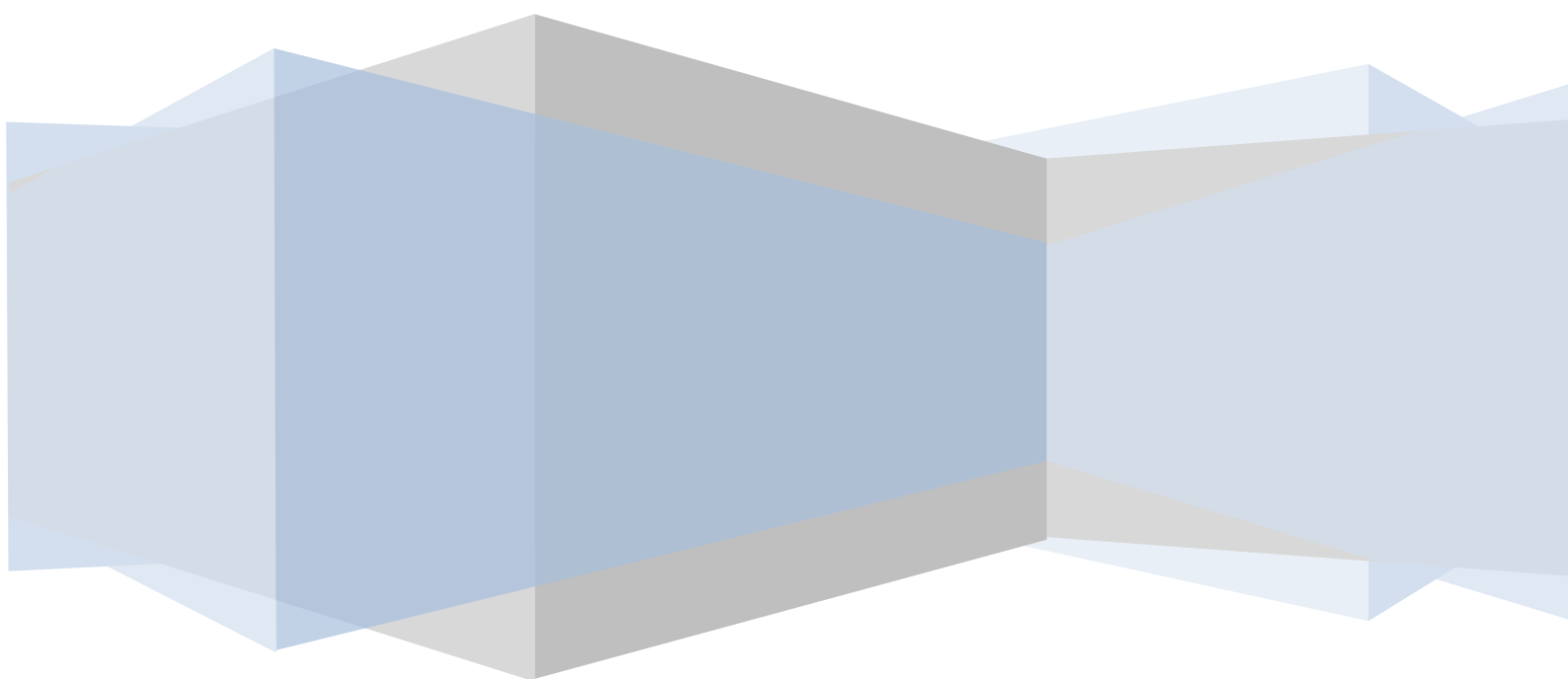


INDIA RETAIL APPAREL

NORTHBRIDGE CAPITAL

JANUARY 2011

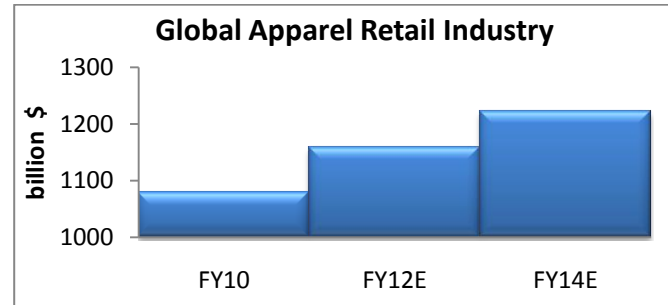


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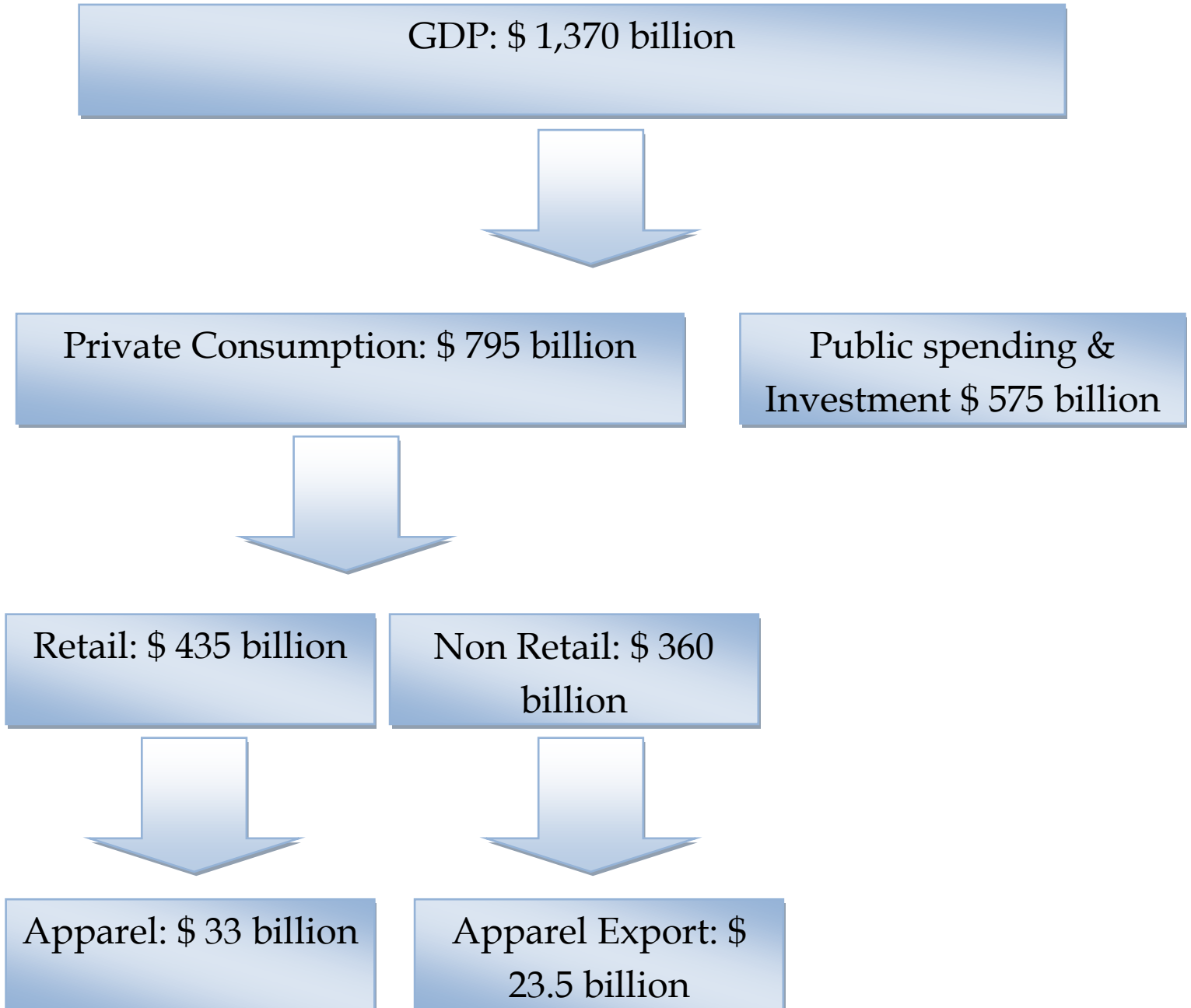
EXECUTIVE SUMMARY

- The global apparel retail industry grew by 2.1% in FY10 to reach a value of \$1,078.2 billion. In 2014, the global apparel retail industry is forecast to have a value of \$1,222.7 billion, an increase of 13.4% since 2009.



- The Indian apparel retail industry had total revenue of \$28,102.6 million in FY10, representing a compound annual growth rate (CAGR) of 9.9% for the period spanning 2005-2009.
- India's Apparel industry (domestic + exports) is expected to grow from the current \$ 70 billion to \$ 220 billion by 2020.
- The Indian domestic Apparel market size in FY10 was \$ 47 billion and is expected to grow at 11% CAGR to reach \$ 140 billion by 2020.
- India's exports have also recovered in FY10 following increased global demand and is currently worth \$ 23.5 billion
- India has been ranked as the top retail destination globally for retail investment attractiveness among 30 emerging markets in the world. The Indian retail sector is the second largest untapped market after China.
- Retail business contributes around 11 percent of India's GDP. Retailing as a sector is witnessing revolution in India. Retailing in India is gradually becoming the next boom industry. The growth of India's retail sector not only limited to urban areas but also growing in rural areas. In the next five years, it is expected that, India's retail industry will expand more than 80%.
- Higher disposable income coupled with favorable demographic changes (Increase in working women population, rise in nuclear family, largest young population and higher growth in urban and sub-urban population), changes in consumer needs, attitudes and behavior, and increased credit friendliness are some of the key growth drivers for modern retail in India.

APPARELS CONTRIBUTION TO INDIA'S GDP



SWOT ANALYSIS

STRENGTH

- Growing domestic market, increase in number of malls
- Democracy provides a stable economic and social environment, putting international players at ease
- Easy credit facility and plastic card revolution is increasing the purchasing power, particularly of the younger generations.

