

## India Retail

### FDI in multi-brand retail allowed subject to state approvals - ALERT

- **The Union Cabinet has approved up to 51% FDI in multi-brand retail.** This decision was first made in Nov. 2011 and was suspended a few days later for evolving a broader consensus on the subject.
- **However a key clause introduced this time is that states will have the discretion to allow multi-brand retail.** The policy provides that it would be the prerogative of the State Governments to decide whether and where a multi-brand retailer, with FDI, is permitted to establish its sales outlets within the State. FDI is currently allowed in cash-n-carry format and single-brand retailing in India.
- **Most of the other riders remain similar to the previous notification.** Key riders include: 1) a minimum of \$100MM FDI investment is required to be brought into the project. At least 50% of total FDI shall be invested in backend infrastructure within three years of the induction of FDI; 2) in order to protect labor-intensive small and medium enterprises (SMEs), multi-brand stores must source 30% of their merchandise from SMEs; and 3) the stores will be restricted to operate in cities with a population greater than 1MM. In States/ Union Territories not having cities with population of more than 1MM as per 2011 Census, retail sales outlets may be set up in the cities of their choice.
- **Response of states on FDI in multi-brand retail has been mixed so far.** Delhi, Assam, Maharashtra, Andhra Pradesh, Rajasthan, Uttarakhand, Haryana, Manipur, Daman & Diu and Dadra and Nagar Haveli, have expressed support for the policy. Bihar, Karnataka, Kerala, Madhya Pradesh, Tripura and Odisha have expressed reservations.
- **Few changes made to conditions for single-brand retail FDI:** 1) Only one non-resident entity, whether owner of the brand or otherwise, shall be permitted through a legally tenable agreement with the brand owner. 2) With respect to proposals involving FDI beyond 51%, sourcing of 30% will be done from India (earlier mandated only from SMEs). This would allow retailers with specialized/high technology niche products to build production capacities in the country, catering specifically to their sourcing requirements.
- **Our view.** This is sentiment-positive for existing retailers such as Pantaloon Retail, Shoppers Stop (for Hypercity format), Bharti Retail\*, Trent, Reliance Retail\* and Aditya Birla Retail\*, which are potential beneficiaries (\*- unlisted). Prima facie, FDI in multi-brand retail would benefit capital-constrained retailers such as Pantaloon Retail, accelerating the pace of investment in the supply chain to meet demands of increasing scale and enhancing efficiencies (offering competitive prices), besides expertise of foreign retailers. However, given state level discretion involved here, the company may have to consider separate alliance/partnership structures. Pantaloon Retail's stock price has risen in recent trading sessions in anticipation of this decision, and there could be some more upside.

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**Companies Recommended in This Report** (all prices in this report as of market close on 14 September 2012)

Pantaloan Retail (India) Ltd (PART.BO/Rs157.90/Underweight), Shoppers Stop (SHOP.NS/Rs356.00/Not Covered), Trent Limited (TREN.NS/Rs1084.80/Not Covered)

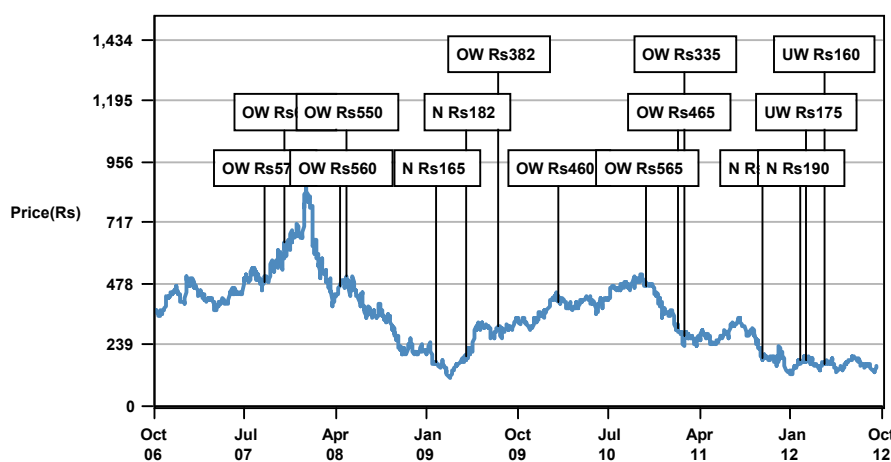
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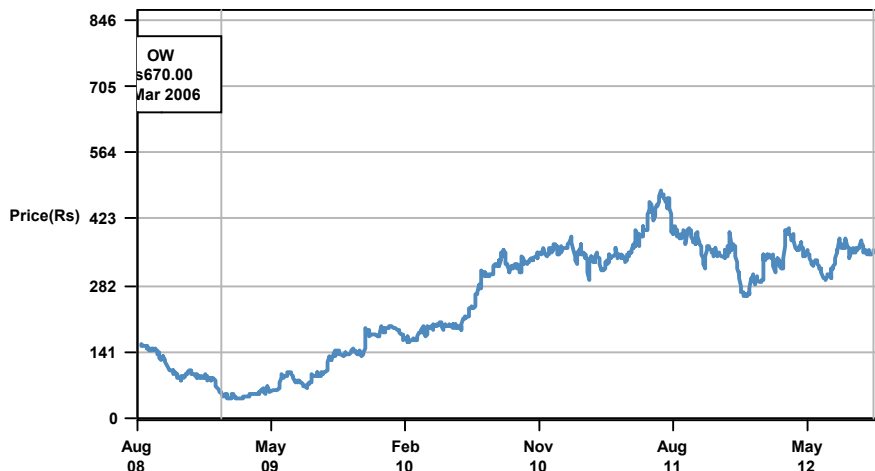
**Pantaloan Retail (India) Ltd (PART.BO, PF IN) Price Chart**



Date	Rating	Share Price (Rs)	Price Target (Rs)
27-Aug-07	OW	480.70	575.00
28-Oct-07	OW	639.90	660.00
10-Apr-08	OW	468.95	560.00
28-Apr-08	OW	506.00	550.00
27-Jan-09	N	170.35	165.00
26-Apr-09	N	193.05	182.00
04-Aug-09	OW	316.15	382.00
27-Jan-10	OW	408.80	460.00
20-Oct-10	OW	469.35	565.00
26-Jan-11	OW	303.90	465.00
15-Feb-11	OW	273.70	335.00
07-Oct-11	N	184.95	210.00
28-Jan-12	N	175.85	190.00
13-Feb-12	UW	176.90	175.00
11-Apr-12	UW	167.65	160.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Aug 27, 2007.

Shoppers Stop (SHOP.NS, SHOP IN) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.

Trent Limited (TREN.NS, TRENT IN) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.

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