

FDI: INDIAN RETAIL BIDS FOR A BRIGHTER FUTURE

January 2012 | A C&W India Publication

CONTENTS

- 1 Executive Summary
- 1 India Advantage
- 4 Evolution of Indian Retail
- 5 FDI Policy Framework
- 6 Impact on Retail Segment
- 8 The Road Ahead
- 9 About the Retail Services Group

For more information please contact:

Jaideep Wahi
14th Floor, Building No. 8, Tower - C
DLF Cyber City, Gurgaon 122 002
Tel: +91 124 469 5555
jaideep.wahi@ap.cushwake.com

EXECUTIVE SUMMARY

In a landmark decision for the Indian retail industry, the cabinet finally gave its nod to allow Foreign Direct Investment (FDI) in multibrand retail segment and even raised the bar for FDI in single brand retail. Although, FDI in multibrand retail is still under consideration by the Government, 100% FDI in single brand retail has become a reality allowing foreign brands to finally have the ownership on their Indian business. This comes as a strong indication of a futuristic approach from the Indian Government. The policy, most certainly, will have a long term impact on retail and retail real estate developments in the country.

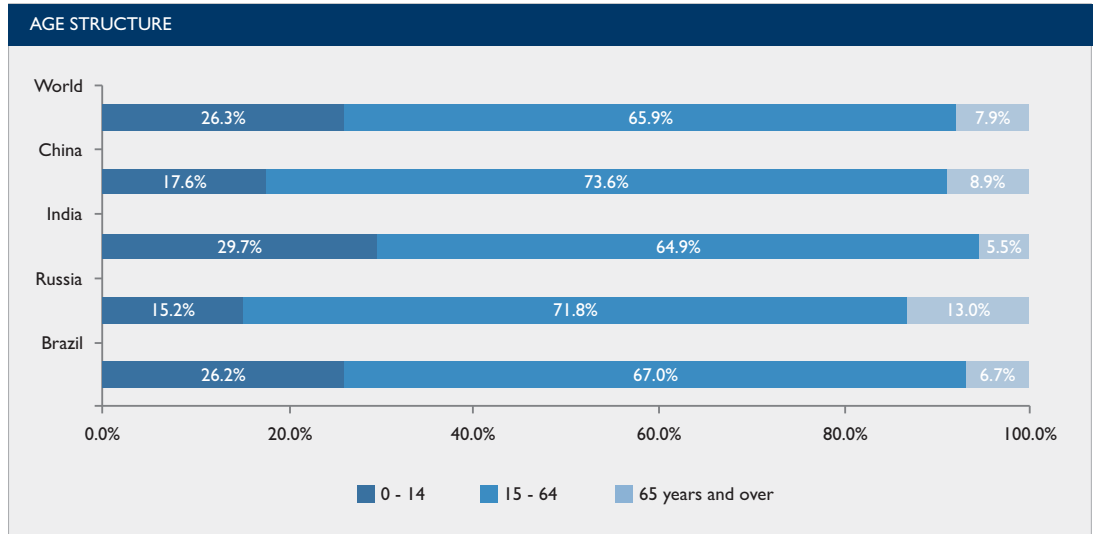
The policy is expected to enable the growth of organized retail as it will open up the door for a number of prominent global retail brands. Hence, the retail sector is poised to see some significant changes in its current dynamics. In this paper, Cushman & Wakefield Research presents a snapshot of the impact of the new policy on Indian retail real estate sector.

