MANAGEMENT DISCUSSION AND ANALYSIS

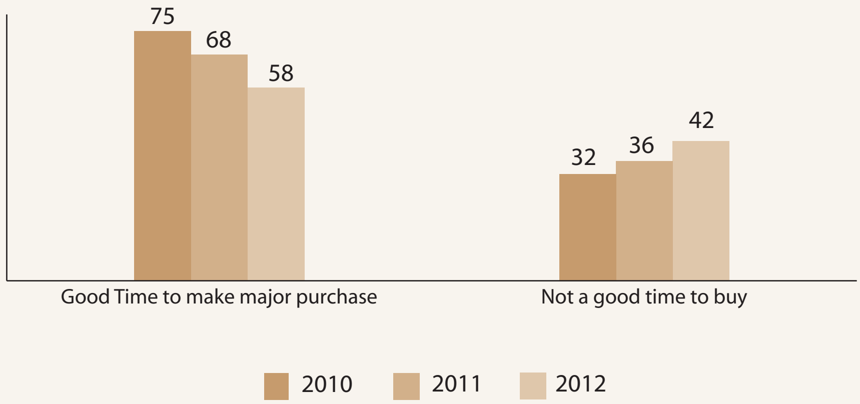
The economic backdrop continued to be an important factor impacting the performance of Companies across sectors including organized retail. Consumer sentiment and business confidence were subdued in the financial year under review with economic growth decelerating further. This is attributable mainly to weakening industrial growth in the context of tight monetary policy followed by the Reserve Bank of India through most of the financial year, political & policy stability related concerns and continued uncertainty in the global economy. Inflation continues to be an important concern area. Persistent high inflation and inflation expectations has meant that the Reserve Bank of India has been compelled to maintain the bench mark interest rates at a much higher level than was seen warranted or expected earlier.

As observed in prior years, the organized retail space in the first decade of this century was viewed as offering enormous potential for growth in India. However, post FY08 the industry witnessed a sharp moderation in expectations with most retailers across formats facing significant head winds in terms of like-for-like growth, and challenge to viability of stores at rentals contracted during FY07 and FY08. While the same store sales growth was impacted during this period, nevertheless the slowdown was positive, especially from a real estate and talent availability perspectives. Following the pronounced slowdown, the industry witnessed a modest recovery in FY09-10, especially in the second half. This recovery gathered further momentum in the first three quarters of FY10-11 and yielded strong double-digit like-for-like growth across most credible retail formats. The recovery also meant that key business Groups with interest in the organized retailing revived their expansion plans shelved during the prior economic slowdown.

Consumer sentiment thereafter was impacted in FY12 and continued to be muted in the period under review with high inflation expectations, pronounced interest rates and economic uncertainty being key contributing factors. Recent consumer surveys have indicated increasing tendency of consumers to postpone purchase decisions (as illustrated in the chart below), a pause in the up-trading trend witnessed in the recent years with respect to discretionary items and improved resilience of tier 2 & 3 markets as compared to the primary metropolitan markets in the country.

People Postponing Purchase Decisions

(% of Respondents)



Source: Credit Suisse India Consumer Survey 2013

During the period under review, weaker players with less compelling retail offerings and especially those also burdened with significant financial leverage have been severely constrained and have had to restructure significantly. This play-out has reinforced our belief that building a long term sustainable business model is of paramount importance. We believe only those retailers with more robust format offerings would be in a position to take advantage of the enormous potential for growth offered by the Indian economy.

Given the reform measures undertaken recently to improve investment sentiment and to improve the fiscal situation, along with the improvement in the global economic scenario, there is a possibility of recovery of growth in the FY 2013-14. Near term issues notwithstanding the organized retail opportunity in India continued to attract significant interest from both large Indian business houses and multinational retailers overseas. Further, the notification of the 51% FDI in the multi brand retail by the Cabinet Committee on Economic Affairs (CCEA) is expected to eventually pave way for international multi brand retailers keen on investment in India. It is our continued belief that over the medium to long term, most of the earlier arguments in favour of the sector (demographics, penetration of organized retail and consumer profile) continue to be valid, as they were previously. Consistent with the discussion presented in the previous reports, consider the following:

- ***Demographic dividend and augmented domestic consumption***: India's population of over 1.2 billion is the second largest population in the world after China and continues to grow at over 1.3% per annum *adding* a number each year equivalent to the total population of some of the developed countries. In both China and India, the population has grown significantly over the past decade. But India's population growth (16%) vs. China's (5%) makes it likely that India will replace China as the world's most populous country in the next 15 years. India is on the brink of a demographic revolution with the proportion of the working age population between 15-59 years likely to increase from approximately 58% in 2001 to more than 64% in 2021, adding approximately 63.5 million new entrants to the working age group by 2016, bulk of whom will be in the relatively younger age group of 20-35 years.

  Of this, India's urban population is estimated to be in region of 300 million people. The pace of urbanization in India is expected to increase significantly going forward, with an estimated compound annual growth rate of 2.1%, double that of China's in the period upto 2050. Urban population represents the highest potential from an organized retail perspective and is concentrated largely in the top 180 cities, with the remaining population in about 5,000 urban centers. Urban consumption has been repeatedly cited as the primary growth driver across sectors, and in many respects the following underlying trends seem to confirm this hypothesis:

  1. A more evolved consumption basket vis-à-vis the non-urban audience, with higher proportion of spend towards housing, travel, apparel and medical needs;

  2. Higher & growing proportion of people in middle and upper income classes;

  3. Superior and improving performance of the urban population in terms of 'quality of life' measures including infant mortality, birth rate and death rate.

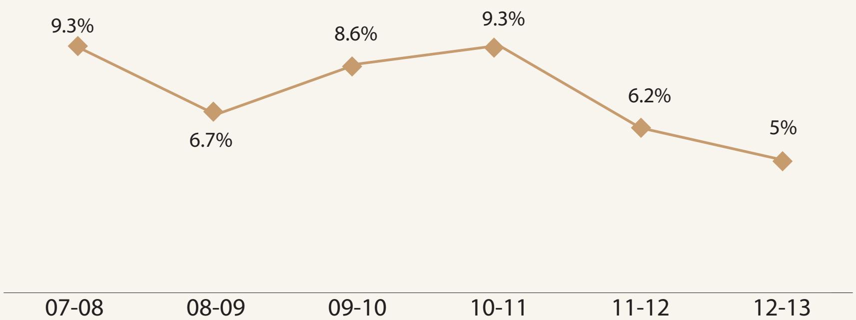
  The play-out of the above trends has largely been aided by the services and industrial sectors, which have led the underlying GDP growth over the past decade. These trends look set to continue, and should also continue to aid increase in consumption levels over the medium term.

