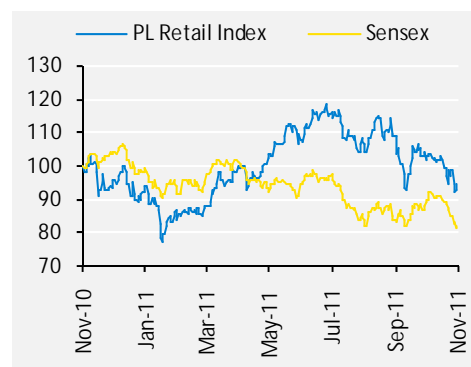


November 25, 2011

Gautam Duggad
gautamduggad@plindia.com
+91-22-66322233

PL Retail Index v/s Sensex



Source: Bloomberg

Stock Performance

(%)	1M	6M	12M
Sensex	(8.1)	(11.1)	(17.9)
PL Retail Index	(8.3)	(8.6)	(5.6)
Jubilant Foodworks	(11.2)	(1.8)	29.5
Pantaloon Retail	12.5	(19.3)	(49.9)
Shopper's Stop	5.8	(1.9)	4.3
Trent	(5.8)	(3.7)	3.0
Titan Ind.	(12.1)	(12.7)	3.3

As per media channels, Indian Cabinet has cleared a proposal to allow 50% FDI in Multi Brand Retail (with some riders) and 100% FDI in Single Brand Retail (from 51%). Till now 100% FDI was allowed only in Cash & Carry (wholesale). While it's a positive step in the medium to long term perspective as it will help improve the a) funding of cash-starved retailers with aggressive expansion plans b) underserved supply chain and back-end infrastructure while reducing margins for middlemen (direct sourcing from farmers), we don't expect it to change the fortunes of Indian Retail sector in short term. At best, we believe this will provide a sentiment boost to Indian Retail stocks in the near term (PF, SHOP, TRENT). We don't expect material fund infusion/deals to happen immediately. PF, Trent, Spencer's will be key beneficiaries, in our view.

- **51% FDI in Multi-Bran Retail, finally:** After much flip-flop and endless debate, Government has finally cleared the politically sensitive reform with riders such as 1) Minimum \$100 Mn investment 2) 50% of that investment to be in back-end infrastructure excluding land and rents 3) Minimum 30% sourcing from SME's (Small and Medium enterprises) 4) Allowed only in 1mn plus population towns (~42 towns as per 2011 census) 5) Government to have first right of procurement of farm produce. We expect some token political opposition from the main opposition parties (BJP and Left); however it will merely be a political posturing, in our view. As for 100% FDI in Single Brand, it is expected to result in entry of new global brands (e.g. GAP, IKEA, Starbucks etc).

- **PF will be the key beneficiary:** PF will be the single largest beneficiary of this reform, in our view given its standing as the largest organised retailer of India (~15mn sq ft of operational space) and presence in multiple formats (Hypermarket, Supermarket, Destination malls) and consumption verticals (Food, Fashion, Home improvement, Electronics, Durables, Sports etc). PF's stretched balance sheet (Rs45bn of core retail debt, 120 days of inventory) will improve if a Foreign retailer ties up with PF and infuses capital (~25% stake sell at today's Mcap will fetch ~Rs11bn). We don't expect SHOP to tie up anytime soon as its Hypercity format still lacks scale and stand-alone SHOP has strong balance sheet (positive FCF), precluding any need for foreign tie up. Some of the possibilities a) Trent may extend its relationship with Tesco with a front-end JV b) Bharti Retail may extend its back-end alliance with Walmart to front end.

- **Not a magic wand; long term positive:** FDI in multi-brand retail will not immediately solve the current challenges of high leverage, high inventory and lack of FCF generation for PF, in our view. Any deal and fund infusion will take at-least 6-12 months to materialize, in our view. Various possibilities exist for PF (to sell stake in Value format, electronics format) to raise funds to de-leverage its balance sheet. For the sector, in the medium to long term, we expect significant benefits of FDI viz. improvement of supply chain/distribution efficiencies, better capitalized balance sheets for retailers, reduction in margins to middle-men and hence better prices to farmers, improved value capture in the retail supply chain. As for stock prices, the announcement will provide a strong sentimental boost to the sector (PF is already up 30% from the bottom in one week in anticipation of FDI announcement). Near term challenges of slowing same store growth will cap any major upside.

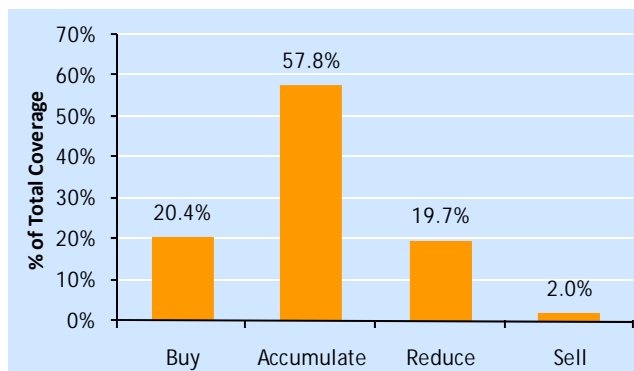


Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

For Clients / Recipients in United States of America:

All materials are furnished courtesy of Direct Access Partners LLC ("DAP") and produced by Prabhudas Lilladher Pvt. Ltd. ("PLI"). This material is for informational purposes only and provided to Qualified and Accredited Investors. You are under no obligation to DAP or PLI for the information provided herein unless agreed to by all of the parties. Additionally, you are prohibited from using the information for any reason or purpose outside its intended use. Any questions should be directed to Gerard Visci at DAP at 212.850.8888.