INDIA ADVANTAGE

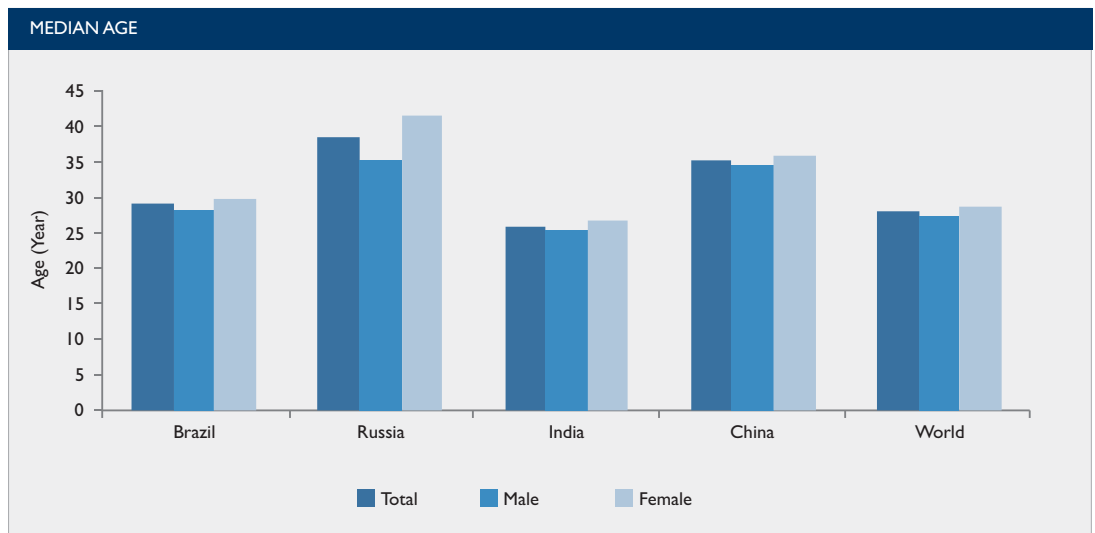
- India has a relatively younger population in the age bracket of 15-64 with a median age of 26.2 years, lowest among the BRIC countries. Moreover, 29.7% of the population is in between the age group of 0-14 which is the highest among the BRIC.
- India is the ninth largest in the world by nominal GDP and the fourth largest by Purchasing Power Parity (PPP). (Source: International Monetary Fund)
- India's per capita income has tripled from USD 423 in 2002-03 to USD 1,219 in 2010-11, averaging 14.4% growth over these eight years. (Source: World Bank)
- Service industry accounts for 54.7 % of the GDP, although agriculture is the predominant occupation in India.
- Dependency on agriculture has reduced and share of services and industry sector has increased.