  Further, empirical evidence from other countries like China and Brazil indicates that discretionary household spending tends to significantly take-off when per-capita income increases beyond certain thresholds. Observers note that per-capita income of US$3000 is one such possible threshold –

incidentally China crossed this level in the early 2000s and India is estimated to have crossed this level in purchasing power parity terms in 2010. The per capita income is estimated to have risen over 11% in 2012-13 as against the previous financial year and the expectations of its continued rise in the next two decades should contribute to rising disposable income and further increasing the aspirations levels of the consumers.

- ***Economic growth***: The Indian economy had responded strongly to the fiscal and monetary stimulus and achieved a growth rate of 8.6% and 9.3% in the Financial Years 2009-10 & 2010-11 respectively post the global downturn. However, with the economy exhibiting inflation tendencies, the Reserve Bank of India started raising the policy rates in March 2010. High interest rates as well as policy constraints adversely impacted investment, and in the subsequent two years (Financial Year 2011-12 & 2012-13), the growth rate slowed to 6.2% and 5% respectively. Despite this slow growth rate the compound annual growth rate (CAGR) for gross domestic product (GDP) at factor cost, over the decade ending 2012-13 is 7.9%. Relatively India is one of the fastest growing economies in the world and the nominal private final consumption expenditure is expected to increase by about four times to over US Dollar 3.5 trillion in 2020 from the current level. Demographics is expected to be a significant factor impacting the growth over the next decade and consequently facilitating increased penetration of organized retailing.

Trends in GDP growth % (YOY)

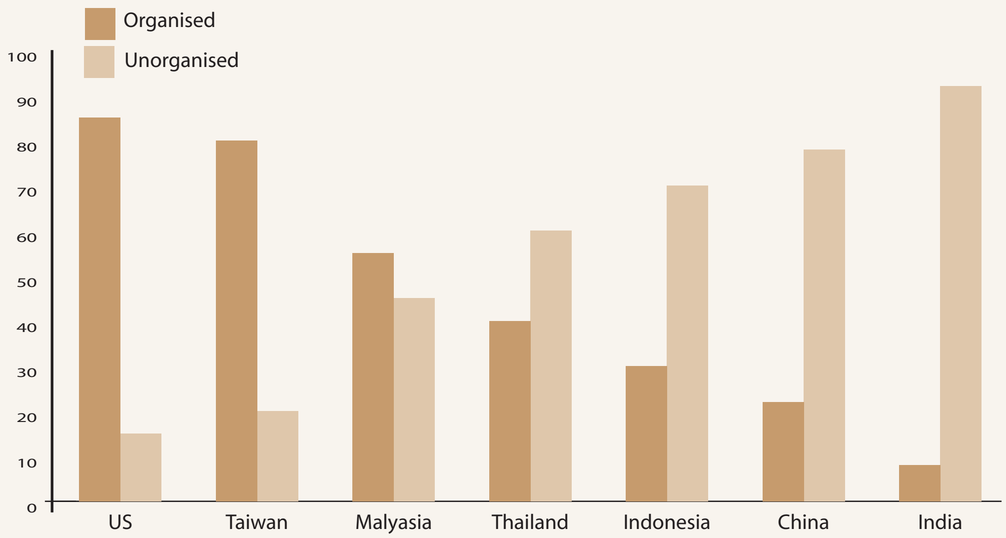


Source: Economic Survey 2012-13

- ***Growing organized retail penetration footprint***: The penetration level currently is estimated to be in the region of 7% and is the lowest amongst even emerging market economies of any consequential size. The trend in the last decade points to continued increase in the share of organized retail and is expected to accelerate further in the coming years given the following drivers:
  - Growing middle class with greater disposable income; with a large number of young people becoming a part of work force each year;
  - Rapid urbanization has meant Tier 2 and Tier 3 cities are increasingly becoming relevant addressable markets.
  - Availability driven adoption – with both incumbent Indian retailers and foreign retailers (with the recent reforms in FDI regulations) executing/ planning substantial store rollouts across the country;

- Greater financial inclusion and easy availability of credit as the banking sector expands and consciously targets financing of consumption spending.

Estimated Organized Retail Penetration %



Source: CARE Research

■ ***Rapidly changing consumer profile and aspirational consumption***: The demographics coupled with less than 10% of the work force being directly employed by the organized sector seems to contribute to a constant shift upwards in the reference point of the average consumer – in terms merchandise aspired for and value sought. Further, the following factors/ trends are seen contributing to growth in spending overall, and particularly for organized retail over the medium term:

– Changing family level organization/ role definitions and exposure
  - More nuclear families
  - Increase in the number of working women
  - Kids being more informed and demanding

– Increasing exposure to and influence of cosmopolitan media; consequent adoption of Western values and markedly higher brand consciousness

– Easier availability of jobs (especially Outsourcing & IT related); BFSI & related employment is expected to increase to over 12 million in the coming decade from about 3 million currently

– Increased availability of credit/ social acceptance of consumption aided by borrowings; it is estimated that about 13% of the people in urban cities are currently making monthly payments for loans.

Organized retail's structural challenges:

There are nevertheless a few structural challenges to the growth of organized retail in India as discussed in brief below:

➢ *Real estate availability*: Much has been written about over supply of retail mall space, but the ground level situation for retailers is quite to the contrary. The issue is of non-availability of retail space especially for larger formats in terms of:

- desirable location
- acceptable scheme and access
- sustainable economics

Also, retail developments in retailer friendly locations are difficult to come by given the relative attractiveness of alternate use developments say residential apartments.

➢ *Regulations & taxation:* The regulatory framework at the ground level is complex and is a serious stumbling block to growth in many respects. For instance:

- most of operational compliance requirements for organized retail are a state subject and consequently there is no uniformity. The applicable regulations like APMC in various States for instance prevent dis-intermediation whereby the retailer could consider sourcing directly from the farmer for instance and pass on the benefit of lower sourcing cost to customers.
- current state of indirect tax regulations seriously challenges the economics of many retail formats – given the applicability for instance of VAT, Service Tax on rentals, Local Body Taxes and excise on branded garments (which has since been withdrawn in the budget for the current financial year) coupled with no setoffs. There is also lack of visibility and consequent uncertainty with regard to implementation of a comprehensive Goods and Services Tax (GST).

