OPPORTUNITIES IN INDIAN RETAIL INDUSTRY

BUSINESS SWEDEN

April 2015
India
SUMMARY OF ANALYSIS

- The Indian retail market is worth around USD 600 billions in 2015, whereof about 70% is related to food and groceries
- Continued growth expected in the range of 12-13% until 2019, with much faster growth rates being forecasted for niche segments in the metro areas
  - 100 million people lifted from lower income bands into the middle class
  - Key segments for growth are health & beauty, apparel and consumer durables
- International companies are entering as a result of relaxed norms and rules for foreign entry, but still make up less than 5% of market
  - In the past few years, Pavers, Clarks, Brooks Brothers, Starbucks, IKEA and Tesco have forayed into the Indian market
  - Walmart, Metro, Aadhar Wholesale (Future group) and Reliance Market are eyeing for large-scale cash-and-carry operations
  - Amazon and Walmart are banking high on B2B e-commerce space, where 100% foreign investment is allowed
- Swedish companies should be carefully evaluating the needs to localize their product offering, and promotion messages before entering Indian retail. There will also be a multitude of opportunities in serving multinational retailers, in e.g. the merchandizing, cold chain, and store management spaces
THE INDIAN RETAIL MARKET AGGREGATES TO HALF A BILLION US DOLLAR

Indian retail market by major category
2015 (USD, billions)

<table>
<thead>
<tr>
<th>Category</th>
<th>2015 Value (USD billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food &amp; Grocery</td>
<td>420</td>
</tr>
<tr>
<td>Apparel</td>
<td>48</td>
</tr>
<tr>
<td>Consumer durables &amp; ICT</td>
<td>36</td>
</tr>
<tr>
<td>Jewellery &amp; watches</td>
<td>36</td>
</tr>
<tr>
<td>Pharmacy</td>
<td>12</td>
</tr>
<tr>
<td>Furniture &amp; furnishing</td>
<td>6</td>
</tr>
<tr>
<td>Footwear</td>
<td>6</td>
</tr>
<tr>
<td>Other</td>
<td>36</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>600</strong></td>
</tr>
</tbody>
</table>

SOURCE: BCG & RETAILERS ASSOCIATION OF INDIA, IBEF
CORNER STORES, ORGANIZED MARKETS & SHOPPING MALLS MAKE UP THE RETAIL DESTINATIONS

“Kirana” stores
- At every street corner
- Family owned
- 12 million stores across India

High street (Khan market)
- Premium outdoor market
- 24th most expensive retail high street in the world with rents at USD 234/sq. feet annually (Biblioteksgatan, Stockholm no 32, at USD 168/sq. feet annually)

Luxury malls (Emporio)
- High-end shopping malls located in the biggest cities
- 5-star hotels still a location for luxury and high-end premium brands
IMMENSE OPPORTUNITY TO MODERNIZE INDIAN RETAIL

International comparison (% revenue from organized vs. unorganized)

Large formats still rare outside cities (Number of stores, 2014)

SOURCE: BCG & RETAILERS ASSOCIATION OF INDIA, KPMG, USDA GAIN REPORT
POLICY PUSH STIMULATING ORGANIZED RETAIL AND CREATING SPACE FOR ENTRY OF GLOBAL PLAYERS

Initiation
Manufacturers opening their own outlets

Conceptualization
Pure play retailers, realizing the potential, start to test waters

Expansion of Retail
- Entry of large global retailers through joint ventures and franchise
- Large investment commitments by Indian heavyweight business groups
- Expansion by leading product brands

Entry of global Retailers
- Relaxation of FDI norms: 100% in single brand and 51% in multi brand
- Fast track decisions to roll out FDI applications
- Expected consolidation in back end infrastructure

Size of Industry

Pre 1980’s
1990’s
2000 – 2012
2012 onwards
(partly speculation)
INDIAN POLICIES HAVE BEEN REFORMING, THOUGH AT A SLOW PACE

1991
Industry-wide liberalization: FDI up to 51 per cent allowed under the automatic route in select priority sectors (though, not retail)

1997
FDI up to 100 per cent allowed under the automatic route in Cash & Carry wholesale

2000
2006
FDI up to 51 per cent allowed with prior government approval in single-brand retail

2008
Government mulls over the idea of allowing 100 per cent FDI in single-brand retail and 50 per cent in multi-brand retail

2010
Government re-initiates proposal to allow FDI in multi-brand retailing, creating large protests and political factions

