Indian Retail Industry - Structure & Prospects

Contact:
Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-22-67543489

Darshini Kansara
Research Analyst
darshini.kansara@careratings.com
91-22-67543679

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
91-22-67543515

The Indian retail industry has emerged as one of the most dynamic and fast-growing industries due to the entry of several new players in the recent times along with rising income levels, growing aspirations, favourable demographics and easy credit availability. It constitutes over 10% of the country's Gross Domestic Product (GDP) and around 8% of the employment and is valued at USD 672 billion. Globally, India is fifth-largest global destination in the retail space and is growing at a rate of 12% per annum.

Over the last two decades, the size, scope and complexity of retailing has undergone considerable change. The retail industry can broadly be classified into two categories: Organized and Unorganized.

Organised Retail is characterised by high investment requirements, large premises, trained staff where retailers are licensed and are registered to pay taxes to the government.

Unorganized Retail refers to the traditional form of retail often situated near residential areas. It is generally characterized by low rentals, low tax payouts with a majority of it being owner-managed and employing personal capital. It includes formidable mix of conventional Kirana shops, general stores, mom-&-pop stores, paan-beedi shops and other small retail outlets.

Currently, organised retail market is valued at about USD 60 billion, only about 9% of the sector, where as unorganized retail market holds the rest. India's organised retail penetration is much lower compared with other countries, such as the United States which has organised retail sector penetration of 85%.

Overview:

The word 'Retail' has been derived from the French word 'retailer' which means 'to cut a piece off' or 'to break bulk'. Retailing can be defined as procurement of varied products in large quantities from various sources/manufacturers and their sale in small lots, for direct consumption to the purchaser. Retailing is one of the biggest sectors in India and has witnessed multi fold growth post liberalization of the Indian Economy. The evolution of retail trade in India can be traced to the times when majority of trade was routed through formats such as Haats, Mandis and Melas. Mostly organised on a periodical basis and limited to a particular locality/village, such formats gained prominence. Almost everything from vegetables, household necessities to cattle's were bought and sold, either through monetary means or the barter system.

Contemporary organised retail industry evolution in India can be broadly classified in four phases;

Chart 1: Evolution of retail in India

1. Initiation (Pre 1990)

- Migration of people from villages to urban areas
- Opening up of small stores for necessity items
- Advantage of acquaintance with the customers thereby resulting in repeat sales
- However, limited customer base within locality
- During the period 1960s to 1980s, domestic textile majors ventured into retailing via company-owned outlets.
- Few manufactures opened their own outlets such as Vimal, Bombay Dyeing, Raymond's, etc. Footwear makers such as Bata and Metro also established their own chains of retail stores.

2. Conceptualisation (1990-2005)

- With liberalisation and opening up of Indian economy during the early 1990s, many corporates and first generation entrepreneurs entered retail business and investments by international retail firms increased in India.
- For e.g. the RPG group launched Spencer's in Bangalore in 1991. During the same year, The Raheja's, launched Shoppers Stop in Mumbai.
- In 1998, Tata group entered the retail business with the brand Westside. Brands like McDonalds, Adidas, Reebok, Nike, Levi Strauss, Lee, Wrangler, Louis Philippe, Pepe Jeans, etc. entered Indian retail market.
- Growth in apparel retail format was the most significant during this period.

3. Expansion (2005-2010)

- This period was marked by the growing share of organised retail in the total Indian retail sales pie with substantial investments by large Indian corporates.
- Pantaloons retail (now Future retail) opened 'Home town' and 'E-zone' in 2006. Reliance entered the retail business with 'Reliance fresh' in 2006.
- Besides the above, in the year 2006, government changed the FDI policy by allowing foreign retailers to acquire 51% stake in JV with an Indian firm. This saw several premium brands such as Armani, Versace etc entering the Indian market.
- During the period 2008-2009, due to recessionary impact seen in the Indian economy, many over-leveraged retail stores had to shut down.

4. Consolidation & growth (2010 onwards)

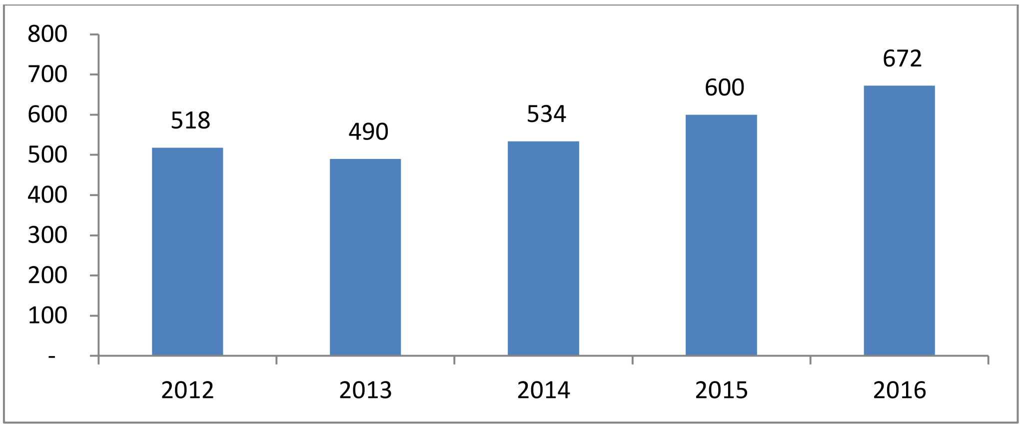
- With intense competition in the urban market, retailer started to setup shops in the smaller cities and rural areas. Also, India witnessed emergence of many online brands such as Flipkart, Myntra, Homeshop18 etc.
- In 2012, GoI made major changes in retail FDI policy by allowing FDI upto 100% in single brand and upto 51% for multi brand.
- E-commerce emerged as one of the major segments

Source: IBEF

The year 1980 marked the onset of retail chains in India with the entry of textile majors such as Bombay Dyeing, S Kumar's, Raymond's etc. followed by Titan. However, the emergence of organised retailing as a 'concept' emerged to the fore in the Indian scenario only during the early years of 2000. With the growing number of players in the organized retail sector various new formats such as supermarkets, hypermarkets etc emerged. The concept of 'one-stop shop' further glorified the advantages associated with modern retailing. Over the last two decades, the size, scope and complexity of retailing has undergone a considerable change. One of the significant changes is advancing online retail of various products across the country. The current online retail accounts for about 1.2% of total retail market.

The retail market size grew from USD 518 billion in 2012 to about USD 672 billion as of 2016, registering a compound annual growth rate (CAGR) of ~7% during the period. However, in the last two years, the retail industry has been growing at about 12% respectively on account of favourable demographics, higher income levels, easy credit availability, etc

Chart 2: Market size of Retail Industry (USD Bn)



Source: IBEF

The Indian Brand Equity Foundation (IBEF) estimates the industry to grow at a CAGR of over 17% over the next 4 years and reach USD 1,300 billion by 2020. However, with the Private Final Consumption Expenditure expected to grow by about 12.5% y-o-y till 2020 (has grown at about 10-12% historically) and GDP by ~ 8.5-9%, ***CARE expects the retail industry to register a growth rate of about 12-14% over the next 4 years and reach about USD 1,150 billion by 2020.***

Also, with the higher demand from consumers with higher incomes, job creations, improved standard of living, higher discretionary spends and higher participation of producers/retailers in the organised retail market, discounted and promotional pricing, increased number of products and more private labels with retailers among others, the industry is expected to register growth going forward.

With expected transition from offline stores (physical stores) to online stores by many players in the retail industry to compete with the local kirana shops, with home delivery, cash on delivery options, the shop sizes would comparatively decrease while the number of stores might go up. Also, with markets being more organised, the shift from unorganised retail market to organised retail market is expected to happen going forward.

