MANAGEMENT DISCUSSION AND ANALYSIS

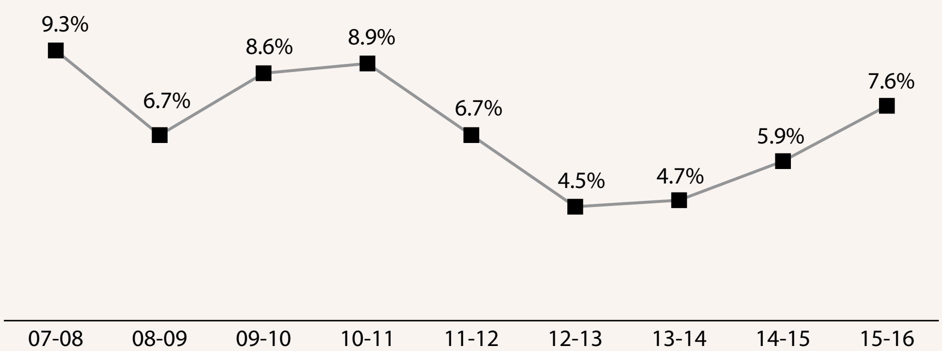
Economic backdrop

The economic backdrop is a key factor impacting the performance of companies across sectors including organized retail. Indian economy is on a growth trajectory and its gross domestic product (GDP) registered a growth rate of 7.6 percent in FY16. The improvement in India's economic performance could be attributed to various factors including reduction in crude oil prices of which India is a major importer, increased domestic consumption, growing private sector, improved pace of government reforms, RBI's inflation focus and confidence which foreign investors have reposed in India.

India has been attracting growing FDI given its large attractive market and positive government initiatives. Over time, this is expected to increase the purchasing power of the average Indian consumer.

In FY17, Indian economy is expected to grow at 7-7.75 percent and per capita income is expected to grow by 7.3 percent to ₹ 100,000 (Indian Brand Equity Foundation, 2016).The long-term growth prospects of the Indian economy is positive due to its young population, low dependency ratio, healthy savings and investment rates and increasing integration into the global economy.

GDP growth (%) (YOY)



(Source: RBI Monetary Policy Reports)

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 viability of stores. Following the pronounced slowdown, the industry has witnessed a modest recovery since FY10. Consumer sentiment was relatively positive in FY16 with apparel retailers reporting an improving trend and most other retail formats also witnessing growing off take.

Organized retail opportunity

Retail industry contributes over 20 percent of India's GDP. The Indian retail market is estimated at USD 600 billion as of FY15 and is one of the top five retail markets in the world by economic value. India is also one of the fastest growing retail and e-commerce markets in the world, and is projected to reach USD 1.3 trillion by FY20 (BCG Report 2020).

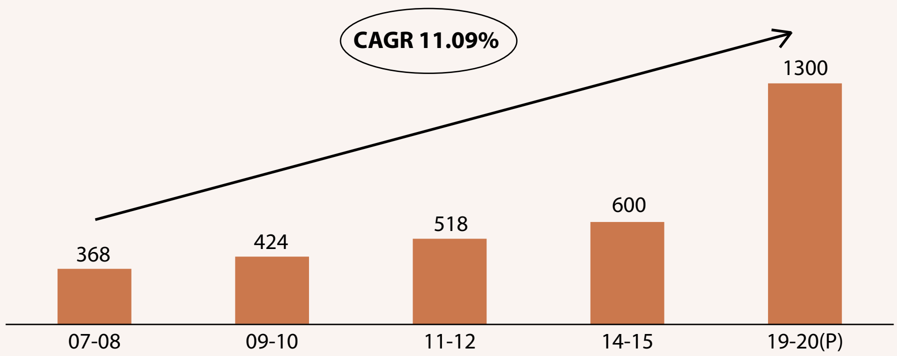
Industry structure continues to be one of the biggest challenges in realizing the potential of the Indian retail sector. While it has matured over the years, it is still highly fragmented and mostly consists of the local mom and pop stores, owner manned shops and street vendors. Organized retail contributes only 8 percent to the total retail market in India as of FY15. This is in contrast to an average of over 80 percent penetration of organized retail in many developed nations (India Retail Report, 2015).

FDI is a powerful catalyst spurring competition in retail industry. In FY14, the Government permitted 51 percent FDI in multi-brand retail and 100 percent FDI in single brand retail. Notwithstanding near term issues, the organized retail opportunity in India continues to attract interest from large Indian business houses, multinational retailers and entrepreneurs. Consistent with the coverage in earlier reports, the following constitute the principal arguments in favour of organized retailing.

- **Urbanization**

  Currently, 69 percent of India's population lives in rural areas and this population contributes 54 percent to the total retail consumption. Rapid urbanization in tier 2 and tier 3 cities is influencing the traction for organized retail in these cities. The retail industry is expected to grow to USD 1.3 trillion by FY20 registering a CAGR of 11.09 percent as depicted in the chart below.

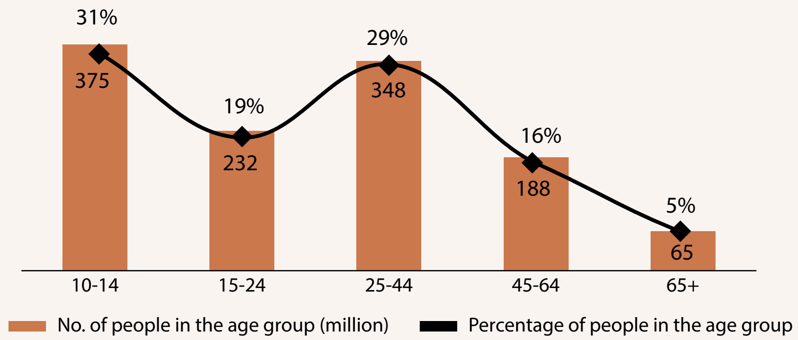
Market Size over the last few years (USD billion)



(Source: BCG Retail 2020)

- **Demographics**

  India is a young nation with more than 50 percent of its population in the working age group of 15-54 years. This indicates significant influence wielded by this segment on consumption. The increasing desires to look good & presentable, influenced by western culture and exposure to e-commerce and social media have boosted the demand for more fashionable clothing and lifestyle products. Immense scope is seen for banners offering an innovative product range to meet the aspirations of the brand conscious consumers with evolving preferences.