WEAKNESS

- Predominance of unorganized sector
- Technological obsolescence in the supply chain
- Taxation hindrances:
VAT and multiple tax levies.
Inconsistent octroi and entry tax structure.
Presence of large grey market

OPPORTUNITIES

- Increasing demand for brands from the middle class
- Research and new product development can help the companies to move across the value chain
- Retail sector in rural India is almost untouched, presenting tremendous opportunity

THREATS

- Increased competition in the domestic markets
- Cheaper imports
- Changing Government's policy on FDI
- Price of land and lease rentals are high while margins are low

REGULATORY SCENARIO

The retail sector has not been conferred an industry status till now. Hence, there are no specific rules and regulations governing the sector. However, there are certain laws pertaining to the establishment of stores and conduct of activities, which retailers need to follow. The following are some of the legislations that regulate the sector:

- The Shop and Establishments Act
- The Standards of Weights and Measures Act
- The Provisions of the Contract Labor(Regulations and Abolition) Act
- The Income Tax Act
- The Customs Act
- The Companies Act

Observers point out that the regulatory environment is not very conducive to the growth of organised modern retailing in India. In addition to the above laws:

- Retail companies have to follow certain regional rules and regulations on the basis of their stores location; different states have different laws to regulate the retail trade.
- Land conversion process is complex.
- Licensing is cumbersome.
- Taxes are different from state to state on goods movement. For example, some states levy entry tax; a few levy exit taxes; there is the central sales tax (CST) on inter-state sales and value added tax (VAT) on different products.

Goods and Service Tax (GST)

GST, which is expected to be introduced in India with effect from April 1, 2011, aims to establish an economically efficient tax system that is neutral in its application, attractive in terms of distribution and removes the tax cascading prevalent in the existing system.

Implementation of GST is expected to simplify the supply chain for consumer goods, make cash flow improvements by removing the excise duty on goods manufacturing, lower business input costs and enable enhanced profitability due to the elimination of tax cascading, etc.

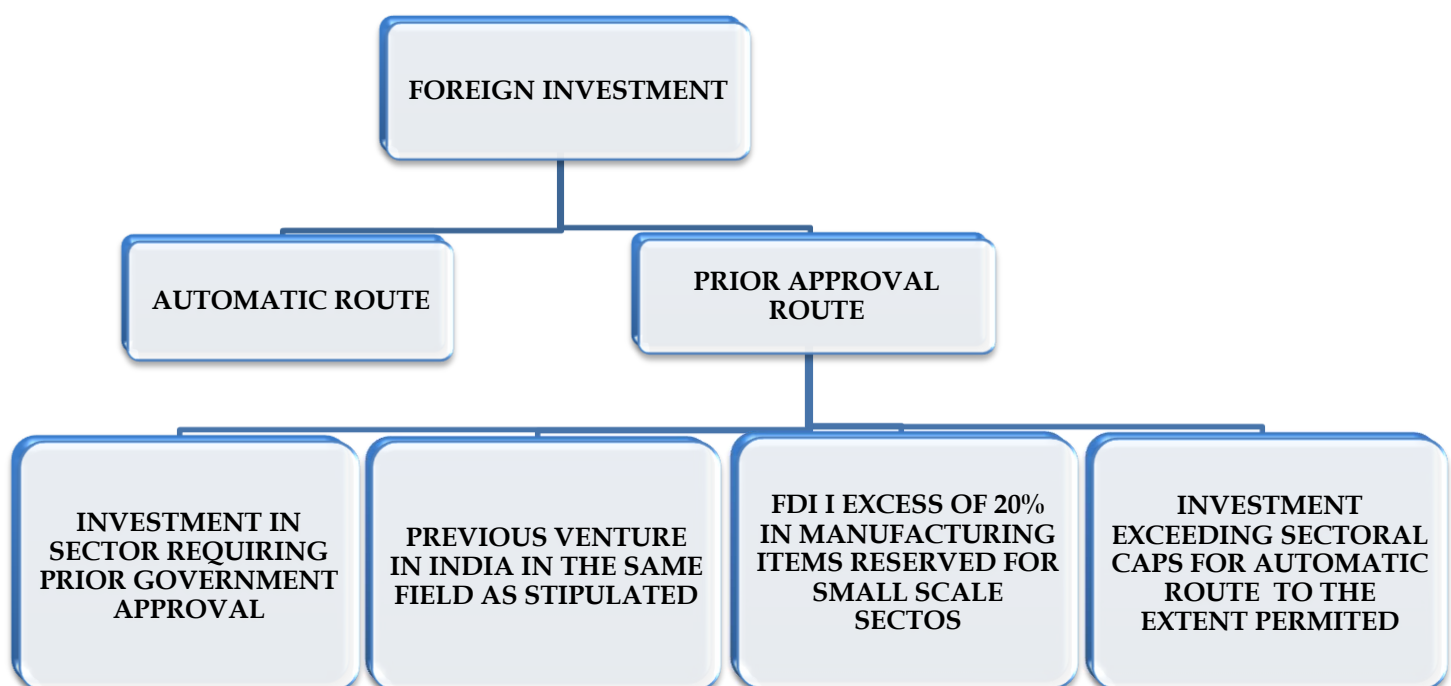
Key areas of retail apparel business influenced by GST

