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India Retailing Industry

The Next big story

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Content

India Retailing Industry

Zoom…
The hectic construction and renovation activity in Metros' bazaars is the precursor to the emergence of India's one of the biggest industry: **Organized Retailing**.

Historical reasons for the absence of retailing not withstanding, the industry (to borrow from Andy Groove) is at an inflection point. Issues like Govt. policies, land market distortions, 'cheap' being the key word and indigenous small stores, of-course needs to be circumvented. Still there are lot of other things waiting to give a thrust to the industry on a tangential zoom. In this report we try to argue in favor of the industry, factors which will make it happen, players which are likely to succeed and the overall dynamics.

The opportunity
In the absence of structured data and the contradictory figures one should try to understand the potential and the size of Organized retailing with right perspective. We are using the top down approach starting with the GDP and market size vis a vis Global Markets and the size of the various industries.

- **GDP Growth**
- **Changing Demography**
- **India: A service Economy**
- **Income: Rs10,000+ per month**
- **How Low is Low per Capita Income**

India is the fourth largest economy in World with 2000 GDP at USD1797bn (PPP wise). In absolute terms though India stands at 17th position (USD360bn). But with the high GDP growth rate (5% expected 2002) India will soon surpass countries like Netherlands, Australia, South Korea and will rival Mexico. In the period from 1994-95 to 2002-03 India's GDP CAGR will be 6.6%, one of the highest in world. With the slowdown in American and European economies the growth only becomes more pronounced.

Ranking by 2000 GDP (PPP) (Millions of $)			GDP ($ billion) (Real		GDP ($ per capita)	
Rank	Country	GDP	Country	GDP	Country	GDP
1	United States	9,595,300	United States	8,080	Switzerland	35,638
2	China	4,853,969	EU	7,977	Japan	33,319
3	Japan	2,808,874	Japan	4,190	Singapore	31,684
4	India	1,797,746	Germany	2,100	United States	30,160
5	Germany	1,796,819	France	1,394	Belgium	26,401
6	France	1,326,600	United Kingdom	1,288	Germany	25,640
7	United Kingdom	1,244,594	Italy	1,145	France	23,784
8	Italy	1,167,864	Asian NIEs	995	Netherlands	23,108
9	Brazil	1,031,276	China	815	United Kingdom	21,916
10	Mexico	866,479	Brazil	775	Australia	21,374
11	Canada	707,968	Canada	618	EU	21,357
12	Spain	660,187	ASEAN	564	Canada	20,420
13	Korea, South	637,481	Spain	531	Italy	19,913
14	Russia	624,370	Russia	462	New Zealand	18,448
15	Indonesia	598,410	Korea	443	Spain	13,512
16	Turkey	410,936	Mexico	403	Asian NIEs	12,880
17	Australia	404,161	Australia	391	Korea	9,623
18	Thailand	379,640	Netherlands	361	Argentina	8,446
19	Netherlands	355,257	India	360	Brazil	4,908
20	Argentina	341,952	Argentina	298	Mexico	4,178
21	Iran	337,318	Belgium	268	Russia	3,130
22	South Africa	286,121	Switzerland	253	Thailand	2,771
23	Pakistan	277,487	Indonesia	215	ASEAN	1,614
24	Philippines	274,477	Thailand	168	Indonesia	1,108
25	Poland	269,512	Singapore	96	China	662
[illegible]	Belgium	[illegible]	New Zealand	[illegible]	India	[illegible]

Emerging Markets Ranking

	Market Size		Market Growth Rate		Market Intensity		Market Consumption		Commercial Infrastructure		Economic Freedom		Market Receptivity		Country Risk		Overall Market	
Countries	**Rank**	**Index**	**Rank**	**Index**	**Rank**	**Index**	**Rank**	**Index**	**Rank**	**Index**	**Rank**	**Index**	**Rank**	**Index**	**Rank**	**Index**	**Rank**	**Index**
Singapore	23	1	2	78	8	1	2	78	8	65	-	-	2	91	13	72	**1**	**100**
S. Korea	6	15	1	100	10	59	2	97	7	55	6	89	8	15	6	55	**2**	**77**
Hongkong	21	2	11	42	2	93	-	-	3	80	5	91	2	58	4	76	**3**	**77**
Portugal	19	2	7	46	4	80	7	79	5	70	1	100	11	9	2	87	**4**	**65**
China	1	100	5	61	23	1	8	71	20	7	23	1	18	4	12	43	**5**	**63**
Greece	18	2	12	42	1	100	3	92	6	68	10	77	19	4	3	78	**6**	**62**
Czech Rep	16	3	20	21	19	40	1	100	1	100	2	97	7	17	10	49	**7**	**55**
Israel	22	2	9	43	17	43	6	85	4	70	11	76	5	20	5	67	**8**	**52**
Poland	10	8	13	41	5	77	4	88	10	39	9	82	13	7	9	50	**9**	**49**
Hungary	20	2	16	34	16	45	4	88	8	54	7	87	6	18	8	53	**10**	**46**
India	**2**	**55**	**6**	**54**	**18**	**43**	**11**	**63**	**23**	**1**	**18**	**41**	**22**	**1**	**17**	**31**	**11**	**44**
Thailand	13	6	3	74	21	27	12	60	21	7	8	85	9	15	14	42	**12**	**35**
Argentina	11	7	19	27	3	87	-	-	11	25	4	95	21	3	16	33	**13**	**34**
Mexico	5	17	17	34	7	66	17	28	17	15	14	65	4	21	13	42	**14**	**30**
Malaysia	15	4	4	70	22	9	16	44	14	20	20	34	3	39	11	45	**15**	**27**
Chile	17	3	10	43	9	64	18	16	15	19	3	96	16	6	7	54	**16**	**25**
Philippines	12	6	8	44	13	47	14	47	16	17	15	62	10	14	18	29	**17**	**22**
Brazil	4	33	15	34	14	47	19	7	12	22	16	51	23	1	20	26	**18**	**19**
Russia	3	47	22	7	20	30	15	45	9	39	22	15	20	3	23	1	**19**	**17**
Turkey	9	10	21	16	11	55	10	66	13	22	17	42	17	5	19	29	**20**	**16**
Indonesia	7	13	14	36	15	46	9	69	22	1	19	37	12	9	22	2	**21**	**13**
S.Africa	8	10	18	28	12	52	20	1	19	12	12	74	15	6	15	39	**22**	**10**
Venezuela	14	5	23	1	6	74	13	51	18	12	21	25	14	6	21	12	**23**	**1**

Source:March 2001Michigan State University: Model Based upon "Measuring The Potential Of Emerging Markets : An Indexing Approach" - S. Tamer Cavusgil

The country on the other hand stands as an emerging market at the 11^{th} position thanks to old socialist policies. The above model shows the country's standing on various parameters.

High growth rate (Annexure 1) combined with a population of 1bn+, second only to China, makes India a hot destination for anybody interested in selling its products, poor infrastructure and low per capita income notwithstanding. India is the second biggest producer of Wheat, Rice, Sugar, Vegetables, has some of the biggest mines in world for many minerals and to top it all has the people to consume all that. The population and resources combined translates into a huge domestic market and phenomenal export opportunities in the light of declining population growth rates (CAGR 1.44% 1999-2010). The strengthening service economy (46.4% GDP share in FY00 compared to 43.6% in FY96) in the country and the expectation of additional 7mn job creation by 2008 in IT and IT enabled services makes it a market worth a look.
India with its diverse culture and varied economic classes has 75mn people earning above Rs10,000 per month presenting a target market for anybody interested in selling branded shirts and packed staple food. The 75mn figure is nearly equal to the population of Germany and higher then U.K., France, Italy or South. Korea. Of course the high figure itself doesn’t make India attractive since the variation in per capita disposable income is phenomenal, but the sheer numbers with the capacity to buy a basket of goods 60-70% similar to the people in other countries, though less pronounced in quality, does.

India also rates favorably in terms of population structure. Paul Krugman, one of the first to predict East Asian Crisis identified the population structure as one of the key reasons for the high growth rates of South East Asian Economies. India too is going through the sea change in terms of the percentage of population entering the workforce (High growth of labor force at 2.48% vis a vis population growth of 1.57%. With population growth rate declining and the life expectancy increasing India's young population will be 63% of its population by the year 2012 as compared to 53% in Year 1997. Combined with increasing literacy, women entering workforce and increasing employment vistas Economically Active Population too will witness a huge growth from current 32-35%. The figure stands at 50% for U.S, 56% for China and 54% for Japan. The shift will give a great boost to disposable incomes.

POPULATION DEMO CHART

Population Demographic Shift				
Age/ % of population	**1997**	**2002**	**2007**	**2012**
Under 15 years	37.2%	33.5%	30.0%	28.2%
15-59	56.1%	59.3%	62.3%	63.2%
60+	6.6%	6.9%	7.5%	8.2%

planning commision projection

Higher then all developing nations

Lower per capita incomes are not 'The Hindrance' keeping the Indians chaste from the invasions of Malls. China with above 20% organized retailing market share doesn't have much higher retail sales then India. India's USD198/annum retail sales aren't far behind China's USD272. Besides one school of economists has their reservation over the data coming out of China.

Retail Sales Per Capita		
Country	**Per Capita Retail Sales (in USD)**	**Population (in mn)**
Japan	9772	126
Switzerland	7216	7
U.S.	6401	273
Norway	6193	4
Denmark	6075	5
France	5632	59
U.K.	5607	59
Blegium	5566	10
Italy	5460	58
Germany	5433	83
Finland	5403	5
Hong Kong	5016	7
Sweden	4855	9
Austria	4239	8
Netherlands	4034	16
Canada	3932	31
Ireland	3803	4
Israel	3584	6
Australia	3473	19
Singapore	3412	4
Spain	2871	40
New Zealand	2740	
Greece	5653	11
Czech Republic	2247	10
Portugal	2197	10
Poland	2186	39
Argentina	2132	37
Hungary	1817	10
Brazil	1247	171
Chile	1150	15
South Korea	1065	47
Venezuela	953	23
Mexico	847	99
South Africa	729	43
Malaysia	628	22
Turkey	583	65
Thailand	478	61
Russia	467	147
Philippines	422	79
China	272	1250
India	198	998
Indonesia	134	221
Egypt	NA	67
Saudi Arabia	NA	21

Source: Euromonitor
US Census Bureau: International Data Base

India: What sells

- **High Volumes**
- **Low Value**
- **Dispersed, unstructured and fragmented**
- **But is the war lost?**

The market size for all the goods of consumer's basket is higher then most of the economies in world at least in terms of volumes if not dollar value. The total market in major categories is stated below. For detailed depiction please refer to Annexure 2

Market Size		
Market Size	**Value (Rs Bn)**	**Volume (mn)**
Textiles Industry	1700.0	
Apparel Market	140.0	
Footwear Total	50.0	
Food	1220.0	
Pizza Market	1.8	
Milk (vol in mn MT)	470.0	36.0
Icecream	2.6	
Beverages		
Tea (mn kg)	65.0	684.0
Coffee	39.0	
Soft Drink	5.0	7000.0
Mineral Water	0.9	
Wines, Spirits & Liquors	48.0	
Beer	10.2	
Snack Food (tons)	14.0	0.4
Poultry	90.0	
Eggs		30000.0
Briolers		1000.0
Rice FY00	25.0	88.6
Wheat (mn tons) FY00		70.1
Total Pulses		13.6
White goods	50.0	
Air Conditionaer	20.0	0.7
Rrefrigerators	20.0	3.0
Washing machines	12.0	1.2
Audio Products	14.0	6.7
Music Systems	4.5	0.3
Stereo Cassette Recorder	2.4	1.2
CTV		4.4
14"		0.9
Automobiles -FY00	304.2	
Cars	100.2	0.6
LCV/HCV	44.5	0.2
M&HCV		0.1
MUVs	34.7	0.1
Tractors	59.0	0.1
Two Wheelers		3.8
Bicycles	12.5	
Cigarettes (mn sticks) FY00	85.3	88546.0
Bidis		125.0
Chewing	7.5	77.0
Branded Coconut Oil	8.2	
Valu added hair oil	4.2	
Shampoo	5.1	
Soaps (mn tpa)	30.0	0.5
Toothpaste	16.0	79.0
5 Star/5 Star Deluxe rooms		23500.0

Beyond the numbers

The numbers here indicate the potential for organized retailing but for all practical purposes the realizable potential is much less because of extremely price conscious consumer and the 74% of population staying in villages and small towns. Out of the Urban population 35% people live in non-Class A cities (population above of above one million). Still due to highly fragmented populace and low per capita income we don’t see scope for stores like Casey's General Stores (A U.S. Based chain with 66% of stores in towns with population of *less* then 5000 and CY2000 sales in excess of USD1.5bn.) for another decade or so. Though the Kerala based MFM (Margin Free market) a discount store cooperative chain with lower prices at its USP has been moderately successful, but then profit is not its primary objective.

Some of these categories in the above chart like footwear and milk though huge, presents unique issues.

Though volumes of about 500mn in footwear industry are enormous by any standard but most of it is in unorganized and rural sector with few national retailers and with low or no profitability. Bata with exemplary marketing network and great brand equity hasn’t been performing very well off late with FY00 operational profits of Rs508mn (7% OPM) in FY01.

Milk a USD10bn market is one of the most decentralized one. Cooperatives rule the roost with Amul leading the pack. Due to resistance towards packed milk in non-metro cities and absence of big players the leaders are generally local cooperatives or the traditional doodhwalas.

Staple food business, another high volume proposition, is the most unorganized one with government control and regulations making it unattractive for corporates. Administered price systems and bureaucracy are the biggest hurdles in the development of systematic market. Infrastructure bottlenecks (storage space) results in wastage and decreases efficiency (India wastes 20-25% of the value of farm produce before it is processed). De-bottlenecking won't be possible until the government adopts a laissez faire attitude and develops a modern system (including a derivatives market) with place for everybody. Even today in cities like Mumbai there is no organized chain selling wheat which, is a very high volume product. The irony is even wheat flour (atta) doesn’t sell much with companies like HLL struggling to penetrate the market.

These inherent and systematic problems with the Indian Market, we feel are great opportunities which should be unveiled in coming 5-7 years.

Classification of retail outlets in India by annual turnover	
Revenues per annum in USD	**% of outlets**
<usd141	29%
141-452	25%
452-1158	24%
1158-2005	15%
2005-2851	5%
2851<	2%
	100%

org marg: 1996

The genesis

India has a population of 1bn with 75% of people living in villages and small towns. With agriculture sector contributing 26.7% to the GDP the sector is the biggest employer. This makes the country highly fragmented with 6mn villages. This decentralized character has given birth to highly efficient small store culture. India has more then 6mn small stores, highest in the world, and employs 20% (estimates vary according to source) of the Economically Active Population. The adjoining tables shows the number and the really small size of these neighborhood stores with 54% stores having annual turnover of less then USD452.