➢ *Supply chain infrastructure and logistics*: The logistics industry itself is in a nascent development phase in India and is ill-equipped to support especially sourcing and movement of a very large number of SKU's efficiently. This backdrop has meant that the retailers have had to tackle this activity in-house and have borne the down-side of related dis-economies.

➢ *Skilled Manpower:* Availability and retention of skilled manpower at acceptable economics is a challenge on account of increasing demand and limited pool of experienced professionals in the organized retail space.

The above structural challenges notwithstanding, we firmly believe the longer term opportunity in the organized retail space in India continues to be sizeable and attractive.

Organized retail industry in FY12-13

In our view, during the financial year under review the key factors and developments that impacted the organized retail industry in India were:

– the near term consumption triggers (inflation & interest rate levels)

– further changes in the regulatory landscape with respect to FDI in single brand and multi brand retailing

– supply chain issues and cost pressures (including minimum wages and depreciation of rupee)

– the intensity of micro market competition.

With varying degrees of impact the retailers in India have witnessed during the Financial Year 2012-2013:

a) Consumer confidence and off-take especially in volume terms was muted especially in the first half year, with consumer spending possibly getting impacted by a lower level of discretionary household budget given the pronounced inflation witnessed in various categories coupled with sharply higher borrowing costs.

b) Significant operating cost pressures including in respect of wages, electricity and common area maintenance. Nevertheless, the cost pressures with respect to merchandise inputs moderated during this period.

c) The 10% excise duty on branded garments, imposed a couple years ago, had meant significant operational compliance formalities for branded apparel manufacturers and a crippling charge. To the relief of both vendors and retailers this levy has since been withdrawn.

d) The pronounced rental's involved in taking up of additional real estate for expansion especially in the backdrop of most key participants in the organized retail industry with their respective expansion plans and this coupled with a limited pipeline of acceptable retail real estate developments. The limited pipeline of developments is in turn explained for the most part by:

   – attractiveness of alternate developments like residential apartments;

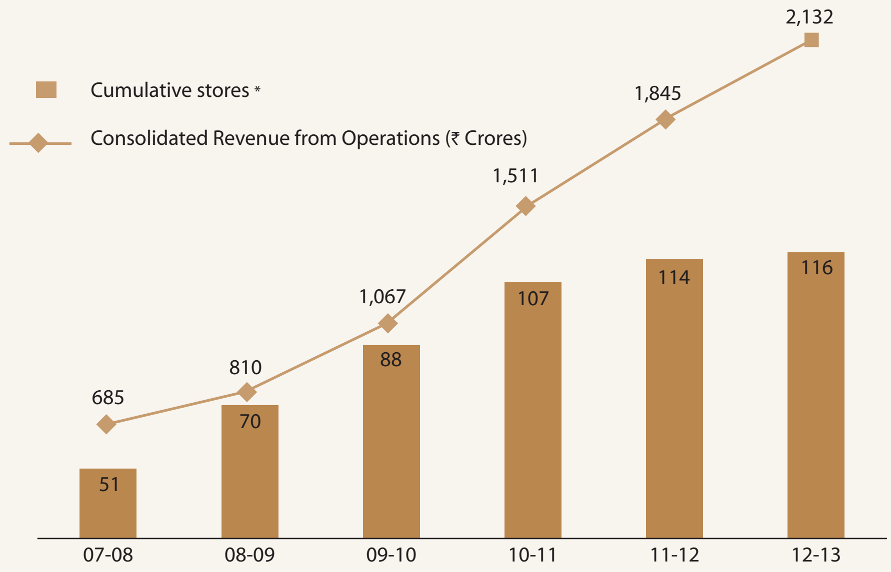
   – the operational difficulties in managing retail mall/ shopping centre; and

   – importantly the significant liquidity squeeze faced by the real estate sector given the RBI policy.

e) Higher intensity of competition in certain micro market due to pronounced clustering of retailer presence with similar offerings.

These macro observations have applied, though with varying emphasis to the predominant retailing formats (Westside, Star bazaar & Landmark through respective subsidiaries) managed by the Company. In aggregate, the Company registered encouraging growth, with consolidated revenue from operations increasing from ₹ 1,845 Crores in FY 11-12 to ₹ 2,132 Crores in FY 12-13 an increase of over 15%.

Consolidated income from operations (₹ Crores)



* includes stores operated by our JV Inditex Trent Retail India Private Limited

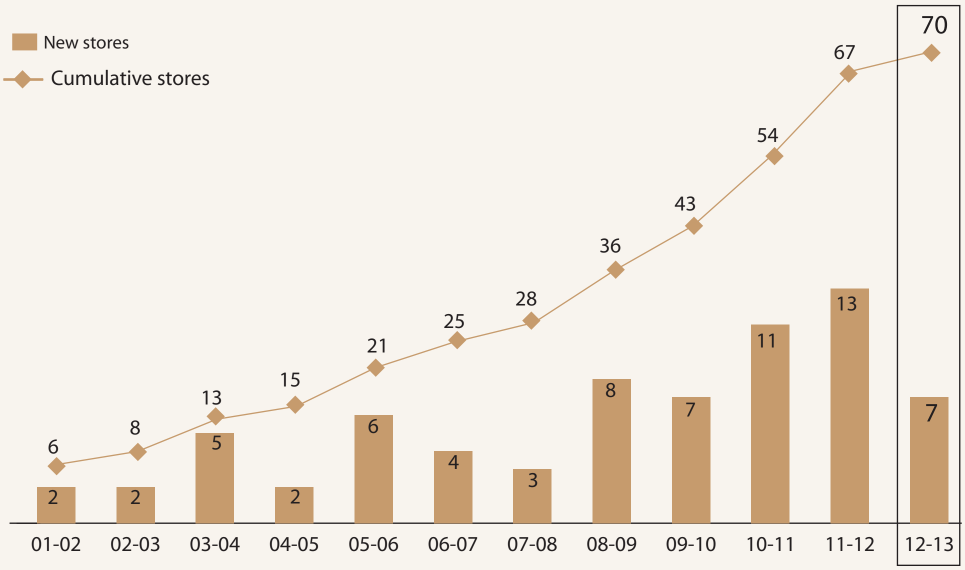
OPERATIONS – WESTSIDE

The Westside store, the predominantly private label fashion apparel format, continues to be the mainstay of the retailing business of the company. This format over the years has been rolled out across the country and currently covers over 42 cities.