Chart 3: Segment-wise contribution in retail industry

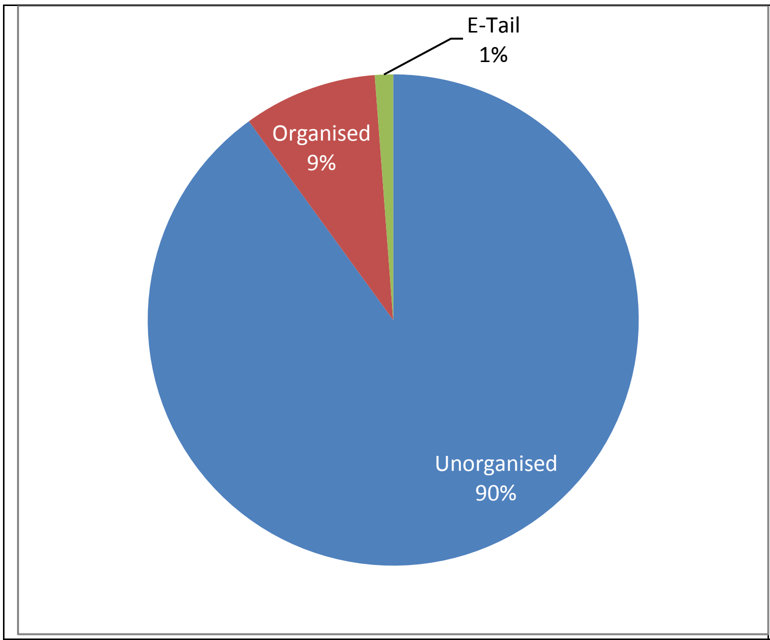
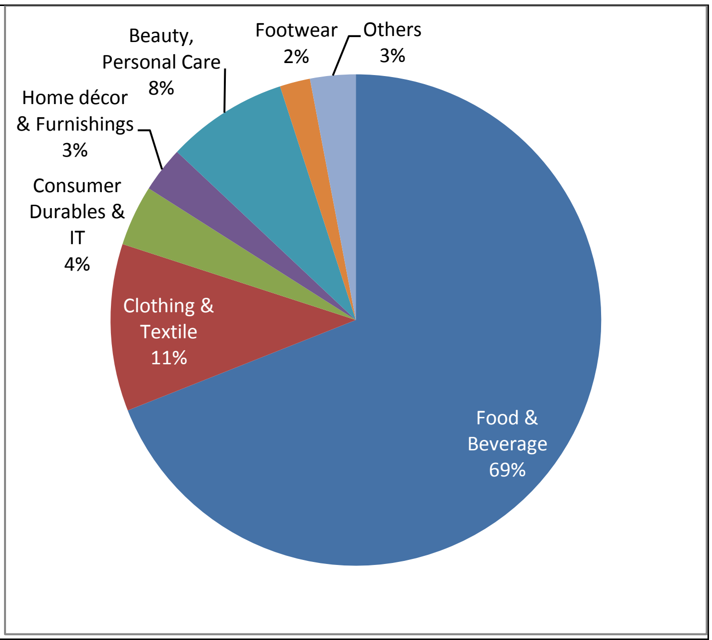


Chart 4: Segment wise contribution in organised retail



Source: Industry, IBEF

The Indian Retail industry has primarily been dominated by the unorganized segment. During FY16, the unorganized retail accounted for about 90% of the total retail revenue. Compared to the unorganized retail contribution of 15-20% to the total retail sales in countries such as U.K., U.S., Taiwan etc, the Indian figure is high.

Within organized retail, food & beverage holds around 70% of the retail sector, followed by apparel and personal care. As per World Development Indicators database published by World Bank in February 2017, India is the 3rd largest economy in the world in terms of Purchasing Power Parity (PPP), only behind China and US. Indian GDP growth stood at 7% as on December 31, 2016 as mentioned by Central Statistics Office (CSO) and it is expected to be the same for FY17.

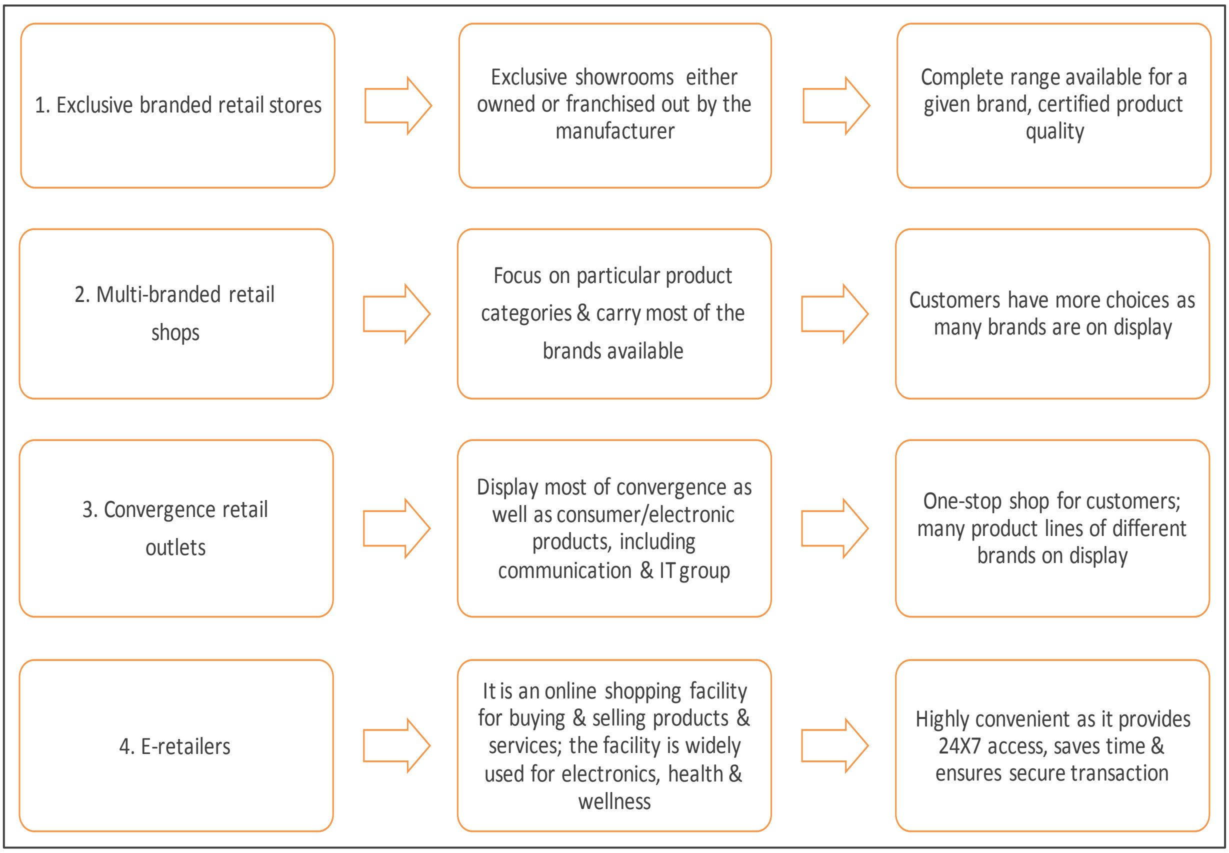
As per IMF, Indian economy is likely to grow by 7.2% in FY18 and 7.7% in FY19. This shows India's growth potential in Organized Retail Penetration also. Improving economy, changing demographic profile, increasing disposable incomes in hands of the middle class, changing tastes and preferences and growing urbanization along with rising discretionary spends are the main growth drivers in the organized retail market in India. CARE expects the Indian economy to grow by about 7.6%-7.8% in FY18.