(Source: India Census 2011)

Following demographic trends are also contributing to the growth in overall spending:

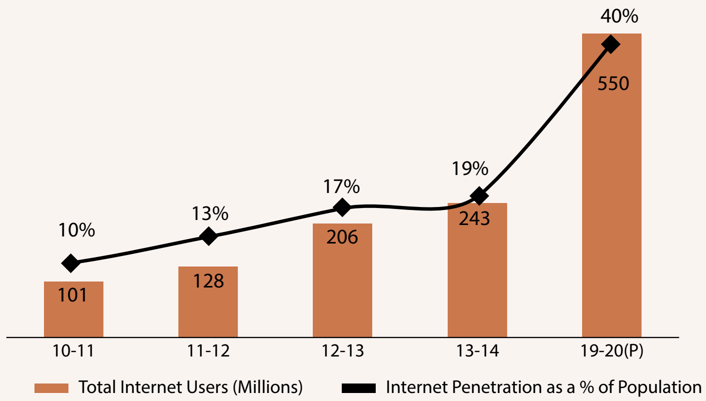
- Changing family level organization, role definitions and exposure
- More nuclear families
- Greater involvement of women in the decision making process
- Kids being more informed and demanding

➢ **Higher Disposable Income**

Most research studies suggest rising incomes in the next decade. This is attributed to more women entering the workforce in the recent years and various reasons discussed earlier. In addition to this, increased availability of credit and social acceptance of consumption aided by borrowings will continue to influence spends by the middle class. Therefore, targeting the mid-market seems to offer substantial revenue potential.

➢ **E-commerce and digital platforms**

Increasing internet penetration through availability of broadband, 4G etc. has not only increased the convenience but has also influenced the level of engagement through diverse and interactive activities like online shopping, social networking, integration through mobile apps, net banking, instant feedback, access to price comparison etc. E–commerce and digital marketing in the last two years have opened a new channel of retailing in the Indian market. This has led to intensified competition across categories and this challenge was even more pronounced for retailers offering primarily third party brands.



(Source: Internet & Mobile association of India)

There is no denying the tremendous opportunity that organized retail offers in India but there are also some significant challenges that need to be tackled such as:

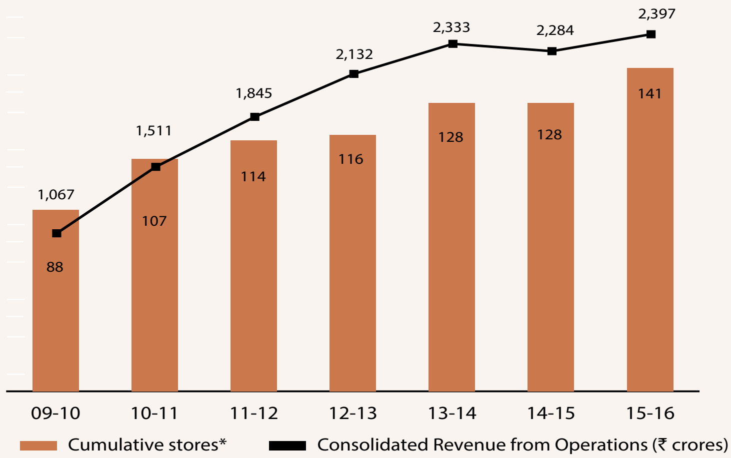
- Real estate: Limited availability of quality real estate coupled with high rentals and non-adherence to committed schedule by builders poses significant challenges to deployment of strategic plans related to expansion. Other challenges include :
  - – attractiveness of alternate developments like residential apartments
  - – entry of international players and their clustering in high street malls leading to difficulty in obtaining properties at acceptable economics
  - – significant liquidity squeeze faced by the real estate sector given the RBI policy
- Cost pressures: There has been significant inflation in manpower costs and common area maintenance charges in the malls in the last few years

- Retail talent: The last few years have seen challenges related to paucity and retention of trained talent
- Local legislations: Multiple local legislations across the country make it challenging for any organization with pan-India presence
- Supply chain management: Multiple issues with respect to supply chain infrastructure pose obstacles in ensuring availability for customers
- Taxation: Inconsistent tax regime across various states makes it difficult to manage a pan-India presence. Industry is also facing increasing complexity of indirect tax laws and the uncertainty regarding implementation of GST still continues.
- Online competition: Aggressive discounting is done by online players as they intend to grow rapidly with limited focus on near term profitability.

These macro observations have applied, though with varying emphasis, on the retailing formats managed by the Company.

The Company registered a growth of 5 percent with consolidated revenue from operations at ₹ 2,397.32 crores. The trend in consolidated revenues also reflects the transition of Trent Hypermarket Private Limited from being a wholly owned subsidiary earlier, to a 50:50 joint venture from Jun'14.

Consolidated revenue from operations (₹ Crores)



*Includes stores opened by Inditex Trent Retail India Private Limited and Trent Hypermarket Private Limited

Principal formats and focus on sustainable growth

The Company was one of the earliest to enter the organized retail sector in India and has focused on developing a robust business model in each of the retail formats pursued. We have consistently emphasized the importance of establishing the viability of a retail format with a limited portfolio of stores prior to embarking on rapid expansion. This approach has yielded encouraging results and has enabled the Company in coping with market challenges. The Company primarily operates stores across three formats – Westside, Star & Landmark.

