimated that the branded jewellery market in India will grow by 40% per annum to INR100 billion (USD2.28 billion) by 2010.



India

- Liquor and Wine—Consumption of wine in India is growing at the rate of between 25-30%. While the annual consumption of wine in India is still limited to 0.006 bottles per capita, it is expected to increase by 7.0 million litres annually by 2008. Alcohol sales in India amount to about 675 million litres a year, worth almost USD4.25 billion. Wine currently accounts for only 0.84% of the market, but its sales have increased by over 22% over the last three years.

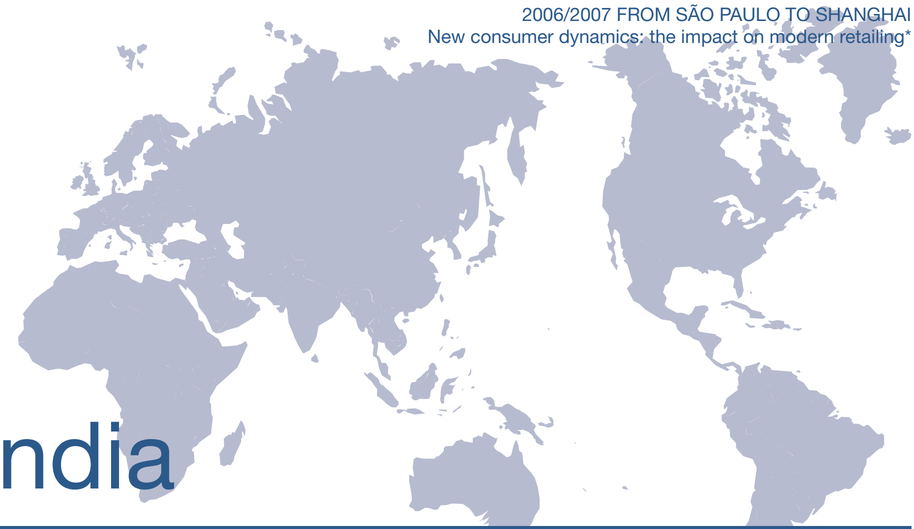
Expanding to Tier II and III Cities

Indian retailers are planning to extend operations into Tier II and Tier III cities as heightened IT offshoring activity in these locations have increased consumers' disposable income. The population in these cities is typically well-educated and willing to purchase goods and services. Some major retailers, like Globus and Pantaloon, have already begun building a retail presence in Tier III cities before many retailers have finalised their Tier II retail operations.

- Globus intends to occupy a total retail space of over a million square feet by 2011, with an investment of between INR3 to 4 billion (USD67 to 89 million). Senior staff at Globus indicate that many of their loyal customers are from Tier III cities and these expansion plans will improve the access to these customers.
- Raheja's Hypercity Retail (India) will build three stores in 2006. The stores will be located in Tier-I and Tier-II cities and will target the middle class segment. The stores will stock a wide range of goods, including food, grocery, apparel, durables and home furnishings.

Foray into retail agribusiness

India's most prestigious business houses and global retailers are planning to enter retail agribusiness. Market entrants plan to invest in the entire value chain, moving goods "from the farm to the fridge at home." Viewed as India's next "sunrise sector," retailers are employing contract farming as a means of boosting their ventures. Contract farming enables farmers to access land, manpower and farming skill without having to purchase land. Of the total cultivable land of 400 million acres in India, contract farming represents seven million acres thus indicating a tremendous opportunity. For pure corporate contracts between farmers and companies, only 200,000 acres are used.



India

Experimenting with formats

Selecting the right retail format is essential in modern retailing. The difference between urban and rural customers is one of the reasons why multiple formats are required in India. Local conditions and insights into buying-behaviour shape the format choice. No single format will be suitable for an all India strategy and selecting the relevant format is a key success factor.

Hence, ITC is experimenting with a rural hypermarket through its “Choupal Sagar” format, which combines a grain procurement and storage centre with the mall. The underlying premise of this model is to capture the farmer’s visit to a “mandi” (wholesale market) to sell his produce and to offer a range of products and services to capitalise on the ready availability of cash after the sale.