Organised Retail formats in India

Modern retailing in India has entered in form of huge malls and super markets offering shopping, entertainment, leisure to the consumer while the retailers experiment with a variety of formats, such as discount stores, supermarkets, hypermarkets to specialty chains. However, kirana shops still continue to score over modern formats primarily due to the convenience factor. The organized segment typically comprises of a large number of retailers, greater enforcement of taxation mechanisms and better labour law monitoring system. Retailing is no longer only stocking and selling but is about efficient management of supply chain, developing distributor and vendor relationship, customer service quality, efficient merchandising and timely promotional campaigns.

Although largely unorganized, the Indian retail sector witnessed sharp growth over the past few years. Food & grocery and clothing & footwear segment are the main revenue drivers in the Indian retailing, together accounting for approximately 80% of the market share in FY16.

Chart 5: Organized retail formats in India



Source: IBEF

Over the past few years, many prominent players in the country like Tata, Reliance Industries, Aditya Birla and many others are investing significantly in the Indian Retail market as a result of which there has been a tremendous growth in the organised segment. Many other progressive players stepped into the territory with long term goals to expand their business across verticals, cities, formats and segments.

Table 1: Major players in Organised retail with private labels

	No. of Stores	Area (Million Sq. Ft.)	Average area per store (sq.ft)	Private Label/Brands
Future Retail	794	13.03	16,411	Hypermarket & Super market - Big Bazaar, Easyday, FBB, Foodhall Home solutions - HomeTown, Ezone, FabFurnish
Shoppers Stop	249	5.98	24,016	Brands - Haute Curry, Rockystar, Desigual, Vettorio Fratini, Fratini Women, Wrogn, Avorio, Fresh Basket Avorio, Fresh Basket & Terzo, Maxit, etc
Avenue Supermarts Ltd.	126	3.83	30,397	Brands owned by ASL - D Mart, D Mart Minimax, D Mart Premia, D Homes, Dutch Harbour, etc
ABFRL	2,242	6.00	2,676	Madhura Fashion & Lifestyle - Louis Phillipe, Van Heusen, Allen Solly, People, Peter England, Planet Fashion, The Collective, Hackett London, Forever21 Pantaloons - 200 licensed and international brands, including 24 exclusive brands - Rangmanch, Ajile, Honey, Chirpie Pie, Annabelle; besides, it also features brands licensed on a long- term basis: Bare, Rig, SF Jeans, Lombard and Candie's New York, etc
Trent Ltd	160	4.77	29,813	Westside, Star Bazaar, Landmark
Vmart	136	1.00	7,353	-
V2 Retail	37	0.46	12,465	God-speed, Andie, Glamora
ABRL	514	15.45	30,058	More Quality 1st Supermarkets, More Megastore, VOW, Kitchen's Promise, Feasters, Prarthana, More Choice, More Daily, More Life, Bluearth, Karinee, Kruff, Incheels, TRU, Chatter Kids and Yo
Reliance Retail	3,616	13.50	3,733	Reliance Fresh, Reliance Smart, RelianceSMART.in, Reliance Market, Reliance Digital, Reliance Trends, Reliance Footprint, Reliance Jewels, AJIO, Footprint360
Spencer Retail	120	1.10	9,167	Spencers Finest, Spencers Smart Choice, Tasty Wonders, Clean Home, Maroon, Island Monks, Island Monks kids, Asankhya, La Bonita, Mark Nicolas, Scorez, Care & Essentialz

Source: Company reports & websites

Demand Drivers

1. *Demographic advantage*
   - The growing Indian population has also led to increase in the 'earning population' (age group 15-60) of the country. The proportion of Indian populace in the age group of 15-64 years increased from 55.4% in 1991 to 66.2% in 2016.
   - Considering the huge size of the Indian population, the lower median age implies a higher number of working people thereby clearly outlining the immense earning as well as spending potential of the Indian populace.
   - Taking into account the age group below 25 years being one of the highest spending age group, the current age dynamics are expected to boost the retail sales in India. The median age of India is 26.7 years, one of the lowest globally in comparison to 37.2 years in the US, 45.8 years in Japan and 36.3 years in China.

Chart 6: Age distribution of Indian population

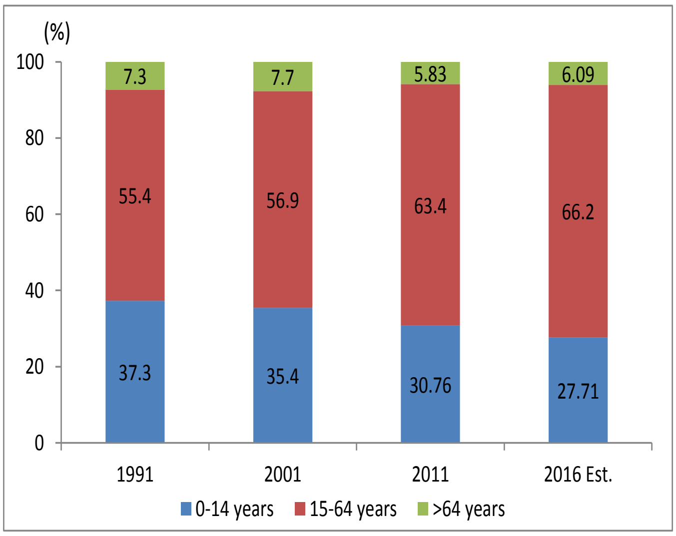
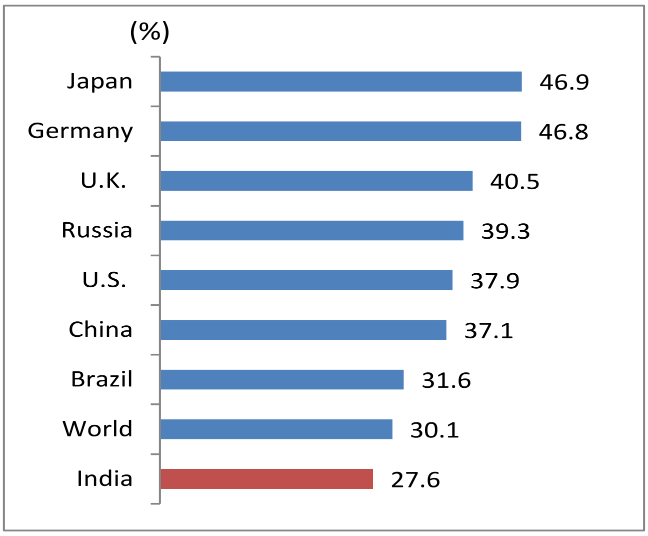


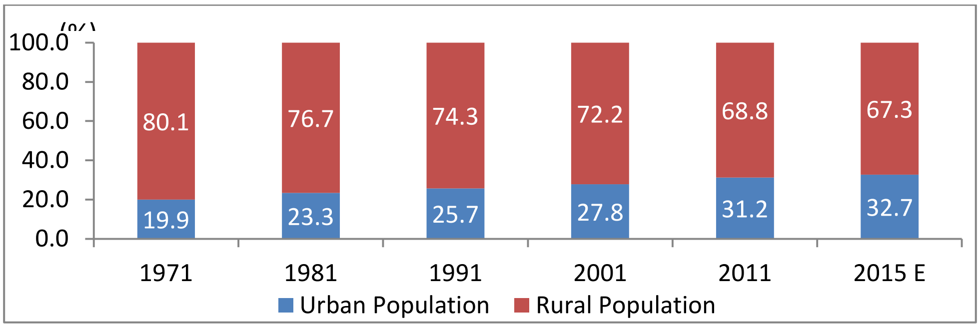
Chart 7: Median age of population – 2016E



Source: CIA – The World Factbook

2. *Rapid urbanization*
   - A majority of India still lives in 'villages'. This statement no doubt holds true but the figures suggest that there has been a paradigm shift of the Indian populace in terms of rural–urban divide. The aspirations of higher income, higher standard of living etc. has drawn more and more people from villages to settle in towns and cities.
   - This transition from rural to urban areas has led to an increase in the demand for goods (owing to higher income and ever-expanding needs). The retailers, especially in the organised segment are therefore targeting the 'middle class' populace by ensuring the availability of varied products at various price ranges to match the needs of a 'common man'.