- **Production and distribution structure**
The abolition of Central Sales Tax (CST) is likely to warrant a re-evaluation of procurement and distribution arrangements. Removal of excise duty on products may result in cash flow improvements, since GST will be paid on sale/supply rather than on the product
- **Pricing and profitability**
The elimination of tax cascading is expected to lower business input costs and improve profitability. The application of tax at all points in the supply chain is likely to require adjustments being made to profit margins, especially for distribution and retailers
- **Cash flow**
Tax refunds on goods purchased for resale imply a significant reduction in the inventory cost of distribution. Distributors are also expected to enjoy the cash flow from collection of GST in their sales, before remitting it to the government at the end of the tax-filing period.

- System changes and transition management
Changes need to be made to accounting and IT systems to record transactions, in line with GST requirements. Appropriate measures need to be taken to ensure a smooth transition to the GST regime, for example, through employee training, compliance under GST, customer education and inventory credit tracking.

FDI Route

A diagrammatic representation of the FDI routes is given below



Government of India Policy on FDI in Retail Trade

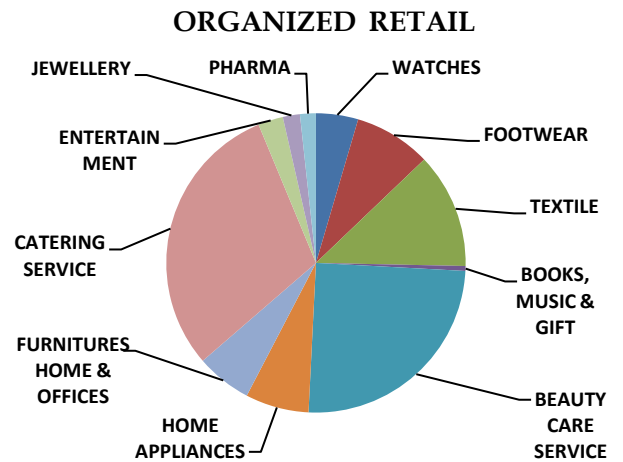
The Government of India released a discussion paper on FDI in Multi-Brand Retail Trading for public comments. Currently, FDI in Multi-Brand retailing is prohibited in India while FDI in cash and carry wholesale trading is permitted, to the extent of 100 percent under the Automatic route and FDI in Single Brand Retailing permitted, to the extent of 51 percent under Prior Approval route and subject to the following conditions:

- Products to be sold should be of 'Single Brand' only
- Products should be sold under the same brand internationally and
- 'Single brand product-retailing would cover only products which are branded during manufacturing.

An FDI inflow of nearly \$ 194 million (INR 900 crores) was received between April 2006 and March 2010, comprising 0.21 percent of the total FDI inflows during the period, under the category of single brand retailing. Between April 2000 to March 2010, FDI inflows of nearly \$ 1.8 billion (INR 7,799 crore) were received in the cash & carry wholesale trading. This comprised 1.54% of the total FDI inflows received during the period.

ORGANISED RETAIL

- The Indian retail industry is divided into organised and unorganised sectors.
- Organised retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.
- Unorganised retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.
- Retailers Association of India (RAI), the apex body of organised retailers, pegged the organised segment at approximately \$21 billion, growing by 20% in the September quarter (Q2) of FY10.
- Organised retail in India has the potential to add over \$650-billion mark by 2011, with an already estimated investment of around \$421 billion slated for the next four years generating employment for some 3.5 million people in various retail operations and over 12 million additional workforce in retail support activities including contract production & processing, supply chain & logistics, retail real estate development & management etc
- India is at an early stage of evolution in organised retail, with its current penetration being 5 per cent, which indicates a huge potential for growth
- The share of organised retail in total Indian retail trade is projected to grow at 40 per cent per annum