Home décor and improvement retailing

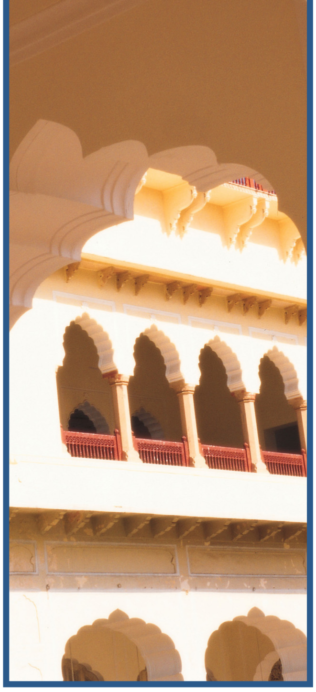
According to one market survey home improvements (38%) and leisure holidays (37%) as the two pursuits Indian consumers are willing to indulge in[10]. Many of the world’s leading home fashion brands are available in India through domestic retail outlets. The market for home décor, including accessories, hardware, furniture and furnishings, is estimated at USD14.4 billion. Of this, only six percent is organised, representing a tremendous opportunity.

Some players include Home Town, the flagship delivery format of Home Solutions Retail India Limited, a subsidiary of Pantaloon Retail India Limited. Six outlets of Home Town will be opened by 2007 and will meet the needs of customers planning to build, furnish and decorate their homes. For example, stores will offer building material, paints, tiles, electrical and plumbing products and services, furnishings, furniture and consumer durables.

International players entering this sector include Index Living Mall Company. This home furnishings retail chain, has signed an agreement with an Indian partner to open a franchise in India next year. Index Living Mall is expected to be the first foreign home furnishings chain to open in Mumbai and has yet to announce its Indian partner.

10 http://www.indiainbusiness.nic.in/business-climate/eco-trends.htm

Case Study I



Multi-format development by a domestic retailer

KEY DRIVERS

Founded by Kishore Biyani in 1987, 'Pantaloon Retail India Limited' (PRIL) is a pioneer in organised retailing in India with a diversified presence in food, apparel, books, music, leisure and entertainment, financial products, home solutions and other businesses through multiple delivery formats catering to both lifestyle and value products. Over the years, PRIL has emerged as a fully-integrated retail player controlling the entire value chain. Future Group was formerly known as Pantaloon Knowledge Group. Pantaloon Retail India Limited (PRIL) continues to be the name of the company.

Which strategic steps have allowed PRIL to become a leading retail player? How has the group met the challenges of retailing in India?

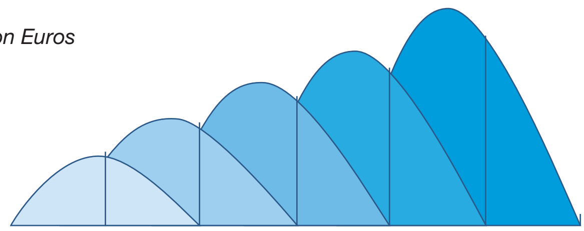
Background

1987 – 1988		1988 – 1992		1992 – 1997		1997 – 2001		Present
Product Driven	→	Brand Driven	→	Distribution Driven	→	Format Driven	→	Knowledge Based

In order to face the many challenges of PRIL's businesses have been organised along the following verticals:

- Future Retail
- Future Logistics
- Future Capital
- Future Brands
- Future Media
- Future Space

In Million Euros



	1988	1990	1992	1996	1997	2005
Sales	0.005	0.184	0.603	4.009	12.017	197.380
PAT (Profit after tax)	0.001	0.002	0.044	0.388	0.313	7.019

1988: Manufacturing & Branding
1990: Introduction of Denims
1992: Opening of Retail Stores
1996: Introduction of John Miller Shirts
1997: Departmental Stores for Retailing
2005: Leadership Position

Source: Company

Future Retail is to be the core vertical, with the other verticals directly or indirectly serving it. For instance, Future Logistics will drive efficiency across businesses, Future Brands is to be the custodian of all present and future brands (developed or acquired), Future Capital is the financial arm that will tap into consumer savings as well as serve as a medium for customers to pay, Future Space will manage properties and malls, while Future Media will capitalise on media opportunities within retail.

Strategic Blending of Multiple Formats and Private Label Management

The experiences of Wal-Mart and other successful retailers illustrate that retail formats need to be tailored to local consumers' preferences. PRIL maintains a competitive advantage by catering to Indian consumers' needs and has capitalised on its first-mover advantage by experimenting with product offerings and adapting them to evolving preferences.