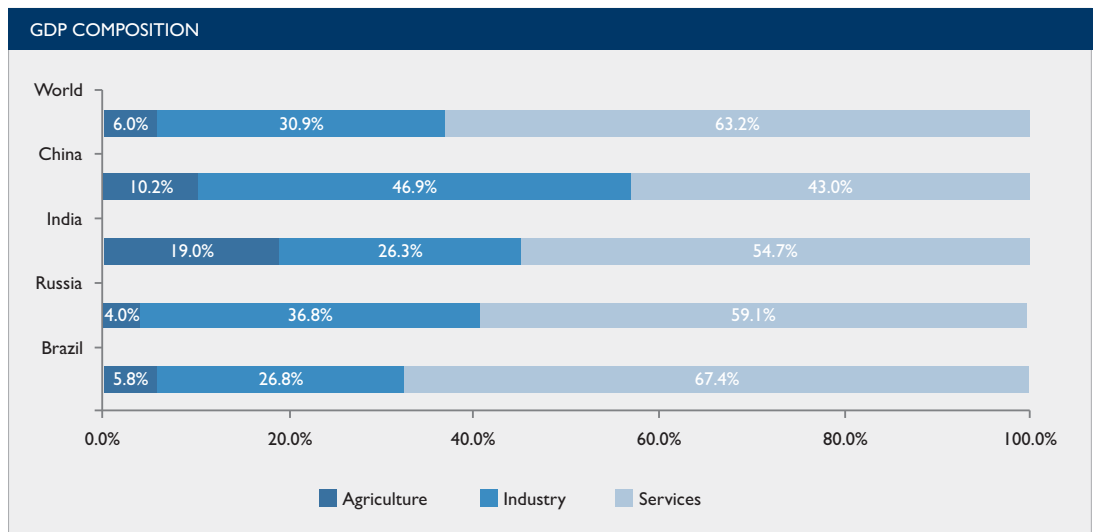
A C & W INDIA PUBLICATION



Source: CIA Factbook



Source: CIA Factbook

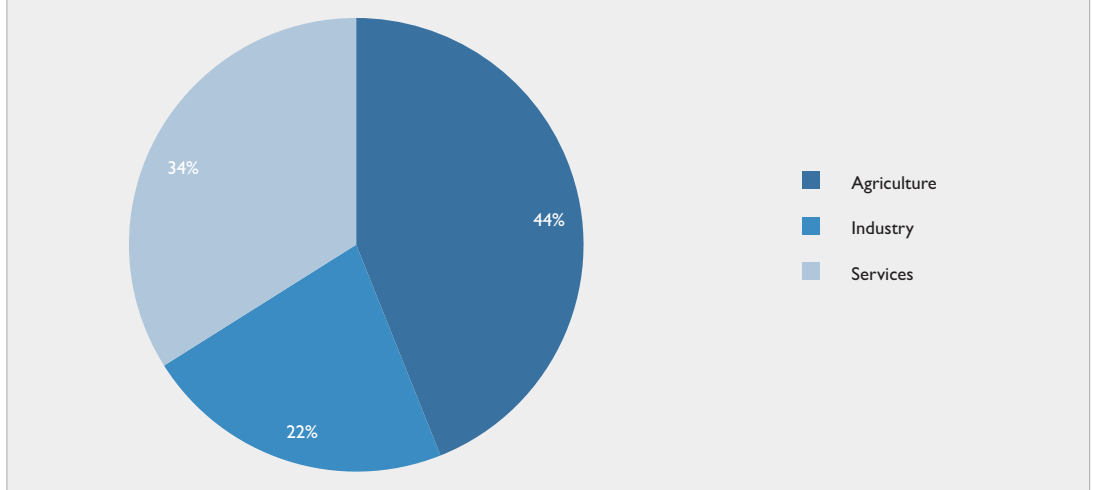


Source: CIA Factbook



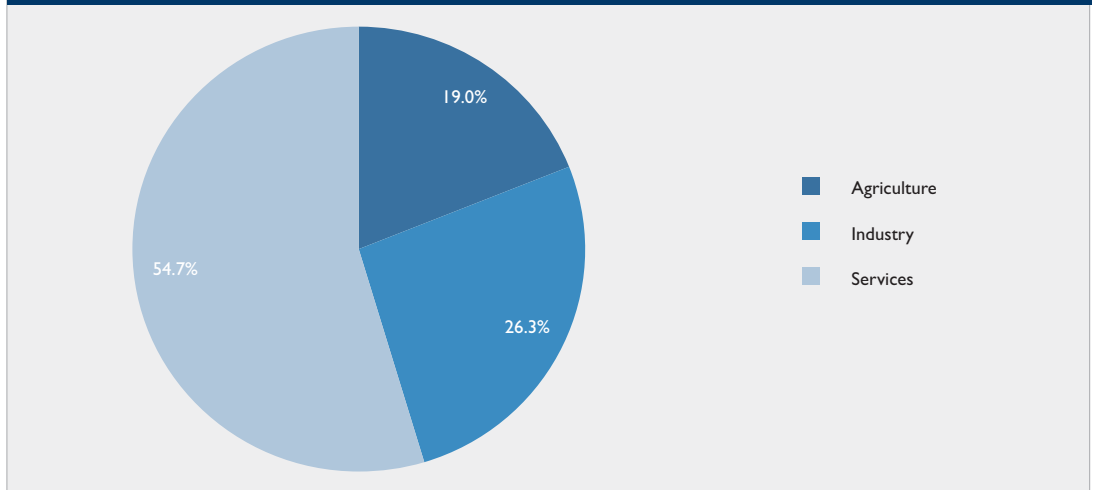
A C & W INDIA PUBLICATION

GDP COMPOSITION (1970-71)



Source: Ministry of Statistics and Programme Implementation

GDP COMPOSITION (2010-11)



