STRONG ECONOMIC GROWTH PROVIDE TAILWINDS FOR KEY SECTORS

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INDIA'S GDP GROWTH DRIVERS

Our first research note, of an eight-part series, elaborated on the key macroeconomic reasons for why India's strong economic growth is likely to continue in the future. In this second section, we look at the drivers of this growth from an industry perspective.

GDP DECOMPOSITION

Whilst China's economic growth thus far has been predominantly driven by manufacturing, an increasing component of India's growth has been driven by service industries. A breakdown of GDP illustrates how the emphasis has shifted from agriculture to services over time. Agriculture which was over 50% share of GDP in 1950, has now fallen to less than 15% of GDP, whilst services over the same period has grown from less than 20% to approximately 60%.

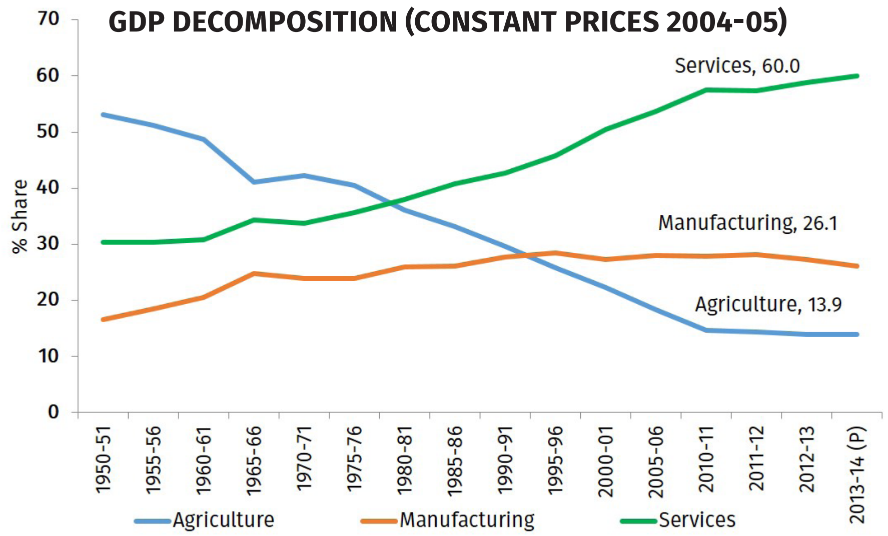


Figure 1: GDP Decomposition

The graph illustrates the shift in GDP composition from agriculture to services, with manufacturing/industry staying relatively constant as a percentage.

Source : Central Statistical Organisation (CSO) Databook for PC; 3rd July, 2014

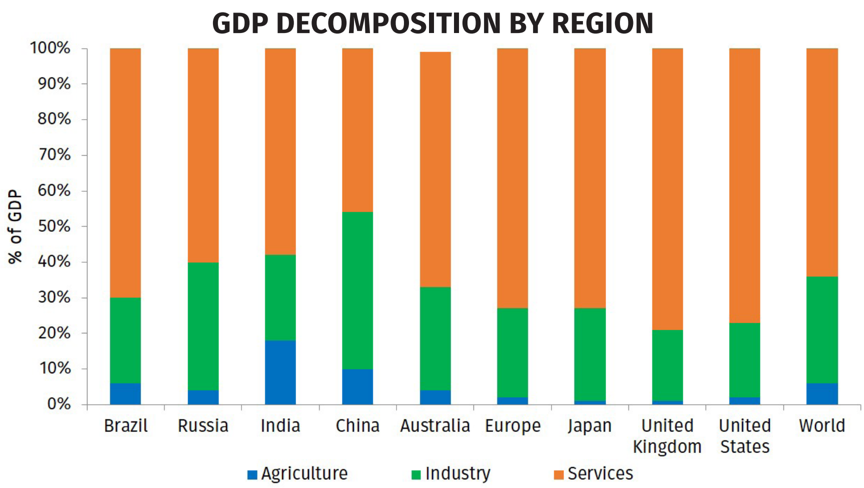
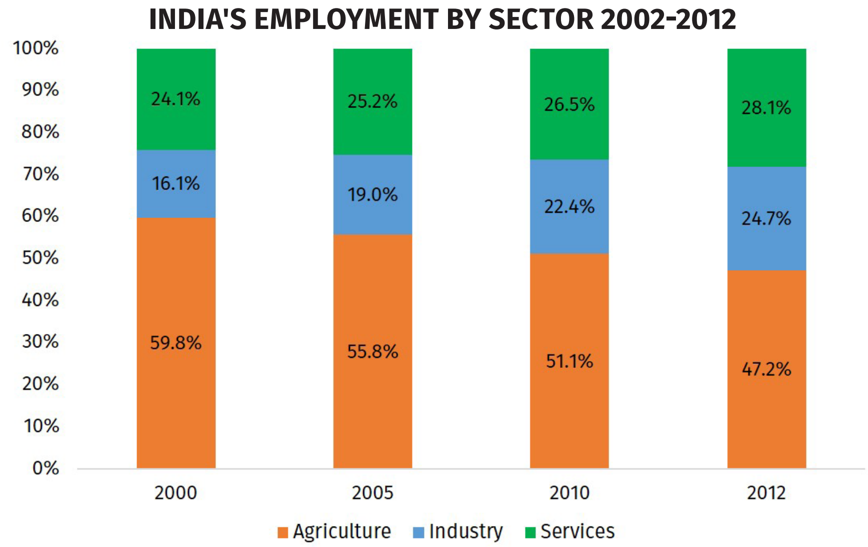


Figure 2: GDP Decomposition by Region

Most emerging economies have a higher contribution from agriculture and industry. However, in developed economies agriculture is a very small component of GDP.