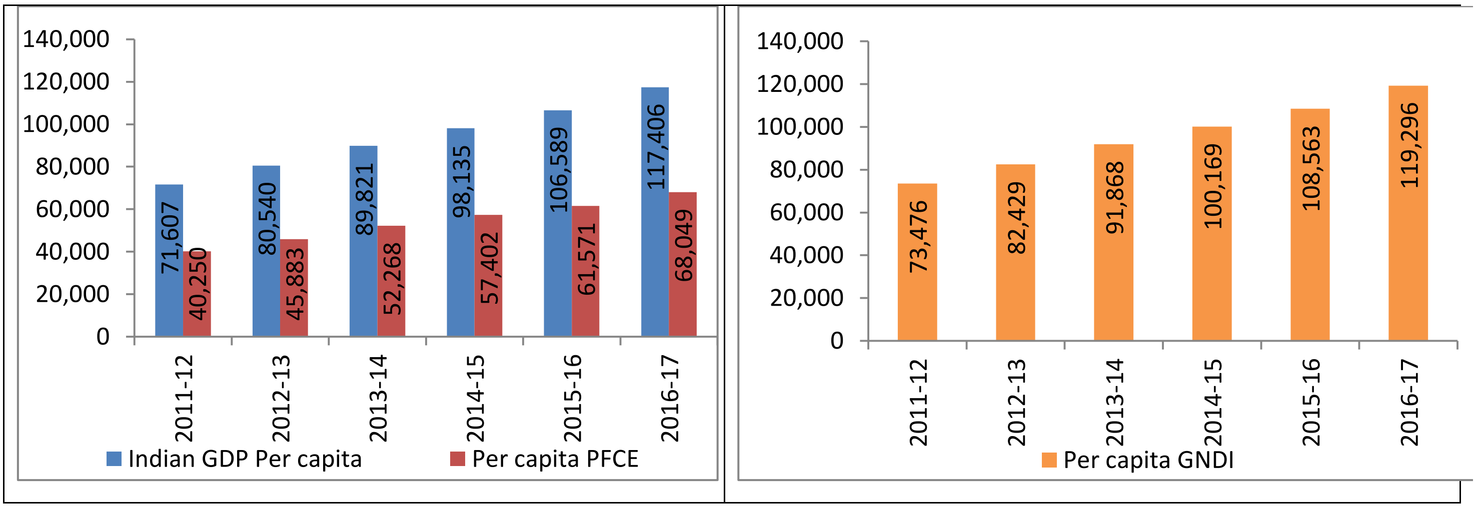
Chart 8: Population Division – 2015E



Source: Census, CIA - The World Factbook

3. *Rising income levels & growing per capita expenditure*
   - In the last decade, Indian economy has progressed rapidly. Correspondingly, India's per capita GDP has gone up from Rs 71,607 in FY12 to Rs. 117,406 in FY17 at a CAGR of 10.4% fuelling a consumption boom in the country. Correspondingly, the per capita personal disposable income surged from Rs 73,476 in FY12 to Rs 119,296 in FY17 at a CAGR of 10.2%. Also, the per capita private final consumption expenditure too rose from Rs 40,250 in FY12 to Rs.68,049 in FY17 at a CAGR of 11.1%. The growth in country's per capita GDP in turn has increased the disposable income of the populace ultimately driving the country's consumption.

Chart 9: Per capita indicators (Rs at current prices)



Source: Central Statistics Office (CSO)

4. *Growing spread of plastic money & easy availability of credit*
   - The growing use of 'plastic money' i.e. credit and debit cards has resulted in an increased spending amongst the consumers thereby fuelling the demand in the retail sector. With the acceptance of plastic money by almost all the retailers in the organised retail segment, the number of outstanding plastic cards in the country is on a rise. The incentives such as cash-back offer or discounts on selected sales linked to the plastic money have lured the Indian consumer to experience the pleasure of 'cashless shopping'.

Chart 10: Debit & Credit card usage trend (000 numbers)

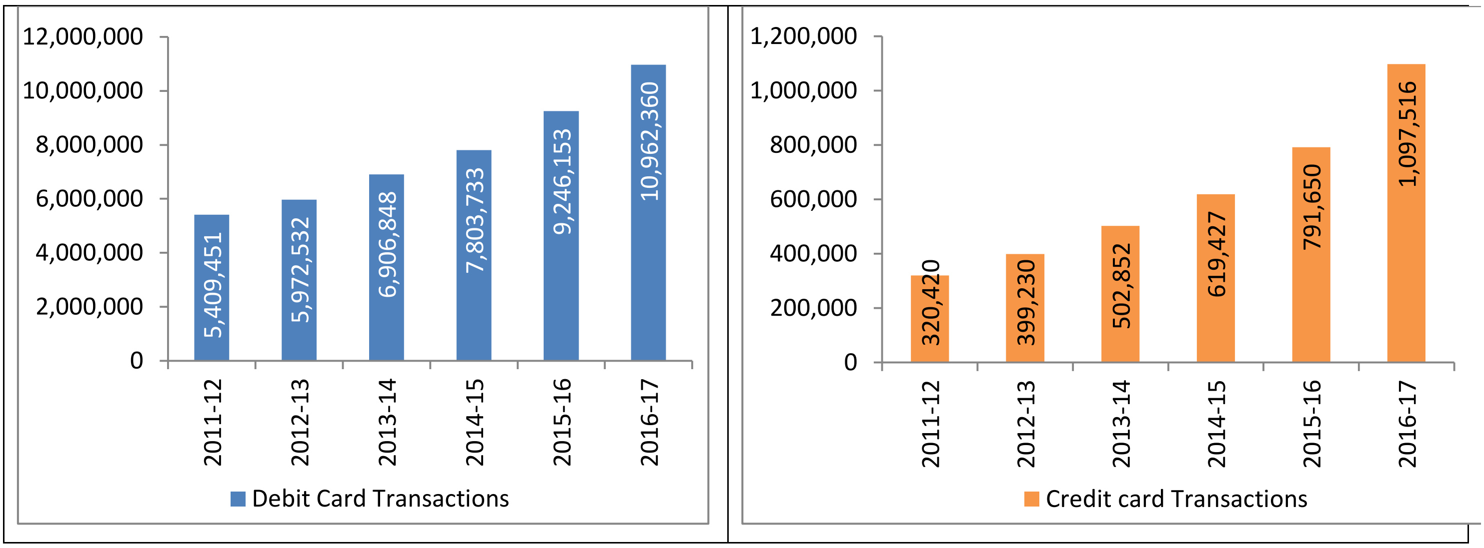
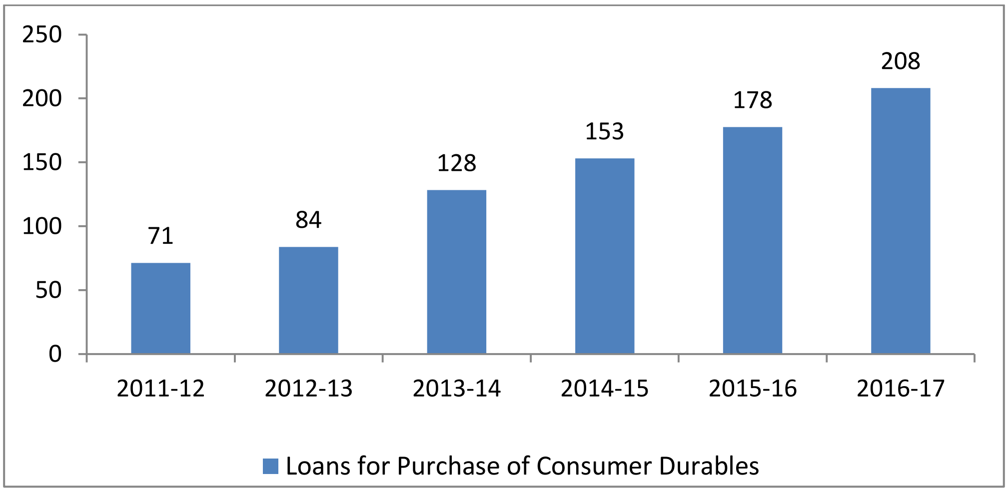