Growth in retail outlets (m nos)				
Year	**Urban**	**Metro**	**Rural**	**Total**
1978	0.58		1.76	2.35
1984	0.75		2.02	2.77
1990	0.94		2.42	3.36
1996	1.8		3.33	5.13
1999	2.4	0.6	3.6	6
Composition of Outlets				
Grocers	34.7%		55.6%	
Cosmetic stores	4.0%			
Chemist	6.3%		3.3%	
Food Stores	6.6%			
General Stores	14.4%		13.5%	
Pan + stores	17.0%			
Others	17.0%		27.6%	

What makes them tick?

Small stores have an underlying strength which is difficult if not impossible to overcome.

Spread and accessibility

With 6mn stores they are present at every nook and corner in the country. A different format of Pan (Betel) and cigarette shops typical to Indian subcontinent has only made their presence more strong. These stores aren't different from each other and thrive on their proximity to a certain residential area.

Customer Friendly

Since these stores cater only to a small population they are able to build friendly relations with all the customers. Short distance from residential area, unlike developed countries, makes home delivery and providing other customer services easier. Infact in India even a 10cent (Rs5) worth of good are home delivered with promptness beating Pizza Chains. Credit facilities extended to customers and flexibility in terms of payments is another factor that makes the penetration in this strong hold extremely difficult.

Low expectations

These stores does not have great profitability and return on investment. But accounting methods and the labor-intensive nature of the industry makes it sustainable. These stores does not account for depreciation of the premises and for the salaries of the key staff since they are the members of the family. In most cases they have their own real estate, expected return on which is not taken into consideration while calculating profitability. The situation is same in urban and rural areas. In fact only 7% of 1.8mn urban mom and pop stores have a turnover of more then Rs10mn.

Employment

Stores capability of employing 2-4 members of the family also acts as an incentive since it provides employment in a country where it is not very easy to find a job.

The Specialty Bazaars: A mall in itself

Streets in Indian cities with dozens of stores offering variety goods are a good comparison with big shopping Malls

A shopping mall offers value to customer in terms of number of options, quality, price, shopping ambiance, convenience and ease. In India markets like Palika Bazaar and Canaught Place in Delhi, Lohwar Chawl in Mumbai stands strong on most of these attributes. A consumer can get a lamp in Lohwar Chawl hardly available in Shopping Malls and at a cheaper Price.

These places offer options to consumer not available anywhere else and at a bargain price. Quality, well if a consumer is willing to pay, best of the goods, even imported and smuggled are available. Furthermore its not very difficult to find what are you looking for if you know the right street. On Ambiance factor though these stores, in cramped street, operational since last few centuries, will take a beating.

So…

Places like Chandini Chowk and Lohar Chawl are specialty markets dealing in one category of products. If one is looking for home furnishing items a particular street can be zeroed upon but the idea of buying grocery simultaneously will have to be kept aside. Availability of all product categories is one area where these streets take a beating.

Another issue is distance. We only have one such place in every city. Somebody living in Suburban Mumbai cannot afford to go to the other corner of the city to buy couple of bulbs or a pair of socks. Shopping Malls though with their presence in all suburban areas score here.

On pricing front none of the chains have been able to beat these streets and never will. But with increased volumes and direct sourcing Chains like Big Bazaar can offer Plastic Buckets at comparable prices along with anacin tablets and what have you!

The Organized Industry

Organized retail never took off in the country with first players emerging only in early 90s. Unlike China where the sector has exploded in last 10 years India still is at the nascent stage. Again unlike China FDI hasn't been allowed in the country, which has curtailed the investment and modernization in the industry. The Exhibit ***x*** represents the development in the retail industry in some of the developing economies India being at the first stage only. The notable factor here is the high rate of growth in the early years. It took at most 10 years for these countries to develop a respectable market share once the dice was rolled.

India historically had some retail chains with 5-6 stores in metros like Spencer in South India and Akbarallys in Mumbai. Shoppers Stop though changed the perspective with the launch of its first store in Mumbai in 1991. Existing national Players along with regional players like Radhe of Nirma group and South India based Shubhiksha are typically present only in five metros and certain A-class cities like Hyderabad, Ahemdabad, Pune, Indore and Jaipur. Geographically speaking the concentration is in south and western India. Delhi being the capital is an exception.

In the recent years the activity has become hectic and all the most of the major Indian Business houses have entered the space. Many of the biggest deals in Real Estate in all the major cities have been for shopping malls, Discount stores etc.

Size

The total size of the organized retailing is estimated to be Rs150bn (USD3bn). The size varies depending upon who you talk to and according to underlying assumptions taken while estimating the size. Various estimates put the growth rate between 25%-40% for next 5 years. We feel the major driver of growth would be new store addition with same store sales have been increasing by 10-15% rate on an average.

The growth we feel, could be much higher because of the lower base. Infact only one chain with nationwide plans could make the industry grow by another 10% assuming of-course the right business model and execution.

The adjoining table gives a clear picture of the size of the industry. In some cases figures have been estimated.

Area wise also retail stores in the country are at a nascent stage with the current total organized retailing space in the country barely matching Wal-Marts one discount store. RPG, Pantaloon and Shoppers Stop now have achieved retail space of more then 1mn sq. ft. Adjoining table lists the space occupied by various retailers.

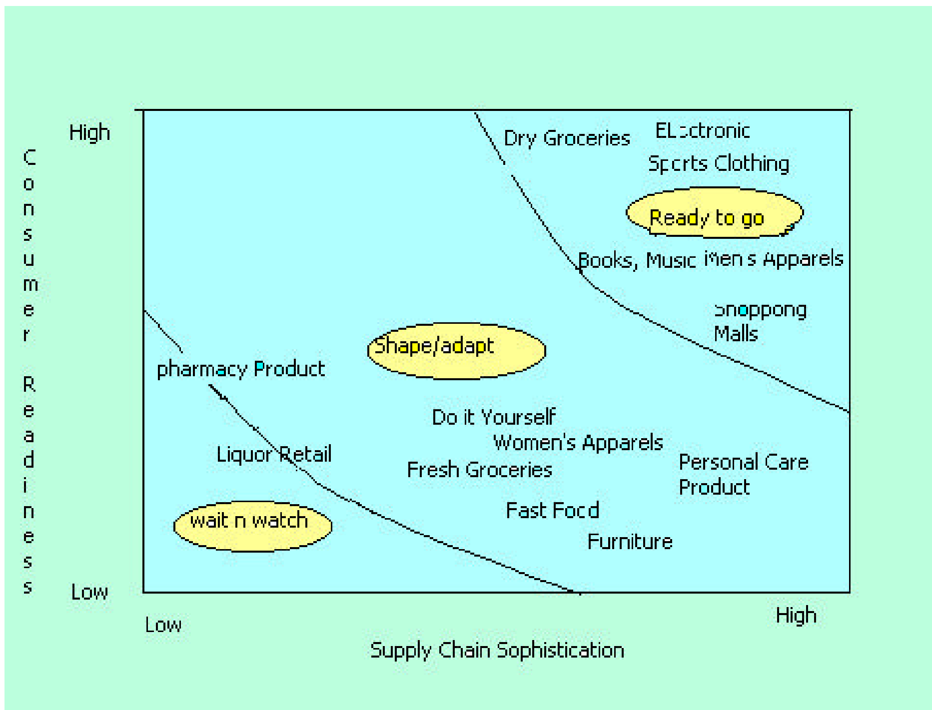
Area	
Area	sq ft
Bata	1000000
Raymonds	542000
RPG	600000
Spencer	280000
Badda Choice, Chotta Price:	
RPG's Hypermarket in H'bad	120000
Pantaloon	500000
Shoppers Stop	195000
Shoppers Stop-Mumbai	50000
Shoppers Stop-Banglore	30000
Cross words-Mumbai	7000
Cross word	27000
Trent	200000
Cross Roads	150000
Kemp's chain of stores	125000
Viveks	100000
Akbar Alleys	35000
Globus-Total	71000
Globus Indore	35000
Globus-Chennai	36000
Nanz	70100
Nirma Radhe A'bad	6000
Charagh Din	10000
Vitans	50000
Nilgiris	80000
Total	**3192100**

The Size		
Store	**Year**	**Sales (Rs mn)**
Food World		
Spencer		1560
Shoppers Stop		2400
Crossroads		
Pantaloon	FY02E	2770
Ebony		
Subhiksha	FY00	1200
Barista		
Café Coffee		700
Gautier		800
Pizza Corner		230
Dominos		750
Bombay Stores		
Zodiac		434
Raymonds Apparels	FY01	1380
Trent		419
Vivek's		1400
Big Joe's		500
Lifestyle Chennai		150
Monginis		520
Toys camp		500
Java City		500
Indian Rayon (Madura garments)	FY01	3255
Tanishq		2039
E-City	FY01E	

The Segments

The Retail Sector in India could be divided into following segments

- Apparel retailers: Raymonds, Madura Garments
- Grocers: Foodworld
- Discount Stores: Big Bazaar, Giant
- Mall developers and Managers: Crossroads, Spencer, Ansal Plaza
- Pharmacy: Subhiksha
- Pizza Chains: Dominos, Pizza Corner
- Coffee Chains: Barista, Café Coffee
- Music Stores: Planet M, Grooves
- Furniture Retailers: Gautier, Durian



APPARELS

Apparels is the biggest segment in the industry unlike grocery in developed markets, which is at number two. Other product categories like home furnishing, music are distant others.

The total apparel market in India is Rs431bn. This is an offshoot of Textile Industry which stands at Rs1700bn. India once a stronghold of textile production and exports in world has been taken over by other countries because of industry's inability to transform.

Out of the Rs431bn market Rs298.5bn (66%) is Ready to wear (RTW). Men's wear is 46%, women's wear 37% while Kids wear is 17%. Branded Apparel market is 30% of RTW market at Rs90bn. Interesting aspect though is the size of traditional wear market comprising of Saris, Kurta Payjama etc at 40% of total RTW market. Among the branded apparels 48% is men's wear, 25% women's wear and 9% kids wear.

Apparel Market Size: 2000-01			
Category (Rs bn)	**Readymade**	**Tailored**	**Total**
Men	**110**	**88**	**198**
Women	**126**	**35**	**161**
Sarees			71
Salwaar Kameez			19
Maternity wear			10
Lingerie and intimate clothing			15
Petticoats			16
Others			30
Childeren	**62.5**	**9.5**	**72**
School Uniforms			18
Infant clothing			10
Others			45
Total	**298.5**	**132.5**	**431**

Source: KSA Technopak

Mens Wear

This is the most developed and conducive area for Indian Retailers. Strong Brand recalls and consumer shift toward RTW apparels makes it one of the fastest moving category in Retail malls. Westside chain has 25% sales coming from this category. Major brands like Peter England, John Miller, Arrow, Zodiac has sales in excess of Rs8bn. The leader is Peter England with expected sales of aboveRs1bn followed by Pantaloon's John Miller. Interestingly both these brands are in the economy segment signifying high volumes and low value. The premium segment is divided in many segments with Shirts in the range of Rs800-Rs3000. The space is cluttered with many brands fighting for the market share.

The industry is expected to grow at 20-25% in per annum in the near future.

Apart from these brands the stores themselves are trying to develop their own brand like Stop of Shoppers Stop, Venti Uno of Pyramids and Westside of Trent Limited. The size of the market, high volumes and good margins in case of own brands have made the chains go in for this strategy. The high decibel competition also has accentuated the need because the sheer number of brands in the segment makes it a logistical nightmare and gulps away bulk of the shelf space. Westside thus is just keeping own brands in its stores. Infact Retailers are trying hard to establish their own brand so as to increase margins as well as reduce their dependence upon the manufacturers. Madura Garments with its clout have had exercised superior negotiating powers with retailers. It decided to pull out of Shopper's Stop some time back rather then increases the Chain's margins.

The reverse phenomenon has been apparel manufacturers going in for retail malls. Pantaloon, Arvind Mills, S.Kumars, Indian Rayon (with Trouser Town) and Raymonds Showrooms are now all present in the segment representing the bulk of listed universe.

Women's wear

In India its very difficult to lure female customers to branded and organized sector because of the very nature of the segment. India is characterized by different ethnic wears varying from region to region. From Salwar Kurtas in Punjab to Sarees of different hues depending upon the cultural background and modern office and casual wear in metros, the segment is pretty broad. The geographical differences and the need to keep a vast range make the segment highly difficult to penetrate. Infact currently no major Indian Retailer has a significant presence or is planning to foray into the ethnic Indian wear segment except Pantaloon. Retailers seem to be happy selling casualwear, office wear and a set of Designer ethnic wear. Saris a Rs71bn and Salwar Kameez a Rs19bn market offers a great potential with about 30% and 20% being the share of branded players (low market share; high numbers), but ethnic diversity, small size of an average player and the requirements of keeping huge inventory makes retailers shy away. In fact the absence of branded category in Women's wear itself is making the segment difficult to cater to.

Madura Garments, subsidiary of Indian Rayon is entering the space with the launch of its casual and office wear line. Others like Shoppers Stop and Trent too has presence mostly in office wear and casual wear segments.

Grocery

The total market size is Rs1300bn that rivals any other market in the world. The unorganized and fragmented nature though makes it difficult to target. Even the leading FMCG companies in metros do not have more then 60% direct coverage. In this emerging sector we already have Food World, Subhiksha and some other players with increasing penetration. The grocery chains are mostly concentrated in South India owing which has been more conducive to Organized retailing then the other parts of the country. Bombay Bazaar in Mumbai with 60 odd stores is also expanding fast and with Tata groups Trent foraying into the area the landscape will witness a total transformation.

The Indian food basket is very wide and regional preferences will be a major issue deriving the operations of the chains. Indian food basket consists about 45% perishable items in value terms. Logistical needs thus becomes exponentially complex. Nanz, a Delhi based grocery chain in fact had to close down owing to logistical and management problems.

The market is also characterized by the monopolistic powers of FMCG companies. These companies enjoy a superior power over retailers and are able to dictate their terms. Infact getting a dealership (Agency) for some of these companies is sure way to riches for entrepreneurs. Biggest of these companies HLL, enjoys a negative working capital mainly because of its negotiating power.

The food basket	
Commodity	**%**
Pulses	4.8%
Sugar	5.0%
Edible Oil	7.9%
Fruit and Vegetables	23.8%
Cereals and bread	27.8%
Milk and Bakery products	16.8%
Meat, Egg and fish	3.1%
Other	10.8%
	100.0%

Source: USFDA 1998

As discussed earlier Staple food business is characterized by Govt. regulations and results in wastage of 20-25% of farm produce. The intermediation too results in substantial loss of profitability for farmers constituting 66% of the population. The following charts though not the exact representation gives the idea of the discrepancy in the markets caused by intermediaries and the opportunity for the retailers, farmers and the country as a whole. All this will need a proper system that can be developed with trail and error by the organized grocers having critical size.