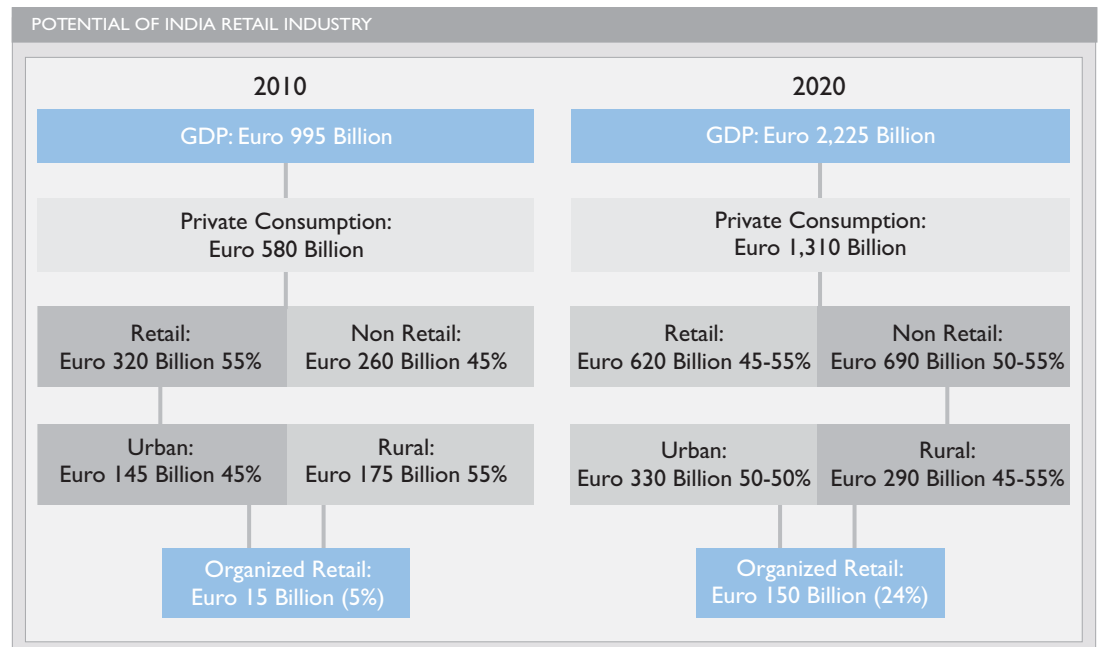
Source: Ministry of Statistics and Programme Implementation