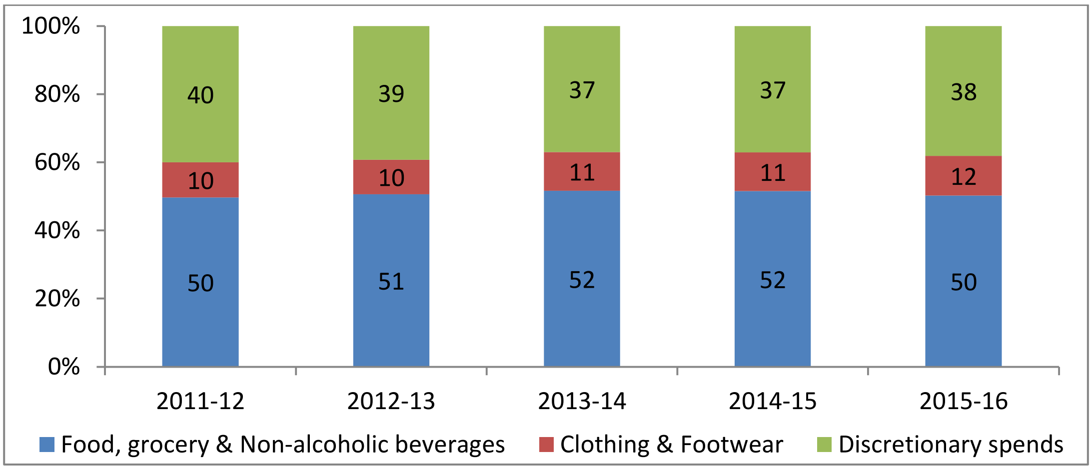
Chart 11: Deployment of Gross Bank Credit (Rs Billion)



Source: Reserve Bank of India

5. *Changing face of Indian consumerism – from necessities to luxury (Brand consciousness)*
   - With rise in income level of Indian populace and increase in plastic money, discretionary spending has become important. In the year FY16, Food & grocery and Clothing & footwear spending was recorded at 62% of the country's total spending while that of discretionary category was steady at 38%.
   - Even with a declining share 'Food, Grocery and Beverages' segment remained the largest spending head but the growing consumer spending under the 'discretionary heads' such as healthcare, personal care products etc marked a noticeable feature of the shifting consumption pattern.

Chart 12: Changing consumption patterns



Note: Discretionary spends include – Furniture & furnishings, Transport, recreation & culture, etc.

Source: MOSPI, CMIE

6. *Rising growth in number of nuclear families*
   - The rapid growth of population, increased urbanisation and the unavailability of large real estate spaces have led to the growth of nuclear families in the country. The average number of person per household has reduced from 5.6 in FY81 to 4.9 in FY11.

- The growing number of households has not only pushed the demand for necessities but the combined mix of greater purchasing power and willingness to spend has resulted in the nuclear family's shifting focus towards luxury/semi-luxury products. This has thus led to the emergence of modern retail formats such as specialty retail, luxury retail etc.

Chart 13: Trends in family size

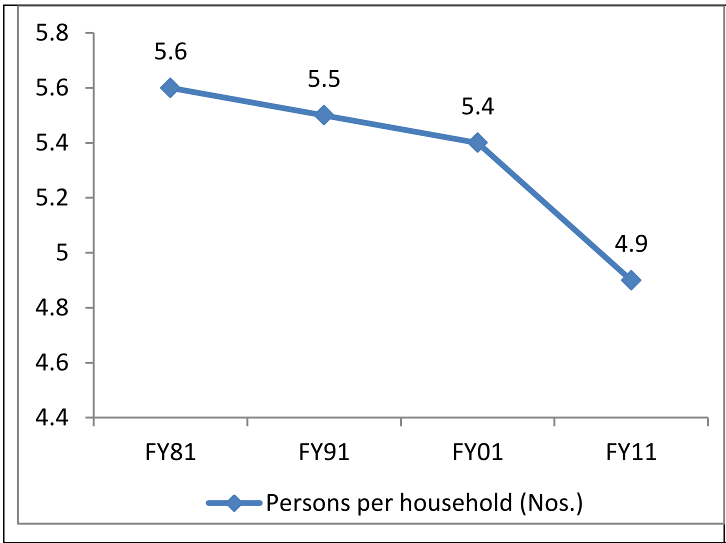
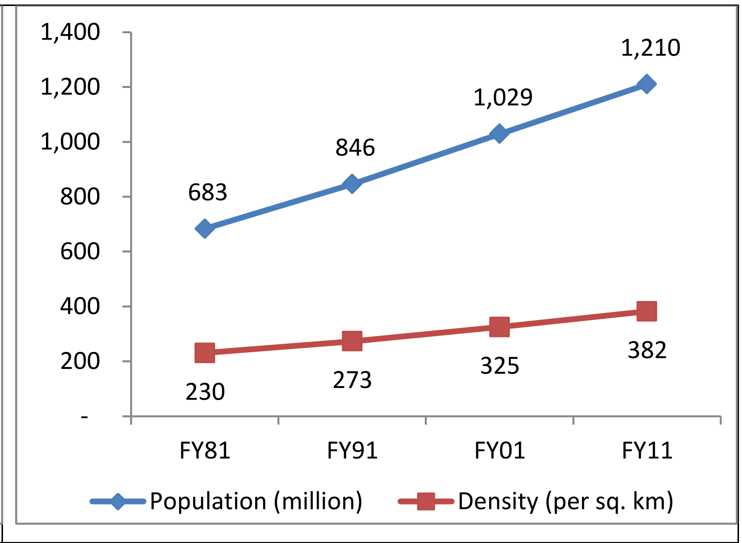


Chart 14: Growth in population and density



Source: Census of India

7. Growing female working population

- On the backdrop of growing Indian economy during the recent years, the participation of female workforce in the country's economic activities has increased considerably. The proportion of the female workforce which accounted for 26% of the country's workforce in FY71 has scaled to 31% during FY11. Notably, the percentage of working women involved in the organised industrial activities too has increased from 27% in FY81 to 47% in FY11.
- The higher purchasing power in the hands of 'working-women class' compared to the housewives enhances the ability of the former to spend much more comparatively.
- Further the 'time constraint' factor also needs to be accounted for by the working women while making purchases of various day-to-day requirements. Capitalizing on the same, the organised retailers have increasingly emphasized on the 'one-stop shop' concept wherein all the household requirements ranging from food & grocery to apparel could be met under a single roof.