Source : CIA The World Factbook

Figure 3: GDP Decomposition (Latest) by Region



Source : Central Statistical Organisation (CSO) Databook for PC; 3rd July, 2014

India's employment is concentrated in agriculture given the legacy of dependence on this sector. However, it hasn't managed to create significant job growth in manufacturing and services industries.

This job creation is critical to increase wealth in a more equitable way across the population demographic and to industrialise in a similar way to first world economies. The urbanisation of India is likely to lead to a transfer of working population from agriculture to other sectors in the future.

AGRICULTURE INDUSTRIES

At 1.5m km^2, India holds the second largest agricultural land globally to the US. Agriculture is the primary source of livelihood for 49% of the country's population. Total food grains production in India reached 253m tonnes in FY15. The country is among the 15 leading exporters of agricultural products in the world, expanding at 28% per annum to US$38bn, between 2010 and 2015[2].

Increasing mechanisation (e.g. number of tractors sold has increased from 352,835 in 2007 to 626,839 in 2015[3]) has helped by raising farm income through increasing productivity and limiting post-harvest losses. Institutional credit to the agriculture sector has also been growing, allowing farmers to access cheap loans with banks stipulated to provide loans.

There is also substantial Government support given the realisation that there will be a significant dependence on food and food storage in the future. The Government is increasing minimum support prices to ensure higher crop production. Additionally, there are schemes in place to incentivise the states to increase private investment in agriculture and allied sectors. Finally, the export markets for rice and wheat are also improving significantly.

These developments are providing opportunities for companies within the industry such as:

- Farm management services
- Crop protection
- Food security
- Agricultural inputs
- Logistics

[1]CIA Factbook: World Factbook India

[2]IBEF: Agriculture Industry – An Overview (March 2016)

[3]Financial Express "Data Drive: Global lessons for India's manufacturing" Nov 2014

MANUFACTURING INDUSTRIES

India's unique positioning in the global marketplace as a services-led economy is in contrast to most other developing economies, including China, which took the traditional route of labour-intensive manufacturing followed up by higher value added, part-labour and part-capital intensive manufacturing. Even today, India's share of global manufacturing stands at little over 2%, compared to China's 24[3]%.

Manufacturing sectors include textiles, capital goods, metals, chemicals, tyres, cement, electronics, automotive, leather and footwear, machine tools, food and ceramics. The challenges have included:

- Electricity, land and water
- Unskilled labour and dated technology
- Investment in R&D
- Access to finance
- Regulatory hurdles
- Corruption and competition

With the launch of the "Make in India" campaign[4], the focus is on India rising in prominence as a global hub for manufacturing. The current Prime Minister, Mr Modi aims to showcase India as a business friendly destination to attract foreign businesses to invest and manufacture in the country. India's manufacturing sector has the potential to reach US$1tn by 2025, according to a report by McKinsey & Co. There is potential for the sector to account for 25-30% of the country's GDP and create up to 90mn domestic jobs by 2025. The scale and nature of employment that is required to employ people with limited skills and education can only be provided by mid- and low-end manufacturing.

Some companies which have set up manufacturing in India include:

- First Solar
- Samsung Electronics
- IKEA
- Sanofi
- BMW, Mercedes Benz and Suzuki

The focus on manufacturing is likely to help local infrastructure sectors such as power, oil and gas and automobile manufacturing that require large capital expenditure and also to revive the US$30bn Indian capital goods sector[5]. Additionally, several mobile phone, luxury and automobile brands, among others, have set up or are looking to establish their manufacturing bases in the country.

Electronic hardware is one such exciting opportunity for development of manufacturing in India. Total production of electronic hardware equipment in India is expected to grow to over US$100bn by 2020 (approximately 25% share of global production) from US$30bn in 2014[6]. The Government of India has set up electronic hardware technology parks, special economic zones and created a favourable climate for foreign direct investment. It has also increased liberalisation and relaxed tariffs to promote growth in the sector. In addition, the Government's national electronics policy 2012, aims to increase exports in the electronic system design and manufacturing sector from US$5.5bn to US$ 80bn by 2020.