Westside – Trent's flagship format – offers apparel, footwear and accessories for men, women and children, along with furnishings, decor and a range of home accessories. Operating with a predominantly exclusive brands model, Westside continues to demonstrate the ability to compete effectively in the market place, despite having to face global competition for the mind space and share of wallet of a discerning audience. Westside products are known for style and class amongst fashion conscious consumers in 58 cities across 95 stores.

Star – hypermarket and convenience store chain – offers a wide choice of products, including staple foods, beverages, health and beauty products, apparel, home furnishings, vegetables, fruits, dairy and non-vegetarian products. The market reception for Star stores has been encouraging and the format is in the process of establishing itself as a place offering a compelling range of quality merchandize at attractive prices. The Star brand operates through 26 stores under Star Daily, Star Market & Star Hyper banners.

Landmark – a family entertainment format – offers a curated range of toys, front-list books and sports merchandize. The back-end operations relating to the format have been significantly integrated with that of the Westside format to drive synergies and contain overhead costs. The business was consolidated into 5 independent stores in the year under review. In addition to the independent stores, Landmark merchandize is also retailed through select Westside locations.

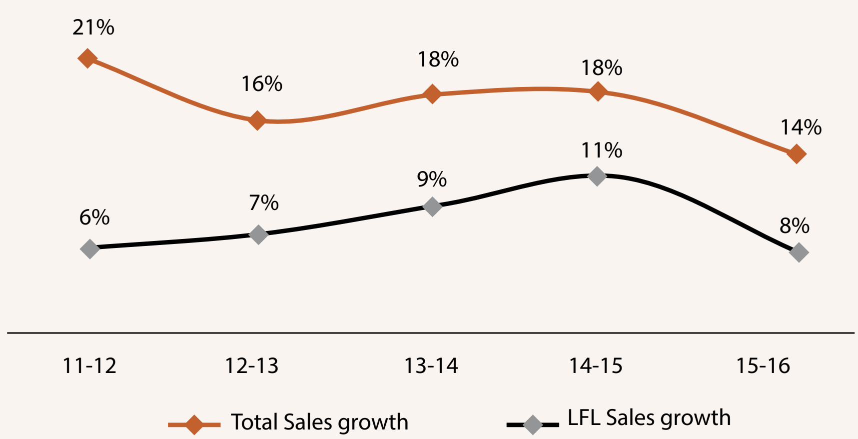
Operations – Westside

Westside offers aspirational in-house fashion brands which continue to be the mainstay of the business. This format is operational in 95 stores across 58 cities in India.

Westside model involves active control across the value chain with respect to design, branding, sourcing, logistics, distribution, pricing, display and promotion of over 90 percent of the product range retailed. We believe this model is more robust than department store models that predominantly retail third party brands including from a 'return on capital employed' perspective. Empirical evidence also seems to suggest that globally, retailers who control the entire value chain are relatively more successful.

In this year, we continued to focus on a number of initiatives such as introduction of in-house brands in additional categories, improved presentation in stores and providing a better shopping experience to the customers by improving the look & feel of select existing stores. Newer in-house brands such Wunderlove (lingerie), Sassy Soda (fashion for young curvier woman) and StudioWest (cosmetics) have witnessed encouraging customer offtake and have helped strengthen the position of Westside as a complete shopping destination. Aided by the strategies pursued and reasonably favorable market conditions the format registered a healthy 7.9 percent like-for-like growth in revenues in FY16.

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



Exclusive Brands

We continued to launch / refresh a number of brands, available exclusively at Westside stores. These brands have been evolved to target key customer segments based on their needs, purchasing power and appetite for fashion. Customer response to the refreshed offerings has been encouraging and the intent is to continue investing on growing the exclusive brand portfolio.

Some of our key brands are listed below:

BOMBAY PAISLEY	*A merry fusion of contemporary India inspired bohemian prints and global silhouettes to bring alive the free spirited you.*
L.O.V.	*Harmony of flowy fabrics, refined fits, pretty prints and contemporary silhouettes to let you stay gorgeous everyday*
wardrobe NINETONINE FASHION	*Sharp silhouettes, distinctive fits and immaculately constructed clothing for that uber confident modern woman*
Zuba	*Sophisticated Indian hand-woven fabrics crafted with artisanal elements for glorious yet understated ethnic ensemble pieces for the woman who is iconic herself*
NUON	*The hottest street wear trends by day and edgy statement club wear to define your style*
E.T.A	*Styled for ease in nature inspired fabrics, these hand crafted pieces narrate the story of a life well lived*
WESTSPORT	*A collection of classically styled casual wardrobe must haves*
SASSY SODA	*Fun & peppy street wear in flattering fits and the season's hottest trends for the plus sized fashionista*
STUDIOWEST	*The ultimate beauty destination*

New Initiatives during the year:

With encouraging response since the launch of Wunderlove- the innerwear brand for women, we have increased our offerings in daily essentials and have introduced the swim wear range.

Westside Infant wear was rebranded as Baby HOP which offers a riot of fun and energetic styles for the juniors

Wardrobe essentials in comfortable fits that have been thoughtfully tailored and styled for the large built.

Denim Shop – Denim being the base to most of the key fashion looks we have launched 'the denim shop' under the Nuon brand focusing on the trending fits, washes and fabrics.

Gourmet West - A key initiative which we have ventured into in the recent years is in Gourmet food offering. We believe it would afford the Westside format significant growth potential over time. Gourmet West is operating in ten key Westside stores through a shop-in-shop format offering premium food & beverages and great food experience. With its presence in Westside stores in Mumbai, Ahmedabad, Bangalore, Baroda, Hyderabad, Chandigarh and Surat, it has witnessed encouraging response and increasing walk-ins. The company will continue to invest in the food segment and expand Gourmet West stores in select Westside locations.