2012
The deregulation: 100% FDI in allowed in single brand retail, subject to conditions 51% FDI allowed in multi brand, subject to even more conditions

SOURCE: IBEF REPORT
# Overview of Current Regulatory Scenario in Indian Retail Industry

FDI limit varies with type of retail business model in India

<table>
<thead>
<tr>
<th>Sub-sector</th>
<th>Entry Route</th>
<th>FDI Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Carry Outlet</td>
<td>Automatic</td>
<td>100%</td>
</tr>
<tr>
<td>Single Brand Product Retail Trading</td>
<td>Approval from Foreign Investment Promotion Board*</td>
<td>Up to 100%</td>
</tr>
<tr>
<td>Multi Brand Retailing – all products</td>
<td>Approval from Foreign Investment Promotion Board*</td>
<td>Up to 51%</td>
</tr>
<tr>
<td>B2C E-commerce</td>
<td>None</td>
<td>No FDI allowed</td>
</tr>
</tbody>
</table>

*Case by case basis

Source: Ministry of Commerce, Government of India
3 KEY DRIVING FORCES FOR THE RETAIL MARKET

1. Large middle class growing fast
   - Indian consumers increasingly demand access to products and services that delight and excite them
   - Led by the growing middle class population
   - Good quality and provide value for money are winning characteristics

2. Disposable incomes rising
   - Capital market growth, emergence of new industries, and more advanced graduates are boosting income levels
   - Drives consumers to spend more on products, try new brands, test new products, etc.

3. Consumer behaviors shifting
   - Traditionally, the focus of Indian consumers was on saving
   - Positive macro-economic fundamentals, an evolving retail market, lifestyle influencers, etc. are ensuring that consumers spend more across categories
   - Emergence of double-income households, easier access to credit and society’s acceptance of self-indulgence, are changing purchasing habits

LOCALIZATION IS FUNDAMENTAL TO SUCCEED

Many companies have failed to adapt to the specifics of India – some are weirdly successful

• International formal wear did not have pockets on their men's shirts, which did not work out well with the Indian consumers

• Snack flavors highly local – Lay’s today have several flavorings that target only a specific region, e.g. banana chips in Tamil Nadu

• The signal horn of Audi is specifically done for the Indian market…

• Rural India prefers small packages of seldom-use goods such as shampoo, tobacco, detergents etc. – Unilever gained massive market share by realizing this

SOURCE: BUSINESS SWEDEN ANALYSIS
ONLINE RETAIL IS GROWING FAST LED BY ELECTRONICS AND CONSUMER DURABLES

<table>
<thead>
<tr>
<th>Online retail volume (USD, billions)</th>
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<tbody>
<tr>
<td>2010: 4.4</td>
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<tr>
<td>2014: 13.5</td>
</tr>
<tr>
<td>CAGR: 33%</td>
</tr>
</tbody>
</table>

- Web penetration growing fast in India
- Third largest internet user base at 243 million accounting for 8.5% of the world’s internet user share
- 25% of metro population have access
- Below 10% in smaller cities
- E-commerce industry worth USD 13.5 billion in 2014
- Books, consumer durables & consumer electronics have been fast-mover categories
- Next frontier in apparel, footwear, food, home and furnishing
- Amazon, Flipkart and Snapdeal are leading marketplace
- Niche players have emerged over the last few years, such as BigBasket (grocery), Lenskart (spectacles & contact lens), GreenDust (refurbished factory seconds), Pepperfry (furniture) to name a few
- Walmart launched B2B e-commerce website in 2014, followed by Amazon in 2015

SOURCE: INTERNET AND MOBILE ASSOCIATION OF INDIA, IAMAI AND IMRB, THE HINDU
ENTRY OPTIONS FOR SWEDISH COMPANIES THAT WANT TO SELL TO INDIA’S CONSUMERS

- **Retail**
  - Franchising
  - License agreements
  - Cash and carry wholesale trading
  - Joint ventures
  - Own retail chain through subsidiary

- For companies not directly selling to end consumers, no restrictions on setting-up own subsidiaries
- Foreign Direct Investment is not allowed in domestic e-commerce companies conducting B2C transactions, while 100 per cent foreign investment is permitted in B2B e-commerce

SOURCE: THE TELEGRAPH, BUSINESS SWEDEN ANALYSIS
THE INDIAN RETAIL REVOLUTION HOLDS OPPORTUNITIES ALSO FOR B2B COMPANIES

Each link of the chain will need strengthening for large organized retail to succeed

SOURCE: BUSINESS SWEDEN ANALYSIS
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