A C & W INDIA PUBLICATION

EVOLUTION OF INDIAN RETAIL

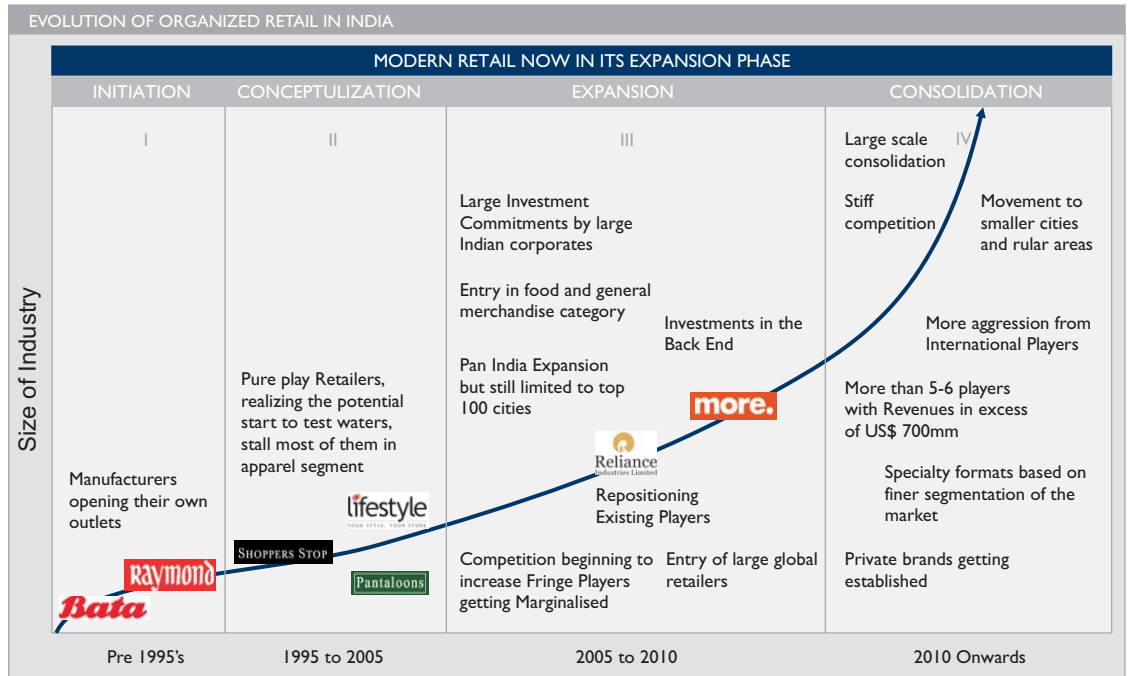
The story of Indian retail has been an intriguing one with diverse opportunities and challenges. Till the 1990's Indian retail market was primarily dominated by traditional neighborhood retailers or 'kirana' (Mom & Pop) stores. However with the economic progression, India has accepted the exposure of organized retail in the last decade. The transition was gradual, with 100% FDI in cash and carry / wholesale format allowed in 1997 and 51% FDI in single brand retail permitted in 2006. As a result, cumulative FDI in retail trading (single brand) till April 2011 is estimated at approximately USD 61 million which represents 0.05% of the total FDI inflow. The growth of organized retail was further propelled on account of the demand generated by the rise of Indian middle class, a fast changing consumer mindset and increasing disposable incomes. Riding on the favorable demographics and a steady economic growth, Indian retail sector soon emerged as one of the fastest growing sectors in the domestic economy. With 100% FDI in Cash & Carry format, India witnessed the entry of retail giants like Metro AG and Walmart. The growth was also fuelled by retail real estate and infrastructure developments in the country. A wide range of retail categories and innovative formats like supermarket, hypermarket, and Cash & Carry categories evolved across India.



Source: Technopak Advisors Pvt. Ltd



A C & W INDIA PUBLICATION



Source: Technopak Advisors Pvt Ltd

FDI POLICY FRAMEWORK

Although Indian economy demonstrated resilience in recessionary conditions primarily due to its inherent strength, it must also be noted that the sustenance of its economic growth calls for the next round of reforms – of which Retail FDI, Land Acquisition Rehabilitation & Resettlement Bill, Public Private Partnership Bill are the key milestones. Despite the fact that there are diverse opinions on almost all of these in the society, the only apparent way for the economic growth down the road is through these reforms. While analysts continue to observe this vast maze of socio-economic landscape in India with deep interest, there is no denying that the country needs to implement second generation reforms for inclusive and sustainable growth.

KEY HIGHLIGHTS OF THE FDI POLICY

- The Cabinet has approved 100% FDI in single brand retail and 51% FDI in multi-brand retail.
- Government stipulates that the minimum capital for investment required shall be USD 100 million and 50% of the investment should be in the backend infrastructure.
- Investments should be restricted to cities with population over 1 million
- In January 2012, the government notified its earlier decision of permitting 100% FDI in single-brand product retail trading. For investing in single-brand retail, the government has made it mandatory for the retailer to source at least 30% of the products sold from small industries/village and cottage industries, artisans and craftsman.



A C & W INDIA PUBLICATION

The Cabinet approval for FDI in multi-brand retail and raising the cap in single brand retail came as the next big move for Indian retail. However, while the proposed FDI in multibrand retail has been temporarily suspended due to disagreement between political parties, the Congress led Government has been able to pave the way for 100% FDI in single brand retail segment. The decision is expected to create a healthy growth situation for retailers across categories.

After much deliberation Department of Industrial Policy and Promotion has permitted FDI upto 100% under the Government approved route. There are certain conditions that are highlighted in the notification which have to be complied for foreign investments in single brand. Of them, it is mandatory to source of atleast 30% of the value of products sold from domestic small and cottage industries which have a maximum investment of INR 5 crores in plant and machinery. This is expected to provide stimulus for the manufacturing sector that will get exposed to global technologies, design and business practices.