Chart 15: Share in total working population (%)

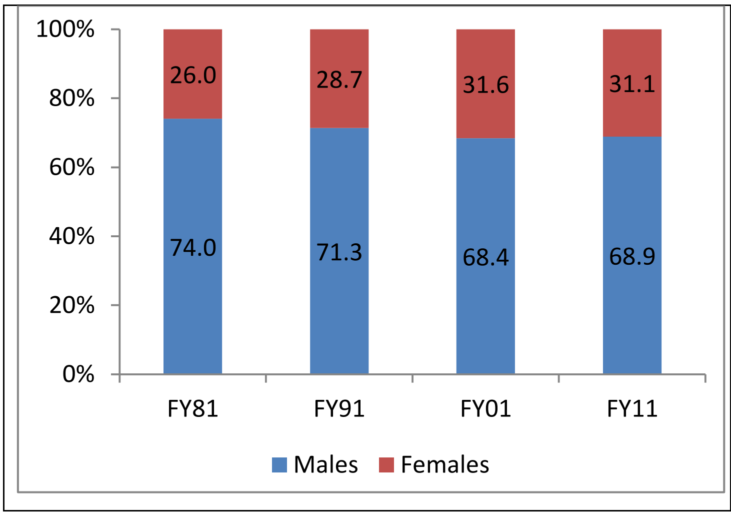
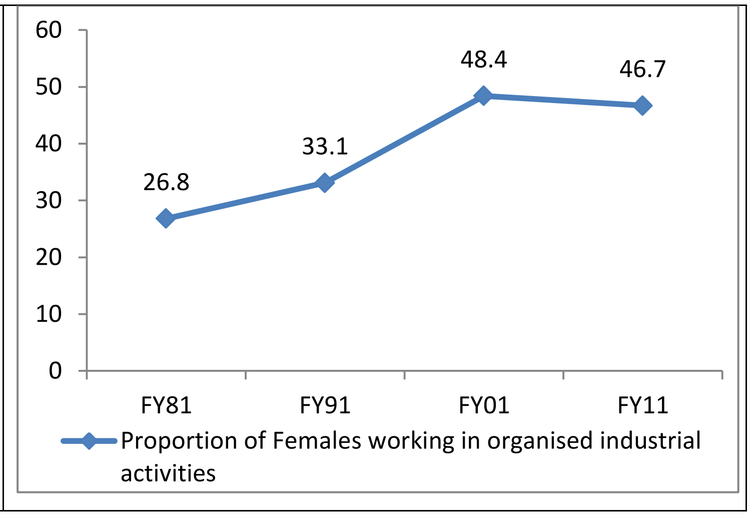


Chart 16: Proportion of females working in organised industrial activities (%)



Source: Census of India, Socio-Economic Statistics – 2011, CMIE

E-tail in India

E-commerce is expanding steadily in the country. With advancements in quality of internet access, payments and computing on mobility platforms, changed consumer behavior with a large active internet user base, customers have the ever increasing choice of products at the lowest rates by various retailers. E-commerce is probably creating the biggest revolution in the retail industry, and this trend would continue in the years to come. Currently India's internet penetration stands at around 35%.

E-tail in India can be broadly categorized as:

- *Domestic* – sale within India (Amazon, eBay, Flipkart, Snapdeal, Shoppers-Stop, Reliance, Croma, etc)
- *Cross-Border* – sale in India from outside India. (The U.S. is one of the top ten countries for cross-border shopping for Indian buyers. Baby supplies, toys, clothing, footwear, automotive, wearables and accessories, jewelry, watches, personal care and health products and digital entertainment and educational services are some of the leading categories for cross-border B2C ecommerce. Challenges restricting the growth of cross-border ecommerce include high shipping costs, import duties and complexities in returns and exchanges)
- *B2C* – sale between etailer and consumer (Flipkart, Myntra, Jabong, Amazon, Snapdeal, eBay, PayTM, Shopclues, Pepperfry, Zomato, BigBasket)
- Marketplace and Inventory based
- Single brand and multi brand

Online retail business is the next generation format which has high potential for growth in the near future. After conquering physical stores, retailers are now foraying into the domain of e-retailing to leverage the digital retail channels (e-commerce), which would enable them to spend less money on real estate while reaching out to more customers in tier-2 and tier-3 cities.

It has been found that India's e-commerce is one of the fastest growing channels for commercial transactions. E-commerce in India is growing at an annual rate of 51%, the highest in the world, and is expected to jump from $30 billion in 2016 to $120 billion in 2020 according to a ASSOCHAM-Forrester study paper. The retail sector is also showing a promising trend of 11% CAGR and is expected to reach $1 trillion by 2020. According to ASSOCHAM, the value of online retail purchases made by consumers in India is projected to cross USD100 million by 2017.

The online retail growth has followed a disruptive course across markets. In relatively mature markets, like US, where the organised retail penetration is high, multi-channel retail chains lead to online markets. While in newer markets like India (with about 10% organised retail of which about 1.2% share held by e-tail) and China (with 20% organised retail), web-only players are dominating the market given the low organised retail penetration.

In India, the category-wise spilt of E-commerce is as under:

Category	Approx share (%)
Electronics & Accessories	40-45
Apparel & Lifestyle	25-30
Home & Living	5-7
Food & Grocery	2-3
Others	20-30

Note: Lifestyle includes footwear, bags, belts, watches, wallets, etc

Source: Industry

Key Growth drivers of E-tail in India

1. *Young population*

2. *Promotional prices by online retailers*

3. *Cash-on-delivery options, manufacturer's warranty:*
   - Cash-on-delivery is the most preferred payment option with about 45% of buyers opting for it in India

4. *Improved supply side*
   - Discounts, promotions, product details, hassle free returns, cash on delivery options, etc

Government initiatives such as digital India, skill India, startup India and Make in India are also contributing to the growth of the ecommerce industry.

Financial performance

CARE has analyzed the basic cost structure of the organised retail industry in India. According to the findings of the study, the operating costs could be categorized under the following:

1. Raw material costs (main component - Stock-in-trade – retail merchandise) (70-75%)
2. Employee costs (4-6%)
3. General and Admin costs (9-11%)
4. Selling & Distribution expense (5-7%)

These put together account for approximately 85-90% of the total operating costs as percentage of total operating income (sales) of the retailers in India. The 'general and admin costs include the rentals costs, office expenses, etc.

Chart 17: Cost analysis

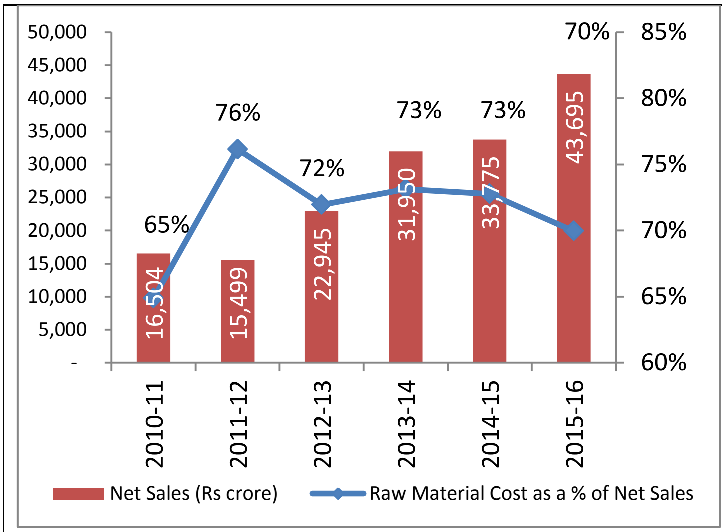
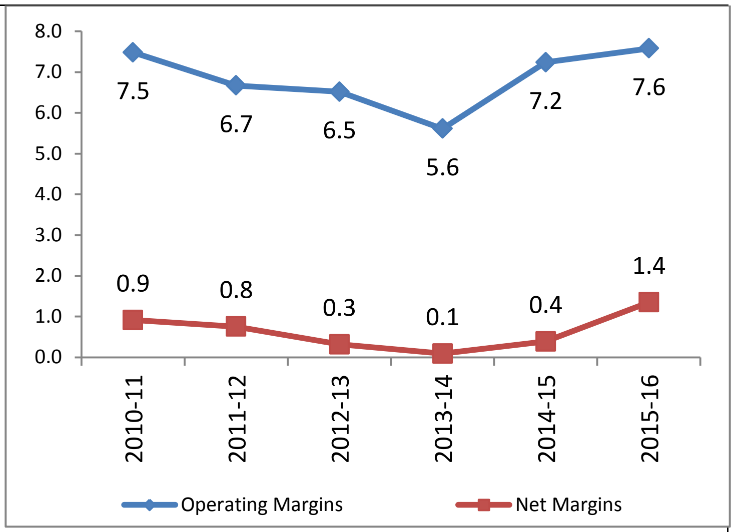