[2] *IBEF: Agriculture Industry – An Overview (March 2016)*

[3] *Financial Express "Data Drive: Global lessons for India's manufacturing" Nov 2014*

[4] *www.makeinindia.com*

[5] *The Hindu, "Capital Goods Sector: Gets Funds Bolster" July 2015*

[6] *Indian Electronics Industry Analysis Report, IBEF, October 2014*

SERVICE INDUSTRIES

The services sector contributed US$783bn to GDP in FY15 (constant prices), exhibiting a growth rate of 9% per annum. This growth was superior to India's GDP growth rate of 6.2%[7] during the equivalent period. The growth in the services sector can be attributed mostly to the emergence of the India's Information Technology (IT) and IT enabled Services (ITeS) sectors, as well as e-commerce. The Central Statistics Office (CSO) classifies services into four industries:

1. Trade, Hotels and Restaurants (17% of GDP)
2. Transport, Storage and Communications (8% of GDP)
3. Financing, Insurance, Real Estate and Business Services (17% of GDP)
4. Community, Social and Personal Services (14% of GDP)

Financials, Insurance, Real Estate and Business Services have been the strongest growth segment within services, particularly in areas like Banking and Real Estate. This segment includes industries such as:

- Banking, Financial Services and Insurance
- Machinery and Tools
- IT, IT Services and Software
- Legal, Tax and Accounting Services
- Consulting, PR, Advertising and Media
- Management, Architecture, Design Services
- Telecommunications

Several industries have exciting growth prospects including Business Processing and IT Services, Media, Mobile Services and Banking Services due to the resurgent local economy, rising wealth and the population demographic. IT Services industries grew significantly over the past 15 years as India's excellence as a business and knowledge processing centre were acknowledged by the rest of the world.

WHAT ARE THE ATTRACTIVE INDUSTRIES DRIVING GROWTH TODAY?

India's growth continues to strengthen in the face of anaemic global growth, particularly within the developed world. In fact, it appears most economists are now revising India's GDP growth upwards. The reasons for the revised growth estimates can be pinned to:

- Signs of acceleration on the economic reform process
- Less red tape in approval of critical projects
- Falling inflation induced by lower commodity prices leading to lower interest rates
- Removing bottlenecks, particularly in the mining and agriculture sectors
- Recovery in export markets
- Introduction of a GST as part of indirect tax reform package

[7] *IBEF – Service Sector in India (January 2016)*

India has been ranked among the top 3 destinations for inbound investments[8]. Since 1991, the regulatory environment in terms of foreign investment has been consistently eased to make it investor-friendly. In 2013, the Indian Government increased Foreign Direct Investment (FDI) limits in 15 sectors to grow various industries and create jobs.

Table 1: Foreign Direct Investment (FDI) limits in 15 sectors

SECTOR/ACTIVITY	2013 LIMITS		2016 LIMITS	
	% OF FDI / EQUITY	ENTRY ROUTE	% OF FDI / EQUITY	ENTRY ROUTE
Defence Sector	26%	Government Route	100%	Automatic upto 49%. Above 49% under Government route in cases resulting in access to modern technology in the country or for other reasons to be recorded.
Insurance Sector	26%	Automatic Route	49%	Automatic Route
Telecom Services	74%	Automatic up to 49% Government route between 49-74%	100%	Automatic up to 49% Government route beyond 49%
Tea Plantation	100%	Government Route	100%	Automatic Route
Asset Reconstruction Company	74% (FDI+FII)	Government Route	100%	Automatic Route
Petroleum & Natural Gas	49%	Government Route	100%	Automatic Route (49% for public sector undertakings and 100% for Private Sector)
Commodity Exchanges	49% (FDI & FII)	Government Route (For FDI)	49%	Automatic Route
Power Exchanges	49% (FDI &FII)	Government Route (For FDI)	49%	Automatic Route
Stock Exchanges/ Clearing Corporations	49% (FDI &FII)	Government Route (For FDI)	49%	Automatic Route
Credit Information Companies	49% (FDI & FII)	Government Route	100%	Automatic Route
Courier Services	100%	Government Route	100%	Automatic Route
Single Brand product retail trading	100%	Government Route	100%	Automatic up to 49% Government route beyond 49%
Pharmaceutical	100%	Automatic route 100% for greenfield pharma and Government route 100% for brownfield pharma	100%	Automatic route 100% for greenfield pharma; government route between 74%-100% for brownfield pharma

[8] makeindia.com/policy/foreign-direct-investment

Airports	100%	Automatic route 100% for greenfield proj-ects; government route between 74%-100% for brownfield projects	100%	Automatic route
Airlines	49%	Automatic route	100%	Automatic route 49% and beyond 49% Government approval

Source: Government of India, Ministry of Commerce and Industry

The table below is a few of the industries that are growing strongly and at present and the resulting opportunities. Other sectors such as Education, Entertainment, Media, Telecom and Pharma are also examples of industries growing strongly from secular change.

Table 2: Indian Growth Sectors

SECTOR	CONTRIBUTION TO GDP	GROWTH OPPORTUNITIES
Engineering	8%	India exports transport equipment, capital goods and other machinery/ equipment to many countries. India is competitive globally in catering to the needs of industrial plants, cement and mining. The engineering sector in India attracts immense interest from foreign players as it enjoys a comparative advantage in terms of manufacturing costs, technology, skill and innovation.
Transportation	9%	This sector comprises roadways, ports, super highways, rail as well as aviation. However red tape surrounding environmental clearance and land rights has been somewhat of an obstruction. Railways in particular are an area where foreign investment opportunities are now becoming available.
Information Technology	10%	Several decades of education and development of trained professionals in this industry. India is the world's largest sourcing destination for IT, accounting for approximately 52% of the US$130bn market. Within this segment includes IT Services, Business Process Management, Software Products and Engineering Services and Hardware. The industry is 25% of India's total exports.
Real Estate	13%	Given significant demand for land, housing and space in India, Real Estate has grown in prominence. Trends of urbanisation and corporatisation have created significant interest from foreign investors. It contributes 13% of the GDP and is the second largest employer after agriculture. The Indian real estate market size is expected to be US$180bn by 2020. The housing sector alone contributes 5-6% to the country's GDP.

