



CONSUMER PRODUCTS

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The Great Indian Retail Story



Foreword

India is ready

Over the last few years, retail has become one of the fastest growing sectors in the Indian economy. Organized retail is expected to grow to 8-9% of the Indian retail industry in the next 5 years and FDI in retail is one of the most talked about topics now. There is hectic activity in the sector in terms of expansion, entry of international brands and retailers as well as focus on technology, operations and processes. All these present a tremendous opportunity in this new high growth industry.

While the opportunities in Indian retail are immense, all players must be aware that the consumer culture, business practices and industry dynamics in India can differ substantially from what they are accustomed to at home, often leading to pitfalls for the unprepared. This report, *The Great Indian Retail Story*, has been written by Ernst & Young to help international players understand some of the key features of the Indian retail industry and environment.

The report includes answers to some of your burning questions in terms of trends, challenges and outlook for the retail industry, such as,

- Consumer behavior and the changing face of Indian consumerism
- New formats and strategic issues such as supply chain, people and security
- Key success factors for entering and setting up a profitable retail business in India
- Infrastructure in terms of quality and availability of real estate and mall space and logistics
- The business case for India and some of the key challenges the industry is likely to face

We hope that international retailers will find this report useful as they approach opportunities in India. As one of the leading service providers to the Indian retail industry, Ernst & Young offers market insight, industry experience and an array of risk, tax, regulatory, advisory and transaction services to assist international retailers anywhere in the country.

We look forward to meeting you soon in this exciting time for retail in India.



Ranjan Biswas

Head - Markets & Retail Industry Leader

Ernst & Young India



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Retail: The Indian Perspective

India...a nation on the move

India's GDP which currently stands at USD 690 billion is slated to touch USD 740 billion by the end of 2006.

India is the world's 4th largest economy as regards GDP (in PPP terms) and is expected to rank 3rd by 2010, just behind the US and China.

The country is on the brink of becoming an economic powerhouse ready to unleash its largely untapped potential for those who are willing to take the right step forward.

In the retail sector, in spite of a 1.07 billion strong population, the target consumer base for most retailers in India stands at about 405 million. Of this, about 30 million have a combined purchasing capacity of USD 230 billion. The country's 6 million 'rich' population shops worth USD 28.36 billion every year.

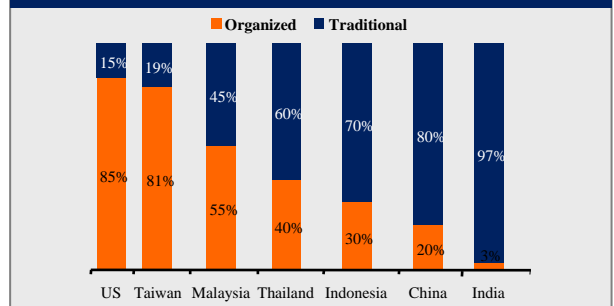
Highly fragmented retail sector

The retail sector in India is highly fragmented and organized retail in the country is at a very nascent stage. There are about 12 million retail outlets spread across India, earning it the epithet of a "nation of shopkeepers." More than 80% of these 12 million outlets are run by small family businesses which use only household labour.

Traditionally, small-store (*kirana*) retailing has been one of the easiest ways to generate self-employment, as it requires limited investment in land, capital and labour. Consequently, India has one of the highest retail densities in the world at 6% (12 million retail shops for about 209 million households).

India's peers, such as China and Brazil, took 10-15 years to raise the share of their organized retail sectors from 5% when they began, to 20% and 38% respectively. India too is moving towards growth and maturity in the retail sector at a fast pace.

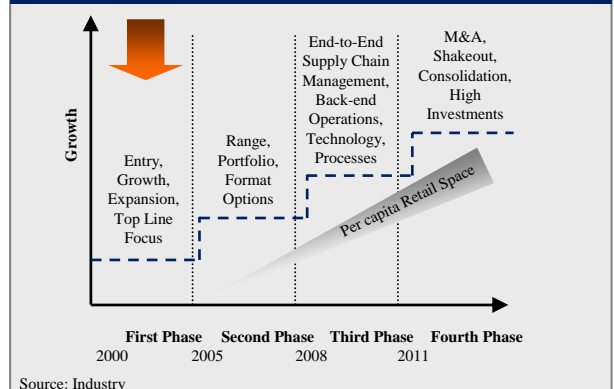
Comparative Penetration of Organized Retail



Although the organized sector constitutes only 3% of the USD 230 billion Indian retail market, it is expected to grow 400% - from USD 7.0 billion currently, to over USD 30.0 billion by 2010.

Retail is amongst the fastest growing sectors in the country. India ranks 1st, ahead of Russia, in terms of emerging markets potential in retail and is deemed a 'Priority 1' market for international retail.