Chart 18: Margins of players (%)



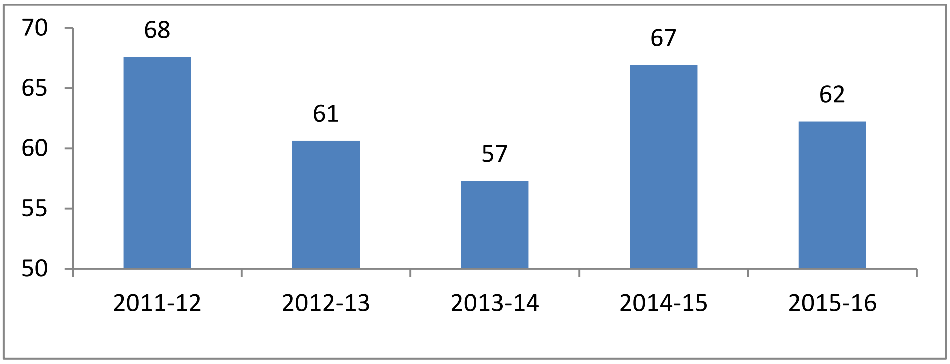
Note: *The industry margins are based on the financial results of 19 listed retail companies*

Source: AceEquity

During FY15, the retailers were faced with slower turnover of inventory owing to the following reasons:

- over-supply of malls / stores in the vicinity to the particular store thereby resulting in intense competition amongst the retailers
- lower store conversion rate
- Store-level SKUs not in accordance to the customer's requirements and preferences

Chart 19: Inventory days



Source: AceEquity

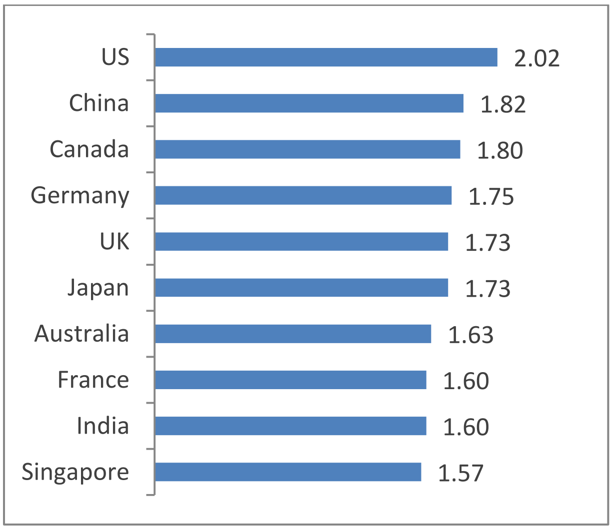
To counter the same, the retailers adopted various measures such as store re-sizing, adopting just-in-time technique and improvement in supply chain operations together with warehousing and storage facilities. In addition, the discounted sales offerings by the retailers improved their sales volume on one hand while lowering the turnover time for inventories on the other. The inventory turnover days of the retailers of 19 listed retailers declined from 67 days during FY15 to 62 days in FY16. Players now are being cautious by limiting the number of new store roll-outs and shutting down the non-profitable ones amidst increasing e-tail demand.

Investments

The Indian retail has received Foreign Direct Investment (FDI) equity inflows totaling US$ 935.74 million during April 2000–December 2016.

In FDI Confidence Index, India ranks 9th after United States, China, Canada, Germany, UK, Japan, Australia & France. Overall, given its high growth potential, India compares favourably with global peers among foreign investors. With investment of around USD 511.76 billion, the 1st half of 2016 witnessed the highest annual private equity (PE) in the retail sector, since 2008.

Chart 20: FDI Confidence Index 2016



Source: IBEF

In India, currently 51% FDI is allowed in multi-brand retail while 100% FDI has been allowed in the single brand retail. With the rising need for consumer goods in different sectors including consumer electronics and home appliances, many companies have invested in the Indian retail space in the past few months. *(See Appendix)*

Road ahead:

- With the Private Final Consumption Expenditure expected to grow by about 12.5% y-o-y till 2020 (has grown at about 10-12% historically), GDP expected to go up to ~9%, ***CARE expects the retail industry to register a growth rate of about 12-14% over the next 4 years and reach about USD 1,150 billion by 2020.*** With factors such as higher demand from consumers with higher incomes, job creations, improved standard of living, higher discretionary spends and higher participation of producers/retailers in the organised retail market, discounted and promotional pricing, increased number of products and more private labels with retailers among others, the industry is expected to register growth going forward.

- The traditional retailers are expected to continue dominating the largest market share in the Indian Retail industry. However, with the expansion in the e-tail segment on the back of growing internet users, changing lifestyles, various delivery options, their share is projected to shrink going forward. In order to safeguard their shares and face the intensifying competition from online retailers, the traditional retailers are making huge investments for building their IT infrastructure.

- E-commerce is steadily expanding in the country where consumers have the ever increasing choice of products at the lowest rates. E-commerce is probably creating the biggest revolution in the retail industry, and this trend is expected to continue in the years to come. Retailers could leverage the digital retail channels (e-commerce), which would enable them to spend less money on real estate while reaching out to more customers in tier-2 and tier-3 cities.

- Although the share of modern retail penetration in the country is not pleasing, there is still a lot to cheer as consumer spending patterns and increasing disposable income levels continue to evolve at a fast pace. With a number of international brands entering the market, there is ample opportunity and dynamism for the industry. Also, the existing players are working towards reinventing ways to keep up with the pace of growth in the sector. Nevertheless, there is a huge untapped potential for the growth of modern retail in the top six retail markets (Delhi, Goa, Kerala, Maharashtra, Karnataka, Mizoram) in India as per the Retail Potential Index of National Council of Applied Economic Research (NCAER).
- Nonetheless, the long-term outlook for the industry is positive, supported by rising incomes on account of implementation of Seventh Pay Commission, favourable demographics, entry of foreign players, growing urbanization and rising discretionary spends.
- With expected transition from offline stores (physical stores) to online stores by many players in the retail industry to compete with the local kirana shops, with home delivery, cash on delivery options, the shop sizes would comparatively decrease while the number of smaller stores might go up. Also, with markets being more organised, the shift from unorganised retail market to organised retail market is expected to happen going forward.