In our next section we have hand-picked three key industries which have elements of cyclical and secular growth appeal attached to them. All these sectors are participating in the strong growth potential available in India today in a variety of ways and are able to attract FDI interest, local demand and supportive and committed government policy to enhance their appeal and success going forward.

Source: 1) India Brand Equity Foundation
2) Indian economy growth sectors and significant opportunities, Cary Springfield, International Banker, 2015

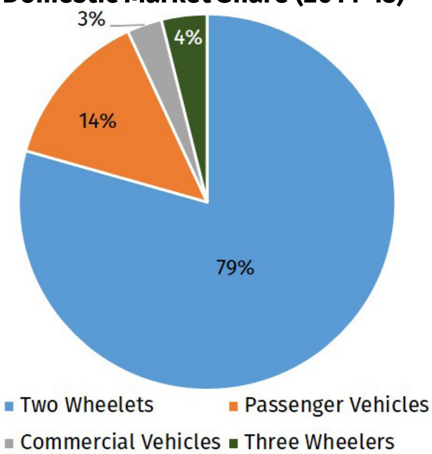
AUTOMOBILES

Indian auto manufacturers for years relied upon foreign technology. However, technology is now being developed locally with a number of car manufacturers, including the global leaders, competing in India. Additionally, Indian manufacturers are now exporting their products competitively overseas, increasing the profile of these companies.

The industry has attracted FDI worth US$14.3bn during the period of April 2000 to December 2015, according to the data released by Department of Industrial Policy and Promotion (DIPP). Some of the major investments and developments in the automobile sector in India include setting up plants and dealerships (DSK Hyosung), procuring components from Indian manufacturers (BMW), acquisition of foreign manufacturers (Mahindra & Mahindra) and selling to growth markets like Africa (Suzuki) and Asia-Pacific (Tata Motors Ltd)[9].

SIZE OF THE MARKET

Figure 4: Domestic Market Share (2014-15)



The automobile industry currently accounts for almost 7% of the country's GDP and employs about 19m people both directly and indirectly. India is currently the seventh-largest producer in the world with an average annual production of 22.2m vehicles in FY15. The Indian automobile market is estimated to become the 3rd largest in the world by 2016 and will account for more than 5% of global vehicle sales[10]. India is the second-largest two-wheeler manufacturer (18.5m sold in India is FY2015), the largest motorcycle manufacturer and the fifth largest commercial vehicle manufacturer in the world.

Source: Makeinindia

GROWTH OF THE MARKET

The strong growth of the automobile industry can be attributed primarily to a growing working population and an expanding middle class. Appetite for auto purchases is likely to increase as GDP per capita rises from US$2,000 as at the turn of the century to an IMF estimate of US$8,200 by 2019[11]. This has also led to the strongest growth (21%) in the number of high net worth individuals compared to any other country. There are also other thematic influences which have led to a tailwind for the automobile sector.

- Increasing disposable incomes in the rural agri-sector
- Increasing breadth and depth of products across various customer segments
- Entry of a number of foreign players due to size of market and plans to leverage India's competitive advantage to set-up export-oriented production hubs
- Easy finance schemes increasing car finance penetration
- Favourable government policies like lower excise duties, automotive mission plans and the constitution of NATRiP

By 2025, it is expected that about 6.7m passenger cars will be sold per year in India. The total turnover is forecast to grow from US$58.5bn (2010-11) to US$145bn (2016)

[9] *IBEF: Automobile Industry in India August 2015*

[10] *Makeinindia.com, Statistics, Sector-Automobiles*

[11] *IMF Actual and Forecasts made in 2010 on a PPP adjusted basis*

[12] *NaTRIP is the National Automotive Testing and R&D infrastructure project which is driven by the Government of India and the Automotive Industry and aims to create core competencies in India*

[13] *Makeinindia.com, Statistics, Sector-Automobiles*

MARKET SHARE

Table 3: Automobile Industry Market Share

VEHICLE TYPE	MARKET LEADER	2ND	3RD
Passenger Vehicle	Maruti Suzuki (42%)	Hyundai (15%)	Mahindra & Mahindra (9%)
Commercial Vehicles	Tata Motors (50%)	Mahindra & Mahindra (24%)	Ashok Leyland (12%)
Three-Wheelers	Bajaj (42%)	Piaggio (34%)	Mahindra & Mahindra (12%)
Two-Wheelers	Hero Motocorp (37%)	Honda (24%)	Bajaj (17%)

Source: Sana Research

Various businesses have market strength in specific segments. For example Tata Motors has been the market leader in Commercial Vehicles and is making a strong foray into the automobile market through the Tata Nano (a cheap car for the masses). However, Maruti Suzuki holds a strong market share in this segment with sales over 15,000 units per month. Mahindra & Mahindra holds solid market share across all segments in passenger and commercial vehicles.