Partners in Progress

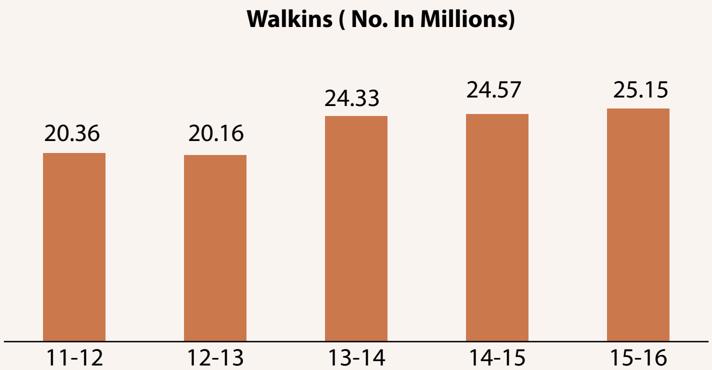
Product sourcing capabilities and a global vendor base are key ingredients to delivering a desired merchandize at the right price and right time. Feedbacks from our Supplier Satisfaction Surveys and Annual Supplier Meets suggest that improvements in our product development and supplier relationship management processes continued to play a key role in delivering the same. The interactive –iListen portal continues to assist the vendors in aligning priorities and addressing their queries/concerns.

Efficient Supply Chain

The organization continues to invest in expansion and upgradation of the supply chain network which we believe is vital to the success of a retail organization. Our warehouse operations continue to run at over 99 percent efficiency. Higher levels of efficiency were witnessed despite growing volumes in terms of both intakes from vendors and dispatches to stores. We are investing in the expansion of our existing warehousing capacity and a new state of the art warehousing facility at Vapi, Gujarat to service increased volumes as well as mitigate risk related to the central warehouse ecosystem.

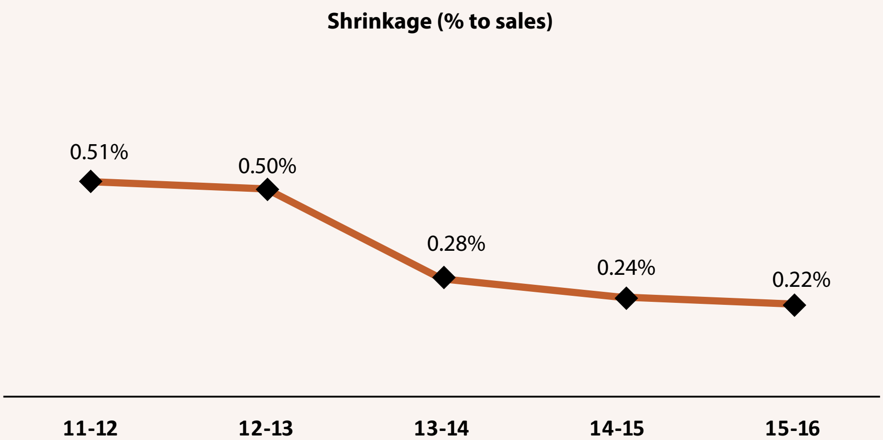
Great Shopping Experience

In retail industry, a great shopping experience is of paramount importance. Store location, displays, store ambience, customer service and convenience are some of the key parameters that enhance customer experience and customer loyalty. In order to increase walk-ins and deliver consistent brand experience, we continue to modernize our older stores and optimize space allocation for the categories. Both of these initiatives continue to deliver encouraging results.



Operating Standards

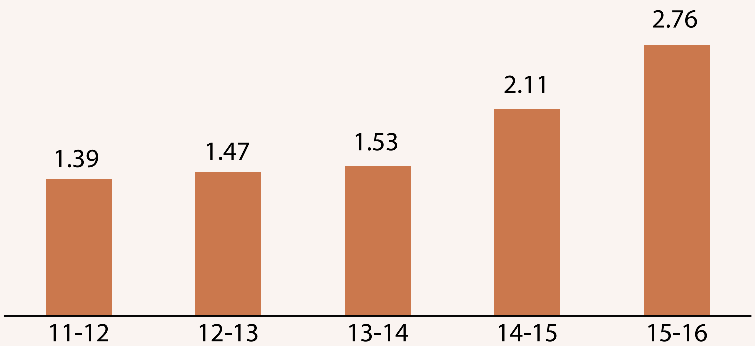
Westside seeks to refresh the fashion offer on a regular basis. This ensures improved freshness and availability of merchandise across stores. This is made possible through an on-going emphasis on leveraging our supply chain model coupled with rigorous reviews. Shrinkage cost is one of the bellwether measures with respect to operating efficiency at stores and warehouse. We have witnessed an improving trend (as depicted in the chart below) in the recent years.



Customer Listening & Engagement

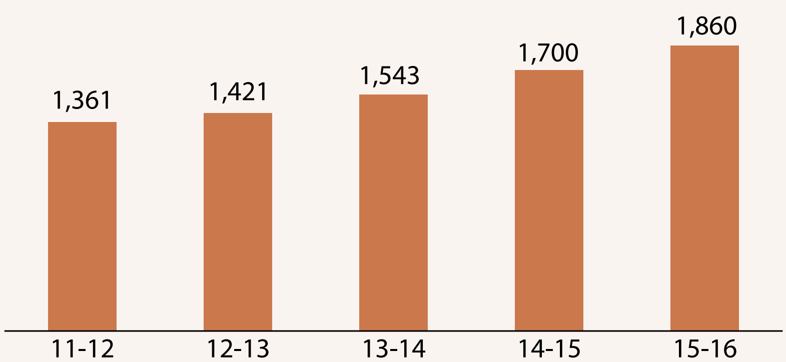
We have increased our focus on using social media as an important customer listening and learning mechanism. Campaigns carried out through Facebook, Twitter & other social media channels have become an integral platform to connect with our target audience. Power targeting was used to run customised campaigns for ClubWest members. This helped us in improving contribution of existing members and also winning back relatively dormant members. We have also leveraged social media by using targeted tools such as StudioWest page on Facebook, Studio West tutorial videos on YouTube, Gourmet West association with Kala Ghoda Festival. We feel that innovative usage of targeted communication methods enables us in connecting with our customers better.