Journey of Organized Retail: The India Story



Key drivers of growth

Indians with an ability to spend over USD 30,000 a year (PPP terms) on conspicuous consumption represent 2.8% of the entire population. But with a population base of 1.07 billion people, this number amounts to 30 million people, a market next only to USA, Japan and China. While consumer demand is driving retail growth, it is in turn being driven by the following factors:

- **Economic growth:** This has meant greater disposable incomes for the booming Indian middle class, which currently comprises 22% of the total population. This figure is expected to increase to 32% by 2010. Disposable incomes are expected to rise at an average of 8.5% p.a. till 2015.
- **Demographics:** More than 50% of the population is less than 25 years of age and strong growth is expected to continue in this age bracket.
- **Urbanization:** The Indian urban population is projected to increase from 28% to 40% of the total population by 2020 and incomes are simultaneously expected to grow in these segment.
- **Credit availability:** Retail loans have doubled in the last three years to reach USD 38.7 bn by 2005.

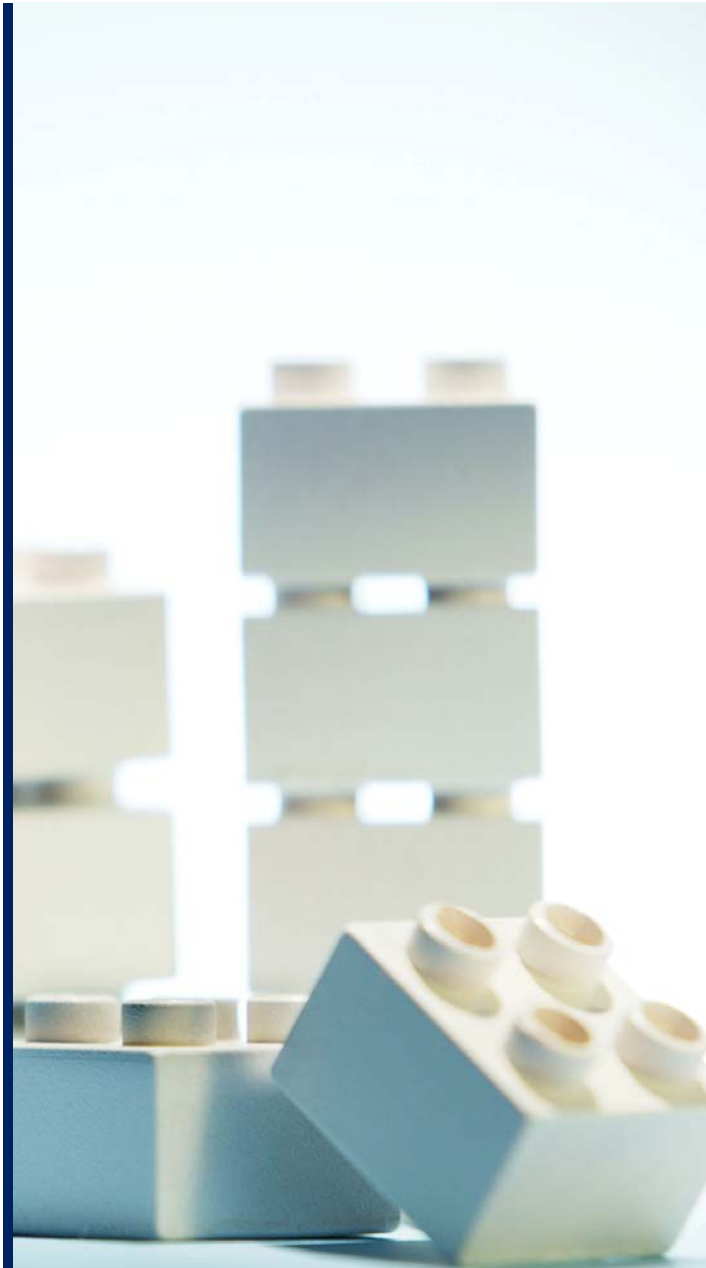
Estimated Growth in Organized Retail (\$ mn)			
	2002	2007	CAGR (%)
Large Segments	1,924	5,024	21%
Other Segments	1,315	2,645	15%
Non-store retailing	239	422	12%
Total Organized retail	3,478	8,091	18%
The 4 Large segments			
Food	391	1,624	33%
- Chain stores	326	1,462	35%
- Single large stores	65	162	20%
Clothing	1,075	2,266	16%
- Manufacturer retailers	293	590	15%
- Chain stores	315	852	22%
- Single large stores	467	824	12%
Consumer durables	359	822	18%
- Manufacturer retailers	141	284	15%
- Chain stores	98	298	25%
- Single large stores	120	240	15%
Books & Music	97	310	26%
- Chain stores	54	202	30%
- Single large stores	43	108	20%

Source: Economic Times Retail Knowledge Series

These positive macro trends are resulting in changing preferences in demand for lifestyle goods. Mindsets are shifting towards an organized retailing experience.