Two wheelers which are the most significant vehicle in terms of units sold are dominated by three players being Hero Motocorp, Honda and Bajaj. However, foreign players continue to enter the marketplace given significant demand.

MARKET CHALLENGES

The industry remains somewhat cyclical in its nature and is dependent on many factors such as oil prices, level of interest rates, currency and demand. Whilst consumption growth and a young aspirational society will be a structural driver for this segment, it is highly dependent on the broader economic conditions to be conducive. Additionally, competition is likely to intensify, particularly from iconic foreign brands as middle class India emerges.

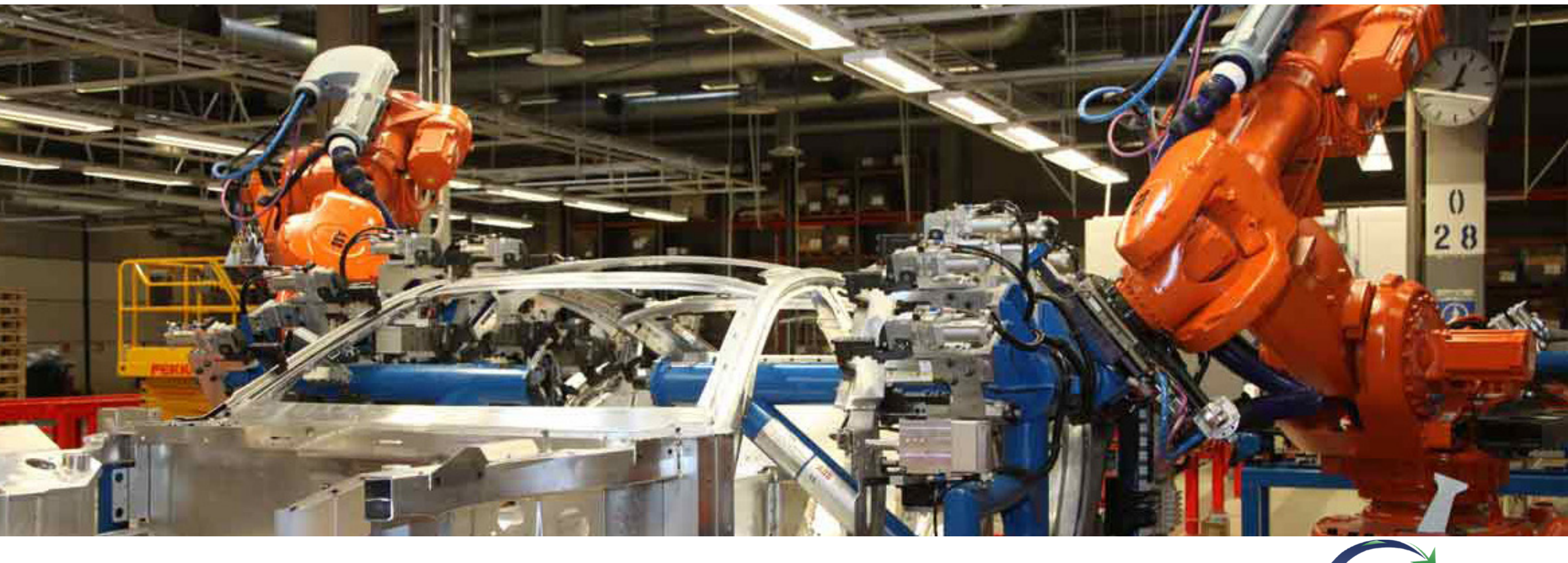
SHARE PRICE PERFORMANCE

Table 4: Automobile Industry Performance

COMPANY NAME	BUSINESS FOCUS	TURNOVER ($ M)	PAT ($ M)	MARKET CAP ($ M)	SHARE PRICE % P.A. 5 YRS
Ashok Leyland Ltd.	Consumer Discretionary - Commercial Vehicles	2,463	-34	3,244	11%
Bajaj Auto Ltd.	Consumer Discretionary - Two Wheelers	3,470	451	11,537	8%
Eicher Motors Ltd.	Consumer Discretionary - Two Wheelers	1,380	111	8,355	73%
Hero MotoCorp Ltd.	Consumer Discretionary - Two Wheelers	4,421	377	7,926	-2%
Mahindra & Mahindra Ltd.	Consumer Discretionary - Commercial Vehicles	11,550	416	12,512	8%
Maruti Suzuki India Ltd.	Consumer Discretionary - Passenger Vehicles	8,155	609	19,106	16%
Motherson Sumi Systems Ltd.	Consumer Discretionary - Automotive Parts	5,552	207	7,170	42%
Tata Motors Ltd.	Consumer Discretionary - Commercial Vehicles	42,187	2,257	19,727	16%
TVS Motor Company Ltd.	Consumer Discretionary - Two Wheelers	1,655	51	1,821	24%
Bosch Ltd.	Consumer Discretionary - Automotive Parts	1,940	215	10,819	24%

Source: Moneycontrol.com, BSE India

Additionally, other ancillary businesses, which provide technology and supply of parts to the industry have also benefitted significantly from the increasing scale and economics of the automobile industry.