The Present Food Chain					
	Farmer	**Trader**	**Commission Agent**	**Wholesaler**	**Retailer**
Additional Cost	-	5%	3%	5%	10%
Wastage	-	10%	-	10%	25%
Mark-up	-	25%	5%	50%	75%
Price	100	125	131	197	344
The Food Chain: Disintermediation					
	Farmer	**Trader/co-op**		**Distribution Company**	**Retailer**
Additional Cost	-	10%	Disintermediated	40%	25%
Wastage	-	2%		2%	2%
Mark-up	-	13%		50%	50%
Price	100	113		170	255

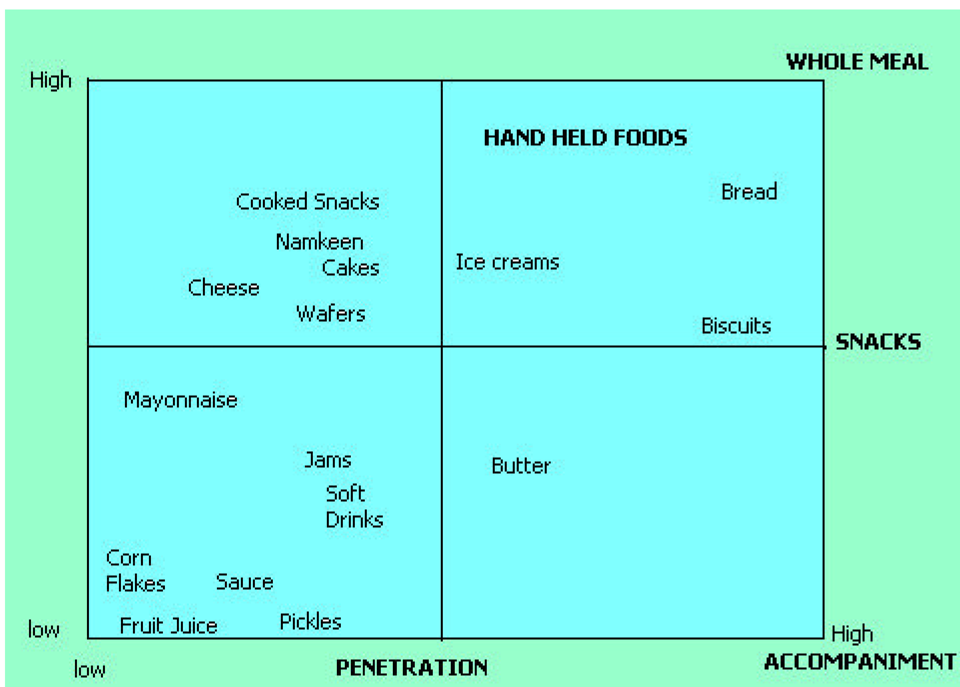
Business World: 11/09/00

If few of the national grocers are able to disintermeidate the whole process the savings for the consumer and profits for the farmers can be enormous. Intermediaries can compensate their losses with increases systematic efficiency (and hence reduced wastage, say 10% for traders) and improved volumes.

One can have the idea of total market by Annexure 2. The Organized grocery market though is Rs10bn with Food World being the biggest player.

The Classification of the market product wise like in Apparel category is inconsequential because of the smaller size. Other Players are Subhiksha, Nilgiris, Radhe (Nirma) and Trent Limited (Planing to enter the market soon). Another major section of the industry often ignored by the experts is the PSU sector grocery retailers. Kendriya Bhandar of Ministry of Personnel, Grievances and pensions and Super Bazaar of Department of Civil Supplies and Consumer Affairs have a combined sale in excess of USD80mn. The biggest organization though is Canteen Stores department operated by Ministry of Defense with 37,000 outlets and Sales in excess of USD750mn. Canteen Stores though caters only to Defense personnel and should be excluded from our study because of its unique nature. Super Bazaar in its initial period attracted impressive footfalls but faltered later on because of poor management. Issues like poor quality and non-availability of goods thwarted a decent beginning of the grocery retailing in the country.

Grocers will have to give extra attention to the localization factor. The Indian market is fundamentally different from Western world and then there are cultural variations within India too. As against US where 7 basic meal types cover 80% of the dinner at home occasions, in India 15 meal types cover only 60% of the occasions. This emphasizes the need for increased SKUs in the stores.



The Hurdles

Indian organized grocers will face hurdles like government regulations, logistics, low margins, vendors' superior negotiating powers and fierce competition from Mom and Pop stores.

Nanz, now shut down grocery chain faced issues like differential tax structures in different states and it increased the costs. Additionally in some of the controlled categories like wheat wouldn’t be much attractive for the grocers.

Poor infrastructure will create logistical problems, specifically for perishable items. Need for a Hub and spoke model for grocery chain only compounds the problem. Companies interested in operating such a chain are looking for multiple stores with 1000-2000sq ft area. This in cities like Mumbai will be a major drag on profitability due to high real estate cost.

FMCG companies' monopolistic powers will keep the margins depressed till the time grocers don't achieve a significant size. Nanz inability to rope in manufacturers in its supply chain is evidence.

Chains also will have to decide upon cultural issues like whether to sell meat and poultry in the stores since it might repel the vegetarian populace.

All said and done the sheer size of the market is attractive enough for somebody to try and overcome these hurdles. Foodworld in South India has been successful in gaining footfalls and the volumes. The chain hopes to turn profitable soon.

Pizza Chains

The pizza industry in the country has attained a 150cr size and is growing at 50% rate. The industry is expected to grow at double digit for another decade.

Domino's Pizza India Ltd. is the industry leader with about 100 outlets in the country. The company also holds franchise rights for Sri-Lanka (expected investment Rs120mn) and Nepal. The chain is planning to open another 100 outlets across the country but the tie up with Indian Oil Corporation (for the outlets to be opened on highways adjoining the fuel filling stations) has been freezed. Still the company with new outlets is expected to reach a top line figure in excess of Rs750mn. The investment required for the expansion plan is about Rs400mn. Indocean Chase Capital Advisors invested USD8.9mn for a 26% equity stake (valuations of USD34mnor two times FY01 sales thus). Pizza Corner on the other hand had FY01 sales of about Rs23crore. The company with 25 odd outlets has a Rs240mn equity base. Pizza corner is looking at expanding its chain and will be taking the total number of outlets to 50.

Pizza Express, PLC, UK too has is expanding its network with its San Marzano (actually a village in Italy) brand.

A pizza outlet with dining facilities on an average requires an investment of Rs8-12mn while a delivery outlet requires an investment of Rs4-8mn. Pizza corner infact claims to break-even with the 29th outlet.

Tricon Restaurants (Pizza Hut) another major player has been slow in the country with 18 outlets but plans to open another 30. Tricon relies on the franchisee model and gets 6% of the turnover as royalty.

Amul the latest entrant with its Rs12 frozen pizza is trying to market the product through its extensive distribution channel.

Coffee Chains

In the last year or so the coffee shop industry has reinvented itself with the advent of Barista. The industry with about 100 odd outlets in the country is witnessing hectic activity. Tata Coffee has taken a 34.3% stake in Barista for Rs260mn. The chain is valued at about Rs1bn. Barista with 38 outlets (serving 12000 customers per day) is targeting another 75 and is planning to open its coffee shops on airports and other such locations also. The chain is expected to show marginal profits in the current financial year.

Café Coffee Day a coffee chain promoted by Amalgamated Bean Coffee India's largest exporter of coffee has set up 10 outlets in Banglore and is expanding in South India and Pune. The company eventually wants to set up 100 outlets in all the major cities. The ambiance of the outlets have been kept on the lines of US based Starbucks and Seattle Coffee House. Like Barista the focus on the different varieties and flavors of coffee with a limited menu of snacks. Banglore's 10 outlets attract about 30,000 customers per week.

A coffee outlet requires an investment of Rs5mn for a 25-seat set up. Overheads will be about Rs150,000 at semi prime location and the raw material cost about Rs100,000. With these statistics operational break even will be instant while it will take three years to recover the investment.

Furniture

Like all the other segments organized furniture retailing too is at a nascent stage in India.

KK Birla Group has promoted Gautier India Ltd. in association with French partner Gautier to sell branded furniture in India. Gautier set up three years back is expected to cross Rs800mn sales mark this year while the target for FY03 is 1bn. The company has its own manufacturing unit near Chennai and exports a third of its production to Europe. The company sells its economy range under the name 'Zuari' and premium range under 'Gautier'.

Within three years of operation, Gautier India attained a turnover of Rs800mn in 2001-2002 and is targeting a turnover of Rs1bn for 2002-2003. The furniture company, which has its own manufacturing facility near Chennai, is using 75 per cent of its facility at present and exports one-third of its production to Europe. Gautier also sells furniture under the brand ‘Zuari’ (Rs120mn estimated FY01 sales). Gautier has set up 50 outlets in the country with 15 franchises. The company has also tied up with Hettich International, the German world leader in furniture fittings.

Important Issues

Real Estate

Real estate is the most important parameter deciding the profitability of any store. Real Estate in terms of location as well as the cost associated with it will affect the footfalls and the finances of the company. The affect could be very well seen in terms of number of stores in Chennai and in Mumbai. Property rents being lower has facilitated the growth of grocery chains like food-world and Subhiksha in South India. Mumbai as one of the costliest city in World made the business proposition un-lucrative at least for the grocery retailers. High rentals of Rs150-200 in Mumbai as compared to Rs 50-80 in Banglore or Rs30-60 in Pune are the deterrent for any retailer. For a grocery retailer to succeed where gross margins are 12% at max rentals above Rs xx are simply unaffordable. The concept of WalMart like mega stores in the far flung areas of the city is still to catch on and could not substitute the problem.

Mumbai Rentals		Delhi: Rentals		Banglore: Rentals		Pune: Rentals	
Locality	**Rates**	**Locality**	**Rates**	**Locality**	**Rates**	**Locality**	**Rates**
Colaba	150	CP (Inner Circle)	220	M.G. Road	100	M.G.Road	125
Fort	175	Basant Lok	150	Commercial Road	125	Jangli Maharaj Road	110
Church Gate	175	Saket	80	Brigade Road	100	East Street	70
Kemps Corner	180	South Ex	175	Koramangala	40	Dhole Patil Road	75
Napean Sea Road	175	Lajpat Nagar	100	Jayanagar	45	Boat Club Road	75
Linking Road	200	Rajouri Garden	100	Indiranagar	40		
Hill Road	160	Greater Kailash I	150				
Juhu	110	Noida	75				
Lokhandwala	125	Gurgaon	60				

Rates: (Rs per sq ft per month)

Source: Knight Frank

Rentals in large cities

In cities like Mumbai though the solution could be smaller store size with higher no of stores. By generating higher footfalls per square-feet and having higher no of stores thereby educing catchment area but catering to same population as in other cities (because of higher population density) Retailers can circumnavigate the problem. Another problem akin to retail stores is the premium in markets like Mumbai for the properties for stores over the same commercial properties in the same locality. Having smaller store can again help solving the issue.

Some of the factors helping the industry are increased supply in cities like Mumbai. Old textile mills in prime localities in Mumbai are now rechristining themselves as entertainment complexes. This sudden jump in supply made possible due to change in government policies has affected the retail scenario to a great extent in Mumbai. Cross-Roads near Haji Ali is was earlier a manufacturing unit but now has become a major destination in the town.

India is witnessing an exponential growth in the space occupied by organized retailers. A year back it was barely equal to one WalMart store but is expected to be in excess of 8mn sq ft by 2003.

Retail Space				
(000 sq ft)	**Mumbai**	**Delhi**	**Banglore**	**Pune**
2001	200	100		100
2002	1400	1000	300	300
2003	1800	1400	850	425

Source:Knight Frank

Soon Coming…			
Mumbai	**Location**	**Area (sq.ft.)**	**operational by**
Landmark (Lupin Group)	Bandra	70000	2001
Globus	Bandra	50000	2001
Leela Galleria (Leela Group) Andheri Kurla Road	Andheri Kurla Road	35000	2001
Indraprashta (Godrej Properties) Linking Road	Linking Road	15000	2001
Nirmal Lifestlye (Nirmal Group) Mulund	Mulund	500000	2002
Runwal Arcade (Runwal Group) Mulund	Mulund	300000	2002
Venus Builders Jogeshwari	Jogeshwari	80000	2002
CitiMall (Ajmera Group) Andheri (W)	Andheri (W)	80000	2002
Dheeraj Consultancy Malad	Malad	75000	2002
Crossroads (Piramal Group) Nariman Point	Nariman Point	75000	2002
Individual Juhu	Juhu	70000	2002
Shagun Shopping (Dynamix) Goregaon	Goregaon	62000	2002
Landmarc Citi (S. Kumar's) Worli	Worli	200000	2003
E-City (Essel Group) Andheri (W)	Andheri (W)	120000	2003
Hiranandani Group Powai	Powai	100000	2003
Millennium Mall (Phoenix Mills)	Lower Parel	30000	2003
Delhi			
Fortune Arcade	Noida	60000	2001
SAB Shopping Mall	Noida	45000	2001
BigJo's	Pitampura	35000	2001
MGF Mall	Gurgaon	300000	2002
DLF City Centre Mall	Gurgaon	300000	2002
Sahara Mall	Gurgaon	230000	2002
The Centrestage Mall	Noida	60000	2002
DLF Mega Mall	Gurgaon	300000	2003
Ansal Properties	Gurgaon	6000	2003
Banglore			
Embassy Heights	Magrath Road	160000	2002
Belview Towers	Hosur Road	65000	2002
Janardhana Towers	Koramangala	60000	2002
Salarpuria Centre	Koramangla	30000	2002
Sobha Alexander	Commissariat Road	25000	2002
Prestige Group Mall	Koramangala	300000	2003
E-City	Cunningham Road	140000	2003
Purva Mall	Church Road	42000	2003
Brigade Building	Cambridge Road	28000	2003
Poona			
Kumar - The Orion	Koregaon Road	57000	2001
Poonawala M.G.	M.G.Road	17000	2001
Island Developers	East Street	17000	2001
Sai Constructions Ltd.	Behind Pune Station	130000	2002
Kolte Patil	Dhole Patil Road	50000	2002
Vascon Engineers Ltd.	Poona Club	90000	2003
Godrej - Castlemaine	Bund Garden Road	50000	2003
Godrej - Eternia C	Shivajinagar	30000	2003

Many of these projects are undertaken by single store companies with no plans to expand in future and many are destined to failures and consolidation pains. Still the story remains strong for the chains striving to attain critical size and which have proper systems in place.

Chains will have many advantages like better negotiating power, leveraging of the centralized systems and peer stores for better working capital management a larger base to share advertising and in-house brand promotion costs.

FDI IN RETAIL

The government has categorically stated numerable times that 100% FDI in retail will not be allowed, Regarding joint ventures with Foreign Partner having minority stake also there is lot of ambiguity with government changing it stance often. The fear of mom and pop stores loosing their business and the lobbying made the government averse to the idea of FDI in the sector. The facts to be considered though are the potential of employment generation, consumer getting more options and the possibility of exports to the same foreign companies.