In the year under review, seven stores were opened including the following – Vizag (R K Estate), Jalandhar (Model Town), Dehradun (Cross Roads Mall), Anand (Sigma Prime Complex), Bareilly (Rampur Baugh), Cochin (Lulu Mall) and Trichy (Muthiah Towers).

In the first quarter of the current financial year three further stores have been opened in Kurnool (Jyoti Mall), Chandigarh (Elante Mall), Chennai (Vijaya Forum Mall) taking the total number of operational Westside stores to 73.

Number of Westside Stores



During FY12-13, as can be observed from the above chart the Company recorded seven new store openings. Also four stores which were seen to be located in declining malls/ shopping centers and hence lacking a sustainable growth outlook were closed. With respect to stores, the focus during the year especially in the second half was refurbishment of older stores.

From an operating perspective, the period under review was encouraging for the Westside format viewed especially in the context of the difficult macro-economic environment:

- Over the course of the year, input margins were gradually stabilized to levels broadly in line with FY10-11, while holding product pricing mostly flat. As discussed in earlier reports, the margins in FY12-13 had been significantly impacted by the 10% excise duty on branded apparel and escalation in yarn prices.

- Customer off-take improved in the second half and sales were healthy during most of the festive period and the end of season sale in the January 2013.

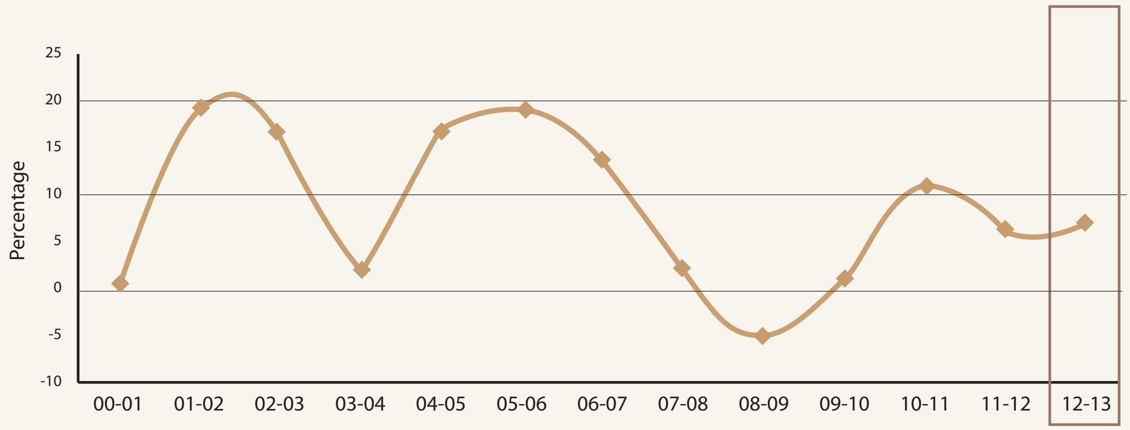
- In the context of the market conditions, advertising & promotion expenditure was relatively curtailed.

- Reasonable like-for-like growth witnessed and conscious efforts to ensure timely liquidation of off-ranged stock avoided any undue inventory buildup; also there has been continued focus on reining in cost escalations across line items.

- Some of the stores opened during the last two years witnessed slower ramp up in sales and on the other hand involved higher operating costs including on account of common area maintenance cost charge-outs. There were also costs relating to closure of the four marginal stores in the portfolio during the period under review.

The conviction of the Board and the management on the attractiveness of the Westside format as a business model continues to be the basis of the expansion of the chain. Further, during the year under review, key steps were initiated to introduce new categories like own-branded body and bath products and to expand Gourmet West - the premium food and beverage offer. As on date, the Gourmet West offer is operational in five locations including Army Navy (Mumbai), Forum Mall (Bangalore), KMC Retail Mall (Hyderabad), Garuda Mall (Bangalore) and Elante Mall (Chandigarh). With the encouraging response seen in these stores the company will continue to invest in the food segment and there are plans to roll out Gourmet West in select stores in the current financial year as well.

Westside Stores – Like-for-Like Sales Growth (%)



As in the previous years, we continue to take the following approaches in operating and expanding this format:

- ***Private label vs branded merchandise***: We continue to emphasize the role of private label merchandise and Westside is ranked to be in the top quartile in terms of contribution of private label merchandise to overall revenues. We believe higher private label content facilitates not only realization of better margins but also affords other benefits like control over the merchandise design and quality – which should allow for a better competitive position over the medium term. Also through a private label merchandise, we are able to offer better value to customers. At the same time, the intent is to make the offering complete and collectively more attractive through the inclusion of select third party brands that account for upto 15% of the overall merchandise range on offer.

- ***Size of Westside stores***: We vary the size of planned Westside stores based on various factors including the immediate micro-market, mall vs standalone presence and leasehold economics. However, empirical evidence seems to suggest a size not exceeding twenty thousand square feet selling area is preferable (unless the location on offer is seen to be highly attractive and as an exception), as lifestyle department stores much larger in area face viability issues and consequently limit the geographies that can be viewed as markets. At the same time, the attempt is to ensure that there is a credible range on offer for the stores to be attractive destinations for shopping.

- ***Focus on Supply Chain:*** Further, during the period under review, we have continued to emphasize improving the efficiency of our supply chain to effectively replenish our store network. We believe incurring of additional costs on select initiatives is warranted especially from a long term business model sustainability perspective, and we expect to realize tangible benefits over the medium term.