IMPACT ON RETAIL SEGMENT

- 100% FDI in single brand retail would allow many foreign brands to take full ownership of their Indian business. This would increase foreign investment along with providing the domestic industries an exposure to superior technology, research, design and business practices.
- In the case of Indian corporate retail chains, the policy will hopefully, make them more efficient due to the increased competition from foreign brands and companies.
- The penetration of organized retail will improve and the development of modern retail will be spread out beyond the traditional cities. As per the Census 2011, India has 33 cities which have a population of 1 million or more that are expected to witness increased penetration of organized retail.
- With global retail players and practices coming into the market, the retail industry is expected to witness many innovations in formats and strategies changing the dynamics of the retail sector.
- With the advent of international brands in various formats and categories, the market will experience international retail practices. As a result Indian retail will get exposure to the world's best retail services and practices from across the globe.



A C & W INDIA PUBLICATION

- Food and Grocery segment which holds a significant share in the average consumer's total household spending, will witness significant impact. Government's recommendation to invest 50% of the total investment into the back end infrastructure will improve the supply chain efficiency. Thus with better supply chain mechanism and bigger scale of operations, retailers in this category will see profitability.
- Better back-end infrastructure and supply chain efficiency will result in reducing the involvement of intermediaries which will ultimately benefit the farmer as well as the end consumers. While the increased profitability will be passed on to end consumer, the farmer will gain by getting justified pricing for their product and a direct access to the market.
- The Government also expects almost 10 million jobs to be created through the retail segment. Hence, in all probability, it would be incorrect to deduce that FDI in retail will sound a death-knell for the traditional 'kirana' operation in Indian cities and towns.

POTENTIAL CATEGORIES

Food and Grocery Retail

- Business Monitor International (BMI) forecast that sales through Mass Grocery Retail outlets to reach to USD 27.67 billion by 2015
- According to industry estimates, lack of supply chain infrastructure results in 40% loss of farm produce; investment in back-end infrastructure should help reducing this
- Sourcing of processed food from SMEs could result in higher margins
- Political support for FDI in food and grocery may face challenges and many state may not allow FDI or else allow with more restriction
- Hypermarkets and supermarkets are the best suited retail structure for this segment

Apparel Retail

- Readymade and western outfits are growing at 40-45% annually
- Opening of multi-brand apparel retail for FDI is not expected to face major political deliberations
- For apparel retail, investment in back-end infrastructure lies in creation of warehouses
- Manufacturing facilities (for private label brand) and logistics is most likely to be outsourced
- International retailer could have private label brand sourced from SME segment
- Departmental store is the best suited retail structure for this segment



A C & W INDIA PUBLICATION

Furniture and Furnishings	<ul style="list-style-type: none">• Category faces stiff competition from small time traditional retailers as well as individual carpenters• For furniture retail, options for investment in back-end infrastructure lies in creation of manufacturing facilities/ warehouses• Some of the furniture products could be sourced from the SME segment• FDI in furniture retail is not expected to face major political deliberations• Specialty retail outlet is best suited structure for this segment
Beauty and Wellness	<ul style="list-style-type: none">• Penetration level of modern retail is just 4% and there is a huge untapped potential in this segment• Private label brands in some of the product categories can be sourced from the SME segment• FDI in multi-brand beauty and wellness stores is not expected to face major political deliberations• Specialty retail outlet is the best suited structure for this segment
Gems and Jewelry	<ul style="list-style-type: none">• Branded jewelry has rapidly acquired a niche over the past few years. Increasing purchasing power and disposable income of India's middle class has resulted in growth of this industry• Opening of multi-brand gems and jewelry stores is not expected to face major political deliberations• Special design products could be sourced from the SME segment• Target segment for retailers are largely in the metros and tier-I cities
Consumer Durables	<ul style="list-style-type: none">• Traditionally market is largely dominated by branded store, penetration of modern retail is 12% in consumer electronics segment• Consumers are brand conscious for consumer durables hence sourcing of products from SME the segment is not favorable• Target segment for retailers would not just be restricted in the metros and tier-I cities, it would also include tier-2 cities• FDI in consumer durables sector too is not expected to face any major political deliberation

Source: Deloitte

THE ROAD AHEAD

The Cabinet approval for FDI in multibrand and the government notification for single brand retail appears to be a natural step in the forward direction for the Indian economy. It holds significant scope and opportunities for the Indian retail revolution which started more than a decade ago. In the last five years, India has witnessed retail sector being redefined and now the improvised FDI policy definitely has the ability to push India's growth story to new heights. The policy has been hailed by India Inc. and when rolled out, the retail history of India will have a new chapter to it.