SOURCE: indiaretailing.com

ORGANISED RETAIL PENETRATION LEVEL (IN PERCENTAGE)	
USA	85
FRANCE	80
JAPAN	66
MALAYSIA	55
BRAZIL	36
CHINA	20
INDIA	5

ORGANISED REATIL APPAREL FORMAT IN INDIA

FORMAT	DESCRIPTION	EXAMPLE
DEPARTMENT STORES (MBO)	<ul style="list-style-type: none"> • Average size varies between 10,000 sq ft and 60,000 sq ft • Offer a large layout with a wide merchandise mix, usually in cohesive categories including fashion accessories, gifts and products for the home 	<ul style="list-style-type: none"> • Shoppers stop • Lifestyle • Pantaloons • Westside
SPECIALTY STORE	<ul style="list-style-type: none"> • Single-category stores • Focus on individuals and group clusters of the same class, with high product loyalty 	<ul style="list-style-type: none"> • Provogue • Spykar • Levi's • Little Kangaroos
DISCOUNT STORES	<ul style="list-style-type: none"> • Average size – 1,000 sq ft • Offer wide range of products, mostly branded, at discounted prices 	<ul style="list-style-type: none"> • The Loot
FACTORY OUTLETS	<ul style="list-style-type: none"> • Average size – 600 sq ft • Relatively small retail store offering slightly defective branded product at a discount 	<ul style="list-style-type: none"> • Spykar Factory Outlet • Provogue Factory Outlet
CASH-AND-CARRY	<ul style="list-style-type: none"> • Average size – 75,000 sq ft • Offer several thousand stock-keeping units (SKUs) and generally have bulk buying requirements. 	<ul style="list-style-type: none"> • Metro • Bharti-Wal-Mart

FRANCHISING

- The franchisee model has adapted well to Indian market conditions, providing opportunities for a large number of entrepreneurs to work with the support of big brands
- Global players such as Tommy Hilfiger, Versace, GUCCI, Louis Vuitton, Hugo Boss, Fendi have become forerunners in India through the franchisee route
- The franchising revolution is, however, not limited to global brands. Many Indian brands, such as Park Avenue, Color Plus, Provogue, Spykar, Adidas, Nike and others have also increased their market presence via this route

GROWTH IN FRANCHISING SECTOR IN INDIA

- Presence of more than 1000 active franchisors in the country
- Presence of more than 75,000 franchisees (across sectors) in India
- Total manpower directly employed by these franchising businesses is more than 500,000