- Also, to promote its Make in India campaign with job creation at its core, the government is considering allowing 100% foreign direct investment (FDI) in the multi-brand retail – as long as the products are made in India. However, the final decision is yet to be taken. If the government allows 100% FDI in multi-brand retail, the domestic industry is expected to get a further boost.
- GST regime is expected to be implemented from July 2017 in the country. The prevailing revenue neutral rate for apparel industry is ~12-14% and any rate set out by the new GST regime above it would have affected demand in the short-term as companies would pass on hikes (if any) to consumers. However, with the latest reports, rate for the branded apparels has been fixed at 12%, expected to have a neutral impact on the apparel industry. Also, for footwear upto Rs 500, a rate of 5% has been fixed and for footwear worth over Rs 500, 18% tax slab has been finalized. Nonetheless post the initial interruptions, the GST would reduce competition from the unorganised sector and provide a level playing field to the organised branded players.
- Also, with the current tax regime, retailers have been paying service tax on many of their operating costs (for eg:- rentals paid - which constitute about 10-15% of the total operating cost of a retailer, attracted a service tax) and had no input credit for the same. However, with GST, the retailer will be able to set-off the service tax paid on the rent as input tax credit against the taxes to be paid on the final revenue.
- With the GST being consumption based tax regime, retail industry would now come under focus of the Indian states. Overall, on a broader level, the GST is expected to have a positive impact on the retail industry in India.

Appendix

- US apparel retail major Gap Inc, has tied up with Arvind Group's fashion portal NNNow.com to sell its products online, which will help the retailer expand its presence beyond metros and tier-I cities.
- French designer furniture maker, Roche Bobois, outlined plans of opening new stores in cities like Hyderabad, Chennai, Pune, Kolkata and Ahmedabad, in order to make India one of its top five markets by 2022.
- A joint venture between Dutch asset manager APG Asset Management and real estate asset platform Virtuous Retail, has acquired a portfolio of three shopping malls for US$ 300 million, and has committed an additional US$ 150 million as equity capital to expand the portfolio.
- Future Consumer Ltd has formed a joint venture (JV) with UK's largest wholesaler, Booker Group, with an investment of Rs 50 crore (US$ 7.5 million), to set up 60-70 cash-and-carry stores in India in the next 3-4 years.
- Adidas India Private Limited, outlined plans of opening around 30-40 big flagship stores across Delhi, Mumbai and Bengaluru, by 2020.
- Switzerland's luxury retail brand Bally, plans to re-enter the Indian market in a joint venture with Reliance Brands Ltd, by opening its first store in New Delhi in March 2017, and thereafter aiming to expand to four stores in Delhi, Mumbai, Kolkata and Chennai over the next 3 to 4 years.
- Urban Ladder, an online furniture store, is in advanced talks to raise around US$ 25-30 million from existing investors Kalaari Capital, SAIF Partners and Sequoia Capital, along with one new investor, which will be used to fund its expansion plans.
- Hennes & Mauritz (H&M), the Sweden-based clothing retailer, is in advanced talks with Mumbai-based Prakhhyat Infraprojects Pvt Ltd to lease around 275,000 square feet of space at Bhiwandi, Maharashtra, to set up its first warehousing hub in India.
- Future Group has partnered with UK clothing and hardware retailer Laura Ashley to make and sell merchandise as well as wholesale distribution in India.
- Parle Agro Pvt Ltd is launching Frooti Fizz, a succession of the original Mango Frooti, which will be retailed across 1.2 million outlets in the country as it targets increasing its annual revenue from Rs 2800 crore (US$ 0.42 billion) to Rs 5000 crore (US$ 0.75 billion) by 2018.
- Mr Amit Agarwal, Country Head, Amazon, has stated that India continues to be viewed as a long-term opportunity and the company would continue to invest aggressively in Indian operations.
- International Finance Corporation (IFC), the investment arm of The World Bank, plans to invest up to Rs 134 crore (US$ 19.86 million) in Kishore Biyani's Future Consumer Enterprises Ltd, which is expected to aid the company in driving its growth plans.
- Amazon India has opened six new fulfillment centres across Chennai, Coimbatore, Delhi, Jaipur and Mumbai, which will open up 5.5 million square feet of storage space for sellers on the marketplace who use the 'Fulfilled by Amazon' service.
- IKEA, the world's largest furniture retailer, plans to invest Rs 10,500 crore (US$ 1.56 billion) to set up 25 stores across India and hire over 15,000 permanent employees and 37,500 temporary employees to assist in running its stores.
- Aditya Birla Fashion and Retail Limited (ABFRL) has announced that it will acquire exclusive online and offline rights of Forever 21, an American fast fashion brand, in the Indian market.
- Massimo Dutti, a premium fashion brand from Spain offering sophisticated womenswear, menswear, footwear and accessories, has entered India by opening its first store at the Select Citywalk mall in New Delhi.
- Lenskart, India's largest online eyewear retailer, has raised Rs 400 crore (US$ 59.3 million) in series D round of funding led by World Bank's investment arm International Finance Corporation (IFC), which will be used to enhance its technology, supply chain, lens manufacturing, and expand the reach of its high-quality eyewear products across Tier-3 and Tier-4 cities of India.

- Neil Barrett, one of the leading Italian fashion brands, has forayed into the Indian market by establishing its retail presence through an exclusive partnership with Fervour, a multi-brand boutique that stocks international designer brands.
- New York-based designer brand Kate Spade will be launched in India later this year and will set up a network of stand-alone stores across major cities, thus becoming one more global brand entering the Indian retail space after the Government of India relaxed single brand retail norms recently.
- KartRocket, a Delhi based e-commerce enabler has completed its US$ 8 million funding round by raising US$ 2 million from a Japanese investor, which will be used to enhance Kraftly, a mobile-first online-to-offline marketplace targeting small sellers, individuals and home-based entrepreneurs in India in product categories such as apparel and accessories.
- PurpleTalkInc, a US based mobile solutions company, has invested US$ 1 million in Nukkad Shops, a Hyderabad based uber-local commerce platform that helps neighbourhood retail stores take their businesses online through a mobile app.
- Mumbai-based baby care and kids products e-tailer, Hopscotch.in, has raised US$ 13 million in a Series C round of funding from Facebook co-founder Mr Eduardo Saverin, which will help the firm in growth and expansion of its technology platform.
- Gurgaon-based e-commerce firm Shopclues has raised US$ 150 million from Singapore government's GIC and its existing investors Tiger Global and Nexus Venture Partners, at a valuation of US$ 1.1 billion, thereby becoming the latest among several e-commerce companies from India reaching a billion dollar valuation.
- Adidas AG, renowned for its Adidas and Reebok sports brands, has become the first foreign sports company to get government approval to open 100 per cent foreign-owned stores in India.
- Walmart India plans to add 50 more cash-and-carry stores in India over the next four to five years.
- Aeropostale, an American teen fashion retailer, has chosen to enter India over China, and expects India to be among its top three markets over the next four years with revenue target of Rs 500 crore (US$ 74.12 million).
- Opinio, a hyperlocal delivery start-up, has raised US$ 7 million in a Series-A funding from Gurgaon-based e-commerce fulfilment service firm Delhivery along with investment from Sands Capital and Accel Partners.
- Textile major Arvind Limited has announced a partnership with Sephora, owned by LVMH Moet Hennessy Louis Vuitton, a French luxury conglomerate, in order to enter into the beauty and cosmetics segment.
- Abu Dhabi-based Lulu Group plans to invest Rs 2,500 crore (US$ 370.6 million) in a fruit and vegetable processing unit, an integrated meat processing unit, and a modern shopping mall in Hyderabad, Telangana.
- Aditya Birla Retail, a part of the US$ 40 billion Aditya Birla Group and the fourth-largest supermarket retailer in the country, acquired Total hypermarkets owned by Jubilant Retail.
- US-based Pizza chain Sbarro plans an almost threefold increase in its store count from the current 17 to 50 over the next two years through multiple business models.

Source: IBEF

CORPORATE OFFICE:
CREDIT ANALYSIS & RESEARCH LIMITED
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road,
Off Eastern Express Highway, Sion (East), Mumbai - 400 022.
Tel: +91-22-6754 3456 I Fax: +91-22-6754 3457
E-mail: care@careratings.com I Website: www.careratings.com