India has a low literacy rate of 40%, this combined with huge population makes getting a job pretty difficult. With 20% of population in developed countries working in organized retail sector and the fact that one in every eight American has worked in McDonalds the employment generation theory looks very plausible. Pantaloon for instance with its 40 odd stores employs in excess of 2000 people. The Retail stores in Delhi's South Extension only employs close to 15000 people. These people have varied educational backgrounds ranging from HSC to MBA. College Kids working Part Time in Music Stores and in places like Barista Coffee Chain too indicates towards increasing job opportunities, independence and hope for the young people in the Metros. The fact that working for an organized retailer provides a career unlike a mom and pop store where earning livelihood is the goal (55% of the small stores in the country where sales are less then USD452 per annum) adds to the argument.

The ultimate beneficiary with Govt. allowing FDI in retail will be the end consumer. The fact is so obvious that it doesn’t need any qualitative or quantitative back up.

Chains like Carrefour, GAP and xx are already looking at India as a great sourcing base for their requirements. Their presence in the country in the form of a retailer will only add to their confidence and proximity. With evolving synergies and systems in place India can see double-digit growth rate for many years to come in exports to retailers if the FDI is allowed.
Also important is the systems and the capital which these Foreign chains will bring in. This will cut short the growth lead-time for the industry thereby benefiting domestic chains also.

International experience

Following Table shows the standing of India vis a vis other developing countries. Historically Organized Retailing industry in developing countries have taken about 10 years to mature. The inflection point has been opening up of the economy. Organized Retail in China for example has a market share of 20% compared to India's paltry 2%. China achieved this in last 10 years of growing economic freedom. On the other hand Brazil with 36% organized retail sales took 12 years to mature.

Organized retail share in different countries

Share of organized players			
Country	Size USDbn	Traditional Channel	Modern Channel
US	2325	15%	85%
Taiwan	115	19%	81%
Malaysia	20	45%	55%
Thailand	22	60%	40%
Brazil	100	64%	36%
Indonesia	75	70%	30%
Poland	55	80%	20%
China	325	80%	20%
India	180	98%	2%

years taken for modern retail to grow	
Country	Years
Thailand	10
Brazil	12
Poland	9
China	10

Business Mechanics

The universe in the listed space of pure retailers is quite small to draw any conclusions. Therefore we have included not so pure retail plays like Zodiac, India Rayon and Raymonds in our sample size. These companies are more of apparel manufacturers then retailers but still retain the shades of the business we are discussing.

The industry with an exponential top line growth has its own birth pangs. Not so good Working Capital Management and Shrinkage are the main drags on the profitability.

Most of the profitable International retailers have negative working capital indicating about one months inventory, zero debtors and creditors well in excess of 30 days. In India the situation is different with Inventory for discount stores exceeding three months sales and debtors of about 30 days. Even for single store operations/local chains like Sheetal and Amarsons its well above 45 days. This combined with loans and advances and less then respectable creditors turnover days translate into a 100 days plus working capital cycle. In country where interest rates are high and in business where margins are low working capital management becomes 'the key' operational parameter.

Retailers are putting the systems in place to keep the inventory in check. For the purpose automation and ERP implantation are religiously pursued. Shoppers Stop though faced problems with JDA implementation and had to bear with reduced operational efficiency for months. Going forward though we believe with businesses reaching critical mass, building their data mines and reinvigorating their logistics, retailers will be able to bring down their inventory levels.

A problem for grocers will be their inferior negotiating powers with FMCG majors and hence adverse credit terms. This problem cannot be sorted out easily and will take its own sweet time till the grocer can dictate their business terms.

Still South Indian Grocery Chains Like Food World and Subhiksha has been able to check their inventory levels at 18 and 11 days respectively. We believe counteracting forces like these chains expanding their geographical reach and their gaining critical size will keep the inventories at current levels.

Pieces of the puzzle

Rentals
Rentals/property as discussed in the earlier section are the biggest factors affecting the store. The cost could vary according to city and the location. Rental costs though also have a correlation with no of footfalls or average ticket size or both their by resulting in higher per square feet sales.

Sales per sq.ft.
Sales will be ranging from Rs6,000 per square feet for a discount store in Nagpur to Rs30,000 for the similar store in Crossroads Mumbai.

Goss Margins
Gross margins for Grocery business range from 12%-15%. To achieve margins above that factors like extremely efficient logistics and negotiating powers comes into play. For Apparel business the gross margins could be in excess of 20%.
Over all for discount stores like Big Bazaar we believe the Gross Margins will be in 12-15% range going forward.

Other Income
Other Income through merchandising efficiencies, in-store promotions and foreign exchange earnings could form another 5% of sales.

Salaries
Salaries would range from 3%-8% of the sales. The availability of quality staff is likely to become easier since understanding the potential of the industry many educational institutes as well as corporate themselves are training people. Because of ample availability of hands this unlike software business wont be the key operational issue or business expenditure. Apart from this advertising cost would vary from 4%-10% sales depending upon the management strategy and the positioning of the company on PLC.

Capex
On Capex front we believe furniture and fixtures will cost anything between Rs1500-Rs2800 per square foot. Depending upon the ambiance the store wants to provide. For a Store like Giant of RPG it would be more like Rs1800 while for upmarket Lifestyle store it would be well in excess of Rs2500 per square foot.

Furnishing
Air conditioning will cost additional Rs40 per square foot as an initial investment and Rs5 per square foot as maintenance. Power bill hence will be substantial and could be as high as 5% of sales.

Working Capital
Working Capital for Indian business in the initial stages would be 50 days upwards varying according to business model and spread.

Shrinkage
One of the biggest problems affecting the industry today is shrinkage. Shrinkage because of theft, pilferage and other reasons we believe takes away 6% of the stock, hence about 4% of profits. Now in a business with 12% gross margins loosing 4% because of theft will make it unviable.

Cash Flow
Free Cash flow generation though would be far away for any Indian chain because of the rapid expansion. A national level discount store we believe will attain a critical size after spreading over a million square feet. After that land-mark expansions will be lower in percentage terms because of a bigger base and could be funded through internal accruals.

With an estimated investment of Rs100mn for a 50000 sq. ft shopping mall in an average rental area a Chain would start generating free cash flow only after it achieve Rs **xx**mn in Sales or roughly 15+ of malls.

Return on Capital is likely to be depressed in the initial years to 10-14% range. Going forward though we expect it to increase to 20%.

Valuations

Annexure 3 shows the Comparison matrix for the Indian Players and for some of the International players. International chains trade in 0.2-1.8x ttm historical sales. Indian retailers on the other hand (Pantaloon, Trent, Shoppers Stop) are commanding just about 0.2x FY01 Sales. Though there is no strict comparison between International players and Indian chains but if one takes into consideration the high double digit expected growth rate of Indian companies the contrast becomes more believable. Retailers in India are in the nascent stage and majority of them hasn't turned profitable yet. Shoppers Stop infact suffered losses in excess of Rs200mn last year due to shrinkage, efficiencies lost in ERP implementation and management issues. We believe though that with the industry maturing the net profit margins of 8-12% could be maintained going forward. Shoppers Stop in fact is expected to turn profitable by FY03.

Conclusion

Organized retailing is about to launch itself in the mainstream Indian Industries. Historically due to various structural and procedural problems the industry couldn’t takeoff. The situation though has phenomenally improved since then and as stated earlier the industry is at an inflection point ready to be propelled on high growth trajectory. With the Indian economy and thus per capita spending power improving substantially in the next ten years and Organized retailers enabling different business models and systems we believe the time is ripe for shifting the sector from our radar screens to our active monitoring.

In next 3-5 years we believe the industry would be at-least USD1bn in sales and 8-10mn sq. ft in area. This is assuming no FDI is allowed in the country in this time frame. FDI though can invigorate the growth and could make the industry size double in the similar time frame.

In listed space though we don’t have many options barring Pantaloon, Trent and some not so pure retailer like Indian Rayon and Raymonds. The thrust will come from players like Shoppers Stop and Foodworld going public.

Of course there will be casualties, some players with focus on value and not volumes will have to create way for Discounters since India after all is a bargain market with 60% of people buying in discount sales.

So wait but don’t just watch.

The story unfolds…

- Pantaloon Retail (India) Limited (Pantaloon) is Promoted by Mr. Kishore Biyani. The group has interests in Retail, Textile and Media businesses. Pantaloon over the time has evolved into a retailing play from an apparel manufacturer and marketer.

- Moving from franchisee model to owned outlets company currently has 17 shopping malls across the country and 29 franchisees.

no	Store	Retail Sq.ft	Selling sq.ft
1	Pantaloon Calcutta	16000	13000
2	Pantaloon H'bad	16000	12000
3	Pantaloon Nagpur	6000	4500
4	Pantaloon Adyar	4500	3500
5	Pantaloon Himayatn'r	9000	7200
6	Pantaloon Sec'bad	1800	1300
7	Pantaloon Crossroads	4000	3000
8	Pantaloon Thane	6000	4500
9	Pantaloon Pune	10000	8000
10	pantaloon Spencers	22000	18000
11	Pantaloon A'bad	26000	22000
12	Pantaloon Calcutta-II	46000	40000
13	Pantaloon Kanpur	21000	18000
14	New Store- Banglore	40000	32000
15	New-Store-West Rgn	15000	12000
16	New Store-Surat	30000	24000
17	New Store-Vizag	15000	12000
	Total	**288300**	**235000**
18	Big Bazaar-H'bad	60000	50000
19	Big Bazaar-Calcutta	28000	24000
	Total	**88000**	**74000**
20	Other Stores	25000	20355
	TOTAL	**401300**	**329355**

- Pantaloon is the first company to open a mall on discount store format (Big Bazaar) in a price conscious country where only 0.23% of the one billion population have an annual income of more than USD10,638 (Rs500,000)*. The company has launched its First Discount store in Hyderabad and second will be launched in Calcutta soon. Hyderabad has the highest per capita disposal income among all A Class cities in the country while Calcutta has been a surprise packet for all the retailers with one of the highest per sq. ft sales in the country. After these two stores the company will launch discount stores in the other parts of the country as well.
  *source: NCEAR

- Pantaloon's existing selling space is 0.4mn sq. ft (Including Calcutta store) one of the highest in the country. It is second only to Bata and comparable with RPG group's combined space for Spencer/Foodworld/ Musicworld/Health and Glow Chains.

Area	sq. ft('000)
Bata India 1	1000
Pantaloon	***400***
Shoppers Stop	200
Cross Words	27
RPG	
Spencer	280
Badda Choice:Chotta Price 2	120
Cross Roads-Mumbai	150
Akbar Alleys	35
Globus	71
Nanz 3	70
Nirma:Radhe A'bad	6
Vivek's	100
Vitan's	50
Nilgiris	80
Charaghdin	10
Kemp's Chain	125

1.own stores 2. RPG's Hypermarket 3. Since closed

- The company's operations are automated with latest retail solutions in use while a central dedicated hub is under construction in Mumbai. Pantaloon is diversifying from apparels and will also sell household items in its discount stores. Though the bulk of the purchases are done centrally but each store has been localized according to the geographical location. Few products like Saris are sourced and sold locally.

- Pantaloon is focusing on the two most important operating parameters of the retailing industry i.e. Inventory management and logistics. Inventory turnover days are expected to remain at around 100 days till the time expansion plans are consolidated. Over all Working capital cycle though is expected to improve with increased sales and better negotiating powers of the company. We expect the company to have a working capital cycle of 55 days going forward from the current 58 days.

- The company has very strong Pantaloon, John Miller and Bare brands. John Miller is the second highest selling shirt brand in the country. For a success of any retailer ability to sell own brands is very essential since it offers better margins. We believe Pantaloon will be able to attract footfalls with its big stores, lower prices and multi-brand availability positioning. With increased footfalls the company will be able to improve same store operating margins due to improving operating efficiency and established own brands.

- We expect the top line to grow by 80% in FY02E from Rs1720mn to Rs3098mn. Apparel and accessories sales are expected to improve by 112% to Rs2778mn from Rs1311mn backed by new store openings. Bottom line though is expected to increase by 50% to Rs105mn. The company will experience slightly lower operating margins due to new store openings while net margins will be affected due to increased interest outgo.

- The company trades at 0.1times FY02E sales and 2.1times FY02E earnings. EV/EBITDA stands at 4xFY02E. Though there are no direct comparisons for the stock in India but a look at the similar companies and the Global peers can give an idea. Trent Limited (Westside stores) trades at 1.9xFY01 sales and Zodiac at 0.2xFY01 sales. A caveat though is Trent having cash of Rs1480mn hence higher multiple and Zodiac not having huge expansion plans: hence lower growth and multiple. International chains trade at 0.23x to 2.5x sales and PEs are in double digits while organic growth has been in 15-25% range in FY00.

- Going forward we believe margins will improve as the new stores stabilize and the company increases its negotiating power. Pantaloon will witness exponential top line growth in the coming years with its discount store launches. The positioning as a VFM (Value for money) buy we believe will help the stores immensely. Competition from new stores would not be a major deterrent because of low penetration of organized retailing (2%) in the country and since most of the new stores coming up are targeting top 0.23% of the population, unlike Pantaloon.

- An exponential jump in top line, better negotiating capabilities and improved systems makes Pantaloon one of the first, nationwide, listed pure retail play. Valuation at 0.1FY02E sales and 2.1FY02E profits are attractive. We recommend a **Strong BUY.**

Brief Financials

Year	Sales	PAT	Chg %	EPS	CEPS	P/E	EV/ EBIDTA	ROE
FY00	1354	49	109%	3.9	4.8	10	6.9	14.8%
FY01	1764	64	30%	4.8	6.0	8	7.6	13.4%
FY02	3098	105	64%	5.7	8.6	7	4.7	13.8%
FY03	4375	188	78%	10.2	14.4	4	3.5	20.2%

Recent Results

Rs mlns	*FY01*	*FY00*	y-o-y %
Sales	1720	1354	27
Other Income	12	11	9
Op Inc	165	105	57
PAT	68	49	39
PAT ex-OI	60	42	43
EPS	5	4	39

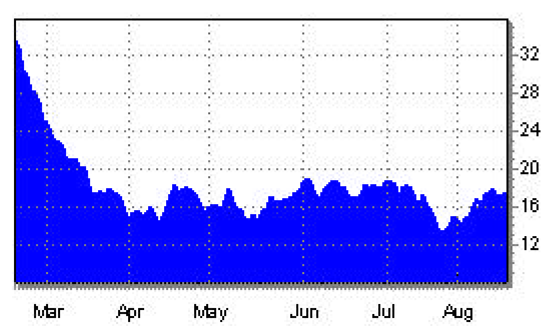
Stock and Market Data

Reuters code	PFAS.BO
Bloomberg code	PF@IN
BSE Index	3400
3-mth avg. dly vol (BSE)	4306
Price range (52 week)	85-13
Free Float	51/7%
Major Shareholder	Promoters(49%), ICICI(7.5%), SBI Mutual (5.3%)

Key data and ratios

Market Capitalization	Rs400mn/USD8mn
Issued Shares	13.3mn
Book val/ shr (FY00E)	Rs35.9
Next Results	Dec 01: Q2FY02

Stock Performance chart



Pantaloon Retail.