Clubwest members (No. In Millions)



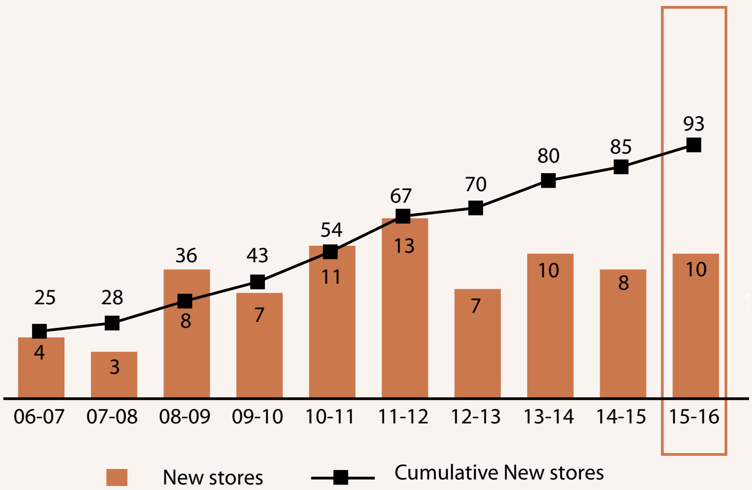
The average bill size registered an encouraging growth of 9 percent in FY16. Bill size represents the average amount spent by each customer on their purchase. The following chart depicts the trend of this measure for Westside.

Bill Size (₹)



Increasing reach – expanding into newer cities

India as a market is being targeted by retailers from across the globe. 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 especially with respect to fashion apparel. Westside continues to monitor opportunities in Tier 2 and 3 markets and establishing presence in those markets as appropriate. Simultaneously, strategic properties in Tier 1 cities which fit into our overall growth plan are also being pursued. In the year under review the following ten stores were opened – Bangalore (CMJ Mall), Nagpur (Fidvi Tower), Chennai Adayar, Vapi (Dafodil), Haldwani (Walkway Mall), Rudrapur (Metropolis Mall), Delhi (Unity One Rohini), Noida (Gardens Galleria Complex), Bhiwadi (Genesis Mall), Goa (Caculo Mall). Also, two stores which were seen to be located in declining/ unviable locations and lacking a sustainable growth outlook were closed. In the first quarter of the current financial year two stores have been opened in Warangal (Assunta Bhavan) and Ghaziabad (Indirapuram Mall).



A team of in-house property experts helps us in identifying strategic locations for new stores. They are supported by a well-defined set of processes for analysing the potential market and catchment. We feel this ecosystem of people and processes, helps us in identifying the right store and making it profitable in a relatively short span of time.

Westside is planning to accelerate expansion in the coming years by focusing broadly on two formats- flagship stores- the prominent full offer stores and the curated smaller stores in non-metros/ emerging micro-markets. For instance, in recent quarters we have opened several prominent standalone flagship stores in distinctive locations that showcase the Westside range (cases in point include the new Commercial street store in Bangalore, the Southex store in Delhi and the Chennai T Nagar store).

E-commerce

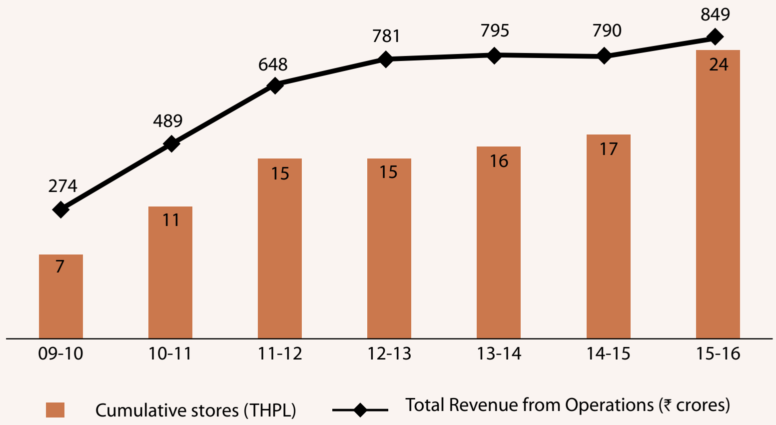
We believe in the years to come, online fashion retailing would get more entrenched in India. With an aim to address this fast emerging market, and especially to enable the convenience of our customers seeking to shop with us online, we have launched Westside online exclusively on TataCLiQ - a Tata Group market place initiative. We believe this approach would provide the banner brand visibility & allow it to adopt an omni-channel approach to servicing its target audience.

Operations – Star Bazaar

Trent Hypermarket Private Limited (THPL) operates a multi format retail business under the Star banner and primarily competes in the multi brand food and grocery segment. THPL is positioned to provide a convenient modern shopping environment for customers to shop multiple product categories, with a focus on service and quality.

Food & grocery accounts for over 50 percent of the retail market in India and is characterized by low organized retail penetration. However, viable retailing in the space has been a challenge given relatively high occupancy costs, energy charges, minimum wages and other operating expenses. Nevertheless, over time the opportunity is seen to be substantial. In the foregoing context, THPL has adopted a calibrated approach to expansion in the recent years and emphasized the evolution of a sustainable business model.