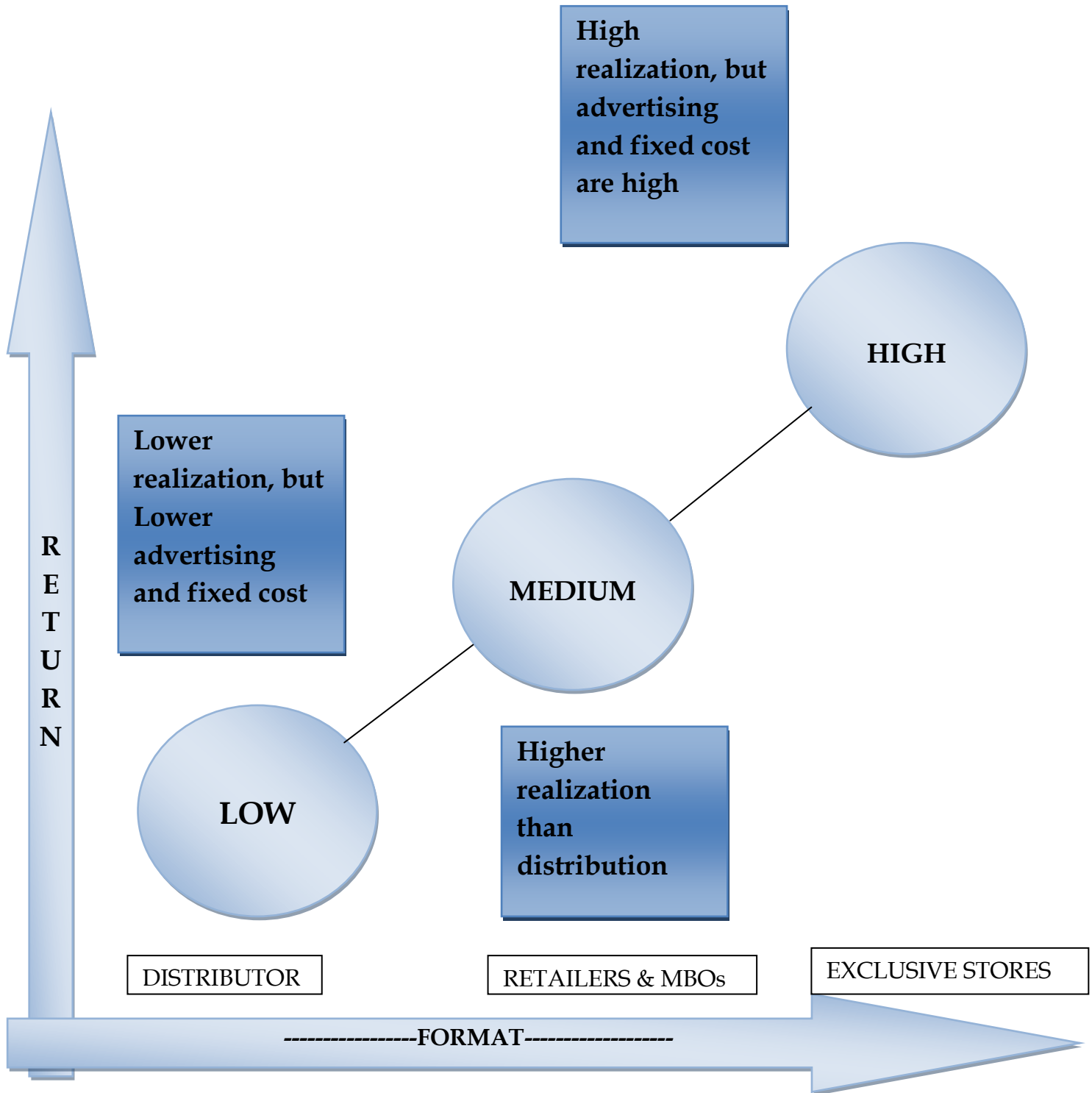
ADVANTAGES OF FRANCHISE

- Initial investment is low to entice and favors new investors or entrepreneurs.
- Risk minimization is low as start up is fast and investors follow a proven business model.
- Business support from the franchisor on a continuing basis to help manage and further support new technology, products, training and marketing.

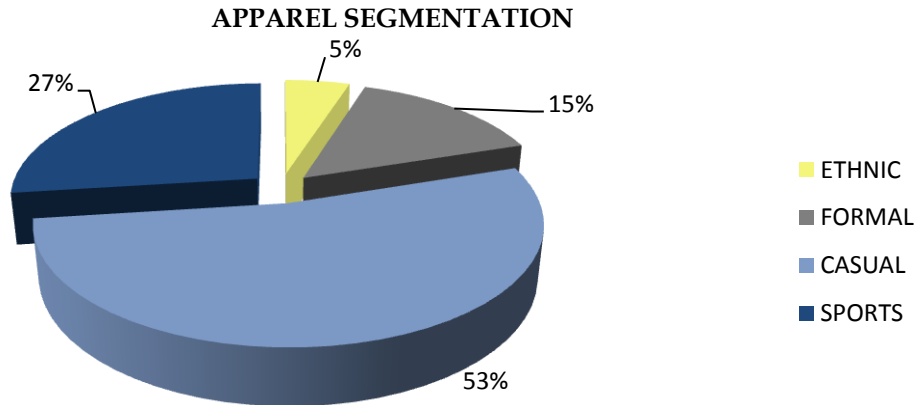
DISADVANTAGES OF FRANCHISE

- Restrictions on how you manage the business as to keep consistency among franchises. This is because the franchisors initial business model has to be followed accurately by all franchisees.
- Costs at times can be higher than projected with an up-front purchase fee as well as ongoing royalties.
- Limited growth potential due to territorial rights; and contractual and franchise obligations.

COMPARISON BETWEEN DIFFERENT FORMATS



MARKET SEGMENTATION



SOURCE: indiaretailing.com

Apparel's are segmented into Ethnic, Formal, Casual and Sports. Casual apparels dominate the segmentation with major share of 53% followed by sports with share of 27% due to youth population being the major demographic of India's population. Most of the apparel brands try to attract youth by using star-power such as Hrithik Roshan (Provogue), MS Dhoni (Big Bazar) etc.

ABOVE SEGMENTS ARE FURTHER SUB-DIVIDED INTO

- ❖ MENS WEAR
- ❖ WOMENS WEAR
- ❖ KIDS WEAR

MENS

- Mens wear consist of trousers, shirts, jeans, t-shirts, coats etc
- The Indian menswear market had total revenue of \$11.8 billion in 2009, representing a compound annual growth rate (CAGR) of 8.6% for the period spanning 2005-2009