FINANCIALS

EARNINGS STATEMENT

Yr to Jun (Rs mlns)	FY00A	FY01A	FY02F	FY03F
Revenues				
Trousers	206	304	884	1061
Shirts	224	443	962	1251
Pantalength	709	276	320	200
Others	216	276	932	1863
Net Op Inc	**1354**	**1764**	**3098**	**4375**
COGS	975	1180	2206	3106
Labor charges	52	83	124	175
Commission	42	45	96	131
others	181	317	400	568
Tot Operating Exp	1250	1624	2825	3980
Operating Income	**104**	**140**	**273**	**394**
Other Income	11	16	8	12
Less: Net fin Chgs	52	71	117	131
Less Dep	11	16	52	76
Misc Exp w/off	0	0	0	0
Ext-ord inc	0	1	0	0
Pre -tax Profit	53	70	112	199
Tax	4	6	7	12
Net Profit	**49**	**64**	**105**	**188**

BALANCE SHEET

Yr to Jun (Rs mlns)	FY00A	FY01A	FY02F	FY03F
Share Capital	125	133	183	183
Share Premium	116	148	298	298
Res and Surplus	1192	1256	1341	1508
Shareholder's Funds	1433	1538	1823	1990
Sec Loans	316	682	900	1000
Unsec Loans	27	14	70	50
Total Loan Funds	343	696	970	1050
Total	1776	2234	2793	3040
Application of Funds				
Gross Block	1389	1589	2039	2514
Depreciation	36	52	104	180
Net Block	1353	1537	1935	2334
Cap WIP	98	79	35	35
Net Fixed Investments	1452	1616	1970	2369
Investments	1	51	50	50
CA, Lns and Adv	555	828	1351	1488
Inventories	372	563	849	1019
Debtors	101	130	221	180
Cash and Bank	23	24	95	49
Lns and Adv	60	111	187	240
Curr Liab	221	258	552	839
Provisions	20	10	33	33
Net Current Assets	315	560	766	616
Misc Exp	9	8	6	5
Total	**1776**	**2234**	**2793**	**3040**

PRICE SENSITIVITY

Yr to Jun (Rs mlns)	FY00A	FY01A	FY02F	FY03F
EPS	4	5	6	10
2	8	10	11	20
5	20	24	29	51
10	39	48	57	102
30	118	144	172	307
50	197	240	287	512
60	236	288	344	614

CASH FLOW STATEMENT

Yr to Jun (Rs mlns)	FY00A	FY01A	FY02F	FY03F
Sources of Funds				
Net Profit	49	64	105	188
Depreciation	11	16	52	76
Inc / (Dec) in Eq Capl	33	8	50	0
Inc / (Dec) in Sh Prem	107	33	150	0
Inc / (Dec) in Ln Fns	56	353	274	80
Inc / (Dec) in Cur Lib	18	37	294	287
Inc / (Dec) in Provis	16	-10	23	0
Total	249	501	948	631
App of Funds				
Dividends	12	0	18	18
Tax on dividend	2	0	2	2
Inc / (Dec) in Gr Bl	80	200	450	475
Inc / (Dec) in CWIP	15	-20	-44	0
Inc / (Dec) in Invst	0	50	-1	0
Inc / (Dec) in Invnt	88	191	285	170
Inc / (Dec) in Deb	-8	29	91	-41
Inc / (Dec) in Ln&Adv	27	51	76	53
Inc / (Dec) in Mis Exp	32	-1	-1	-1
TOTAL	249	500	877	676
Op cash bal	22	23	24	95
ADD / (Deficit)	1	1	71	-45
Cl bal of cash	**23**	**24**	**95**	**49**

KEY RATIOS

Yr to Jun (Rs mlns)	FY00A	FY01A	FY02F	FY03F
Operating margins	8%	8%	9%	9%
Pre-tax Margins	4%	4%	4%	5%
Net Profit Margins	4%	4%	3%	4%
Return on Equity	15%	13%	14%	20%
Return on tot As	7%	5%	5%	8%
Sales to Gross block	5	3	2	3
ROCE	15%	11%	11%	15%
Mkt Cap/Sales	0.3	0.2	0.1	0.1
Sales/Gross Block	4.7	2.6	2.5	2.6
PE	7.6	6.2	5.2	2.9
EV/EBITA	6.9	7.6	4.7	3.5

Pantloon Retail (India) Limited										
	(Rs in mn)									
S. No.	**Store**	**Retail sq.ft**	**Selling sq.ft**	**FY00 Sales**	**FY01 Sales**	**YoY Growth**	**FY02 Sales**	**YoY Growth**	**FY03 Sales**	**YoY Growth**
1	Pantaloon Calcutta	16000	13000	153.155	194.194	27%	200.01	3%	208.0	4%
2	Pantaloon H'bad	16000	12000	72.554	89.363	23%	110.806	24%	116.3	5%
3	Pantaloon Nagpur	6000	4500	16.107	22.709	41%	31.055	37%	34.2	10%
4	Pantaloon Adyar	4500	3500	12.933	18.883	46%	21.992	16%	23.1	5%
5	Pantaloon Himayatnagar	9000	7200	23.632	29.749	26%	60.133	102%	63.1	5%
6	Pantaloon Secundrabad	1800	1300	9.402	12.564	34%	13.33	6%	14.0	5%
7	Pantaloon Crossroads	4000	3000	62.325	76.136	22%	85.008	12%	91.8	8%
8	Pantaloon Thane	6000	4500	32.672	46.361	42%	60.052	30%	66.1	10%
9	Pantaloon Pune	10000	8000	46.737	47.638	2%	60.184	26%	66.2	10%
10	pantaloon Spencers	22000	18000	11.226	94.11	738%	140.756	50%	154.8	10%
11	Pantaloon A'bad	26000	22000	12.658	150.582	1090%	190.074	26%	209.1	10%
12	Pantaloon Calcutta-II	46000	40000	-	20.458		350.035	1611%	378.0	8%
13	Pantaloon Kanpur	21000	18000	-	-		90.024		99.0	10%
14	New Store- Banglore	40000	32000	-	-		192		211.2	10%
15	New-Store-West Region	15000	12000	-	-		36		39.6	10%
16	New Store-Surat	30000	24000	-	-		64		70.4	10%
17	New Store-Vizag	15000	12000	-	-		21		23.1	10%
	Total	**288300**	**235000**	**453.401**	**802.747**	**77%**	**1726.459**	**115%**	**1868.1**	
									0.0	
18	Big Bazaar-H'bad	60000	50000	-	-	-	552		607.2	10%
19	Big Baazar-Calcutta	28000	24000	-	-	-	263.5		289.9	10%
	Total	**88000**	**74000**				**815.5**		**897.05**	
	New Stores after FY02									
	Big Baazar-Banglore		40000						320.0	
	Bigbazaar-Lower Parel		40000						400.0	
	Big Baazar Mumbai Suburb		40000						480.0	
	Store-Goregaon		40000						280.0	
	3 stores		120000							
	3 stores		120000							
20	Other Stores	25000	20355	108.7	247.3	127%	237.6	-4%	225.7	-5%
21	Other Garment Sales	0	0	92.4	170.5	85%	0.0	-100%	0.0	
		25000	20355	201.1	417.8	108%	237.6	-43%	225.7	-10%
	TOTAL	**401300**	**329355**	**654.5**	**1220.6**	**86%**	**2779.6**	**128%**	**4470.9**	

Trent Limited (Rs110) Buy

Sun rises from west (Side)…

- Erstwhile Fashion Company Lakme Limited now transformed into a retailer currently has 7 departmental stores in India. The transformation started with Trent's acquisition of Littlewoods store in south India.
- The company with FY01 Retail sales of 419mn posted a net profit of Rs101mn thanks to other income. The company with Rs148mn in cash (received from sale of Lakme), the reason for high other income of Rs 242mn, is all set to launch its grocery chain.
- The existing West Side chain of stores has an approximate area 126,000sq ft. The thrust is on apparels and home furnishing items with the store focusing vehemently on its own brand creation. Stores have been pretty successful in Pune, Mumbai and Calcutta with Mumbai store per square feet sales of Rs10,000 per annum.
- We believe with strong management, great lineage (Trent being a member of Tata group) and cash kitty the company is all set to transform the grocery retail business in northern India. Grocery chain plans though still in fluid state will see the company operating dozens of small stores (1500-2000sq.ft) in each of the metro it selects for the operation.
- Trent is expected to open implement its grocery lans in next 2-4 years probably in 3-5 cities with a hub and spoke model. Capex for the project will be mainly in furniture and fixtures. There is also a possibilty of company taking over an existing layer in South India. We expect the company to achieve a Rs1108mn top line by FY03 (a growth of 164% in next two years) and turn operationally profitable.
- The company trades at 18xFY03E earnings (Rs6 EPS) and 7xFY04 earnings (FY01A EPS of Rs7.6 with Rs18 in O.I.). Profits going forward will see the decreasing share coming from Other Income as the money is invested in operations. Margins too will witness an upward rise after the transition period is over. FY04E OPM thus stands at 9% while RoCE is 8%. Cash of Rs1480mn has a bearing on the valuations at 2xFY01 Sales. Going forward though we believe company would be trading in .8x-1x Sales (to grow by six times in next three years).
- Compelling valuations, retail operations turning profitable from Q3FY02, company's position as a pioneer in the field, strong cash position and good management offers an attractive opportunity. **BUY**

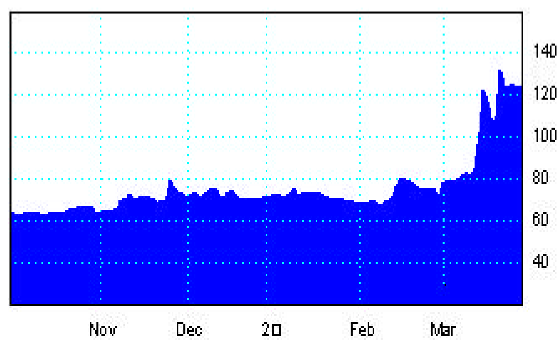
Brief Financials

Year	Sales	PAT	Chg %	EPS	CEPS	P/E	EV/ EBIDTA	ROE
FY01	419	102	-19%	7.6	9.2	9	9.6	5.2%
FY02	543	94	-8%	7.0	8.8	9	17.2	4.8%
FY03	1109	82	-12%	6.1	8.7	9	-9.3	4.2%
FY04	2463	154	87%	11.6	15.6	7	0.0	7.7%

Stock and Market Data

Market Cap	Rs1.45bn/USD29mn
Reuters code	TREN.BO
Bloomberg code	LAKME@IN
3-mth avg. dly vol (BSE)	25,000
Price range (52 week)	Rs138-Rs57
Free Float	74.6%
Promoters' Holdin	26.4%

Stock Performance



FINANCIALS

Earnings Statement

Yr to Mar (Rs mlns)	FY01F	FY02F	FY03	FY04
Sales Departmetal	419	543	696	875
Slaes Grocery	0	0	413	1588
Op Income	**419**	**543**	**1109**	**2463**
Inc/(dec) in stock	0	0	2	0
RM consumed	41	54	77	123
Purchases	150	203	543	1385
Salaries	56	71	94	152
Adv and sales prom	40	49	89	172
other	205	200	271	402
Op Expenses	491	577	1074	2234
Op Income	**-71**	**-34**	**36**	**230**
Other Inc	242	180	105	25
Fin Charges	0	0	0	0
Depreciation	20	23	34	52
Misc Exp w/off	0	0	0	0
Ext ord item	-50	0	0	0
Pre -tax Profit	100	122	107	202
Tax	0	31	27	51
PAT	100	92	80	152
excess prov	2	2	2	2
Net Profit	**102**	**94**	**82**	**154**

Cash Flow

Sources of Funds	FY01E	FY02E	FY03E	FY04E
Net Profit	102	94	82	154
Depreciation	16	23	34	52
Inc / (Dec) in Eq Cap	0	0	0	0
Inc / (Dec) in Sh Prem	0	0	0	0
Inc / (Dec) in Ln Fnds	-7	-11	0	0
Inc / (Dec) in Curr Liab	5	-72	31	74
Inc / (Dec) in Provis	0	-3	-2	-1
Total	115	31	145	279
Applications of Funds	0	0	0	0
Dividends	79	79	79	79
Tax on dividend	8	8	8	8
Inc / (Dec) in Gr Bk	25	41	174	309
Inc / (Dec) in CWIP	13	0	0	0
Inc / (Dec) in Invst	-284	-912	6	0
Inc / (Dec) in Inven	-1	4	94	226
Inc / (Dec) in Debtors	-1	0	6	5
Inc / (Dec) in Oth CA	0	0	0	0
Inc / (Dec) in Lns & Adv	260	-221	221	0
Inc / (Dec) in Misc Exp	10	0	0	0
TOTAL	109	-1001	588	626
Op cash bal	48	54	1086	643
ADD / (Deficit)	6	1032	-443	-347
Cl bal of cash	**54**	**1086**	**643**	**296**

Balance Sheet

Yr to Mar (Rs mlns)	FY01E	FY02E	FY03E	FY04E
Share Cap	131	131	131	131
Share Prem	0	0	0	0
Res and Sur	1776	1783	1779	1845
Shareholder's Fnds	1907	1914	1910	1977
Loan Funds	11	0	0	0
Total	**1918**	**1914**	**1910**	**1977**
App of Funds				
Gross Block	349	390	563	872
Depreciation	70	93	127	179
Net Block	279	296	436	693
Work in Progress	14	14	14	14
Net Fixed Invt	292	310	450	706
Investments	1018	106	112	112
In subsidiaries	33	33	33	33
others	985	73	79	79
CA, Ins and Adv's	798	1614	1492	1376
Inventories	86	90	185	411
Debtors	9	9	15	20
Cash and Bank	54	1086	643	296
Other CA	0	0	0	0
Loans and Adv	649	428	649	649
Current Liab	102	30	61	135
Provisions	98	95	93	92
Misc Exp	10	10	9	9
Total	**1918**	**1914**	**1910**	**1977**

Key Business Statistics

Yr to Mar	FY01E	FY02E	FY03E	FY04E
Operating Profit growth				536%
Earnings growth	-20%	-8%	-13%	89%
Operating margins	-17%	-6%	3%	9%
Pre-tax Margins	24%	23%	10%	8%
Net Profit Margins	15%	13%	7%	6%
Return on Equity	5%	5%	4%	8%
Return on Assets	5%	5%	4%	8%
Tax rate	0%	25%	25%	25%
Sales to Gross block	120%	139%	197%	282%
ROCE	5%	6%	6%	10%

Yr to Mar		FY01E	FY02E	FY03E	FY04E
EPS		8	7	6	12
	5	38	35	31	58
	10	76	70	61	116
	20	152	140	122	231
	30	228	210	183	347
	40	304	280	245	462

Indian Rayon (Rs70) Buy

The Ray(on)s of Hope…

- Indian Rayon (IRL) with the sale of its cement business and purchase of Madura Garments has totally changed itself into a growth company. The company now has five main businesses.
- **Carbon Black**: The division had FY01 sales of Rs2543mn up 16% YoY on the back of increased exports (up79%). OPMs though declined from 23% to 21%. Due to negative growth in domestic automobile industry the division has been under pressure. Going forward though we expect the company to perform better on the back of increasing exports and changing product mix.

