

January 12, 2012

Retail sector

Some relief; hopeful of better news to follow...

On Tuesday, the Government notified its decision to allow 100% foreign direct investment (FDI) in single brand retail (under the approval route). This move frees up the 51% limit on foreign direct investment in single brand retail. While this move has come with certain riders and has been positively received by the industry, retailers still await the big move of opening up of FDI in the multi-brand retail segment.

■ FDI in retail - Indian saga!

Exhibit 1: The journey thus far...

Year	Event
1997	FDI in cash and carry wholesale trading was first permitted, to the extent of 100%, under the government approval route
2006	FDI in single brand retail (to the extent of 51%) was permitted FDI in cash and carry wholesale trading was brought under the automatic route
2010	DIPP floated a discussion paper to open up FDI in multi-brand retail
Nov-11	Approval for 51% FDI in multi-brand retail and relaxation of the 51% (to 100%) norm for single-brand retail
Dec-11	The above decision was put on hold due to opposition from political parties
Jan-12	100% FDI in single brand retail allowed, under the government approval route

Source: ICICIdirect.com Research

After facing severe opposition to the opening up of multi-brand retail to FDI in November 2011, the government has decided to take one step at a time and decided to allow 100% FDI in single brand retail. This further raises hopes of opening up of the multi-brand retail segment also. However, nothing is expected until the elections are completed. With this move, foreign retailers will be able to come and set up shops in India with full ownership being in their control.

■ The riders

- Products to be sold should be of a single brand only;
- Products should be sold under the same brand internationally;
- Single brand retailing would cover only products, which are branded during manufacturing;
- The foreign investor should be the owner of the brand;
- With respect to proposals involving FDI beyond 51%, mandatory sourcing of at least 30% of the value of products sold would have to be done from Indian 'small industries, artisans and craftsmen'

Note: Small industries would be defined as industries that have a total investment in plant and machinery not exceeding \$1 million.

Our view

We believe that further opening up of the single brand retail clearly shows the government's positive intent towards bringing about reforms. We see this as an important step towards further reforms in the multi-brand sector as well. The move is also expected to benefit India's small producers as any global retailer going in for more than 51% investment will be required to source at least 30% of their products from the Indian small and cottage industry. While it is difficult to comment on the fate of the existing tie-ups, we do not foresee a lot of renegotiations as some foreign players would prefer to have an Indian partner who has a proper understanding of the Indian retail market and consumer.

Permissible FDI limits across formats

Format	Permissible limit
Single brand retail	100%
Wholesale cash & carry	100%
Multi-brand retail	-

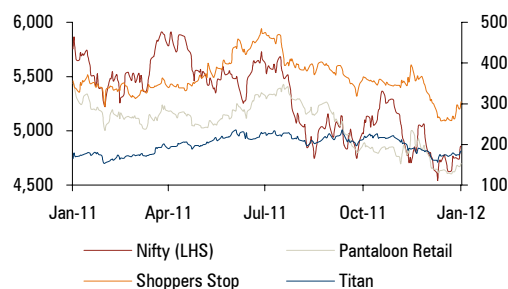
Shareholding Pattern (Sep-11)

	Shoppers	Pantaloon	Titan
Promoters	67.9	43.7	53.4
FII	12.9	23.6	13.3
DII	6.5	20.0	5.5
Others	12.6	12.7	27.9

Stock Return Matrix

	1m	3m	6m	12m
Shoppers Stop	(8.6)	(16.9)	(35.7)	(14.6)
Pantaloon Retail	(16.0)	(24.6)	(52.2)	(56.4)
Titan	(1.0)	(13.9)	(19.8)	10.9