WOMENS

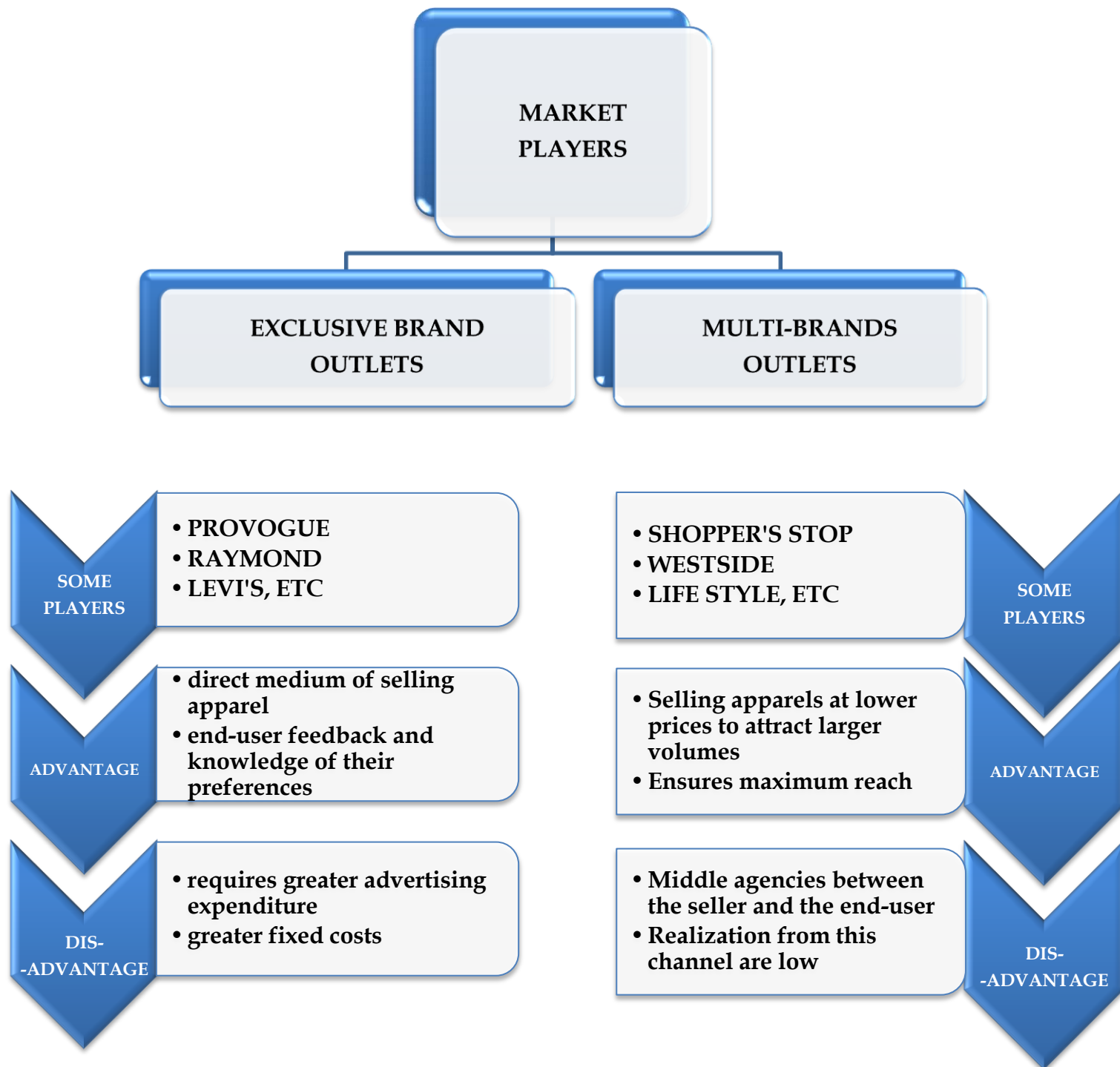
- Womens wear consist of dresses, sarees, tops, jeans, trousers etc
- India's women's wear market generated total revenues of \$10.2 billion in 2009, representing a compound annual growth rate (CAGR) of 11.6 percent for the period spanning 2005-09

KIDS

- Kids wear consist of uniform, trousers, jeans, t-shirts etc
- Kids wear is not a small business anymore. Driven by huge demand from brand conscious children, the Indian kidswear retail market is expected to touch \$12.6 billion by 2012

MARKET PLAYERS

Many players are ruling Indian apparels industry out of which some are national Players and some are of International standards. Every player has their different product portfolio in a particular segment. There are many players in each apparel segment which we have discussed above i.e. corporate wear, ethnic wear, sports wear and casual wear.



MULTI-BRAND OUTLETS

NAME	SHOPPERS STOP	PANTALOONS	LIFE STYLE	WESTSIDE	GLOBUS
NUMBER OF STORES	34	45	25	49	27
AVERAGE FLOOR SIZE (sq ft)	N.A	Around 28000	Around 50000	15000 - 30000	N.A
ABOUT THE COMPANY	<ul style="list-style-type: none"> ➤ Incorporated in 1991 by K.Raheja Group ➤ It is Public Limited company ➤ Offers wide variety of national and international brands. 	<ul style="list-style-type: none"> ➤ Incorporated in 1987 ➤ It is a flagship enterprise of 'The Future Group' ➤ Became public limited in 1991 	<ul style="list-style-type: none"> ➤ Incorporated in 1999 ➤ A part of Landmark group (Dubai) ➤ Focused on kids wear, apparels, households, health & beauty products etc 	<ul style="list-style-type: none"> ➤ Incorporated in 1998 as a part of Tata Group, Trent Ltd ➤ Tata's acquired Littlewoods a London based retail chain & renamed it as Westside ➤ Focused on apparels & accessories, artifacts, home accessories & furniture 	<ul style="list-style-type: none"> ➤ Incorporated in 1998 ➤ Company is ISO 9001 certified with ERP enable supply chain ➤ Completely into apparels with prime focus on private labels
BUSINESS STRATEGY	<ul style="list-style-type: none"> ➤ Offers concessionaire space to brand, whereby the counters are arranged by the employees of the concessionaires ➤ Primarily catering to lifestyle retailing segment 	<ul style="list-style-type: none"> ➤ Targeting greater market share by entering into formats such as departmental stores, malls etc ➤ Drives 75% of its sales from private labels like JM Sports, Bare Denim etc 	<ul style="list-style-type: none"> ➤ Offers one stop shop for 350 national and international brands ➤ Recently entered into home decor segment with brand name Home Centre 	<ul style="list-style-type: none"> ➤ Has created niche for its brand of merchandise creating a loyal following ➤ The company is mainly targeting major cities like Mumbai, Chennai, Ahmedabad etc 	<ul style="list-style-type: none"> ➤ Started as departmental store but gradually shifted its focus into apparels & private label ➤ Has an in-house team of designers but actual production is outsourced.