Another key driver for organized retail is the surge in mall growth. The number of malls is expected to rise from 158 in 2005 to 600 by 2010.

The Indian Government is also likely to spend USD 150 billion over the next few years to develop world class infrastructure, thereby aiding growth in the retail sector.



Should retailers target only the affluent?

India has 209 million households, of which the 6 million classified as 'rich' have annual incomes of over USD 4700 and 75 million classified as 'consuming' have annual incomes between USD 1000-4700.

Over half of these 'rich' families live in Delhi, Mumbai and Bangalore, and spend around USD 18 billion annually. 62% of the market for premium products in India is also concentrated in these three cities.

85% of India's retail market is also concentrated in the country's 8 largest cities.

An estimated 1 million households at the top of India's income map constitute the 'super-rich' in the country. Growing by 20% every year, this segment's buying behaviour is in line with its corresponding international segments. While this segment is worth targeting for high-end premium products, it is not the key driver of the organized retail sector.

The real driver of the Indian retail sector is the bottom 80% of the first layer and the upper half of the second layer of the income map (see 'Map of India's income classes' below). This segment of about 40 million households earns USD 4,000-10,000 per household and comprises salaried employees and self-employed professionals. This segment is expected to grow to 65 million households by 2010 and is currently the key driver behind explosive growth in passenger car sales

Retail concentration

(USD 5 billion in 2004) and mobile phone penetration (over 70 million).

The top 6 Indian cities - Mumbai, Delhi, Chennai, Kolkata, Bangalore and Hyderabad - are the darlings of India's exploding economy. They represent 6% of the population, but contribute 14% of India's GDP. They are the centers of business, finance, politics and the emerging sunrise industries such as IT, pharma and ITeS, which have put India on the global map. These cities are also the barometer of India's economic development and most foreign investors have flocked here.



Map of India's income classes

	1994-95	1999-00	2005-06
<ul style="list-style-type: none"> RICH (Annual income > US\$ 4,700) Benefit Maximisers: Own cars, PCs 	1 million households	3 million households	6 million households
<ul style="list-style-type: none"> CONSUMING (US\$ 1,000- 4,700) Cost-benefit optimizers: Have bulk of branded consumer goods, 70% of two-wheelers, refrigerators, washing machines 	29 million households	55 million households	75 million households
<ul style="list-style-type: none"> CLIMBERS (US\$ 500-1,000) Cash-constrained benefit seekers: Have at least one major durable (mixer, sewing machine/television) 	48 million households	66 million households	78 million households
<ul style="list-style-type: none"> ASPIRANTS (US\$ 350-500) New entrants into consumption: Have bicycles, radios, fans 	48 million households	32 million households	33 million households
<ul style="list-style-type: none"> DESTITUTES (Less than US\$ 350) Hand-to-mouth existence: Not buying 	35 million households	24 million households	17 million households

■ The Real Estate Railroad...

Availability of quality retail space has been one of the key deterrents for the advancement of modern retail formats in India.

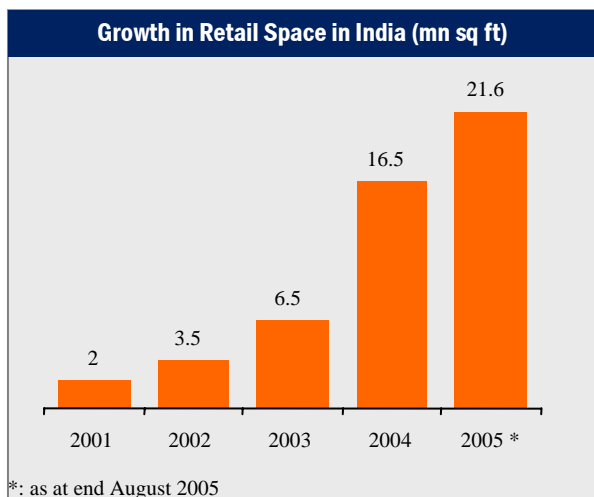
This is probably why the first proponents of modern retailing were real estate developers like the Rahejas (Shoppers Stop) and the Piramals (Piramyd Retail).

However, in the last 3 years, real estate in the organized retail sector has seen some positive changes, largely due to the attractively high rental yields of 10-15 %, which is 5-8% higher than residential property. The ratio between yield on property development and its financing cost has also turned positive due to the sharp fall in interest rates during 2001-04.