Based on current trends, organised retailers who had initially stocked national brands have now begun to expand their in-store/private label selections. This is because 'own' labels yield a relatively higher gross margin of between 54-60% as compared to margins of between 28-35% earned by stocking national brands. The most important factor determining the success of a private label is scale. As volumes increase the fixed cost gets distributed, thereby decreasing as a percentage age of sales. Based on large size, PRIL effectively manages its internal brands while simultaneously offering lower prices to end-consumers. The group currently derives 22% of revenues from its private labels.

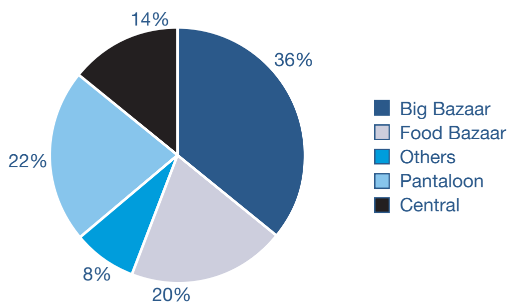
Lifestyle vs. Value Retailing

PRIL maintains a presence in lifestyle retailing through its 'Pantaloon' & 'Central' stores, while both Pantaloon and Central cater to middle- and upper-middle income consumers. Based on PRIL's latest financial results, Lifestyle Retailing accounted for 35% of overall revenues. With a focus on enhancing private label penetrations, PRIL plans to increase the number of season styles from four to seven to ensure that merchandise will be renewed every 45 to 50 days, as opposed to the current 90 to 120 days. This increased frequency of launching new fashion is expected to result in increased footfalls and increased turnover with a lower stocking period and amount.

Since lifestyle formats are dependent on the availability of prime retail real estate, the scalability of these formats is restricted to Indian metros.

Unlike lifestyle retailing, value-based purchases are dependent on income levels and are driven by the desire for quality goods with greater variety. PRIL aims to capture the middle-income consumer with its value retailing formats – Big Bazaar (hypermarket) and Food Bazaar (supermarket) – with low-margin retailing accounting for 50% of its fiscal year 2005 revenues. Also, approximately 50% of Food Bazaars are contained within Big Bazaar stores.

Revenue Mix FY-2005



Source: Company

Big Bazaar: The group is enhancing private label-penetration both in its apparel and FMCG offerings. For example, PRIL recently introduced proprietary brands – 'Caremate' and 'Cleanmate' in its detergents and soaps categories. It has also undertaken an initiative to expand the number of categories introduced within each of the Big Bazaars by including durables, home furnishings, etc. Big Bazaar's private label strategy is clearly reaping benefits for PRIL since this format is its largest revenue earner.

Fashion Station: This apparel-based format is medium-sized and houses the entire private-label collection of Big Bazaar. Primarily a thematic store, Fashion Station is an attempt to offer fashion forward products to mass markets.

Food Bazaar: Low margins are the main feature of this supermarket. PRIL manages margins by using its efficient supply chain network to ensure higher margins from FMCG companies, as well as lower procurement costs on the basis of substantial purchase volumes.

PRIL has concentrated a majority of its expansions on value-retailing due to the easy scalability of these value formats. PRIL intends to increase the number of its 'Big Bazaar' outlets from 26 to 80 by 2008. The Group also plans on increasing the number of its 'Food Bazaar' outlets from its present 40 to 150 by the end of 2008. PRIL is also looking to increase the number of 'Fashion Station' outlets from its current 4 to approximately 50 by 2010.

Home Improvement

Although PRIL is yet to roll out its 'Home Solutions' stores on a large scale, it aims to have approximately 1.7 million square feet of additional retail space dedicated to this format by June 2008. The company is targeting both lifestyle and value-conscious consumers by offering a combination of different formats under the 'Home Solutions' banner – E-zone, MeLA, Collection – i, Home Town, Furniture Bazaar and Electronics Bazaar, among others.

Early Mover Advantage – Real Estate

Availability of quality retail space is critical to the growth of modern retail trade. Almost all retailers are increasingly concerned about the spiralling real estate costs in India with the highest cost incurred in establishing retail ventures being the cost of lease rentals. The only way retailers can survive this squeeze is by becoming an 'anchor tenant'. An anchor tenant typically commands a discount of 30-45% on lease rentals and is responsible for attracting the footfalls. PRIL has been quick to endorse this strategy and today is one of the most sought after 'anchor tenants'. Out of the 300-odd malls under development in the next three years, Pantaloon has signed up with 100 of them. This rapid "land grab" will enable PRIL to leverage its first-mover advantage on a pan-India basis. The Group currently has approximately 3.5 million square feet spread across several formats, and is expected to have almost 10 million square feet of space by 2010.