  Insulators: Divisonal sales were Rs1836mn in FY01 up 18% YoY. Here again exports helped the company in registering growth.

  VFY: The division had Sales of Rs2635mn (up 12%YoY). The outlook for VFY industry is not very positive. Competition from PFY and changing fashion trends have made the going tougher for the division.

  Software: IRL recently bought 50.35% stake in PSI Data Systems for a consideration of Rs710mn. PSI's performance hasn't been good with losses of Rs48mn in Q2FY02. Due to on going slow down in US economy the performance is expected to remain depressed in near future.
- **Garments**: IRL bought Madura garments for Rs1660mn and also bought global rights for the brands for USD2.26mn. The company has global rights for manufacturing and marketing of Louis Phillippe, Peter England (barring UK and Ireland), Louis Phillippe, Van Heusen, Allen Solly, Byford, Sprittus and San Frisco. Madura has 100 franchise stores and has presence in 400 multibrand stores and 3000 retailers. The company enjoys a 36% market share in Premium branded shirts and 30% in trousers. Peter England is the largest selling branded shirt in the country with sales in excess of Rs1bn.
- The division had sales of Rs3255mn in FY01. OPM were low at 4% due to high advertising expenditure. The company going forward will launch a women's wear line and will be opening more exclusive outlets.
- With the increased availability, better promotional campaign, presence in both premium and economy segments and stabilizing operations we expect the company to register 20% growth in FY02 with improved margins.
- The stock trades at 5xFY01E earnings and 0.3xFY01 Sales. The company's working capital cycle we believe will improve from 103 days in FY00 to 87 days in FY02. Operating margins will improve marginally though net margins will remain same due to reduced other income.
- IRL is transforming into a growth company with business such as apparels/retail and software. The changing face of the company backed by professional management and improving operations makes the valuations attractive. We recommend a **Buy**.

Products

Production	FY99	FY00	FY01
VFY (MT)	14685	12621	15496
Carbon Black(MT)	63968	95828	89739
Insulator(MT)	24353	24353	26278
Sales in nos			
Shirts(no in mn)		0.96	4.72
Trousers(no in mn)		0.17	1.16
VFY(MT)	13662	13507	15326
Carbon Black(MT)	61243	94656	91735
Insulator(MT)		23701	25691
Avg Price			
Garments/ unit		508	554
VFY per MT	204802	173984	171930
Carbon Black/ MT	28820	23126	27721
Insulator/ MT		65398	71465
Textiles			

Garment Divison

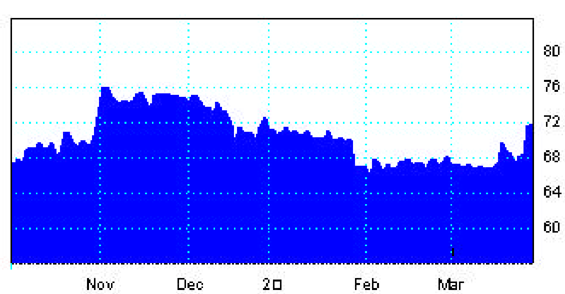
	FY01		
	Grmnt Dvsn	Indian Rayon	% of total
Sales	**3255**	**14227**	23%
Fabrics consumed	1059	6483	16%
Gross profit	2196	7743	28%
Total expenses	**1599**	**5375**	30%
Profit bf Adv and Roy	597	2368	25%
Adv	390	384	102%
Profit bef Roy Payment	207	1984	10%
Royalty	82	82	100%
Operating Profit	**125**	**1902**	7%

Stock and Market Data

Reuters code	IRYN.BO
BSE Index	3296
Price range (52week)	Rs59-Rs107
Free Float	74%
Major Shareholder	Promoters(27%), Funds(26%)

Key data and ratios

Market Capitalization	Rs4192mn/USD89mn
Issued Shares	60mn
Book val/ shr (FY00E)	Rs271
Next Results	Sep 01



FINANCIALS

Earnings Statement

	FY00	FY01	FY02E
Sales	11871	15260	16505
Excise	1151	1098	1601
Total	**10721**	**14162**	**14904**
Garments	574	3255	3906
VFY	2350	2635	2451
Carbon Black	2189	2543	2670
Insulator	1550	1836	2020
Textiles	3232	3411	3582
Trading & others	826	482	386
Total	**10721**	**14162**	**15013**
Inc/dec in stock	212	65	0
Expenditure	**9411**	**12325**	**12903**
Cost of Mat	5078	6483	6621
Purch of Fin Goods	595	455	420
Manu Exp	1861	2413	2492
Salaries	1082	1185	1201
Selling Exp	1380	2243	2589
Operating Profit	**1522**	**1902**	**2111**
Other Inc	522	317	335
Interest	743	747	690
Depriciation	719	695	789
mktg k-h writ off	10	39	30
Tax	0	57	141
PAT bef x-items	**576**	**685**	**796**
Exp losses	2988	0	0
Net Profit	**-2412**	**685**	**796**

Balance Sheet

	FY00	FY01	FY02
Share Capital	599	599	599
Reserves	10477	10961	11537
Loans	5962	4680	4600
Total Liabilities	**17037**	**16239**	**16736**
App of Funds			
Gross Block	12131	12446	13146
Depriciation	3712	4380	5169
Net Block	8419	8066	7977
CWIP	145	11	0
Asts disp	431	196	0
Investments	3442	3438	4148
Cas	***6135***	***6129***	***6523***
Inventories	2667	2765	2858
Debtors	2004	2143	2246
Cash	325	141	193
Lns and Adv	1120	1080	1225
Others	20	1	1
Curr liab	1654	1550	1633
Provisions	67	198	397
NCA	***4414***	***4381***	***4493***
Mktg k-h wrt off	187	147	117
Total Assets	**17037**	**16239**	**16736**

Cash Flow

	FY01	FY02
Sources of Funds		
Net Profit	685	797
Depreciation	669	789
Inc / (Dec) in Equity Capital	0	0
Inc / (Dec) in reserves	-4	0
Inc / (Dec) in Ln Fn	-1282	-80
Inc / (Dec) in Curr Liab	-105	84
Inc / (Dec) in Provis	131	199
Total	95	1788
Applications of Funds		
Dividends	180	200
Tax on dividend	18	20
Inc / (Dec) in Gr Bl	315	700
Inc / (Dec) in CWIP	-135	-11
Inc / (Dec) in asts disposal	-235	-196
Inc / (Dec) in Invst	-3	710
Inc / (Dec) in Inventories	98	93
Inc / (Dec) in Debtors	138	103
Inc / (Dec) in OCA	-19	0
Inc / (Dec) in Lns & Adv	-40	144
Inc / (Dec) in Misc Exp	-39.3	-30
TOTAL	278	1735
Op cash bal	324	140
ADD / (Deficit)	-183	52
Cl bal of cash	**140**	**193**

Key Business Statistics

Yr to Mar	FY00	FY01	FY02E
EPS	10	11	13
PE	7	6	5
Mkt Cap	4192	4192	4192
Mkt Cap/Tot Sales	0.4	0.3	0.3
MKt cap/gmnt sales	0.0	1.3	1.1
Debt/Equity	0.5	0.4	0.4
Sales/G.B	0.9	1.1	1.1
Recv Days	68	55	55
Invt days	91	71	70
WC Cycle	103	87	85
OPM	14%	13%	14%
NPM	5%	5%	5%

Zodiac Clothing Company Limited (Rs45) Buy

Brightening Stars…

- Zodiac Clothing Company Ltd. (Zodiac) part of the Zodiac group promoted by Noorani family is engaged in Apparel exports as well marketing 'Zodiac brand' in India. Zodiac is one of the biggest brand in the country in Premium shirt range while in Ties it has secured a enviable position. The company since last two years though has been experiencing flat performance. Zodiac had Sales (100% Exports) of Rs665mn in FY01. Domestic market is catered through the subsidiary Mayfair Ltd.
- The company is one of the major players in the premium apparels export market but due to weak European Union Market the growth rate in Rupee terms (1.9% CAGR 99-01) have not been attractive. The subsidiary Mayfair Ltd though has registered impressive CAGR of 13.7% in the same period.
- Zodiac exports mainly to Europe Countries. Clients range from Discount stores to Branded marketers. The company is expected to grow at a CAGR of 6% (2001-03) to 743mn by FY03. Operating margins in FY01 stands at 12.3% while net profit margins are 11% boosted by Other Income of Rs19mn.
- Mayfair Ltd, the subsidiary targeting domestic market sells Zodiac brand apparels through franchisee and group's own outlets throughout the country. Zodiac has 75 exclusive outlets in the country. Mayfair registered sales of Rs434mn in FY01 a growth of 12% YoY. Going forward due to increased retail focus and new line introduction (Zod, the casualwear brand) the company is expected to grow at a CAGR of 11% (FY01-FY03).
- On operational front Mayfair is on the path of expanding its NPMs from 1% to 3% thereby trebling its bottomline in next two years. The company in the past has been affected by the poor business practices of unorganized retailers. With the advent of organized players in retailing and increasing revenue share coming from them Mayfair will be able to consolidate its position and increase its margins. The better working capital cycle and increased number of owned stores would help the company in achieving better profitability.
- Zodiac group also owns about 10% stake in Shoppers Stop country's biggest retailer. The company though holds about 4% stake Valued at Rs37mn (according to last mkt deal). Shoppers stop has been performing badly since last two years (Rs220mn expected losses in FY01) but is expected to turn around by FY03.
- Zodiac has Rs40 per share in cash, trades at 1.4x FY02E consolidated earnings (0.1 two year forward PEG). Unlocking of value in Shoppers Stop stake is another upside. We recommend a **BUY**.

Brief Financials

Year	Net Sales	PAT	Chg %	EPS	CEPS	P/E	EV/ EBIDTA	ROE
FY00	632	80	5%	23.6	24.7	1.9	0.8	21%
FY01	666	76	-5%	22.5	23.8	2.0	0.6	18%
FY02E	683	77	1%	22.6	24.0	2.0	-0.2	16%
FY03F	743	84	9%	24.7	26.2	1.8	-0.6	15%

Consolidated revenues

	FY00	FY01	FY02	FY03
Total Income	1026	1114	1159	1292
Total Exp	958	1012	1056	1173
Op Inc	68	102	103	119
Other Income	43	19	18	18
Interest	12	20	16	15
Depriciation	6	7	7	7
PAT	93	95	99	114
Tax	7	3	4	7
PBT	87	91	94	108
EPS	26	27	28	32
PE	1.8	1.7	1.6	1.4

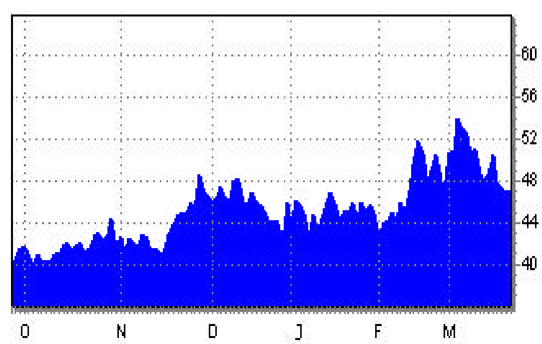
MayFair Ltd P&L A/c

Yr to Mar (Rs mlns)	FY00	FY01	FY02E	FY03F
Revenues				
Sales	384	430	461	530
Net Op Income	**387**	**434**	**465**	**534**
Op Expenses	**373**	**426**	**450**	**515**
Op Inc	24	20	23	31
Other Income	0	0	0	0
Net finl Charges	6	10	8	8
Depreciation	2	2	2	2
Misc Exp w/off	0	0	0	0
IT earlier years	0	0	0	0
Pre -tax Profit	16	8	13	21
Tax	7	3	4	7
Net Profit	**9**	**4**	**9**	**14**

Stock and Market Data

Reuters code	ZCCL.BO
Bloomberg code	ZDC@IN
BSE Index	
3-mth avg. dly vol (BSE)	
Price range (52 week)	Rs33-Rs83
Free Float	25%
Major Shareholder	Prom: 75%

Stock Performance



This memorandum is based upon information available to the public. No representation is made that it is accurate or complete. This is not an offer to buy or sell the securities mentioned herein. SCS and others associated with it may have positions in and effect

FINANCIALS

Earnings Statement

Yr to Mar (Rs mlns)	FY00	FY01	FY02F	FY03
Revenues				
Sales	599	598	628	688
Duty Drawback	27	61	50	50
Other Receipts	5	5	5	5
Net Operating Income	632	666	683	743
Inc/(dec) in stock	-3	3	3	3
RM consumed	336	310	318	345
Fin goods Purchased	22	51	50	54
Salaries	67	82	85	89
other	160	144	153	169
Tot Op expenses	585	586	606	658
Operating Income	44	82	80	88
Other Income	50	19	18	18
Net fin Charges	6	10	8	8
Less Depreciation	4	4	5	5
Pre -tax Profit	85	87	85	93
Tax	5	10	9	9
Net Profit	80	76	77	84

Balance Sheet

Yr to Mar (Rs mlns)	FY00	FY01	FY02F	FY03
Share Capital	34	34	34	34
Share Premium	0	0	0	0
Reserves and Surplus	342	399	457	523
ShareHolder's Funds	376	433	491	557
Total Loan Funds	0	62	60	55
Total	**376**	**495**	**551**	**612**
Gross Block	91	106	116	126
Depreciation	20	24	29	34
Net Block	71	82	87	92
Work in Progress	0	0	0	0
Net Fixed Assets	**71**	**82**	**87**	**92**
Investments	208	281	293	293
Current Assets, Loans and Advances	163	223	261	329
Inventories	49	69	0	0
Debtors	42	71	65	75
Cash and Bank	21	3	58	89
Other current Assets	0	0		
Loans and Advances	51	80	77	94
Current Liabilities	38	56	52	64
Provisions	32	37	40	40
Net Current Assets	94	130	169	225
Miscellaneous Exp	3	2		
Total	**376**	**495**	**551**	**612**

