

DIIMAGES Retail

APRIL 2014 VOL.13 NO.4 ₹100

FORTUNES FLUCTUATE: THE IPO EFFECT ON RETAIL BUSINESS

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April 2014 is really special for all of us, as our country gears up for the upcoming elections this month and the fate of the millions living here will be sealed for the next five years. The elections will be intriguing, dynamic and interesting to witness; we look forward to seeing the best political party with the most promising agenda to win. What India needs is development – it's the need of the hour. What it also needs is new avenues and outlets to grow. At this juncture, the retail sector can contribute tremendously to the growth of our economy. In this issue, we try to analyse the IPO agenda of many retail companies, those who have launched their IPO in the recent years. While some companies were able to hit the bull's eye with the launch of their IPO in the market, some missed the aim. Nevertheless, IPO has played the role of a catalyst in the growth of many retail companies and while we herald in the new financial year, we thought it is the ideal time for us to present the synopsis of the IPO effect on retail businesses. As stakeholders of the modern retail industry, it is an acknowledged fact that retail is a tough business to be in right now, considering the slowdown in the market. Many Indian retailers are eyeing alternative modes to raise capital after the government clarified foreign retailers cannot buy into existing stores and tightened the foreign direct investment (FDI) policy in multi-brand retail. So some are either looking at joint ventures, sale of own brands or a stake sale or FII and IPO, which are the most favourite ones. However, is raising money via IPO the most viable option to expect profits? In the cover story of April issue, we delve deeper on this pertinent question.

Ajay Modani, Co-founder and COO, Capillary Technologies has also contributed a very important and valuable write-up on how with the digital and social channels having become an integral part of the traditional marketing mix, brands are going all out in all directions to drive more customer engagement through meaningful conversations. We have a plethora of interesting and business-driven stories in this issue, and we hope you will like this issue. We also expect to see you at India Shopping Centre Forum (ISCF), which is scheduled to take place on 7 and 8 May, 2014 at The Renaissance, Mumbai, India.



Amitabh Taneja

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Printed & published by S P Taneja on behalf of Images Multimedia Pvt. Ltd. Printed at Modest Print Pack (P) Ltd. C-52, D.D.A. Shed Okhla Industrial Area Phase -1, New Delhi - 110020 and published by S P Taneja from S - 21 Okhla Industrial Area Phase - 2, New Delhi. 110020 Editor: Amitabh Taneja

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44 COVER STORY

FORTUNES FLUCTUATE: THE IPO EFFECT ON RETAIL BUSINESS

When an unlisted company decides to go public in order to raise funds, either for capital expansion or to repay debts, or for the promoters to dilute their stake in their company, the company brings an Initial Public Offer (IPO) in the market. In a bid to expand fast and furiously many retailers have also launched their IPOs in the recent years, but the million dollar question still remains, is raising money via IPO the most viable option for retailers to expect profits? In this article, we have tried to analyse some of the success and few not so successful retail stories before and after launching the IPO



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SmileBar



Farraz Patel,
MD, Smile Labs Cosmetic Pvt. Ltd

BUSINESS WITH A SMILE

What if you could get a perfect set of white teeth in just 15 minutes and that without having to undergo painful procedures at the dentist? Sounds wonderful, isn't it? SmileBar India's first-of-its kind lounge style Cosmetic Teeth Whitening facility delivers "whiter teeth" in just 15 minutes. It guarantees up to 8 shades whiter teeth in a single treatment with a sensitivity free technology which is enamel safe as well. *Nivedita Jayaram Pawar* has more details

department coupled with the food habits of Indians, Patel believes that SmileBar is just what is needed in the Indian context. "While we have many options in hair and skincare grooming, we do not have any facilities for smile grooming. I realised that people in India do not invest in teeth grooming for various reasons, time being one of them. So, I thought of offering a lifestyle and pain-free service for teeth grooming by launching SmileBar. Also, there is a gap in the cosmetic teeth whitening space, where a consumer has no opportunity to avail the service in quick time in a snug lifestyle setting. SmileBar is the first lounge format fulfilling this consumer need in India," says Patel.

The relaxing treatment

The all white SmileBar outlets are styled like a spa with mood lighting, futuristic pod chairs, nice music and amiable staff. All you have to do is relax, sink into one of the pod chairs and enjoy the music on the headphones while the grooming team works on

During one of his business trips to the U.S, Farraz Patel, MD, Smile Labs Cosmetic, realised the importance of teeth whitening and the lack of such services in India. People in India do not invest in teeth grooming because of the lengthy procedures, costs and common allied fears of visiting a dentist. That paved the way for the launch of SmileBar - and pain-free and quick service for teeth grooming. Considering the lack of grooming in the smile/teeth



Treatment



GIFT FOREVER

By K. Govindan Nampoothiry

“All cartoon characters and fables must be an exaggeration or caricatures. It is the very nature of fantasy and fable.”

–Walt Disney



The emerging market for personalised gifts

Ranjith Kumar, a software engineer working at Infopark, Kochi, was searching for a wedding gift for his friend. After several brainstorming sessions, he came up with an idea – caricature of the bride and groom. However, he was flooded with several questions: type and size of the caricature, reliable agencies in Kochi, price, etc. Like Kumar, today, many people are turning towards new gifting ideas and the market of personalised gifting is flourishing. At this juncture, Photogift, an art production company in Kochi, established in 2006, gains importance.



Innovation revolutionised gifting

“Be innovative” is the mantra to succeed in today’s competitive world. A majority of people today are experimenting with innovative concepts not only in their professional life but also in their personal space. The trend of innovation is becoming higher in personal life than in the professional domain. People’s penchant for innovative gifts has, in a way, revolutionised the concept of gifting in a big way and has paved the way for personalised gifting. This is because, if one picture is worth ten thousand words, one caricature tells the whole story! It is a lifetime asset too.