According to industry estimates, lease rentals in Tier-II cities are almost 40-50% lower than those in top tier cities. Here again, PRIL has been quick to establish its presence in Tier-II cities – PRIL's real estate fund, Kshitij 1, which has a corpus of USD80 million at its disposal, is understood to have invested in projects in Tier-II cities like Ahmedabad, Baroda and Surat. PRIL expects to have nearly 400,000 square feet of retail space by 2008 in these destinations.

Deep Pockets: Access to Private Equity Funding

To finance its ambitious growth plans, PRIL has gained access to a large pool of funds. The Group's financial services arm, 'Future Capital' is an incubator for its expanding business lines:

Real Estate Funds: In an effort to finance its real estate ventures, PRIL has floated two dedicated real estate funds – 'Kshitij' and 'Horizon'. While 'Kshitij' is primarily meant to be the retail development arm of PRIL, the 'Horizon' fund, which has a corpus of USD350 million, is an international fund that will solely finance large city formats.

Indivision Capital: This fund is targeted at domestic consumer goods and has a corpus of USD400 million, with some of the world's most reputed families investing in the fund. Goldman Sachs is an anchor investor with a commitment of USD100 million.

Strategic Partnerships (Specialty Retail & Allied Ventures)

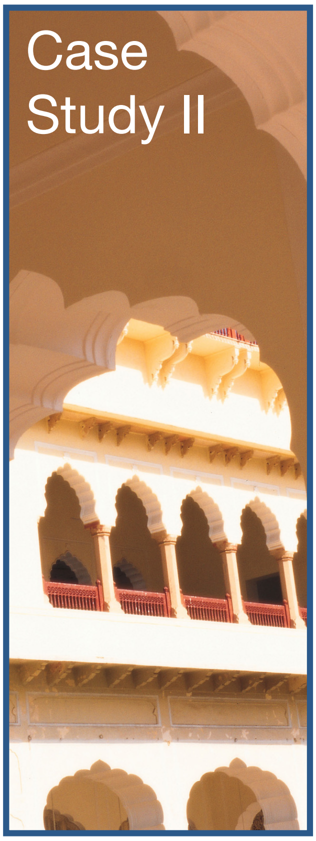
In order to remain competitive in the long-run, retailers need to differentiate themselves from their competitors. Here again, PRIL has been proactively gaining a 'specialty' retail presence by either forging JVs with experienced players or establishing its own stores, if required.

Apparel - Strategic Partnerships: Some of these alliances include PRIL's 49% stake in Planet Sports Private Limited (sole franchisee of Marks and Spencer, Wilson, Puma Speedo and Converse in India) and its 50-50 JV with Lee Cooper International Limited to distribute and retail its eyewear and footwear brands in India.

Other Specialty Retail Ventures: Other ventures include the Group's 50-50 JV with Liberty Shoes (India's second largest footwear manufacturer and its foray into wholesale retailing (B2B format modelled along Wal-Mart's Sam's Club).

Key takeaways

By securing retail space across the country and building a financial services arm, PRIL has successfully acquired the means to develop a multi-format retail strategy and cater to the great demands of India's fast changing consumer society.



Market expansion of an international trading and retail group

KEY DRIVERS

METRO, with a sales turnover of 55.7 billion in 2005, is the second largest trading and retailing group in Europe and the fifth largest in the world. It runs widely diversified operations in 30 countries with 2,447 stores, 250,000 employees and approximately 12 million square meters of retail space.

Indian government policy allows FDI in the wholesale cash & carry segment on a case-by-case basis. However there was no clear definition of the difference between retail trading and cash & carry wholesale trading. Metro having obtained FDI approval from the authorities required entry-assistance and advice on minimising regulatory risks.

Cash & Carry in India

METRO opened two distribution centres in Bangalore in the last quarter of 2003. These distribution centres offer business customers access to over 8,000 food and 9,000 non-food items in different pack sizes. METRO employs 750 individuals and serves approximately 160,000 registered businesses customers[1]. Over 95% of the merchandise for METRO's Indian operations is sourced locally from large- and small-scale industries. The group has invested over USD43 million in its Indian operations in order to build a modern infrastructure complete with humidity and moisture control facilities.

METRO maintains close contact with customers by sending a "METRO Mail" every two weeks to update them about special offers. Staff visit customers' premises regularly to learn more about their needs and a dedicated customer service team is available at each centre to manage issues such as product complaints, service and repairs[2].