BANKING

The Indian banking sector is the major funding vehicle of the India growth story. A mature and developed industry will allow the transmission between the need for growth and its funding to be a smooth one. Significant growth is expected over the next 10 years in terms of the total balance sheet of the banking industry.

The Government launched a Financial Inclusions Plan (FIP) in 2014 to increase coverage to 75m unbanked households. This initiative had two aims. The first aim is to provide universal access to banking and insurance facilities, especially for disadvantaged or low income groups. The second aim is to provide additional services such as micro insurance and pension schemes for un-organised workers.

SIZE OF THE MARKET

The Indian banking sector assets reached US$2.0tn by FY15 from US$1.3tn in FY10. 70% of that is accounted for by the public sector. Total lending and deposits have increased at a rate of approximately 13% p.a. over the last 10 years, driven by housing and personal finance demand[14]. The Indian banking sector is expected to become the fifth largest in the world by the year 2020 (and third largest by 2025) according to KPMG in a report prepared in association with the Confederation of Indian Industry (CII). The report also stated that "in the international banking arena, size, innovation, efficiency and best standards of customer service alone matter. There is no substitute for innovation to survive and lead in new-age banking"[15].

As of 2015 there were 26 public sector banks, 20 private sector banks, 43 foreign banks and 56 regional rural banks[15]. Additionally, there are several cooperative banks and credit institutions, which make up the Banking sector. Credit off-take has been surging ahead over the past decade, aided by strong economic growth, rising disposable incomes, increasing consumerism and easier access to credit. From 2007-2015 credit off-take rose by 12.4% per annum to US$1.1tn. Sectors to lead growth in credit include Real Estate, Consumer Durables and Agriculture. Growth in deposits however, has matched this over the same period (12.0% CAGR), reaching an estimated US$1.4tn[15]. This has largely been driven by strong growth in savings given high deposit rates, whilst disposable income has been rising. Technology and rural presence has also increased the reach of banking throughout India.

GROWTH OF THE MARKET

The growth of the market is driven by a significant number of factors[16]. Some of those are included below:

- Increasing working population and increasing disposable income (GDP per capita of working age population rising from approximately US$500 in 2001 towards US$2000 in 2016
- Growth of housing (financing growing at a CAGR 11% from 2009 to 2014) and personal banking CAGR 9%), with rural set to follow (benefitting from tele-density and rising incomes)
- Rising fee incomes is improving the revenue mix
- High net interest margins relative to global peers (3-4% private sector/foreign banks)

[14] *IBEF – Banking Sector, January 2016*

[15] *Indian banking set to become fifth largest by 2020: KPMG-CII report, Sep 2013*

[16] *IBEF – Banking Sector, January 2016*

- Improving technology leading to growth in mobile and internet services
- Financing of infrastructure projects, equating to over US$1tn (12th 5 Year Plan).
- Increasing Government-wide policy support and resulting increase of capital
- Rising private sector participation
- Healthy regulatory oversight (most Banks meeting Basel III requirement for 2019)
- Credible monetary policy by RBI for stability and strength

The Indian banking sector was relatively immune to the global financial crisis in 2008. Since then the sector as a whole has been able to grow its capital base due to a macroeconomic tailwind and a conservative positioning to begin with. However, by FY15 the gross NPA to gross advances of public sector banks has grown uncomfortably to 5.1%[17]. This situation needs to be addressed by significantly more provisioning and curbing some of their lending practices. As a result, the private banks are rapidly capturing market share, as the deposit base shifts away from public sector banks. There are also new applicants coming on board seeking banking licenses, which alongside the need for meeting Basel III requirements, is likely to increase capital needs.

MARKET SHARE

The size of banking assets is expected to reach US$28.5tn by FY25. It is expected that public sector banking market share will fall to 60% by FY2025 . Public sector banks face the dual problem of significant asset quality stress and weak capitalisation which has an impact on growth. This can be overcome if the Government dilutes its stake, but until then private sector banks have far more flexibility.

MARKET CHALLENGES

The banking industry is likely to be the funder of India's growth story. However, one of its challenges is the plight of public sector banks and their NPA's which have developed due to bad loans to corporates. The larger the provisioning required for these bad loans the more impaired the ability of the bank to provide lending to fund growth. The positive steps being taken by the RBI is that these loans are being recognised for what they are and the issues are adequately dealt with to reduce the chance of them spiralling out of control. The private sector banks which have far less exposure to these loans therefore have to carry the load of funding growth.