■ FDI in retail real estate

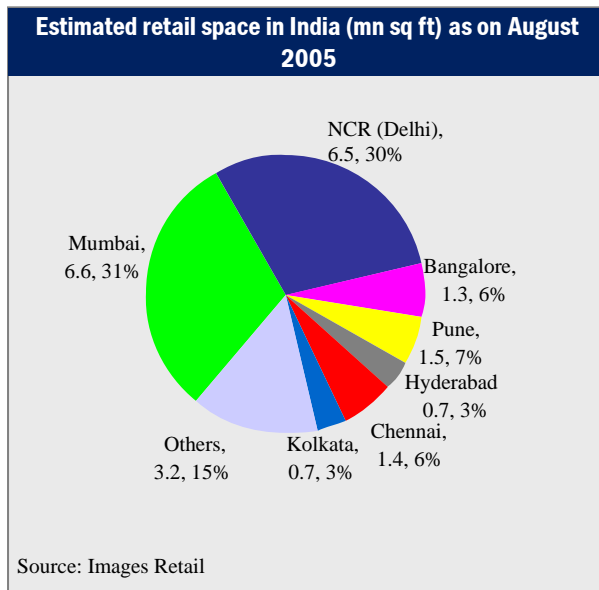
During the boom period, Indian retail real estate developers have been busy hiring international mall architects and consultants. They are also attempting to develop stronger ties with retailers and brands. Another facet of this phenomenon is the increase in pre-booking of retail space (especially by larger retailers), as developers strive to strike the right balance in their tenancy mix.

The Government has allowed Foreign Direct investment (FDI) in real estate since early 2005. FDI in real estate is likely to boost joint ventures between Indian and international developers. This means that 12 months from now, India should see a marked improvement in warehousing as well as the quality of malls and shopping centers.



Concentration of retail activity

Of the 220 mall projects in the pipeline till 2007, 125 are in the 6 metro cities (139 in the big 8 cities) and 81 in other Tier II cities. Long-term leases are the preferred form of retail real estate acquisition in India. Few retailers prefer a mix of owned and leased space and some prefer own their space.



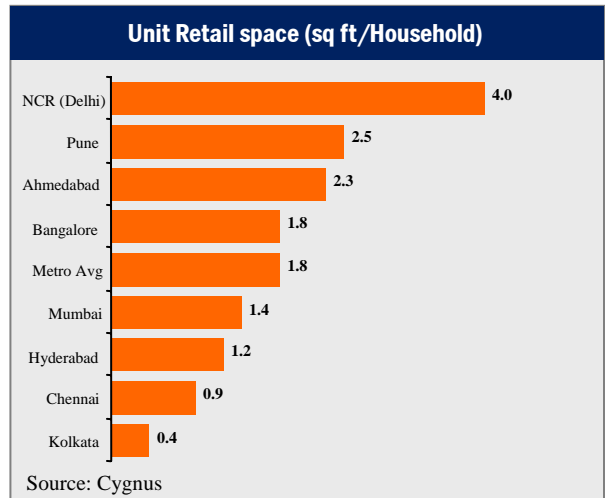
Of the new malls that became operational in 2005, about 50% of the retail space had already been pre-leased and the same holds true for about 30% of space in malls becoming operational in 2006.

Availability of space will usher in the next level of competition as requirements of mall space for new players are bound to heighten the intensity of competition. Increased mall space will also attract new Indian entrants. A clear indication of this is the plans of domestic retailers like Piramyd Retail and Lifestyle to scale-up operations and raise capital through the IPO route.

Focus on metro cities till 2005-06

Till the end of 2006, over 60% of malls in India will be in the 6 big metros which account for about 80% of the sector's revenues. Delhi and the National Capital Region (NCR) will account for about 50% of these malls.

Tier I cities such as Mumbai, Delhi and Bangalore clearly have the upper hand in terms of higher disposable incomes, better infrastructure, awareness levels, propensity to spend and an affluent urban youth population. The respective State Governments have also been proactive in permitting use of land for commercial development, thus increasing the availability of retail space.



With the entry of property funds and investment trusts, this trend of space availability is likely to continue.

Estimated Floor Space addition (mn sq ft)			
	2005 *	2007E	% change
Mumbai	6.6	19.8	200%
NCR (Delhi)	6.5	41.0	527%
Bangalore	1.3	2.9	128%
Pune	1.2	3.5	188%
Hyderabad	0.7	1.8	163%
Total large cities	16.3	69.0	323%
Others	5.3	18.9	259%
TOTAL All India	21.6	87.9	307%

Source: Images Retail, Industry, *: as at end Aug'05

Change in focus over the next 5 years

Besides the 6 metros, India has 61 other cities with populations greater than 0.5 million – these cities represent 80% of India's population and contribute about 14% to the country's GDP.

Even though the 6 metros have the greatest concentration of India's wealth, the other 61 cities have consistently outpaced the metros in growth rates since 1995. These cities are witnessing higher incomes and a fundamental change in consumer mindset. Increasing awareness levels in Tier II cities are eroding the earlier difference between metros and Tier II cities in terms of 'urban aspirations.' International brands increasingly relying on Tier II cities to drive growth are Nokia, Pizza Hut, Ford, Reebok and Adidas.