During the year under review, the like-for-like sales growth of Star Bazaar stores was 9.2 percent as against 1.1 percent witnessed in the preceding year. THPL recorded an increase in total revenue to ₹ 849.42 crores (₹ 790.13 crores in FY 14-15) during the period under review.



The business model envisages a multi-format strategy focused in the states of Maharashtra and Karnataka with the aim of creating local scale and being closer to customers. The focus would primarily be on food and grocery with a clear emphasis on fresh food as the lead footfall driver. The Star brand would be represented primarily by three facia namely: Star Daily, Star Market & Star Hyper. The brand would leverage the collective strength of Tata and Tesco platforms to provide customers with a modern retail solution with focus on Freshness, Convenience and Service.

Currently THPL operates 11 Star Dailies, 5 Star Market and 10 Star Hypers in the cities of Mumbai, Pune and Bangalore. The performance of the newer stores (opened in the last couple of years) is broadly in line with expectations, thereby providing support to the effectiveness of the strategy being adopted. We believe that the headroom for expansion is substantial and the rollout could be further accelerated if we continue to see encouraging results.

In order to provide the best "fresh" offering to its customers, Star has started sourcing directly from the farms. Around 70 percent of the vegetables are now directly sourced and serviced through a network of collection and distribution centers.

Star continues to develop its own label offerings to provide essential consumption products at the right price points. Star own label products are present in a variety of categories such as jams, ketchup, tea, detergents, paper products, soaps, cleaning solutions, oil etc. Recently the company launched fruits and vegetables pre-packs under "Eat Fresh" brand across all formats which have been well received by customers. Select Tesco products are also on offer thereby providing customers with a unique set of choices at very attractive price points.

Trent-Tesco Joint Venture

Following the investment by Tesco Plc (through a wholly owned subsidiary) in June 2014 in THPL, the Company and Tesco each hold a 50 percent stake in THPL. The applicable regulations require THPL to invest USD 50 million from the first tranche of Tesco's infusion to be committed to green-field backend infrastructure investments. Consequently THPL is exploring various opportunities to utilize these funds in a compliant manner.

Leveraging its association with Tesco, THPL is developing a series of modern trade solutions that take into account the needs and limitations of the Indian market. A significant amount of innovation is being deployed both in the supply chain and the store formats. This partnership has also enabled in improving the offer in terms of value, range & service.

Amalgamation of subsidiaries with THPL

As discussed in the last year's report, in order to streamline the group structure & realize synergies, a Scheme of Amalgamation between Virtuous Shopping Centres Limited (VSCL) & Tesco Hindustan Wholesaling Private Limited (THWPL) with THPL was pursued. The said Scheme was approved by the Hon'ble High Court of Bombay vide its order dated 8th September, 2015 & Karnataka High court vide its order dated 13th November, 2015. The scheme has become effective upon obtaining all sanctions and approval as required and filing certified true copies of the order with Registrar of Companies, Maharashtra on 9th December 2015.

VSCL & THWPL were 100 percent subsidiaries of THPL therefore no shares have been issued as a result of amalgamation. All the assets and liabilities, duties and obligation of THWPL & VSCL have been transferred and vested in THPL with effect from the appointed date (1st February 2015). The vested assets and liabilities of THWPL & VSCL have been recognized at their book values & in the same form in books of THPL and balances as between THWPL, VSCL and THPL stand cancelled. The amalgamation has been otherwise given effect in the books of accounts as per the accounting approach prescribed in the Scheme and consistent with applicable accounting standards.

Fiora Hypermarket Limited (FHL) operations

As discussed in earlier reports, FHL (a wholly owned subsidiary of the Company), acquired from THPL four of the Star Bazaar stores in Gujarat and Tamil Nadu in the context of the applicable regulations with respect to FDI in Multi Brand Retail Trading. The Company does not envisage expansion of Star banner stores other than in the State of Gujarat. Incidentally, since acquisition two stores have been closed down one in Chennai given the lack of supply chain proximity and another store in Ahmedabad given longer term sustainability issues seen. FHL also pursues on a limited trial basis, a grocery online portal www.my247market.com to explore the online grocery retailing opportunity in the proximity of select Star banner stores. The intent would be to grow the operations of FHL in a calibrated manner that leverages the existing presence & operations.

Operations – Landmark

Landmark has evolved into an entertainment format offering a range of curated products including toys, front-list books and sports merchandize. In the recent years, the back-end operations relating to the format have been significantly integrated with that of the Westside format to drive synergies and contain overhead costs. The business has been consolidated into 5 independent stores in the year under review. In addition to the independent stores, Landmark merchandize is also retailed through select Westside locations currently.

The format in the recent months has witnessed encouraging LFL growth. The intent is to build on the positive momentum seen in recent periods, leverage the strong partnership with SportZone (a market leader in sports retailing in Portugal) and evolve a compelling business case for accelerating expansion.

Consequent to the various measures taken, the operating losses have substantially reduced.

The principal measures pursued in the period under review include:

- **Focus on newer growth categories** – The product portfolio has been significantly rationalized with toys, front-list books and sports being pursued as the principal customer propositions going forward. Freshness and exclusivity will be the driving force across all product categories at Landmark for this fiscal. The company will continue to focus on emerging product opportunities.
- **Partnership with Sports Zone** – Keeping in mind the evolving trend towards an active lifestyle the Company had entered into an alliance with Sports Zone. Sports Zone is Sonai Group's specialized sports retail brand and commands a market leading position in the Portuguese market. The innovative products and equipment developed and marketed by Sports Zone are retailed through three select Landmark stores. Encouraged with the initial response and in line with pursuing the growing segment of health & wellness, four new Sport Zone shop-in-shops and online presence through TataCLiQ is proposed in the current fiscal.
- **Customer engagement** – Endeavor is being made to convert Landmark stores into a complete family entertainment format. In order to deliver the experience, re-configuration of the continuing stores in terms of their look & feel was pursued.

