

India Retailing

Reliance Retail Limited - A confident debut

- We visited 'Reliance Fresh' stores launched last week in Hyderabad and, contrary to the megastore hype that has prevailed in the past, we found that Reliance Retail Limited made its maiden foray with small neighborhood convenience stores. This format differentiates itself from its peers in the city, such as Spencer's, Trinethra and Subhiksha, by focusing largely on fresh fruits, vegetables and private label staples with very little shelf space for branded products. The price positioning is also very competitive and this managed to attract large crowds in the first weekend.
- The visit also gave us a quick insight into the company's desire to have an integrated supply chain and logistics. We estimate these convenience stores of about 2000-2500 sq ft in size could average annual sales in the region of Rs15-20 million, EBITDA margins of 5-7%, and a pre-tax return on capital of 15-20%.
- Food retailing is the largest and most under-penetrated (less than a 1% share) among all organized retail formats in India. According to press reports, the company is planning to ramp up its presence with nearly 3,000 stores across the country and could be targeting sales of 35-40% from this category. Godrej's 'Nature Basket' and ITC's 'Choupal Fresh' have similar food retailing formats but are unlikely to match the company in terms of scale.
- We maintain our overweight stance on Indian retailers, although execution delays could impact earnings growth in the short term. We believe share of organized retail is still in its infancy and there is adequate scope for expansion available to all large retailers.

General Retailing

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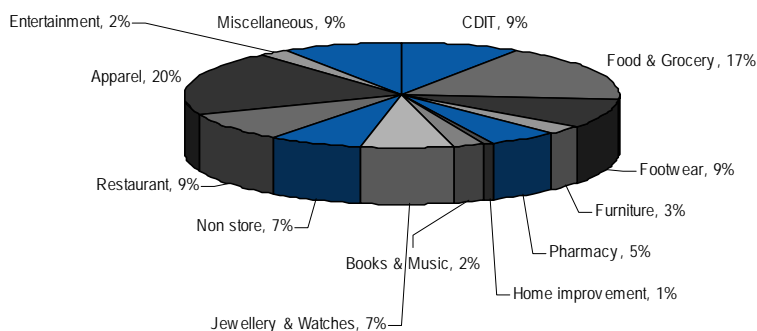
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Figure 1: India: Organized retail breakdown (Market size : US\$8 bn)

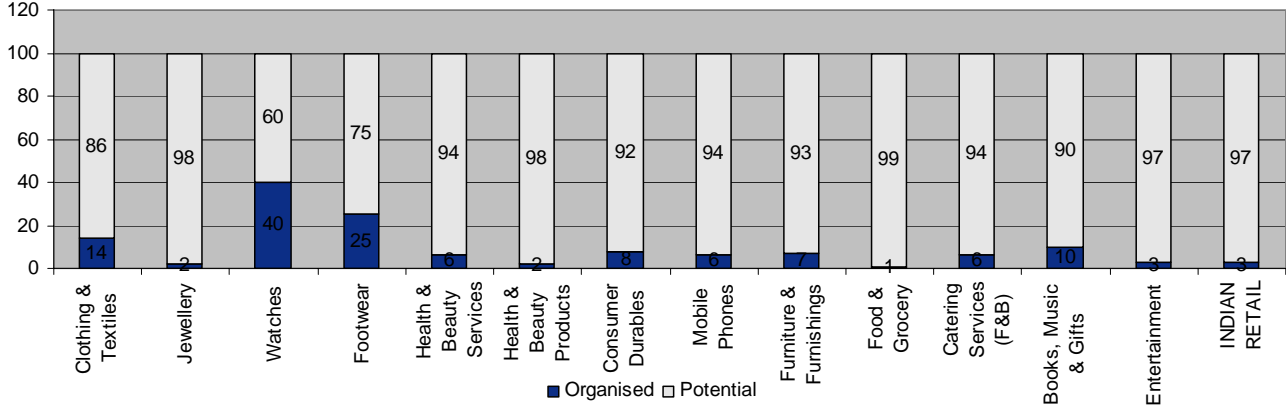


Source: KSA Technopak

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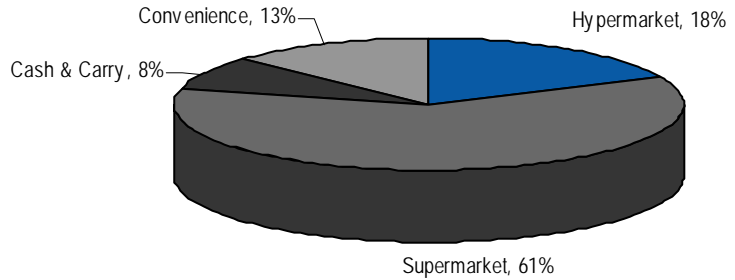
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Figure 2: India: Penetration of organized formats in various retail sectors



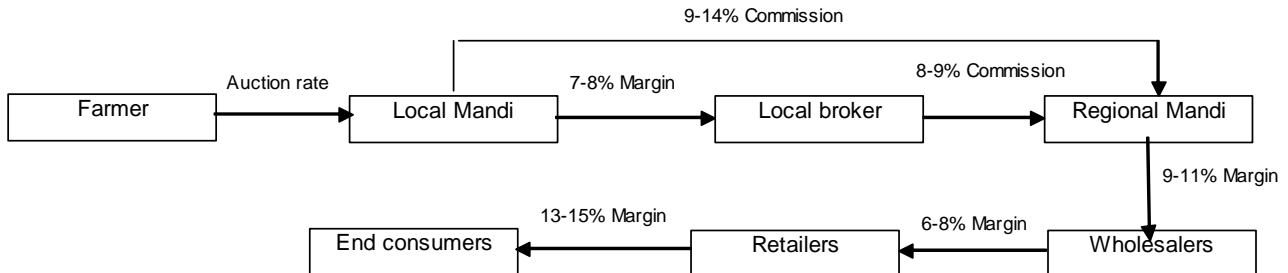
Source: IMAGES-KSA Technopak study.

Figure 3: India: Organized retail in Food & Grocery (by channel, Market size : US\$1.3bn)



Source: KSA Technopak

Figure 4: India: Supply chain for perishable food



Source: KSA Technopak

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