Cash Flow

Yr to Mar (Rs mlns)	FY00	FY01	FY02F	FY03
Sources of Funds				
Net Profit	80	76	77	84
Depreciation	4	4	5	5
Inc / (Dec) in Eq Cap	0	0	0	0
Inc / (Dec) in Sh Prem	0	0	0	0
Inc / (Dec) in Ln Fun	0	62	-2	-5
Inc / (Dec) in C Liab	-15	19	-5	12
Inc / (Dec) in Provis	3	5	3	0
TOTAL	**72**	**166**	**78**	**96**
Applications of Funds				
Dividends	17	17	17	17
Tax on dividend	4	2	2	2
Inc / (Dec) in Gr Bl	5	16	10	10
Inc / (Dec) in CWIP	0	0	0	0
Inc / (Dec) in Invst	77	73	11	0
Inc / (Dec) in Inven	0	20	-9	9
Inc / (Dec) in Deb	0	28	-5	10
Inc / (Dec) in Oth C A	0	0	0	0
Inc/ (Dec) in Lns & Adv	-32	29	-3	17
Inc / (Dec) in Misc Exp	-1	-1	0	0
TOTAL	**70**	**184**	**23**	**65**
Op cash bal	18	21	3	58
ADD / (Deficit)	2	-17	55	32
Cl bal of cash	**21**	**3**	**58**	**89**

Key Business Statistics

Yr to Mar (Rs mlns)	FY00	FY01	FY02F	FY03
Sales growth	-1%	5%	3%	9%
Operating Profit growth	-44%	87%	-3%	10%
Earnings growth	5%	-5%	1%	9%
Operating margins	7%	12%	12%	12%
Pre-tax Margins	13%	13%	12%	13%
Net Profit Margins	13%	11%	11%	11%
Return on Equity	21%	18%	16%	15%
Return on Assets	21%	15%	14%	14%
ROCE	24%	19%	17%	16%
Sales to Gross block	7	6	6	6
EV	37	53	-15	-52

Shoppers Stop (Unlisted) Subscribe

A brief Stop…

- Shopper's Stop founded by Raheja group as 7 shopping Malls in the country. Since 1991 the company has expanded to all the metros in the country and has presence in cities like Jaipur also.
- Seen as an industry leader because of the size and penetration, off late the chain hasn't been performing very well. The company posted a loss of Rs220mn on a Sale of Rs2200mn in FY01. The loss exceeded previous year's losses of Rs92mn.
- Earlier the company raised about Rs600mn through private placement. Alliance Capital, Morgan Stanley, ICICI Venture, Kothari Pioneer, Birla Sunlife and Zodiac Ltd. participated in the issue. The issue price (estimated) was Rs170.
- Recently most of the funds off-loaded their stake in favor of Zodiac group for an estimated price of Rs35. The delay in IPO combined with poor performance made the funds exit the company.
- Shoppers Stop posted OPMs of -1% in FY00 which deteriorated in FY01. The chain had Shoppers Stop also had to take a hit in its online venture shopersstop.com, a casualty of dot combust. Shoppers stop also faced problems in implementing its ERP system out-sourced from JDA. A lot of time and efficiency was lost in creating an advanced automated system which even after implementation didn't gave desired results.
- Another industry wide problem, huge shrinkage, widened the losses is also plaguing Shoppers Stop.
- We believe with capable management and improving systems Shoppers Stop would be able to turn profitable by FY03. The IPO plans though have to be postponed till such time and till the time markets improve.

P&L A/c

Yr to Mar (Rs mn)	FY99A	FY00A	FY01E	FY02F
Revenues	1178	1410	2200	2700
Expenditure				
COGS	822	1003		
Employee Cost	68	100		
Oth Op Expenses	170	255		
Admin expenses	48	70		
Tot Exp	**1108**	**1428**	**2310**	**2600**
Op Profit	70	-18	-110	100
OPM	*6%*	*-1%*	*-5%*	*4%*
Other Income	5	13	13	15
Int, fin chgs and oth	43	36	60	80
Depreciation	7	42	60	75
PBT	25	-84	-217	-40
Tax	0	0	0	0
PAT	25	-84	-217	-40
Prior period item	3	8	0	0
Net Profit	22	-92	-217	-40

Balance Sheet

Yr to Mar (Rs in mn)	FY99	FY00
Share Capital	175	263
Reserves and Surplus	32	569
Share Holders Funds	**207**	**832**
Loan Funds	208	432
Sec Funds	149	432
Unsecured Funds	59	
	415	**1264**
Fixed Assets		
Gross Block	145	289
Less: Acc dep	8	49
Net Block	137	239
Cap WIP	6	2
	143	241
Investments	0	69
CA, Loans and Advances		
Inventories	163	167
Sundry Debtors	4	6
Cash and Bank balance	6	385
Laons and Advances	175	447
CL and Provisions	95	153
Net CA	252	852
Misc Expenses	20	43
P&L A/c		59
	415	**1264**

SPAN CAPITAL SERVICES

India Retail Industry

Company	Price	Equity	No of shares	Market Cap	EPS	PE	Mkt cap/Sales	52week High	52 week Low	Sales		Operating Profit		Net Profit	
Indian (Rs mn except per share data)					*FY01*	*FY01*	*FY01*			*FY00*	*FY01*	*FY00*	*FY01*	*FY00*	*FY01*
Indian Rayon	67	599	60	4012		na	1.2	107	59	574	3255		125		-197
Raymonds Apparels	UL	20	2	na		na	na	144	84	1122	1387	127	154	71	83
Pantaloon	45	133	13	599	5.1	8.8	0.5	37	13	646	1221	104	165	49	68
Zodiac	49	34	3	166	22.5	2.2	0.2	95	32	632	666	44	82	80	76
Mayfair: Zodiac Subsidiary	UL	10								387	434	24	20	9	4
Trent	115	131	13	1509	7.8	14.8	3.6	98	58	336	419	-77	-71	125	102
Shoppers Stop	UL/35	263	26	919	-8.0	na	0.4	35	135	1533	2400	-55		-92	-210
Provogue	UL	40	4							140	200	2	15	1	12
Arvind Clothing	UL			4000											
Indus League	UL			500											
Global Chains (USD mn except per share data)															
Wal Mart	53	446	4470	250	1.4	39.0	1.31	59	41	165013	191329	10105	11490	5745	6424
Carrefour(USD)	55	711	711	39	1.7	32.5	0.69			45896	57253	2852	3897	979	1210
Kroger	24	815	815	22	1.1	24.8	0.45	28	20	45352	49000	2685	3191	623	880
Home depot	40	115	2324	116	1.1	44.8	2.53	60	35	38434	45738	3808	4191	2320	2581
K Mart	6	487	487	6	-0.4	na	0.16	12	5	35925	37028	1300	-45	683	-198
JC Penny	22	3294	263	7	-2.2	na	0.23	30	9	31743	31846	697	-337	174	-568
Gap	14	854	856	24	1.0	27.0	1.74	35	19	11635	13674	1817	1446	1128.6	878.6
Clarie's	12	2	49	1	1.3	12.9	0.79	25	16	847	1060	160	154	88	65

Notes: *1Pantaloon apparel Sales only. Total Sales FY00: Rs1354mn, FY01E:Rs1720mn*

2.Provogue: Deferred rev expenditure for FY00 and FY01 (estimated) taken as expense for comparison. FY00 reported profit Rs36.8mn and FY02 Rs40mn

3. Arvind Clothing: ICICI paid Rs1000mn for 25% stake

4. Indus League: ICICI paid Rs100mn for 20% stake

5. Year end: Mar: Indian cos Jan: Walmart, Kmart, Claire's, Homedepot, Kroger and JC penny
Dec:Careefour (figures for year ending DecFY99 and DecFY00 May: Gap

6.Careefour figures (including share price) converted into USD.

7.UL: Unlisted; na:not applicable/not available

8. Shoppers Stop Last placement done At Rs35

Company	OPM		NPM		RoCE		Inventory days		Debtor's Days		Inventory+ Debtors Days	
Indian (Rs mn except per share data)	*FY00*	*FY01*	*FY00*	*FY01*			*FY00*	*FY01*	*FY00*	*FY01*	*FY00*	*FY01*
Indian Rayon		4%		-6%	-ve	-ve	89	71	67	55	156	126
Raymonds Apparels	11%	11%	6%	6%	17%	12%	100	94	67	69	167	163
Pantaloon	16%	14%	3.6%	4.1%	7%	6%	100	96	27	27	127	123
Zodiac	7%	12%	13%	11%	21%	15%	29	38	24	39	53	77
Mayfair: Zodiac Subsidiary	6%	5%	2%	1%	6%	2%	127	120	66	65	193	185
Trent	-23%	-17%	37%	24%	7%	5%	0	na	0	na	0	na
Shoppers Stop	-4%		-6%	-9%	-7%		40		1		41	
Provogue	2%	8%	0%	6%	1%	na	103	na	78	na	181	na
Arvind Clothing												
Indus League												
Global Chains (USD mn except per share data)												
Wal Mart	6%	6%	3%	3%	13%	13%	44	41	3	3	47	44
Carrefour(USD)	6%	7%	2%	2%	5%	5%	35	32	7	7	41	40
Kroger	6%	7%	1%	2%	5%	7%	32	30	5	5	37	35
Home depot	10%	9%	6%	6%	17%	15%	52	52	6	7	58	59
K Mart	4%	0%	2%	-1%	6%	-2%	72	63	0	0	72	63
JC Penny	2%	-1%	1%	-2%	1%	-4%	68	60	11	10	79	71
Gap	16%	11%	10%	6%	27%	18%	60	55	0	0	60	55
Clarie's	19%	15%	10%	6%	15%	11%	47	39	0	0	47	39

	Curr Liab tunover Days		**Working Cap cycle**		**Major Brands**
	FY00	*FY01*	*FY00*	*FY01*	
Indian Rayon	55	40	101	86	Peter England, Allen Solly, Van Heusen, Louis Philippe, San Frisco
Raymonds Apparels	77	64	90	100	Parx, Park Avenue, Raymonds, Manzoni
Pantaloon	64	64	63	59	John Miller, Pantaloon, Bare
Zodiac	22	31	31	46	
Mayfair: Zodiac Subsidiary	88	90	105	95	Zodiac, Zod
Trent	423	na	-423	na	Westside, Trent
Shoppers Stop	37		5		Stop
Provogue	74	na	107	na	Provogue
Arvind Clothing					
Indus League					
Global Chains (USD mn except per share data)					
Wal Mart	57	55	-10	-11	
Carrefour(USD)	71	71	-29	-31	
Kroger	46	42	-9	-6	
Home depot	35	35	23	24	
K Mart	41	37	31	26	
JC Penny	49	49	30	22	
Gap	88	71	-28	-16	
Clarie's	42	34	5	4	

Annexures

Appendix 1

GDP Growth Rate						
Countries	**1996**	**1997**	**1998**	**1999**	**2000**	**CAGR**
China	9.6	8.8	7.8	7.1	7.9	8.2%
Singapore	7.5	8.7	0.1	5.9	9.9	6.3%
India	**7.0**	**4.6**	**6.8**	**6.5**	**5.8**	**6.1%**
Mexico	5.2	6.8	5.0	3.8	6.9	5.5%
Egypt, Arab Rep.	5.0	5.5	5.6	6.0	5.1	5.4%
Poland	6.0	6.8	4.8	4.1	4.1	5.2%
Bangladesh	4.6	5.4	5.2	4.9	5.5	5.1%
Finland	4.0	6.3	5.5	4.0	5.7	5.1%
Iceland	5.7	5.3	5.1	4.3	3.6	4.8%
Korea, Rep.	6.8	5.0	-6.7	10.9	8.8	4.8%
Malaysia	10.0	7.3	-7.4	5.8	8.5	4.7%
Australia	3.8	4.7	4.5	4.4	4.2	4.3%
United States	3.6	4.4	4.4	3.6	5.2	4.2%
Hungary	1.3	4.6	4.9	4.5	5.2	4.1%
Turkey	6.8	7.5	3.1	-5.2	7.2	3.8%
Israel	5.1	3.2	2.6	2.2	5.7	3.7%
Canada	1.5	4.4	3.3	4.6	4.8	3.7%
Netherlands	3.0	3.8	3.7	3.6	4.5	3.7%
Spain	2.3	3.8	4.0	3.8	4.1	3.6%
Philippines	5.9	5.2	-0.6	3.3	4.0	3.5%
Hong Kong, China	4.5	5.0	-5.3	3.1	10.5	3.4%
Portugal	3.6	3.7	3.5	3.0	3.2	3.4%
Pakistan	4.9	1.0	2.6	2.7	5.9	3.4%
Greece	2.4	3.4	3.7	3.4	4.0	3.4%
Norway	4.9	4.7	2.0	0.9	3.1	3.1%
United Kingdom	2.6	3.5	2.6	2.1	3.0	2.8%
Sweden	1.1	2.0	3.0	3.8	4.0	2.8%
Belgium	1.0	3.5	2.7	2.5	3.8	2.7%
Argentina	5.5	8.1	3.9	-3.4	-0.5	2.6%
Denmark	2.5	3.1	2.5	1.7	2.8	2.5%
New Zealand	2.7	1.9	0.0	4.4	3.6	2.5%
France	1.1	1.9	3.1	2.9	3.3	2.5%
South Africa	4.2	2.5	0.7	1.9	3.1	2.5%
Austria	2.0	1.2	2.9	2.1	3.6	2.3%
Brazil	2.7	3.3	0.2	0.8	4.5	2.3%
Germany	0.8	1.5	2.2	1.5	3.0	1.8%
Switzerland	0.3	1.7	2.1	1.0	3.3	1.7%
Japan	5.1	1.6	-2.5	0.2	1.9	1.2%
Russian Federation	-3.4	0.9	-4.9	5.4	8.3	1.1%
Thailand	5.9	-1.5	-10.8	4.2	4.3	0.2%

Source: World Development Indicators database

Annexure 2
Classification

The classification		
Mass Retailer Types	**Characterstics**	**Leading US Players**
Discount Store	Deep Discount on broad range of product categories	WalMart, K-Mart, Target
Specilaity Store	Concepts focussed on limited product categories, eg: category killers	Toys "R" Us, Circuit City
Home Centre	"Do it yourself/buy it yourself", building product categories	Home Depot
Wholesale Club	Warehouse-oriented retail space offering low prices to members	SAM's Club
Catalog Showroom	Merchandise ordered from catalog in store and products pulled from inventory	Service Merchandise

Source: Discount Merchandiser

Annexure 3

A few VC Deals			
Company	**VC**	**Deal inked in**	**Details**
Indus league	ICICI Venture, Draper International	Jan-00	Not Available
Crosswords	ICICI Venture	Dec-00	60%
Shoppers Stop	Alliance, Morgan Stanley Private Equity, Warbur Pincus, Birla Sunlife, ILFS Venture, ICICI Venture	Jan-Apr 2000	Rs110 (Rs10 plus Rs100 premium)
Pantaloon	ICICI Venture	Oct-00	
Landmark	In Process		
Dominos India	Indocean Chase Capital Advisors	1999	26%
Pizza Corner	ICICI Venture	Jan-00	33% stake at Rs15crore (Rs100 plus Rs100 premium)

