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PRIVATE LIMITED, INDIA

SECTOR QUICK COMMENT

Cabinet has finally cleared the 51% investment in multi brand retail, which has been in the works for more than a decade. This is a major positive for the retail sector going forward, which has been capital constrained for a long time. With foreign participation now allowed, this opens up opportunities for local companies to access cheaper foreign capital which will allow them to simultaneously build front end retail space as well as back end infrastructure. While the proposal is cleared now, it will still be at least 6-8 months before companies have foreign partners in place.

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Foreign Direct Investment in multi brand retail is finally here

As expected the approval comes with the following caveats. These were however well known before, so nothing very surprising in the fine print.

1. Companies will have to invest a minimum of $100mn or more
2. They can only open stores in cities with populations of 1mn or more.
3. At least 50% of the investment has to be in back end infrastructure – warehouses and cold chains
4. States will have the final say as stores have to comply with local legislation

We have highlighted before that this will be positive for the sector as a whole, where capital is severely constrained and companies have had to take on significant debt to put up front end stores as well as invest in back end infrastructure. With foreign participation now approved, this will allow them access to cheaper capital, which can significantly bring down the debt burden and help them improve profitability.

Operationally, investment in back end infrastructure will lead to efficiency improvements which will help these companies improve margins in the medium term.

Current penetration of organized retail is 6-7% of overall retail trade in India, which can increase significantly once capital is available at cheaper rates over the next few years. Indian retail companies have already been in talks with interested foreign retailers, so this final clearance gives them the chance to finalize their partnerships. We still think this will be 6-8 months away, but certainly a very strong medium term positive impact for retail companies.

Valuation Methodology and Investment Risks: See below

Note: Ratings and Price Targets are as of the date of the most recently published report (http://go.nomuranow.com/research/globalresearchportal) rather than the date of this email.

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Issuer Specific Regulatory Disclosures

Mentioned companies

	Ticker	Price	Price date	Stock rating	Disclosures

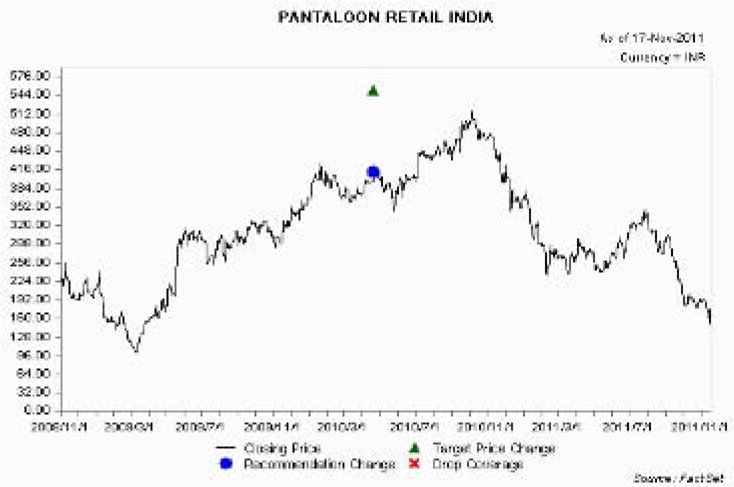
Issuer name				
Pantaloon Retail India	PF IN	201.2 INR	24 Nov 2011	Buy

Previous Rating

Issuer name	Previous Rating	Date of change
Pantaloon Retail India	Not Rated	19 Apr 2010

Pantaloon Retail India (PF IN) **201.2 INR (24 Nov 2011)** Buy

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
19-Apr-2010		553.00	412.60
19-Apr-2010	Buy		412.60

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value the core business at INR610/share. We value all the subsidiaries and support businesses at 1x capital employed. The combined value for all the other businesses stands at INR74/share. After deducting net debt of INR131/share, our target price comes to INR553

Risks that may impede the achievement of the target price Retail sector is a leveraged play on the macro fundamentals in the country. Any downward trend on the macro front presents downside risk to our numbers

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STOCKS

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009

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