From cost perspective, in the period under review, there have been pressures across line items including:

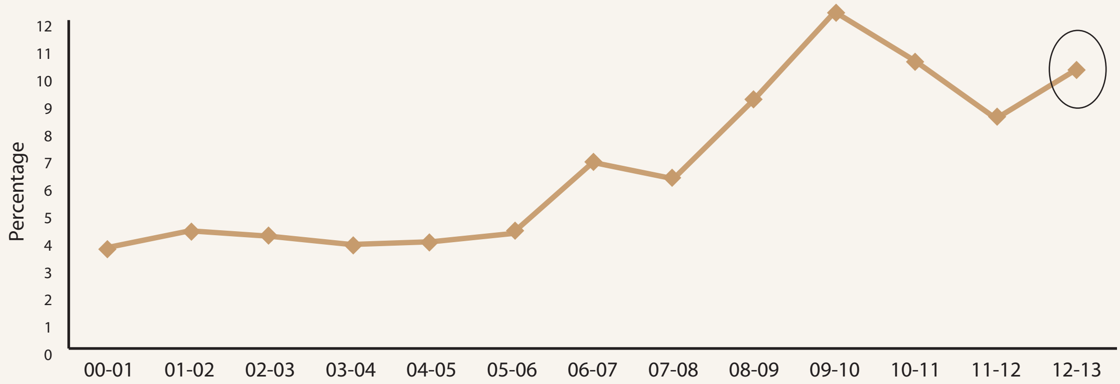
- increase in wage bill (with minimum wage levels witnessing sharp increase in several States); also fueled by acute shortage of suitable persons at the entry level in certain micro markets like Chennai

- higher energy costs in States like Tamil Nadu, Maharashtra and escalating rental and Common Area Maintenance charges in select malls

- indirect tax costs with no set off (for instance between service tax on rentals, VAT and excise on branded garments).

These pronounced cost pressures across several line items and the significant inflation levels in various categories continues to be a cause for concern. However, the recent improvement in market sentiment is expected to provide some relief in the coming quarters.

Inflation Trend (CPI – YOI %)



Source: CSO, RBI

In summary, despite various challenges, including the current difficult economic backdrop and the cost pressures, Westside as a format continues to be sustainable and as stated previously, the intent is to further upgrade our existing store portfolio and also scale up presence by opening new stores, subject to availability of acceptable retail locations and estimated viability of economics at the store level.

OPERATIONS – STAR BAZAAR

Star Bazaar, the discount hypermarket format, has continued to receive commitment of resources in the period under review, and there are now fifteen operational stores-three in Mumbai (Andheri, Dahisar & Thane), four in Bangalore, two in Ahmedabad and Pune, one each in Aurangabad, Surat, Chennai and Kolhapur. Each Star Bazaar is modeled to be a one stop shop offering a wide range of products including fresh foods – fruits, vegetables & non vegetarian products, dairy, home care, health and beauty products, apparel, home décor, gifts and household items. During the year under review, the like-for-like sales growth of Star Bazaar stores was 7.9% marginally up from 5.4% witnessed in the preceding year.

Consistent with the commentary in previous years, the company continues to view food and grocery (F&G) retailing as a substantial opportunity, which is worthy of being seriously pursued in the medium term. F&G remains one of the largest categories and is estimated at around 60% of consumer spending.

Nevertheless, given the significantly lower gross margins on F&G vis-à-vis other merchandise (and therefore formats), the need to evolve an economically viable business model is viewed to be critical. The performance of the Star Bazaar business over the last few years has been encouraging. However, this business continues to incur operational losses, especially on account of the under absorption of corporate costs. We believe this trend would continue until the business evolves into a sustainable model and consequently reaches a critical mass. Registering strong same store sales growth in the interim would also be a key prerequisite for eventual profitability of this format.

No new stores were opened during the year. While there were a few stores in the pipeline – they were located inside shopping malls as compared to being standalone stores. Increasingly, we believe based on empirical evidence and otherwise that the hypermarket format is best suited to operate from standalone schemes. Some of the key driving factors include:

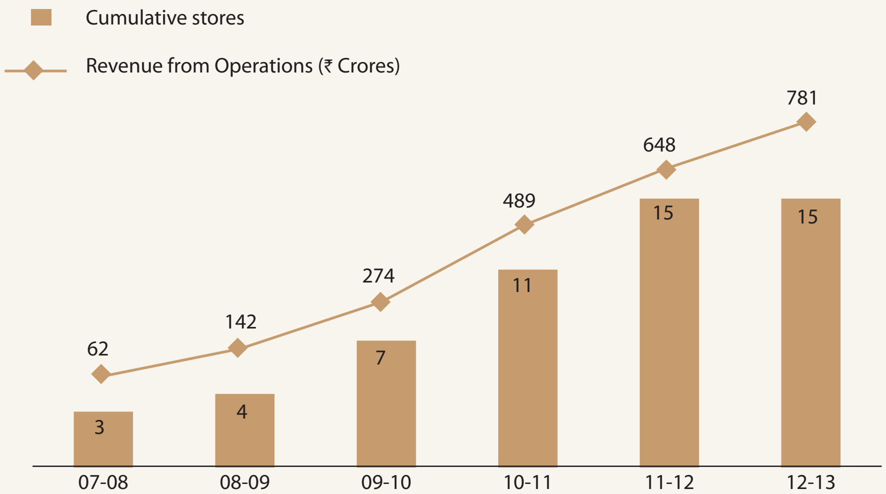
- Customers do not prefer to navigate the mall with a shopping trolley and rather prefer quick & direct access to parking and to public transport options; hence, stores in shopping malls do not necessarily generate higher footfalls compared to standalone stores;

- Given its economics, the hypermarket format does not afford any headroom for incurring the substantial common area maintenance charges in shopping malls. These charges are primarily on account of electricity charges relating to air conditioning etc of the common areas of the mall. These charges are negligible in the case of standalone stores.

- From an operational perspective standalone schemes allow for much easier and through the day replenishment of stores unlike in the case of mall stores.

Given the above considerations, unless the overall package in a mall scheme is seen to be very attractive, we have sought to not progress with opening Star Bazaar hypermarkets inside large shopping malls. In this backdrop, the focus of the management during the period under review has been to achieve improved efficiencies from the existing operations and evolving a more calibrated product offer that would allow for sustainable growth going forward.

Star Bazaar Hypermarkets



Trent Hypermarket Limited (THL) has a franchise and a wholesale supply arrangement with Tesco Plc and its wholly owned Indian subsidiary-Tesco Hindustan Wholesaling Pvt Limited (THWPL) respectively. The exclusive franchise agreement is allowing the Star Bazaar business access to Tesco's extensive retail expertise and technical capability including world class IT systems, processes and best practices in functions like marketing, stock management, retail information systems, supply-chain infrastructure and front-end services to drive the growth of hypermarket business. Under the wholesale supply arrangement, Star Bazaar also sources merchandise from Tesco's wholesale cash-and-carry business in India, benefiting from Tesco's sourcing capability and supply chain expertise. Given concerted efforts from both teams, a significant share of merchandise retailed across Star Bazaar stores is being sourced by THWPL.