EXCLUSIVE BRAND OUTLETS*CASUAL WEAR*

NAME	SPYKAR	PROVOGUE	LITTLE KANGAROOS	KOUTONS	KILLER
NUMBER OF EXCLUSIVE STORES	Above 200	127	10	850	6
AVAILABLE IN NUMBER OF MBOS	Above 700	223	Above 600	NA	800
ABOUT THE COMPANY	<ul style="list-style-type: none"> ➤ Incorporated in 1992 ➤ Into fashion apparels & accessories ➤ Focused on youth 	<ul style="list-style-type: none"> ➤ Incorporated in 1997 ➤ Launched brand 'PROVOGUE' in 1998 ➤ Focused on urban consumers 	<ul style="list-style-type: none"> ➤ Incorporated in 1976 ➤ An International brand ➤ Focused on kids wear 	<ul style="list-style-type: none"> ➤ Incorporated in 1991 ➤ Company has no middle agencies ➤ Focused on upper & upper middle class society. 	<ul style="list-style-type: none"> ➤ Incorporated in 1989 ➤ An International brand since 1994 ➤ Focused on 16 - 30 years of segment

SPORTS WEAR

NAME	NIKE	ADIDAS	REEBOK	PUMA	FILA
NUMBER OF EXCLUSIVE STORES	Above 1000	Above 600	Above 400	51	15
AVAILABLE IN NUMBER OF MBOS	Above 600	Above 500	Above 500	N.A	Around 800
ABOUT THE COMPANY	<ul style="list-style-type: none"> ➤ Incorporated in 2004. ➤ Entered into India through 7 year license agreement with Sierra Industrial Enterprise 	<ul style="list-style-type: none"> ➤ Incorporated in 1989 in India ➤ Focused on sportswear apparel 	<ul style="list-style-type: none"> ➤ Incorporated in 1995 in India ➤ It is subsidiary of German sportswear company Adidas 	<ul style="list-style-type: none"> ➤ Incorporated in 2005 in India ➤ German sportswear company ➤ Each outlets have retailing space of 1200 sq ft 	<ul style="list-style-type: none"> ➤ Incorporated in India in 2009 ➤ An Italian sports lifestyle company ➤ It plans to setup 60 - 70 stores by 2014

FORMAL WEAR

NAME	PARK AVENUE	JOHN PLAYERS	MARKS & SPENCER	LOUIS PHILIPPE	PETER ENGLAND
NUMBER OF EXCLUSIVE STORES	22	220	21	Above 57	400
AVAILABLE IN NUMBER OF MBOS	Above 550	Above 1300	NA	NA	Above 1600
ABOUT THE COMPANY	<ul style="list-style-type: none"> ➤ Launched in 1986 is 100% subsidiary of Raymond Ltd ➤ Raymond has its own MBOs offering its private label. ➤ Focused on corporate wear 	<ul style="list-style-type: none"> ➤ Launched in 2002 by ITC Ltd ➤ At the Images Fashion Awards 2005, John Players was declared 'The Most Admired Shirt Brand of the Year' ➤ Focused on youth 	<ul style="list-style-type: none"> ➤ It is a brand of Marks & Spencer Reliance India Pvt Ltd is a Joint Venture between Marks & Spencer plc and Reliance Retail, part of the Reliance Industries Group. ➤ An International brand 	<ul style="list-style-type: none"> ➤ Launched in India in 1989 ➤ Brand is owned by Madura Garments the retail arm of Aditya Birla Group's garment division ➤ Focused on fashionable formals and relaxed formal occasion wear 	<ul style="list-style-type: none"> ➤ Incorporated in 1997 in India ➤ Brand is owned by Madura Garments the retail arm of Aditya Birla Group's garment division ➤ Plans to open 1000 stores in next 3 years

INDIA RETAIL APPAREL RESEARCH
JANUARY 2011

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ABOUT RESEARCH

Northbridge Capital's Research team generates Sector and Company research for Indian companies. Should you wish to request a specific research report, please contact Pranjal Sanghvi at pranjal@northbridgeasia.com

Northbridge Capital's Research team also published several periodic updates of relevance to foreign and Indian companies including M&A activity, Debt and IPO issuance etc

Research reports on sectors, stocks are also available to clients online and can be accessed at www.northbridgeasia.com

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INDIA RETAIL APPAREL RESEARCH
JANUARY 2011

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