Regulatory enablers aiding growth

Even though the decision over FDI has been long overdue, some aspects of the Government's policy have been favourable on other fronts. We take the example of Delhi & NCR and Mumbai. In Mumbai, the Government is releasing unused textile mill land for retail development. In Delhi & NCR, the Government has released large tracts of land for retail development. Consequently, at 40%, the Delhi & NCR region has the highest mall density in India.

In the future, we see other State Governments also becoming conscious of the easy collection of revenues from land sales and tax from retail development on otherwise useless land.

At the same time, while it is difficult to get quality real estate in central locations largely due to private holdings, old regulations and zoning laws, the future will see land and rent reforms driving development in these areas as well. High rental yields will also ensure stronger negotiations between developers and local Government bodies.

FDI...how much and how long?

In spite of the opposition presented by the Left parties, some headway has been made in this regard. In January 2006, the Union Cabinet approved a major rationalization of the policy on

FDI in retail to further simplify procedures for investing in India and to avoid multiple layers of approvals required in some activities.

Till now, Government approval was required for FDI in wholesale cash and carry trading and FDI beyond 51% in export trading. To facilitate easier FDI inflow, instead of having to seek FIPB approval, FDI up to 100% will now be allowed under the automatic route for cash and carry wholesale trading and export trading.

The Cabinet has also allowed FDI up to 51% with prior Government approval for retail trade in 'Single Brand' products with the objective of attracting investment, technology and global best practices and catering to the demand for such branded goods in India. This implies that foreign companies can now sell goods sold globally under a single brand, such as Reebok, Nokia and Adidas. Retailing of goods of multiple brands, even if the goods are produced by the same manufacturer, is not be allowed.

Going ahead, the Government is expected to adopt a highly calibrated approach to allowing further FDI in the retail space. There is a possibility that the relaxation of FDI restrictions may take another 3-5 years. This may deter some international retailers from investing in a big way. However, regardless of the restrictions, international retailers are entering India in droves.

The returns on FDI in retailing in India are likely to be greater than those in China because large Indian retailers are much smaller than their Chinese counterparts. International retailers will find the competitive environment easier on the market share and the growth fronts.



Gateway to India

■ Gateway to India... regulations not restricting international retailers

While there are restrictions on FDI in Indian retail, the most common channels for entry of foreign retailers are through:

- Strategic Licence Agreements i.e. partnering with Indian promoter owned companies in the Middle East (UAE) or South East Asian countries (Singapore, Malaysia, Thailand, Indonesia).
- Franchising
- Cash-and-carry wholesale trading

FDI restrictions in retailing have not deterred prominent international players from entering India. The right market entry strategy can be devised for each individual retailer based on their business models and international retailers are now looking to India to achieve breakthrough growth.

India is now firmly placed on UK and US radars as US retailers are gradually realizing the potential of the retail and consumer goods sectors. The Wal-Mart CEO, John Menzer, visited India in 2005 and met Prime Minister Dr Manmohan Singh to lobby for FDI. At the same time, Wal-Mart's sourcing from India which stood at USD 300 million in 2004, has gone up to USD 1.2 billion on 2005

Phillip Morris is also ready to unveil its plans for Kraft for India. They are all set to storm the Indian processed foods market through Kraft Jacob Suchard (KJS) India, a wholly-owned arm of Phillip Morris India. Brands from their international portfolio such as Toblerone and salad oils, pastes, dips and spreads will also be introduced soon. The company plans to import and begin cash-and-carry wholesale trading of a range of agro-based processed food products and has firmed up a distribution agreement with a local company.

■ Franchising...gaining steam with international retailers

Like Tommy Hilfiger and Wal-Mart, other US retailers are firming up their India entry strategies and if they are already in, they are undergoing rapid expansion.

Fashion brand DKNY is also all set to foray into the Indian fashion Industry through a franchisee agreement with Indian company, S Kumar's.




Starbucks recently expressed their interest in entering India through the franchise route, like their American F&B counterparts Pizza Hut, Subway, and the very successful McDonald's.

McDonald's has major expansion plans lined up; in the next 3 years, it plans to open another 100 outlets in cities across India.

'The Indian economy is soaring. I think Indian people love brands. There isn't another American designer on this soil, maybe because they don't know it, maybe because they don't understand it, maybe because they don't care. I understand it, I care about it, I am excited about it and I feel very positive that we are going to build a wonderful lifestyle business here.'