  During the year under review, Landmark conducted events such as Rubik's challenge and Lego challenge in its stores for kids (being the key Landmark audience). Winners of the Lego Challenge were awarded an opportunity to visit Legoland Malaysia. Author visits were also organized to connect with the customers.
- **Store portfolio** – The intent is to focus efforts on select stores with potential for growth. Further, Landmark stores have been rolled out in select Westside stores and they are operating as a store-in-store. The focus has been on creating an optimized store size & layout with the new landmark brand proposition. As of March 2016 we had 5 operational Landmark stores, down from 6 in March 2015.
- **Online business** – Landmark and Sports Zone are proposed to go online during the fiscal on the Tata Group online market place www.tatacliq.com.

  Led by select categories like toys & sports merchandize, we believe that Landmark format could prove to be a sustainable growth platform for the Company over the medium term. The substantial integration of the non-customer facing parts of the business with the Westside infrastructure coupled with few strong stores can be expected to further improve operational performance & mitigate risks in FY17.

Other Joint Ventures, Key Operating Subsidiaries and Treasury

- ***Zara and Massimo Dutti***: The Company has two separate Joint Ventures with the Inditex group of Spain with a shareholding of 51percent (Inditex): 49 percent (Trent) – one for Zara and the other for Massimo Dutti stores in India. The JV for Zara Stores currently operates eighteen stores – three in Delhi, four in Mumbai, two in Bangalore and one each in Pune, Surat, Jaipur, Chandigarh, Chennai, Mohali, Hyderabad, Gurgaon and Noida. This JV entity (Inditex Trent Retail India Private Limited) recorded revenues of ₹ 842.57 crores in FY15-16. Plans are to open a few more Zara stores in India over the next three to four years in the major cities – the primary challenge to faster expansion is the availability of high quality retail spaces which can be expected to generate reasonable sales throughput. The Company views its commitment to this JV primarily as a financial investment and consequently, it may be appropriate not to consider this as a long term strategic investment integral to other retail operations. This view is including in the context of the majority partner entirely controlling the core customer proposition with respect to the fashion offer. The JV for Massimo Dutti stores has recently commenced operations with a store in Delhi. .
- ***Fiora Services Limited (Fiora)***: Fiora hosts a range of support services to multiple Trent group entities with respect to accounting, payroll, merchandizing etc. We believe this structure of a separate service providing entity has yielded encouraging results with respect to attracting relevant functional talent and at the same time keeping related costs under control. Fiora charges the service receiving entities primarily on a cost plus reasonable markup basis.
- ***Westland Limited (Westland)***: Westland Ltd was a 97 percent subsidiary of the company. Westland's business activity is currently focused on publishing of 'Indian writing' books. Starting from a low base, Westland's publishing business has grown in a relatively short span, placing it amongst the top 5 trade publishers in the country as per data compiled by A.C. Nielsen. During the year under review, Amazon.com NV Investment Holdings LLC acquired a 26.03 percent stake on a fully diluted basis in Westland by investing a sum of ₹ 9.5 crores.
- ***Landmark E-tail***: Landmark E-tail was a wholly owned subsidiary of the Company. During the year, Tata Unistore Limited, subsidiary of Tata Industries Limited, has acquired the entire share capital of the Company. Tata Unistore Limited has launched an e-commerce platform that seeks to realize the synergies of bringing together several strong retail banners operated by Tata Entities including Westside online.
- ***Treasury***: The Company's treasury income (other than from subsidiaries) represented a reasonable yield on the funds deployed on account of favorable market conditions coupled with a prudent treasury policy.

Overall financial results

Overall, on a standalone basis the company has reported total revenues of ₹ 1,571.32 crores (₹ 1,432.47 crores in FY14-15) for the period under review and a Profit After Tax of ₹ 77.85 crores (₹100.03 crores in FY14-15). The reported Profit After Tax for the current year is lower than the previous year especially given the exceptional profit on sale of the equity shares held in THPL amounting to ₹ 103.87 crores registered in FY 14-15.

The exceptional items for the year represent excess contingency provisions no longer required of ₹ 0.29 crore, additional charge consequent to sale of stake held in a subsidiary of ₹ 0.10 crore and additional provision for diminution in the value of investment in a subsidiary of ₹ 0.30 crore.

On a consolidated basis the company has reported total revenues of ₹ 2,463.51 crores (₹ 2,381.44 crores in FY14-15) for the period under review and a Profit After Tax after Minority Interest of ₹ 62.94 crores (₹129.33 crores in FY14-15). The results of FY15 -16 are not comparable with the earlier period given the exceptional items registered especially in FY14-15 including with respect to the sale of shares held by the Company in THPL. Consolidated results, apart from operating results, also reflect the following:

- Reversal of the impairment provision made in the previous year of ₹ 0.24 crore on the full utilization and provision for discard of certain fixed assets in respect of refit/ restructuring of stores of ₹ 5.51 crores.
- Fiora Hypermarket Ltd's closure of a store and related accounting impacts.
- The profit on sale of the investment held in Landmark E-tail Ltd.

A review of the performance of the principal retails 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 carried out partly by the internal resources and the balance activity outsourced to CA firms. As part of the efforts 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.

Sustainability

The Company adopts a triple bottom-line philosophy (People-Planet-Profit) to create a sustainable organization.

People

Being part of the Tata Group, we have always been guided by the philosophy of improving the quality of lives of the communities we serve. Our practice of returning to society what we earn evokes trust among consumers, employees, shareholders and the community.