A C & W INDIA PUBLICATION

ABOUT THE RETAIL SERVICES GROUP

At the core of Cushman & Wakefield Retail Services is our thorough understanding of the retailing processes, logistic needs and the dynamics of the retail industry in India. Our experts understand that retailing is much more than shops or shopping malls; it is the whole experience that culminates in the sale of a product or service to a consumer, including administration, design, distribution, marketing/ positioning, planning, storage and real estate. With over 100 dedicated retail professionals across Asia, we advice on every stage of the project life cycle: from initial research and development consultancy to leasing, management as well as investment. Our teams are equipped and experienced to counsel as well as execute specialised and sophisticated retail requirements encompassing retail project management, mall management and mall marketing apart from retail consulting and brokerage, offering you tailor-made focussed solutions.

Our broad scope of service includes:

- Real Estate Advisory
- Retail Agency
- Mall Marketing
- Project Management
- Mall Management

To discuss your retail needs please contact:

Jaideep Wahi
Director, Retail Services, India
Tel: +91 124 469 5555
E-mail: jaideep.wahi@ap.cushwake.com

Anand Dutta
Associate Director, Retail Services, India
Tel: +91 124 469 5555
E-mail: anand.dutta@ap.cushwake.com

About Research Services

Cushman & Wakefield is committed to collation of high quality base data and assembling detailed statistics for the major India markets on a regular basis. This commitment to quality research provides a strong foundation for all of our services. Customized, analytical reports are also developed to meet the specific research needs of owners, occupiers, and investors.

Through the delivery of timely, accurate, high quality research reports on the leading trends, markets and business issues of the day, we aim to assist our clients in making pertinent and competitive property decisions.

In addition to producing regular reports such as global rankings and local quarterly updates available on a regular basis, Cushman & Wakefield also provides customized studies to meet specific information needs of owners, occupiers and investors.

For more information:

Siddhart Goel
National Head
Research Services
+(91 124) 469 5555
siddhart.goel@ap.cushwake.com

Cushman & Wakefield is the world's largest privately held commercial real estate services firm. Founded in 1917, it has 235 offices in 60 countries and more than 15,000 employees. The firm represents a diverse customer base ranging from small businesses to Fortune 500 companies.

It offers a complete range of services within four primary disciplines: Transaction Services, including tenant and landlord representation in office, industrial and retail real estate; Capital Markets, including property sales, investment management, valuation services, investment banking, debt and equity financing; Client Solutions, including integrated real estate strategies for large corporations and property owners; and Consulting Services, including business and real estate consulting.

A recognised leader in global real estate research, the firm publishes a broad array of proprietary reports available on its online Knowledge Center at cushmanwakefield.com/knowledge.

Authors of the report:

Piasi Sinha
Research Services
piasi.sinha@ap.cushwake.com

Megha Maan
Research Services
megha.maam@ap.cushwake.com

Published by Corporate Communication.
For more market intelligence and research reports, visit Cushman & Wakefield's Knowledge Center at www.cushmanwakefield.com

©2012 Cushman & Wakefield
All Rights Reserved

Disclaimer

This report has been prepared solely for information purposes. It does not purport to be a complete description of the markets or developments contained in this material. The information on which this report is based has been obtained from sources we believe to be reliable, but we have not independently verified such information and we do not guarantee that the information is accurate or complete.

www.cushmanwakefield.co.in

For industry-leading intelligence to support your real estate and business decisions, go to Cushman & Wakefield's Knowledge Center at www.cushmanwakefield.com/knowledge