[17] *RBI Committee Report 2014, Press Trust of India, May 2014*

SHARE PRICE PERFORMANCE

Table 5: Banking Industry Performance

COMPANY NAME	BUSINESS FOCUS	TURNOVER ($ M)	PAT ($ M)	MARKET CAP ($ M)	SHARE PRICE % P.A. 5 YRS
Axis Bank Ltd.	Financials - Bank Private Sector	5,735	1,196	20,864	10%
Bank Of Baroda	Financials - Bank Public Sector	7,210	615	5,014	-6%
Canara Bank	Financials - Bank Public Sector	7,033	459	2,252	-15%
HDFC Bank Ltd.	Financials - Bank Private Sector	8,134	1,718	42,151	15%
ICICI Bank Ltd.	Financials - Bank Private Sector	8,823	2,078	28,107	6%
Kotak Mahindra Bank Ltd.	Financials - Bank Private Sector	2,138	492	19,918	21%
Punjab National Bank	Financials - Bank Public Sector	7,819	536	4,058	-14%
State Bank Of India	Financials - Bank Public Sector	33,386	2,812	31,264	-4%
YES BANK LTD.	Financials - Bank Private Sector	1,858	321	5,542	18%
IndusInd Bank Ltd.	Financials - Bank Private Sector	1,556	288	7,283	25%

Source: Moneycontrol.com, BSE India

Going forward, despite the fact that these stocks have performed strongly over the recent period, these companies will be the funding source for India's growth story. During this phase, it is unlikely that investors will ignore the potential these companies can offer.

RETAIL

The Indian retailing industry is another fast growing industry and is the fifth largest retail destination globally. However, Indian retailing is characterised by a highly disaggregated industry, with several small one store operators. The pace of change is significant and several new players seek to enter. It accounts for over 10% of the country's gross domestic product (GDP) and around 8% of the employment in India.

According to a recent KPMG report released in 2014[18], retailing in India is benefitting from the following supply and demand factors:

Table 6: Retail Industry Demand & Supply

DEMAND	SUPPLY
Growing youth population and working women	Rapid real estate infrastructure development
Rising incomes and purchasing power	Easier access to credit
Higher brand consciousness	Increased efficiency through supply chain development
Changing consumer preferences and growing urbanisation	R&D, innovation and new product development
Increasing number of HNI's	Growing investor interest
Rising interest penetration	Conducive regulatory environment due to reforms

Source: KPMG "Indian Retail – The Next Growth Story", 2014

However, one of the biggest challenges for the sector remains its structure. The market is highly fragmented, with over 90% of revenue coming from a disaggregated environment of between 12-15m outlets. These outlets generally consist of one chain retailers which are family/local businesses with little or no economies of scale. The KPMG report also states that only 4% of the outlets that exist are larger than 500sq feet and there are over 11 outlets for every 1,000 people.

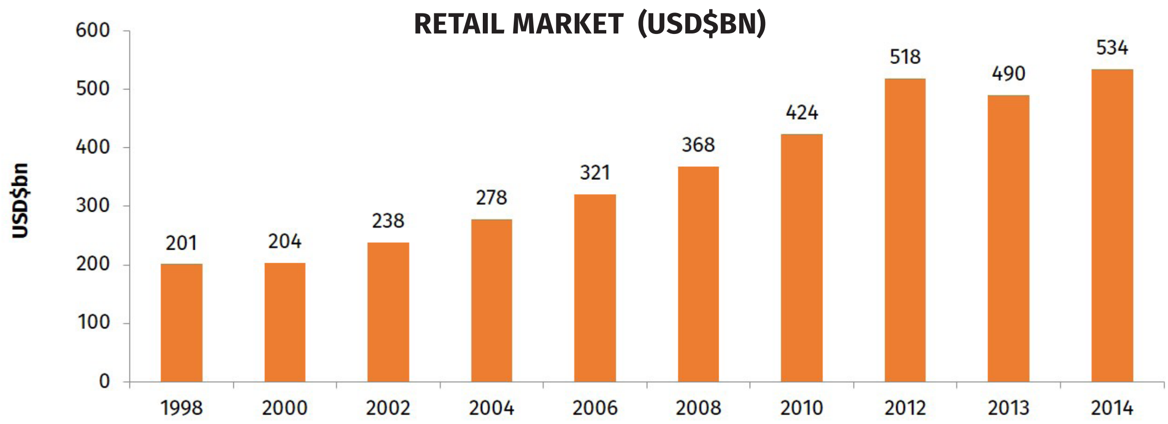
The journey ahead for retail is now through consolidation which can be achieved by scale benefits from movement to smaller cities and rural areas. Additionally, with more aggregated retail will come an expanded product range, repositioning and cross servicing. The entry of large scale international brands and increase in FDI limits for investment from global players is also serving to deepen the market.

[18] *KPMG "Indian Retail – The Next Growth Story", 2014*

SIZE OF THE MARKET

The overall size of the market in India is now USD$600bn and has been growing at 7.5% per annum since 2000. The Food & Grocery segment amounts to nearly 70% of the total revenues (FY2014). Organised retail penetration is very low at around 8%, relative to China where it is 20%, Malaysia at 45% and the US where it is 85%[19].