In order to make community initiatives sustainable in the long run, Trent's approach to societal responsibilities and support of key communities is linked to its business and core competencies. The organization approaches all such initiatives with the philosophy of it being beneficial to the business as well and focuses on:

- Creating more jobs for the society by following a growth agenda, and recruiting freshers from local community
- Increasing employability of the employees at the entry level through cross training so that they can also pursue enriching careers within and outside the enterprise

Today, close to 20 percent of Company's workforce comes from the underprivileged classes of the society. The Company has won multiple awards at the Tata Group level for its efforts in making youngsters from the underprivileged classes employable and employing them.

The Company believes that people are one of its greatest assets and training is an investment for organizational excellence. As discussed earlier, 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, given the expansion plans of retailers, the emergence of new entrants coupled with pronounced hiring appetite, we are witnessing compensation pressures at all levels.

A lot of emphasis continues to be placed on development of leadership skills and training and development of store staff. Further, during the year under review, the Company has launched the 'Power Breakfast' for our leadership team with the idea of gaining insights into the current and emerging trends in 'Digital Marketing' and 'Global Consumer Trends'. The intent is to ensure that the knowledge gained is institutionalized and integrated with the processes & embedded into the relevant IT systems. As of 31st March'16 the staff strength (including corporate staff) was 3680 at Westside, 360 at Fiora, 1568 at Star Bazaar and 196 at Landmark with an overall total of 5,804 employees across key formats/ entities within the Trent Group.

Planet

The Company follows the Tata group climate change policy which emphasises the need to play a leading role in making the planet a better place to live in. We focus on four areas for championing the cause of a green operation:

- Energy Conservation
- Logistics Efficiency
- e-Waste Management
- Product Manufacturing & Packaging

Targets are set for energy consumption at stores and offices and adherence monitored on a monthly basis. Logistics efficiency with a focus towards reducing carbon footprint helps the organization reap business benefits as well. e-Waste is managed through certified suppliers. Reduction in usage of plastic in product packaging also helps the Company in making its operations green.

Profit

Since its inception, the company has had a focus on delivering value for all its stakeholders. It has operated on the principles of effective cost management without compromising the quality of products retailed from the stores.

Outlook

The economic situation has shown a growing trend with government focused on strengthening the investment environment and maintaining economic stability. The improving economic scenario should translate into positive consumption triggers over time. Separately, the continued hiring by various sectors (at the entry level) and consequently improved absorption of youth into the organized workforce should also serve as an important consumption trigger.

On the other hand, escalating costs (especially wages, electricity and common area maintenance) imply continued challenges. Further, the increase in the service tax rate and excise duty on apparels (MRP greater than ₹ 1000) would also exacerbate cost pressures given its coverage.

Separately, securing properties at acceptable rentals and valuations in the real estate space (with most participants in the organized retail pursuing their growth plans) continues to be a challenge. However, across formats, the preference for standalone properties vis-à-vis mall developments has mitigated this risk to a significant degree. The property pipeline already contracted should still allow opening accelerating number of new Westside and Star banner stores in FY17.

The proposed GST framework is likely to impact the Westside business. The impact is expected to be positive over the medium term as indirect tax related compliance get more streamlined under the new regime. Nevertheless, in the interim period the level of rates applicable and the costs and operational challenges involved in transition to the new regime may impact results.

From 1st April, 2016, Ind AS accounting standards are applicable to the Company as well as its subsidiaries and JVs. The reported results starting with the first quarter of FY 17 would reflect the transition in applicable Accounting Standards (from Indian GAAP to Ind AS). The impact on the reported results is expected to be relatively limited with respect to standalone results of the Company. Nevertheless, the transition would impact consolidated results more significantly given the varied accounting approach with respect to the JVs of the Company and also certain other key applicable standards.

Overall, we continue to be very positive on the underlying case for growth of organized retailing in India over the coming years. As observed in the previous years, the intent going forward is to continue scaling up our presence and in doing so across the formats:

- Concentrate resources on substantially growing the existing anchor formats (especially Westside and Star);
- Continued emphasis on building own-branded/ exclusive customer offers that are compelling to the target audience and afford greater degree of control on key elements of the customer proposition;
- Emphasize sustainable store level profitability and only scale up with new stores locations that are expected to be profitable within an agreeable time frame;
- Emphasis on primarily “standalone” properties; especially given the rental economics vis-à-vis sales densities in locations of interest to us;
- Selectively commit direct investments in properties;
- Leverage partnership with global retailers like Tesco and Inditex to further the profitable growth of respective formats;
- Online presence through the TataCliQ market place platform aimed at leveraging on the growing internet penetration in India.

Risk and Concerns

- Retail real estate availability and costs: Significant number of global retailers already having presence in India & other global brands (especially under the single-brand umbrella) plan to roll out stores and consequently, the shortage of quality malls/ standalone real estate in high street locations is seen as a major impediment to the expansion plans of the organized retail in the near term. We see the emphasis on standalone properties being critical to mitigating this risk to an extent.
- 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 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 & sports. The Company is still faced with the challenge of establishing Landmark as a viable family entertainment format.
- Deep discounting by online retailers: Several online players have sought to disrupt the retail market in the last few years with deep discounting funded by overseas shareholders. The sustainability of such deep discounting is debatable but we need to nevertheless handle the onslaught and continue to be relevant to our target audiences. The recent clarification from the Department of Industrial Policy and Promotion (DIPP) on 100 percent FDI in e-commerce marketplaces is likely to facilitate more investments but could potentially mitigate shareholder funded discounting to an extent.
- Indirect taxation: The indirect tax regime with its multiplicity of charges and levies continues to be an issue (should be addressed at least partly 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 increase in the service tax which has contributed to an increase in the already high cost of occupancy and there is continuing litigation in this regard. Further, the increase in the excise duty on readymade garment as announced in the budget would impact the margins.

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 factor.