Price movement



Analyst's name

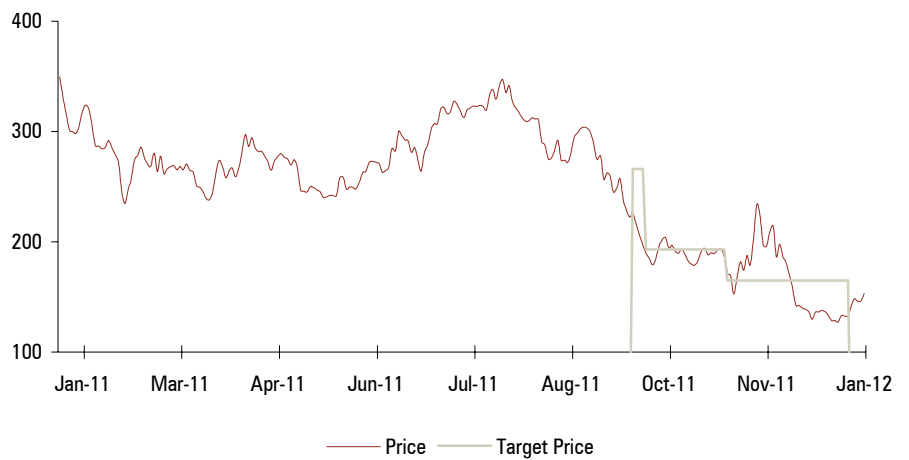
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ICICIdirect.com coverage universe (Retail)

Pantaloon Retail				Sales (₹ Crore)	EPS (₹)	PE (x)	EV/EBITDA	RoNW(%)	RoCE (%)
Idirect Code	PANRET	CMP (₹)	153 FY11	11,012.0	9.2	16.7	12.1	6.2	9.5
		Target (₹)	UR FY12E	13,554.8	9.4	16.3	7.0	6.4	10.8
MCap	3321	Upside (%)	FY13E	16,568.1	14.5	10.6	5.7	9.0	13.3
Shoppers Stop									
Idirect Code	SHOSTO	CMP (₹)	305 FY11	2,323.6	5.2	59.2	24.5	8.6	10.7
		Target (₹)	361 FY12E	2,950.9	4.7	65.5	28.8	7.1	6.5
MCap	2516	Upside (%)	18 FY13E	3,883.0	9.0	33.7	19.0	12.1	11.8
Titan Industries									
Idirect Code	TITIND	CMP (₹)	184 FY11	6,533.0	4.9	37.7	30.1	41.8	50.2
		Target (₹)	235 FY12E	8,653.4	6.7	27.6	22.2	36.6	47.8
MCap	16318	Upside (%)	28 FY13E	10,472.2	7.8	23.4	18.0	30.7	41.9

Exhibit 2: Recommendation History (Pantaloon Retail)



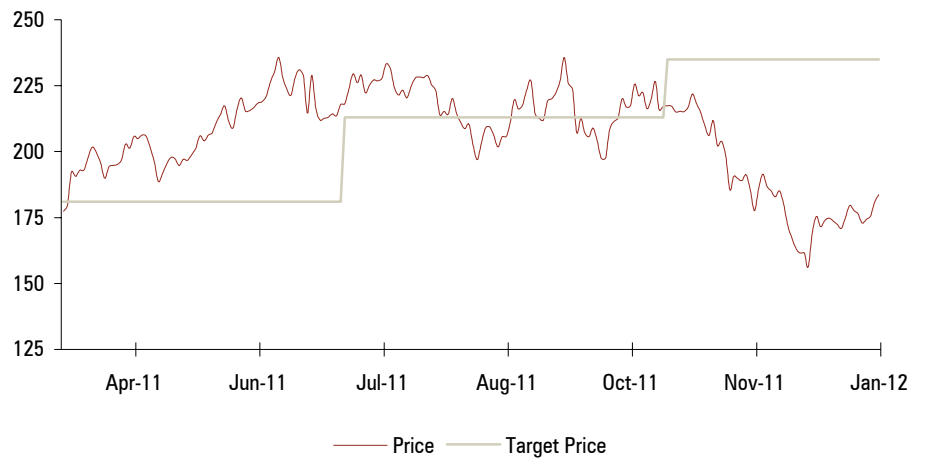
Source: Bloomberg, ICICIdirect.com Research

Exhibit 3: Recommendation History (Shoppers Stop)



Source: Bloomberg, ICICIdirect.com Research

Exhibit 4: Recommendation History (Titan Industries)



Source: Bloomberg, ICICIdirect.com Research

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Buy: > 10%/ 15% for large caps / midcaps, respectively;

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