THL had a joint venture agreement with the Xander group, for standalone freehold real estate developments. Trent has partly bought out the stake of the Xander entities in Virtuous Shopping Centre Limited (Virtuous) and is in the process of buying the remainder. Pursuant thereto, Virtuous has ceased to be a joint venture company of THL.

Trent Hypermarket Limited recorded a 21% increase in total revenue to ₹ 785.19 Crores (₹ 649.51 Crores in FY 11-12) during the period under review, EBIT was negative ₹ 64 Crores (negative ₹ 51.86 Crores in FY 11-12).

During the period under review Trent Hypermarket Limited made a Rights issue of Preference Shares. The proceeds from the issue were primarily utilized for repayment of the existing loans.

Broadly consistent with commentary in previous reports, the plan and key initiatives in respect of the Star Bazaar format include:

- The intent is to scale up the number of stores over the medium term. The pace of roll-out would nevertheless be calibrated based on evolving a more sustainable store model (including size, location, type of scheme and product range) and also depend on the pace of delivery of signed properties by developers which is seen to be a continuing challenge even going forward. Also, as in FY13 we would revisit opening of certain Star Bazaar properties located inside malls and contracted earlier. This review would be in the context of the downside risks at currently estimated economics at the store level (for instance Common Area Maintenance is one of the primary triggers).
- Store sizes – the intent in the medium term is primarily to continue to focus on rollout of Star Bazaar stores with a 'large box' footprint but nevertheless adjust size and range of offer based on the micro-market dynamics, especially given the need to contain per square foot rentals and realize higher sales per square foot of selling area. Further, unlike in certain locations in the past, the intent is *not* to secure additional square footage in order to facilitate sub-lease to adjacent retail offerings – empirical evidence does not suggest any improved realizations on this account.
- Local sourcing and consumer catchment – establishing robust regional sourcing arrangements is seen to be inevitable in-order to service a chain of hypermarkets in a profitable manner. Also, primarily from a traffic and consumer behavior perspective, we do not see 'outside city limits' stores being sustainable and hence the intent is to continue to focus on the immediate hinterland of a proposed store and the catchment it affords.
- Emphasis in Star Bazaar would be to deliver a compelling offer on Food and reasonable range of Non-Food merchandise – this from a gross margin as well as from range availability perspective for the customer. A compelling Food range is seen as critical to sustained performance of a store as it is seen to be the primary footfall driver.
- Own label offerings – over time as the branding of the stores get entrenched, emphasis would continue to be on increasing the contribution of 'own label' offerings across categories. This emphasis is also consistent with the estimated share of private label merchandise seen in the case of entrenched international retailers.

As observed earlier, though the Star Bazaar business is still a mid-sized operation, we see visibility of evolving a more sustainable model over time and scaling up this operation into a consequential and *eventually* profitable business, aided by the strategies being pursued and the expertise accessed from Tesco through the franchise and wholesale supply arrangements. However, in the interim this business continues to warrant significant investment of capital and is expected to take a few more years before the shared services & central costs get covered by the contribution generated from stores. Also, in the near term the muted same store sales growth being registered by this format is a concern, especially in the context of continuing cost pressures.

OPERATIONS – LANDMARK

Landmark stores – the format retailing inter-alia books, music, toys and gaming – are managed by a subsidiary of the company, Landmark Limited. As of date, there are 19 operational stores across the country.

The significant restructuring measures initiated in FY 11-12 across the Landmark business continued in the period under view with the following primary objectives:

- refreshing the relevance of the format to the target audience in terms of the core customer proposition especially given the evolving market landscape for retailers in this space
- building a sustainable platform to leverage the brand strength of the Landmark banner to facilitate growth and scale over the medium term.

The principle restructuring and refurbishment measures continued to be pursued in the period under review include:

- Focus of new growth categories – Landmark over the years was primarily anchored as a store by the wide ranging offer in the books and music categories. However, given market conditions and to tap the potential of the evolving Indian demographic structure, Landmark is currently in the process of being shaped into a family entertainment format, with focus on toys, front list adult & children's books, tech accessories & gaming and stationery. Also certain offerings like home furnishing are being phasing out.
- Redesign of the store look & feel – Consistent with the revised anchoring of the store to new growth categories, the re-configuration of the stores including in terms of their look & feel has been pursued during the financial year under review. This process is time consuming and also involves commitment of additional resources in certain areas – several of the stores in the portfolio have been re-aligned and the effort is on to address other stores in the portfolio in a phased manner.
- Growing the internet platform – As a retailer of books, music, toys and gaming Landmark holds a leading position in the market; further in order to address the growing market for books, gaming accessories and mobiles through the internet, the Company has continued to invest to improve its online offering "landmarkonthenet.com". In order facilitate greater management focus and growing online presence for key formats of the Company – the online division has been vested into a wholly owned subsidiary of Landmark Ltd. The intent in the near term is to have robust online offerings from the Westside and Star Bazaar range as well.
- Re-alignment of the supply chain – Unlike the Westside supply chain arrangement – the Landmark format was earlier dependent on a regional, store linked warehouse system. This arrangement meant that the availability & replenishment of merchandise in store locations was skewed and could not take advantage of the scale benefits afforded by a more centralized Distribution Center approach. In this context and in-order to facilitate leveraging of the distribution back-end infrastructure supporting the other principle formats of the Company – the Landmark has migrated to a more centralized Distribution Center approach.

- Shifting of corporate operations – In order to integrate the business operations with the Westside business and realize cost and operating synergies, the corporate operations have been shifted from Chennai to Mumbai during the current financial year. This is expected to result in significant reduction in corporate overheads in FY14.
- Introduction of SIS in select stores – With the motive of being a family entertainment format the Company is diversifying itself into certain adjacent categories. With this intent the Company is in the process of introducing Shop-In-Shops (SIS) particularly for sport merchandise.