METRO will invest a further 300 million euro in order to develop operations and extend market penetration. The company's chief executive Hans-Joachim Korber indicated that METRO's expansion is hindered by the Agricultural Produce Marketing Cooperatives Act, which regulates and restricts trade in agricultural products. The Government of India is currently urging state governments to amend the APMC Act to allow trade in agricultural products and eight states have already removed it.

METRO, keen to expand operations in India is in the process of carrying out feasibility studies for opening stores in 33 targeted cities with populations of over one million. With two stores in Bangalore, the German Cash & Carry operator will open three additional outlets in Kolkata, Hyderabad and possibly Chennai.

Key Strategic Levers

Indian Supply Chain

Indian supply chain management is evolving and for rapid economic growth, modern supply chain structures and systems are imperative. Currently in India, there is 20-40% wastage for perishable produce due to multiple intermediaries, wastage during transportation and storage, high cycle times and an absence of cold storage systems. The supply chain can be made more efficient through economies of scale in procurement and transportation, bulk storage, trend forecasting and analysis of sales patterns to minimise inventory, improve fund management and enhance service levels in terms of availability.

1,2 www.metro.co.in

Metro initiatives

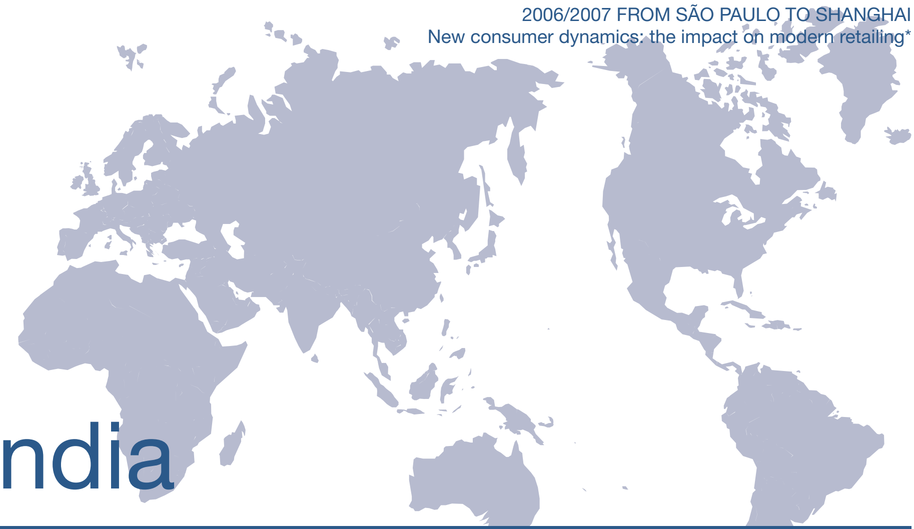
METRO embarked upon several internal and external initiatives to improve supply chain management.

- METRO launched a supplier relationship management portal to modernise its supply chain. The portal is an interactive web-based tool that will strengthen partnerships between METRO and its suppliers. METRO has about 600 suppliers in India and two distribution houses in Bangalore[3].
- METRO and the Government of Karnataka partnered to improve the infrastructure for fisheries in the state. The company assumed a project to develop a modern fish auction centre in Mangalore at an estimated cost of Rs. 5.7 million. The auction centre is scheduled for completion by June 2006 and will maintain quality and hygiene and extend the shelf life of fish. METRO Cash and Carry built two similar auction centres in Tamil Nadu during 2005[4].
- METRO launched a pilot project for farmers at Hosekote near Bangalore. The pilot project aims at providing knowledge and training to local farmers to clean, sort, grade, and pack agriculture produce according to the company's global standards. These distribution centres fetch fair prices for farmers and reduce wastages.

PRICEWATERHOUSECOOPERS ASSISTED IN THIS CASE STUDY BY PROVIDING THE FOLLOWING SERVICES:

- Advice on policy issues relating to FDI, especially in the trading sector.
- Leveraging existing relationship with senior policy makers to discuss the issues and obtain a clear definition of retail trading and wholesale cash & carry.
- Assistance with operational advisory issues such as technology and supply chain.

3 Author unknown, "METRO Launches SRM Portal." Indian Business Insight (July 31, 2005).
4 Author unknown, "METRO Cash to Build Fish Auction Centre in Mangalore." Indian Business Insight (July 31, 2005).



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