**Tommy Hilfiger,
International Fashion Icon**

Current permitted retail formats for International retailers

Gateway to India...current permitted retail formats		
<p>FDI restrictions in retailing have not deterred prominent international players from setting up shop in India</p>	<p>Franchise agreements</p> 	<ul style="list-style-type: none"> • Franchising is the most widely used entry route by international retailers • Fast food retailers like Domino's have entered India through the master franchise route while Pizza Hut has entered India through a regional franchisee
<p>Entry of foreign retailers possible through 3 channels</p>	<p>Cash & Carry wholesale trading</p> 	<ul style="list-style-type: none"> • 100% FDI is allowed in wholesale trading which involves building of a large distribution infrastructure to assist local manufacturers • The business model is built in a way so that the wholesaler deals only with smaller retailers and not consumers • Metro AG of Germany was one of the first significant global players to enter India through this route and now other large international retailers plan to follow a similar route
<p>The correct market entry strategy can be devised for each individual retailer based on their business models</p>	<p>Strategic licensing agreements</p> 	<ul style="list-style-type: none"> • This route involves the foreign company entering into a licensing agreement with a domestic retailer • Mango, the Spanish apparel brand has entered India through this route with an agreement with Piramyd, a departmental store in Mumbai • SPAR has entered into a similar agreement with Radhakrishna Foodlands Pvt Limited



Changing Face of Indian Consumerism

■ The changing face of Indian consumerism

The Indian consumers' lifestyle and profile is also evolving rapidly.

India has one of the youngest populations in the world with 54% of the population below the age of 25. Discretionary spending has seen a 16% rise for the urban upper and middle classes and the number of high income households has grown by 20% year on year since 1995-96.

There is an increasing shift from price consideration to design and quality, as there is a greater focus on looking and feeling good (apparel as well as fitness). At the same time, the new Indian consumer is not beguiled by retailed products which are high on price but commensurately low on value or functionality.

There is an easier acceptance of luxury and an increased willingness to experiment with mainstream fashion. This results in an increased tendency towards disposability and casting out - from apparel to cars to mobile phones to consumer durables.

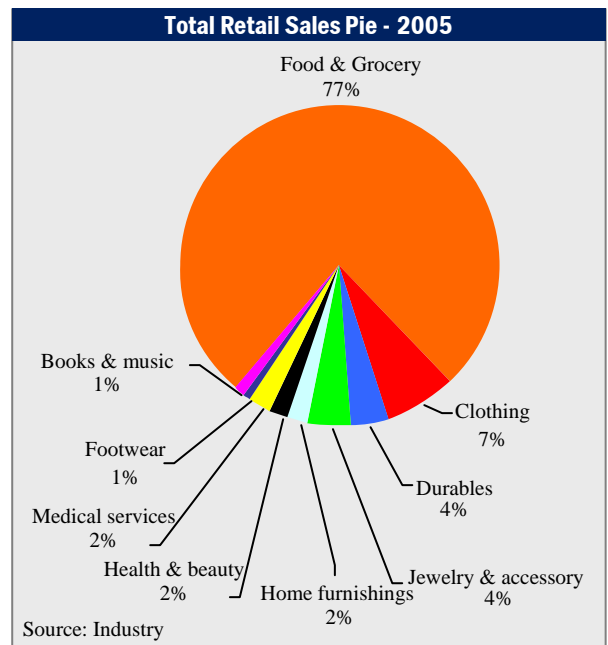
The self-employed segment of the population has replaced the employed salaried segment as the mainstream market. 40% of primary wage earners in the top 2-3 social classes in towns with a population of 1 million or more are self employed professionals and businessmen. This has driven growth in consumption of productivity goods, especially mobile phones and two and four-wheelers.

Finally, credit friendliness, drop in interest rates and easy availability of finance have changed mindsets. Capital expenditure (jewellery, homes, cars) has shifted to becoming redefined as consumer revenue expenditure, in addition to consumer durables and loan credit purchases.



■ What do Indians buy?

The 4 major organized retail sectors are Food & Grocery, Clothing, Consumer Durables and Books & Music. In 2003-04, private consumption expenditure in India amounted to Rs 1,690,000 crores (USD 375 billion) of which, retail sales constitute about 61% (USD 230 billion).



Food & Grocery (USD154 billion) contributes about 41% of private consumption expenditure and about 77% of total retail sales. However, this segment is largely controlled by the unorganized small outlet sector - penetration of organized retail is about 1% in this segment. This is one of the primary reasons for India's low organized retail penetration rate.

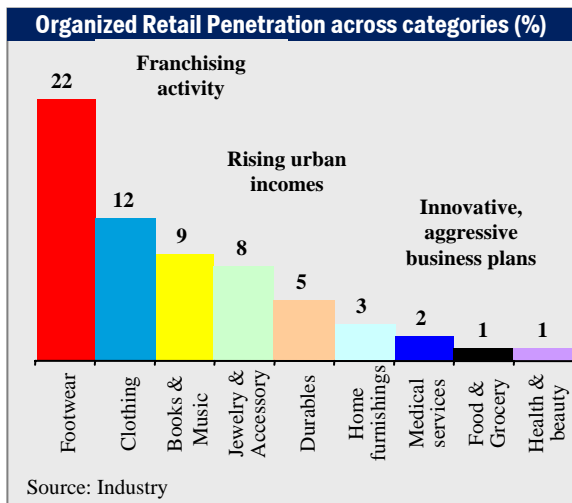
The sector is defined by low gross margins, but there is a tremendous growth potential in the organized sector in the form of hypermarkets, supermarkets and hard discount chains. In such a scenario, pricing and network will be the key to success.