Landmark recorded a 10% decrease in total revenue to ₹ 200 Crores (₹ 223 Crores in FY11-12) during the period under review, and the profit before tax was negative ₹ 38.46 Crores (negative ₹ 31.27 Crores in FY11-12); which also includes a onetime profit on transfer of online retailing business to a wholly owned subsidiary. Landmark's results for the year ending March 2013 need to be viewed in the context of the conscious winding down of certain categories for all practical purposes (like home merchandise – which is not seen to be a relevant fit with the format in its evolving form) and the restructuring initiatives discussed above – as each of these efforts involve significant disruption of operations (for instance during store re-design/ refurbishment, stabilization of transition to the SAP IT system, migration to a new distribution approach). The following is brief discussion of the other principle factors contributing to the reported performance:

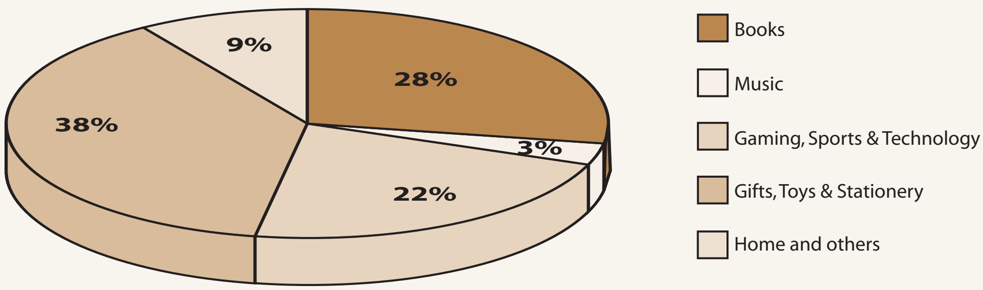
- Continued decline of especially the music category and certain sub-categories of books like computers & programming, cooking, maps and coffee table books. In the music category digital downloads have for the most part become the norm, including through mobile phone platforms;
- Under performance of select mature stores vis-à-vis expectations; the key contributing factors include another competing mall location in the relevant Chennai micro-market;
- Under performance of select large box new stores, as these stores take longer to reach break-even sales volumes; key contributing factors include slow ramp-up of immediate mall occupancy, operational mall maintenance and timely merchandise availability issues;
- On the other hand encouraging off-take of certain new categories of focus like gaming, toys, sports merchandise and select tech-accessories; also, the transfer of online division significantly buffered reported performance.

Key observations and intent on approach in respect of the Landmark format:

- As a retail banner Landmark continues to enjoy strong recall and liking amongst a range of audiences and especially with kids and teens; incidentally the format has registered more than 500,000 'likes' on Facebook – the online social networking site;
- further in order to address the growing online market for books, mobiles and gaming, the Company continues to commit resources in a significantly refurbished and improved online offering of "landmarkonthenet.com";
- Music as a category is de-growing consequent to increasing access of such content through other channels and same is the case with certain sub-categories of books like computers & programming and cooking; in this context Landmark has been consciously introducing newer categories like gaming, technology accessories and sports merchandise. Also, it is relevant to observe that Landmark already derives its income from a wide mix of categories and is consequently less exposed to the risk of systemic de-growth in one of the categories like music.
- Structural changes continue to be pursued to reconfigure the stores around the new anchor categories - toys, gaming, front-list books and tech-accessories; the response in the stores where this

reconfiguration has been completed have witnessed an encouraging response from customers and we believe this effort would be key to establishing a sustainable growth platform for this business;

Landmark's FY 12-13 Revenue Mix



At the time of acquisition of this format and thereafter, the Company, together with its subsidiaries, has made significant investments. Given the salience of the Landmark retail banner, we believe the Landmark format would prove to be a sustainable platform for the Company over the medium term with the key structural initiatives being undertaken to:

- grow existing & select new categories with significant growth headroom;
- optimize store sizing, merchandise range and look & feel;
- grow online presence through "landmarkonthenet.com" and otherwise;
- improve timely availability at the store level of relevant merchandise;
- build an adequate supply chain infrastructure and leverage a more robust & scalable technology platform;
- significantly integrate the operations of format into and leverage the corporate infrastructure of the Company (for instance in supply chain, back-end service department activities etc). Consistent with this objective, the minority shareholding in Landmark Ltd has been bought out by the company (Landmark Ltd has since become a wholly owned subsidiary) and merger of Landmark Ltd and a couple of other wholly owned subsidiaries is currently in process and the appointed date for the said merger is 1st April, 2013. Further, Landmark shop-in-shops are being gradually rolled out across select Westside stores where growth potential is seen and this is also seen to be a key avenue for realizing synergies.

OTHER FORMATS, JOINT VENTURE AND TREASURY:

- ***Sisley***: As of March 31, 2013, the Company operated four small format stores under the Sisley banner, as a franchisee of Benetton in India. Consequent to the restructuring and the revised arrangement with Benetton, the Company has not incurred any losses with respect to this operation in FY13. There are no plans to scale this operation further.
- ***Zara***: The Company has a Joint Venture (JV) with the Inditex group of Spain with a shareholding of 51% (Inditex):49% (Trent). The JV entity currently operates nine Zara stores with three in Delhi, three in Mumbai, two in Bangalore and one in Pune and the customer response has been encouraging. The JV entity (Inditex Trent Retail India Private Limited) recorded revenues of ₹ 404.80 Crores in

FY12-13. The plans are to open more Zara stores in India over the next three to four years in the major metro cities.

- ***Treasury***: The Company's treasury income (other than from subsidiaries) improved over last year on account of favourable market conditions coupled with a prudent treasury policy. From an yield perspective, high level of interest rates prompted by higher inflation, led to better returns for the company's investments in debt instruments particularly FMPs and bank CDs. The parking of proceeds from the rights issue, mostly in mutual funds & CDs, prior to their deployment in operations, also in part explains the treasury income. Out of the proceeds of the issue ₹ 356.37 crores have already been utilized towards objects of the issue. The funds raised by the Company through Qualified Institutions Placements (QIP) done by the Company in March 2012 have been utilized towards objects of the issue.

OVERALL FINANCIAL RESULTS

Overall, on a standalone basis the Company has reported a total income of ₹ 996 Crores (₹ 912 Crores in FY12) for the period under review and a Profit After Tax of ₹ 62.26 Crores (₹ 47.27 Crores in FY12). Exceptional items for the year represent provision for diminution in the value of investment in an overseas wholly owned subsidiary of ₹ 3.25 Crores.The results for the year reflect impact of 10% excise duty on branded garments, improved off take witnessed in the Westside format and substantial restructuring of the Sisley franchise operations.

On a consolidated basis the Company has reported total revenues of ₹ 2,200.27 Crores (₹ 1,900.78 Crores in FY12) for the period under review and a negative Profit After Tax after Minority Interest of ₹ 26.83 Crores (negative ₹ 37.76 Crores in FY12). Results of the standalone entity contributed positively to the consolidated results while primarily Star Bazaar and Landmark contributed negatively during the period. The results also incorporate the provision for diminution in certain assets in Trent Hypermarket Ltd (THL) and the setoff against the reserves consistent with the relevant High Court Order. In summary, the consolidated bottom-line of the Company primarily reflects the cost of incubation of the hypermarket business (THL) and losses in Landmark Limited.