Figure 5: Indian Retail Market (USD$bn)



Source: India Brand Equity – Retail Industry 2015

GROWTH OF THE MARKET

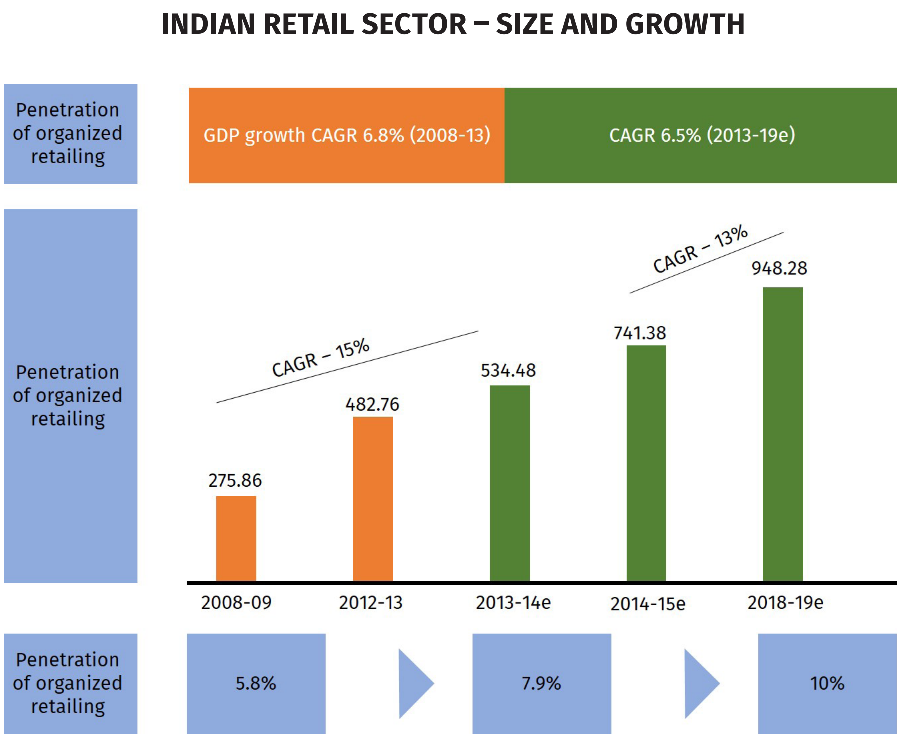


Figure 6: Indian Retail sector – size and growth

According to the KPMG report, the size of the retail market is likely to grow to USD$948bn by 2018-19, a CAGR of 12-13% per annum. Organised retailing is expected to be close to 10% by this date.

The growth of organised retailing creates significant opportunity for investment, employment, efficiency and technology which will serve to grow the market at a much steeper pace than witnessed thus far.

Source: Crisil Research Estimates - 2014

[19] *IBEF – Indian Retail Industry Analysis – January 2016*

The demographic of India is the main driver to growth in retail. The following factors are likely to lead to growth of its market size[20]:

- Rural penetration by organised retail
- Large working age population which continues to grow
- Youthful population with changing tastes more attuned to fashion, technology and leisure which opens up far more business opportunities for organised retailing
- Middle class households expanding rapidly with additional income and thus spending power
- Rapid emergence of organised retail outlets such as mega malls and hypermarkets
- Government reform, high growth rates and low costs are attracting FDI and boosting investor sentiment
- Supply chain and logistics improvements
- E-commerce likely to grow significantly over the next five years driven by younger consumers and credit and payment penetration

MARKET SHARE

As mentioned earlier, retail is largely disaggregated and there is no dominant player in the market. Thus rather than a chain being dominant, it is the opportunity for market share gain in a growing pie which makes retailing in India attractive.

Companies like Reliance, Aditya Birla and Pantaloon have significant opportunity through established recognition in brand name, infrastructure and supply chain. However, there is also significant opportunity for FDI investment to claim market share, particularly in food and general merchandising. Increasing FDI investments is likely to increase efficiency, logistics, employment and remove middlemen from the system. This should enhance market growth and create significant opportunity for Indian manufacturers.

[20] *IBEF – India Retail Industrial Analysis – January 2016*

MARKET CHALLENGES

There are several challenges for the Indian retail market and it's important to highlight how these may inhibit the pace of change. KPMG highlighted some of these challenges in their report as:

- A heterogeneous market with a diverse consumer demographic and level of consumer wealth
- Poor supply chain infrastructure which may lead to significant waste
- Lack of available real estate
- Workforce issues in regards to finding and training talent
- Competition from the unorganised sector which has a lower cost base and is closer to the customer
- Bureaucracy and red tape
- Retail fraud leading to slippage
- Execution difficulties with e-tailing

SHARE PRICE PERFORMANCE

Table 7: Retail Industry Performance

SR.NO.	COMPANY NAME	BUSINESS FOCUS	TURNOVER ($ M)	PAT ($ M)	MARKET CAP ($ M)	SHARE PRICE % P.A. 5 YRS
1	Future Retail Ltd.	Retail	1,880	26	628	-29%
2	Kewal Kiran Clothing Ltd.	Retail	6	1	413	38%
3	Provogue (India) Ltd.	Retail	138	-1	9	-42%
4	Shoppers Stop Ltd.	Retail	723	8	520	0.4%
5	Trent Ltd.	Retail	383	21	590	-2%
6	Pantaloons Fashion & Retail Ltd.	Retail	297	-37	261	-
7	Future Lifestyle Fashions Ltd.	Retail	531	3	213	-
8	V-Mart Retail Ltd.	Retail	96	4	139	-

Source: Moneycontrol.com, BSE India

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