Clothing is the second largest segment in terms of retail sales.

■ Highest penetration of organized retail in Footwear and Clothing

In terms of penetration by the organized retail sector, footwear is the highest category, followed by clothing.

Footwear is driven by the dominance of home-grown players like Liberty as well as the 15% market share that MNC retailer Bata commands. Foreign presence, especially through the franchisee route, e.g. Adidas, Reebok, Nike etc. adds to this slice of the pie. Franchisee activity in this category, especially in Tier II cities, is pegged to rise.



The clothing segment is positioned for further organized retail penetration due to the high level of branding activities by apparel retailers and merchandising spread across formats such as department stores, hypermarkets, own retail outlets and franchises.

Spend on Books & Music, which is still concentrated in the big 8 cities, is also slated for increase. The jewellery sector on the other hand will see increased competition, especially on price, as smaller retailers challenge the might of the larger ones.

Growth in consumer durables has traditionally been driven by the post-liberalization era. Retail revenues in this segment will grow further in proportion with increase in urban incomes.

The home furnishings segment has been relatively unorganized so far and growth will be driven by new formats introduced by innovative retailers. The medical care, health and beauty segments too require an innovative, aggressive approach on the part of Indian and international retailers to grow.

■ What will make an International retailer successful in India?

Consumer retention and an understanding of the Indian consumer are the key challenges facing Indian retail. Companies which reduce customer defections by 5% can boost profits from 25% to 85%.

International retailers need to understand that Indian consumers don't shop and buy the same products as the rest of the world. India is very similar to the EU - the number of states and union territories number 35 and languages, cultures, habits and consumer preferences are different in every one of them.

An international retailer looking to enter India needs to be extremely well versed with local retail culture and know-how. We see a number of strategic partnerships between Indian and international retailers becoming a key point on entry strategy dashboards.

■ Value retailing...growth driver

In most emerging retail markets, such as Eastern Europe, Latin America and China, hypermarkets have been the major high growth format.

Supermarkets dominate most cities, but there has been a clear shift towards hypermarkets, driven by the combination of good prices, overall shopping convenience and experience, product range and quality.

In China, most hypermarkets are located within city limits as consumers do their shopping more than once a week. This is primarily because Chinese consumers prefer fresh produce, have low car penetration and limited refrigeration space at home. The same factors apply to Indian consumers and we believe that successful hypermarkets in India will have to be centrally located - in big as well as Tier II cities.

Pantaloon's Big Bazaar hypermarket at Phoenix Mills, Mumbai, has sales of USD 20 million per year - the highest by any retail outlet in India. Yet, there are only about 25 hypermarkets in India, operated by 4 major retailers. India's 67 retail destinations can therefore absorb over 1000 hypermarkets by 2010.

3 out of India's top 5 retailers, already have aggressive hypermarket strategies in place. This is going to be one of the most preferred formats for international retailers entering India.

Challenges Ahead

■ HR... a critical business process

The industry is facing a severe shortage of talented professionals, especially at the middle-management level. Areas gradually becoming critical are technology, supply chain, business development, marketing, product development and research. Successful Indian retailers are creating a robust second and third level of management by hiring aggressively for these key roles.

There is also an increase in the number of retail management programmes and institutes. This will bridge the gap in availability of talented professionals at the middle and lower levels. There is also an increasing trend towards hiring hotel management graduates in the retail sector. The retail industry is expected to create 2 million jobs between now and 2010.

However, talented professionals will put increased pressure on wage costs. Therefore, operating margins, especially for mid-sized retailers will shrink. There is also a huge risk for Indian retailers becoming a poaching ground for international retailers once they enter India.

■ An agile and adaptive supply chain is key

Logistical challenges, constant changes in consumer preferences and patterns, crowded marketplaces, efficient customer responsiveness and swiftly evolving retail formats are the hallmarks of today's retail environment in India. These factors pose a huge challenge for that all-important key to pushing growth in this kind of an environment - an efficient and adaptable supply chain.

In the last 2-3 years, several retailers, ranging from F&B operators to discount clothing, have implemented Supply Chain Management (SCM) solutions to improve core business processes such as global sourcing, distribution, logistics, innovation, transparency and visibility in financials and inventory, compliance and management of point of sale (POS) data. Going ahead, India's FMCG and retail sectors are likely to see an increase in adoption of SCM.