A review of the performance of the principal formats has been covered in prior sections.

INTERNAL CONTROLS AND ADEQUACY

The Company has a defined system of internal controls for financial reporting of transactions and compliance with relevant laws and regulations commensurate with its size and nature of business. The Company also has a well-defined process for ongoing management reporting, and periodic review of businesses using the Balanced Score Card process to ensure alignment with strategic objectives.

There is an active internal audit function and is carried out partly by internal resources and the balance activity is outsourced to CA firms. As part of the effort to evaluate the effectiveness of the internal control systems, the internal audit department reviews the control measures on a periodic basis and recommends improvements, wherever appropriate. The internal audit department is manned by qualified and experienced personnel and reports directly to the Audit Committee of the Board. The Audit Committee regularly reviews the audit findings as well as the adequacy and effectiveness of the internal control measures. Based on their recommendations, the Company has implemented a number of control measures both in operational and accounting related areas, apart from security related measures.

HUMAN RESOURCES

The Company believes that people are one of its greatest assets and training is an investment for organizational excellence. As discussed in the previous year, availability of the right kind of talent in the organized retail space continues to be an issue considering the nascent nature of the industry. Although attrition continues to remain high with the front end store level staff, it is marginal amongst corporate staff. However, the revival of expansion plans by certain retailers and with the emergence of new entrants coupled with pronounced hiring appetitive has meant increased compensation pressures at all levels.

A lot of emphasis continues to be placed on training and development of store staff and also on the development of leadership skills. Further, during the year under review, the Company has taken several new initiatives to ensure that the knowledge gained is institutionalized and integrated with the processes & embedded into the relevant IT systems. As of 31st March'13 the staff strength (including corporate staff) was 2,863 at Westside, 309 at Fiora, 2,516 at Star Bazaar and 719 at Landmark giving an overall total of 6,407 employees.

OUTLOOK

A pronounced rate of inflation and continued high interest rate levels are the apparent dampeners to near term performance. In fact, on a post-tax basis the yield on bank deposits are still broadly in line with the inflation rate, implying marginal real interest rates. The above factors continue to impact discretionary consumer spending headroom. Hence the consumption triggers are still not positive at this time. This backdrop, coupled with the escalating costs (especially wages, electricity and common area maintenance) implies continued challenges.

On the other hand, we are encouraged by signs of improving economic situation with the easing inflation rates in the recent months. Further, the government is focusing on strengthening the investment environment to stimulate growth. In this context, the notification of the 51% FDI in retail is expected over time to present a further set of opportunities and challenges to the industry. The relatively flat apparel input prices coupled with the abolition of the excise duty on branded apparel in the union budget 2013 should augur well for the organized retail industry. Separately, the continued hiring by various sectors (at the entry level) and consequently improved absorption of youth into the organized workforce should serve as an important positive consumption trigger.

Separately, the continued challenges in securing properties at acceptable rentals and valuations in the real estate space (with most participants in the organized retail pursuing their growth plans) remain a cause for concern. So we view improving the quantum and quality of our pipeline of new stores especially for the Star Bazaar format as a challenge that we already face and are having to address. However, the property pipeline already contracted should still allow opening a number of new Westside and Star Bazaar stores.

The prior observations on the near term consumption triggers notwithstanding, we continue to be very positive on the underlying case for growth of organized retailing in India over the coming decade. As observed in the previous years, the intent going forward is to continue substantially scaling up our presence and in doing so across the formats:

- Emphasize sustainable store level profitability and only scale up with new stores locations that are expected to be profitable within an agreeable time frame;
- Concentrate resources on substantially growing the existing anchor formats (especially Westside and Star Bazaar);
- Continue to be primarily "large box"; especially given the rental economics vis-à-vis sales densities in locations of interest to us;

- Selectively commit direct investments in properties, primarily for the Star Bazaar business;
- Leverage relationship with global retailers like Tesco and Inditex to further the profitable growth of respective formats.

RISK AND CONCERNS

- ***Retail real estate availability and costs***: As observed in last year's report, given that alternative end-uses are seen by developers as more attractive than developing a retail offering (especially malls and shopping centers), new property pipeline increasingly impacted. Separately, lease rentals in many high street locations have witnessed an increase in rates in the recent quarters despite the economic headwinds, and may continue to remain at levels that make the locations unviable for new retail operations.
- ***Talent availability:*** As observed in earlier years, the availability of relevant talent at acceptable compensation levels continues to be an issue. And employing expatriates, with the attendant higher costs, becomes inevitable in certain areas due to paucity of talent as we attempt to scale up significantly.
- ***Electricity availability & costs***: Electricity is one of the largest components of our costs and has increased significantly in recent years, especially in States like Maharashtra. Separately, higher power deficits in select cities has led to increased load shedding and has meant more reliance on generators, which has added to costs – our stores in Chennai are a case in point.
- ***Reconfiguration of Landmark***: Given market conditions and developments, Landmark Limited is currently in the process of being shaped into a family entertainment format, with focus on toys, front list adult & children's books, tech accessories & gaming and stationery. The books and music retail format is a format faced with increasing threats from the internet, which has resulted in decline of the books and especially the music category wherein digital downloads have for the most part become the norm, including through mobile phone platforms. We have sought to address these concerns by introducing certain safeguards including but not limited to our online offering, "landmarkonthenet.com". The Company is still faced with the challenge of establishing Landmark as a viable the family entertainment format.
- ***Indirect taxation***: The indirect tax regime with its multiplicity of charges and levies continues to be an issue (should be addressed at least partly if and when the proposed GST regime is implemented – but even on that account both the rate and mechanics would still have material implications for our operations). The primary negatives being the service tax on rentals has increased the already high cost of occupancy and there is continuing litigation in this regard. This is a significant financial charge to an industry which already faces pronounced challenges.

CAUTIONARY STATEMENT

Statements in the Management Discussion and Analysis describing the Company's objectives, projections, estimates and expectations may be 'forward-looking statements' within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include economic conditions affecting demand/supply and price conditions in the markets in which the Company operates, changes in the Government regulations, tax laws and other statutes and other incidental factors.