Market Size	Value (Rs Bn)	Volume (mn)
Textiles Industry	1700.0	
VFY	10.3	60.00
VSF	13.0	190.00
PFY	55.6	616.00
NFY	5.5	31.00
Nylon Tyre Yarn & Fabrics	11.8	
PSF	26.2	446.00
ASF		106.00
Man-Made Fibres	122.4	
Fabric	1400.0	
Spun Yarn	300.0	
Jute goods	41.0	
Woollen fabrics	12.0	
Woollen and blended yarn	4.6	
Carpets rugs etc	1.5	
Cotton availability (no of bales (170kg each)		0.01
(000 tons)		2.98
Cloth production (FY02E) mn sq m		0.04
Apparel Market	**140.0**	
Footwear Total	50.0	
Footwear organized	12.0	
Semi Formal Premium footwear	2.5-3	
Semiformal	4.2	
Formal	2.4	
Casual	5.4	
Food	1220.0	
Bakery		
Bakery Shortning	0.0	
Biscuits (in mn Tons)	40.0	1.10
Bread (in mn Tons)	16.0	1.50
Cake (in mn Tons)		0.44
Biscuits	28.0	
Confectionary	12.5	
Pizza Market	1.8	
Milk Products		
Milk (vol in mn MT)	470.0	36.00
Milk products		3.07
Malted food		0.07
Cheese		0.01
Condensed milk		0.01
Butter		0.40
Malted milkfoods	10.0	
Condesed milk	9.0	
Butter, ghee	6.0	
Infant milk foods	5.0	
Icecream	2.6	
Yeast	0.9	
Beverages		
Tea (mn kg)	65.0	684.00
Coffee gm per capita		55.00
Instant coffee (tons)		1700.00
Coffee	39.0	
Soft Drink	5.0	7000.00
Malted Beverages (000 tons)		82.00
Mineral Water	0.9	
Wines, Spirits & Liquors	48.0	
Beer	10.2	
Industrial Alcohols	1.8	

Market Size	Value (Rs Bn)	Volume (mn)
Edible Oil (mn ton)	400.0	9
Vanaspati	39.0	
Vegetable oil	270.0	
Refined oil		2
Others		
Sauces/jam	2.0	
Fruit juice/concentrates	2.6	
Breakfast cereal	0.5	
Snack Food (tons)	14.0	0.35
Chips	2.0	0.0065
Marine products	240.0	
Spices	120.0	
Flour milling products	69.0	
Salt	5.0	
Iodized salt	3.0	
Gaur gum	4.7	
Citric acid	0.7	
Sorbitol	0.6	
Starch	5.5	
Poultry	90.0	
Eggs		30000
Briolers		1000
Poultry Meat (tons)		0.5
Staples		
Sugar (mn tons)	210.0	14.8
Rice FY00	25.0	88.55
Wheat (mn tons) FY00		70.1
Kharif FY01		103.1
Rabi FY01		92.96
Total Crop Production FY01		196.06
Total Pulses		13.55
Mushrooms	0.8	
Animal feeds	29.0	
Soya products	16.0	
Pharma	140.0	
White goods	50.0	
Air Conditionaer	20.0	0.7
Room air conditioner		0.56
Split airconditioner		0.13
Organized Acs Mkt share	0.2	
Rrefrigerators	20.0	3
Washing machines	12.0	1.2
Semi Automatic	5.7	0.954
Fully automatic	2.5	0.1776
Fully automatic front load	1.3	0.0684
Mmicrowaves		0.15
Dishwashers		0.012
Air Coolers	0.5	
Electronics Television Receivers	**273.1**	
Audio Products	14.0	6.7
Music Systems	4.5	0.335
Stereo Cassette Recorder	2.4	1.206
Mono Cassette Recorder	1.4	1.407
Radios	1.2	2.948
HeadPhone Stereos	0.5	0.804

Market Size	Value (Rs Bn)	Volume (mn)
CTV-FY01		
MNC Mkt Share		35%
CTV		4.4
14"		0.88
Electronic Tests Measuring Inst.	15.9	
Television Picture Tubes	15.3	
Medical Equipments	15.2	
Capacitor	5.1	
Printed Circuit Boards	4.6	
Resistors	3.3	
Telephone Instruments	2.2	
Private Automatic Branch	1.7	
Transmission Equipment	12.5	
Process Control Equipment	9.9	
Automobiles -FY00	**304.2**	
Cars	100.2	0.638815
LCV/HCV	44.5	0.171319
M&HCV		0.111195
MUVs	34.7	0.123422
Tractors	59.0	0.121106
Two Wheelers		3.78
Scooters		1.25
Motorcycles	40.1	1.8
Mopeds	8.3	0.73
Three wheelers	9.7	0.205238
Scooters	30.0	
LCV	24.3	
Bicycles	12.5	
Tyres (mn nos)		42.47
Tobbaco		
Cigarettes (mn sticks) FY00	85.3	88546
Tobbaco all forms (mn kgs)		450
No of users (mn)		
Bidis		125
Chewing	7.5	77
Cigaretts		88
Life insurance market	200.0	
electrical machinary sector		
Hair Care		
Branded Coconut Oil	8.2	
Unbranded Coconut Oil	6.0	
Valu added hair oil	4.2	
Shampoo	5.1	
Hair Soap	1.0	
Dye/Hair Color	0.7	
Herbal Remedies	0.1	
Creams/Gels	0.3	
Soaps (mn tpa)	30.0	0.54
Household care Products		
Utensil Cleaning Products	1.1	
Phenyl	7.0	
Household disinfectants	0.7	
Tiolet Cleaner segment	0.4	
Insectisides and Repellents	6.0	
Icecream	16.0	
Oral Care (vol 000 tons)		
Toothpaste	16.0	79
Tooth Powder	5.0	27
Tooth brush (mn nos)	4.8	500

Market Size	Value (Rs Bn)	Volume (mn)
Paints	43.0	0.6
Hotels		
5 Star/5 Star Deluxe rooms		23500
Inorganic Chemicals	**77.2**	
Ammonia	18.7	
Caustic Soda	14.8	
Soda Ash	14.4	
Carbon Black	8.3	
Oxygen	3.4	
Sulphuric Acid	3.3	
Chlorine incl. Liquid Chlorine	2.5	
Phosphorous	2.3	
Calcium Carbide	1.9	
Calcium Carbonate	1.6	
Titanium Oxides	1.6	
Sodium Tri-Poly-Phosphate	1.4	
Nitric Acid	1.2	
Sodium Bi-Carbonate	0.7	
Stable Bleaching Powder	0.6	
Aluminium Chloride	0.6	
Organic Chemicals	**58.2**	
Linear Alkyl Benzene	11.5	
Xylenes	8.6	
Ethylene Glycol	6.4	
Caprolactum	5.1	
Benzene	4.5	
Phenol	4.4	
Acetic Acid	4.2	
Phthalic Anhydride	3.6	
Methanol	3.3	
Fatty Acids	2.9	
Acetone	1.5	
Aniline	1.4	
Formaldehyde	0.8	
Fertilisers	**218.3**	
Urea	100.3	
Di-ammonium Phosphate	64.0	
Mixed & Complex fertilisers other	36.6	
Phosphatic Fertilisers	9.9	
Other Nitrogenous Fertilisers	5.2	
Ammonium Nitrate	2.3	
Non-metallic Products	**454.8**	
Diamonds	195.6	
Cement	181.0	
Glass	25.9	
Glass Hollowares	11.6	
Refractories	10.5	
Floor & Wall Tiles	10.1	
Asbestos Cement & Products	9.0	
Abrasives	4.9	
Granite	2.6	
Sanitarywares & Fittings	2.6	
Opthalmic Glass and Contact Lenses	0.9	

Market Size	Value (Rs Bn)	Volume (mn)
Metals	**723.9**	
Steel	371.9	
Alloy Steels	90.0	
Fabricated Steel Structurals	65.4	
Steel Pipes & Tubes Excl. Seamless	33.0	
Sponge Iron	24.0	
Castings	22.5	
Pig Iron	19.5	
Transmission Tower Structures	16.4	
Ferro Alloys	15.5	
Steel Wires & Ropes	15.4	
Seamless Pipes & Tubes	13.2	
Forgings	13.0	
Metal Containers	0.0	
(Incl. Cylinders)	10.1	
Nuts, Bolts, Rivets, etc.	6.9	
Razor Blades & Other Shaving	4.7	
Pressure Cookers	2.3	
Non-ferrous Metals	**112.4**	
Copper and Copper Products	44.6	
Primary Aluminium	33.7	
Aluminium Products	28.3	
Aluminium Foils	5.8	
Non-electrical Machinery	**314.6**	
Machine Tools	37.6	
Earth Moving Machinery	28.2	
Textile Machinery	22.7	
Bearings	22.5	
Engines of All Types	21.7	
Boilers	18.3	
Pumps of All Kinds	14.0	
Chemical Machinery	13.4	
Compressors, All Types	11.7	
Steam and Hydro Turbines	8.9	
Metallurgical Machinery	8.2	
Environment Control Equipment	7.8	
Gears	6.3	
Material Handling Equipment	5.8	
Valves	5.1	
Sugar Machinery	4.1	
Cranes	4.0	
Printing Machinery	3.7	
Sewing Machines	3.3	
Lifts & Escalators	2.7	
Agricultural Machinery	2.7	
Cement Machinery	1.8	
Fire Protection Systems	0.9	
Electrical Machinery	**220.7**	
Wires and Cables	48.1	
Motors and Generators	25.5	
Switchgears of All Types	24.3	
Transformers	13.0	
Storage Batteries	12.8	
Welding Machinery and Electrodes	11.7	
Lamps and Tubes	10.7	
Dry Cells	9.1	
Electrical Fans	7.6	
Insulators	3.6	
Energy Meters	2.7	
Portable Gensets	2.1	
Vacuum Cleaners	1.2	
Stampings and Laminations	1.1	

PPP Dillema and Indian oppurtunity.

India has been a Waterloo for many Multinationals. The poor understanding of the market combined with overestimated market size and resistance towards localizing has made many of them faded into oblivion. Lured by the prospect of one billion breakfast eaters, Kellogg, the U.S. cereals giant, ventured into India in the mid-1990s. The company hasn't been able to make a dent in the market of consumers either prepared breakfast from scratch every morning, or grabbing some biscuits with tea at a roadside tea stall. Many other An inquiry into the reasons of poor performance of most of the MNCs throws up some interesting observations.
For the starters the local competition has been tougher then expected and there is a fierce competition in the top product categories between the MNCs themselves. Passenger car segment is a classic example with Maruti still on top and MNCs fighting for a high range market which was grossly overestimated. The realization that Indian elite population of 10-20mn not being enough the companies are now changing their strategy by getting local.
The assumption that emerging market consumers are rapidly becoming more like their affluent market counterparts, is true. But the rate of change is not as rapid as contended. In most emerging markets, the mass market will remain poor well beyond the current planning horizons of most multinationals. It is far from certain that Indian consumers' preferences will converge with those of Europeans or Americans.

Reverse PPP

The concept of Purchasing Power Parity (PPP) has dogged many companies. Prices need to be established in the context of local consumers' purchasing power, rather than in relation to international standards. PPP exchange rates estimate the value of a currency in terms of the basket of goods that it buys (compared with the cost of a similar basket in a reference country and currency) rather than in terms of the existing market exchange rates. By this measure, most emerging market currencies are severely undervalued relative to hard currencies, meaning that they actually buy more than one would expect, given the market exchange rate. International firms are attracted to many emerging markets precisely because of the size of the market in PPP terms. In China the number of consumers in the $10,000 to $40,000 income range is less than 3 million at market exchange rates, but over 80 million at PPP rates, a distortion devised to deceive? Companies often fail to recognize that this large potential market is only accessible if product prices are established relative to local purchasing power rather than by converting international prices at market exchange rates. In other words, international firms need to work backwards from the PPP numbers to price their products.

High Savings Rates

High savings rates in India is another aspect which makes the market immensely attractive. The assumption that high savings rates in emerging markets stem from the lack of purchase options has again befooled many. While this is true to some extent, the rate of conversion from savings to consumption has been slow. High savings rates are more due to the lack of an institutionalized social net then any other reason. This encourages what in the west is called a "depression era mentality," that discourages profligacy. People save for a "rainy day".

Volumes Drive Profits, Not Margins.

This we believe is the key for the Indian markets. Nobody has understood it better then HLL subsidiary of Unilever. Another example is Cadbury which knows that Indian consumers are willing to pay about one cent for an impulse purchase candy. The company delivers packs of these candies to retailers who then break the bulk and sell the candy by the unit. Cadbury's international managers question why their company should spend time, effort, and money selling products that retail at one cent. But in this market, it is the enormous volumes, not the margins that drive profitability. If 10% of the population were to buy just one candy a week, annual sales would exceed $60 million.

Income Flow Variability

Another factor to be considered by MNCs and Discount stores is the income flow variability. A significant proportion of the working population in India is either paid daily wages or earns in that fashion (a small shop owner for example) a practice practically non-existent in developed markets. Daily wage earners tend to have little stock of money, only a flow. Consequently, they tend to make purchases only to meet their daily needs, and have little capacity to build inventory. The marketing implications are far-reaching. Not only are pack sizes, and price points affected, but it turns out that consumers' trade-off purchases across a much wider array of product categories.

Nanz: A case study

It was India's one of the first modern grocery chain, though extinct now. Are there lessons to be learnt?

Nanz was promoted as a grocery chain in 1993 in India's capital Delhi by Nandas of Escorts, Helmut Nanz of German Retail Chain Don Marsha and CEO of Village Pantry a US convenience store.
In 2000 it had to shut down because of increasing losses and the chains inability to penetrate the market. The closure had dealt a major blow to the prospective entrants in the industry. The failure has evoked concerns in the mind of most of the investors and chains regarding the logistics and profitability of the segment. But low gross margins were not the only factor driving the ship down. The reasons cited by all and sundry for the downfall ranges from high real estate cost to the management issues.

Few of the company's stores were located in prime locations with high rental (Rs5lakh per month in 1993 in Greater Kailash) and power costs. For a grocery store that proposition proved to be expensive. The ambiance too was little too sophisticated for a grocery store and for middle class buyers. Probably the clarity on target market was missing.
Then there were disputes with Delhi Municipal Corporation whereby one of company's store was partly demolished.
The logistics for the chain were never fully developed. The model for grocery store has to be different from other formats, which in Nanz' case was not taken into consideration. The system in place for procurement and supply was not conducive for the grocery business and Delhi market. This pulled down the profitability and returns. The in-house systems too were not sophisticated enough for a chain of that size. Pilferage was high and still there were no close circuit cameras deployed.

Vendor development also wasn’t done with proper hindsight and sourcing most of the time was done from distributors and not manufacturers. Of course in India this is not so easy because of monopolistic powers of FMCG majors and inter state Tax discrepancies (Delhi, Punjab and Haryana: Nanz' market) but still whatever advantage the chain ad wasn’t leveraged properly.

Then there were management issues like six different CEOs, Nanz the foreign partner was internationally pulling out from the business and Nandas were not performing very well in their core businesses.