However, most Indian retail players are under serious pressure to make their supply chains more efficient in order to deliver the levels of quality and service that consumers are demanding.



As Indian and International retailers continue to grow their presence regionally, there will be a pressing need for a single, enterprise-wide IT platforms to manage operations, which will become increasingly complex.

Fraud in retail is expensive

We feel that fraud is going to be one of the retail sector's primary challenges in the future.

Fraud and theft, including employee pilferage, shoplifting, vendor frauds and inaccuracy in supervision and administration costs the Indian retail industry about Rs 550-600 crores (USD 0.12-0.13 billion) every year. This is despite the fact that most large modern format retailers use standard security features such as CCTVs, POS systems and anti-shoplifting systems for greater control over fraud and theft. In financial terms, cost of this fraud constitutes about 2% of the organized retail sector's revenues.

We believe that the implications and size of this loss will be more significant as retailers continue to scale up and increase product lines.

Improvement in infrastructure and logistics needed

India is a large and highly fragmented country, with 29 states and 18 official languages. A bulk of its population, 66.1 %, lives in rural areas. The lack of adequate infrastructure makes it virtually impossible to reach this virtually untapped market.

Distribution, or the lack of it, is a major hindrance for retailers in India. The lack of quality infrastructure across the country and a non-existent distribution sector results in inefficient logistics systems.

Infrastructure is the weakest link in India's path to progress and there is an urgent need to address issues plaguing this area. Urbanization is driving an increasing need to upgrade or create infrastructure facilities. An indicator of the urgent need for highway development, for instance, is the fact that average daily traffic volume on highways of 39,000 Passenger Car Units (PCUs) far exceeds the highway capacity of 15,000 PCUs. Transport is a major concern, with a deteriorating railway system and a limited highway network. In contrast to the global standards, the average load carried by trucks in India - around 7 tons - is very low. However, the Indian Government is presently investing heavily in the state highway system. This will help in an overall decline in logistics costs which is currently 10-12% of the total GDP.

10,000 MW of power needs to be added every year for the next decade. Growth in air passenger traffic, estimated at 20% p.a. for the next two years, necessitates quadrupling of airport capacities. Ports will witness 38% increase in tonnage in the next 2-3 years and hence, port infrastructure cannot be ignored.

The lack of a distribution sector and specialized distribution companies is a major obstacle for retailers to fully utilize India's retail potential. We feel that private logistics companies offering specialized services, refrigerated transport and warehouse facilities across the country, along with timely distribution of supplies to retail outlets will create some of the much needed back-end support for retailers to enhance operational performance. If addressed urgently and seriously, infrastructure can translate into India's biggest opportunity.



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Ernst & Young has global reach and commitment to the Retail Sector. We have an in-depth understanding of the industry and knowledge of how accounting, tax, risks and transaction issues and challenges relate to your company. We also advise on issues such as information security, transfer pricing and supply chains that are critical to your future success.

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Our Offices

Bangalore
Divyasree Chambers
'A' Wing , 2nd Floor
Langford Road
Bangalore 560 025
Tel: 91 80 2224 5646 - 49
Fax: 91 80 2224 0695

Chennai
TPL House, 2nd Floor,
No 3, Cenotaph Road,
Teynampet
Chennai 600 018
Tel: 91 44 2431 1440
Fax: 91 44 2431 1450

Hyderabad
205, 2nd Floor
Ashoka Bhoopal Chambers
Sardar Patel Road
Secunderabad 500 003
Tel: 91 040 2789 8850
Fax: 91 040 2789 8851

Kolkata
22, Camac Street
Block 'C', 3rd Floor
Kolkata 700 016
Tel: 91 33 2281 1224 - 29
Fax: 91 33 2281 7750

For enquiries, please contact:

Ranjan Biswas
Retail Industry Leader
Email: ranjan.biswas@in.ey.com
Tel: + 91 80 2223 0811

Mumbai
18th Floor, Express Towers
Nariman Point
Mumbai 400 021
Tel: 91 22 2282 5000
Fax: 91 22 2282 6000

New Delhi
Ernst & Young Tower
B-26, Qutab Institutional Area
New Delhi 110 016
Tel: 91 11 2661 1004 – 09
91 11 5159 4000
Fax: 91 11 2661 1012

2nd Floor, The Capital Court
LSC Phase III, Olof Palme
Marg
Munirka, New Delhi 110 067
Tel: 91 11 5154 0000
Fax: 91 11 5169 0000

Pune
1st Floor, The Metropole
Near Inox Complex
Bund Garden Road
Pune 411 001
Tel: 91 20 5601 6000
Fax: 91 20 5601 5900

Soumya Palchoudhuri
Retail Industry Manager
Email: soumya.palchoudhuri@in.ey.com
Tel: + 91 80 5118 6150

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