A gift forever

An elated Anoop Radhakrishnan, MD, Photogift, says caricatures are a different gift and they last forever. “Personalised caricatures conquer the receiver’s heart. When you gift it your friend, you are showing them that you care. Each caricature is unique and a memorable gift,” he said.

Kochi, the hub

“Personalised caricatures are drawn to the description; they may include the hobbies or the interests of the character. Today, Kochi is rapidly growing as the hub of caricature works. Majority of the works are mainly outsourced from Europe,” Radhakrishnan explained.



THE IPO EFFECT

When an unlisted company decides to go public in order to raise funds, either for capital expansion or to repay debts, or for the promoters to dilute their stake in their company, the company brings an Initial Public Offer (IPO) in the market. In a bid to expand fast and furiously many retailers have also launched their IPOs in the recent years, but the million dollar question still remains, is raising money via IPO the most viable option for retailers to expect profits? In this article, we have tried to analyse some of the success and few not so successful retail stories before and after launching the IPO

By Manisha Bapna

Retail is not an easy business to be in right now, considering the slowdown in the market, and having access to an uninterrupted source of capital decides who wins.

Many Indian retailers are eyeing alternative modes to raise capital after the government clarified foreign retailers cannot buy into existing stores and tightened the foreign direct investment (FDI) policy in multi-brand retail. So some are either looking at joint ventures, sale of own brands or a stake sale or FII and IPO, which are the most favourite ones.

However, India's largest listed retailer Future Group is not looking at the FDI route and has sought approval from the Foreign Investment Promotion Board to increase FII holding in Future Retail the firm to 49 percent from the existing 24 percent.

However, is raising money via IPO the most viable option to expect profits? Under the present system, the promoters, investment bankers and the lead managers often subject IPO pricing and sales to manipulation. Concerns of peer valuation, over or under subscription,

unutilised and diverted money encircle the whole process. Experts say, even the volumes of bye laws, policies, disclaimers and other information in a public issue prospectus do not give retail investors what they most sought for – expected profits. It is oxymoronish to say that a particular issue has been successful due to over-subscription or its reverse. As apart from pricing, success of an IPO largely depends a lot on the market sentiments at the time of listing.

Though there is optimism, many a times lack of knowledge about this data, over-confidence and bullish attitude force promoters and investment bankers to price the issue exorbitantly. Hence, in many cases after listing, share prices of many stocks simply crash or the issue gets dumped. The industry has many examples across sectors. In the calendar year 2010, as many as 65 IPOs were launched. The 10 worst-performing IPOs turned out to be Emmbi Polyarns, Commercial Engineers & Body Builders Co., Tarapur Transformers, Midfield Industries, Cantabil Retail India, Aster Silicates, Tirupati Inks, Gyscoal Alloys, Sea TV Network, and DB Realty.

CANTABIL RETAIL INDIA LTD

In the retail category, the biggest example was the ₹118 crore IPO in September 2010 by Delhi-based apparel and accessories retailer Cantabil Retail. The company has used only ₹11 crore of the ₹56 crore earmarked for a new manufacturing facility and retail network expansion. Experts say, rather than parking unused money in safe bank deposits, the company has chosen to invest ₹30 crore in mutual fund units, the names of which are not disclosed. This was the main reason why investors lost faith in the brand.

The brand initially focused on heavy discount rates of 80–90 percent and hence suffered huge losses to the tune of ₹15–20 crore during the financial year 2011–12. The brand is currently reeling under a debt of ₹30 crore.

From a price range of ₹2,000 to ₹4,000, the brand has brought down its pricing to as low as ₹800, catering to the middle and upper middle class segment. It has also done away with its casual menswear brand Lafanso, shutting down its last store in April last year, besides bringing down its presence from 150 markets to 70 cities in the last two years.

“We have reduced our debt levels by half in two years. Instead of betting on discounts and schemes, we will now focus on product quality and customer experience,” Vijay Bansal, Chairman&MD, Cantabil Retail, stated.

Many other retail brands have also faced similar fate, brands such as Koutons, Allen Cooper, Lee Solly and others, in the segment have either shut down or failed to sustain owing to the discount model of operation. With share price sitting at ₹2.45, Koutons Retail is on the verge of winding up in major parts of the country. KRIL's scorching pace of expansion ate into cash flows. Its franchise model protected upfront



Many a times lack of knowledge about this data, over-confidence and bullish attitude force promoters and investment bankers to price the issue exorbitantly. **Hence, in many cases after listing, share prices of many stocks simply crash or the issue gets dumped**

capex, while higher inventories both on the manufacturing front and stocks at its stores swallowed working capital funds. KRIL's biggest strength – its presence across the value chain as a manufacturer, distributor and retailer – turned out to be its biggest weakness. In the June quarter in 2010, KRIL's sales fell by 20 percent on a year-on-year basis and 58 percent sequentially. “Raising money does not pose a challenge for many retailers, but it is the inappropriate use of funds and hasty strategic decisions that lead to disasters,” says Kamal Jain, an independent retail consultant.

Cantabil Retail India commenced its journey in the year 2000 with a brief collection of men's shirts and trousers. Today, the company is better recognised as CANTABIL – a unique Italian brand known for its distinctive and ultra-comfortable clothing. Its range starts from the sophisticated formalwear and partywear and ends at casuals and the ultra-casual clothing. With its stores, located in the prime commercial areas of cities across India, Cantabil offers the latest trends and lifestyle of today's men, women, and kids. Cantabil has extended its sales network to 279 exclusive retail stores across India.

Financial Highlights

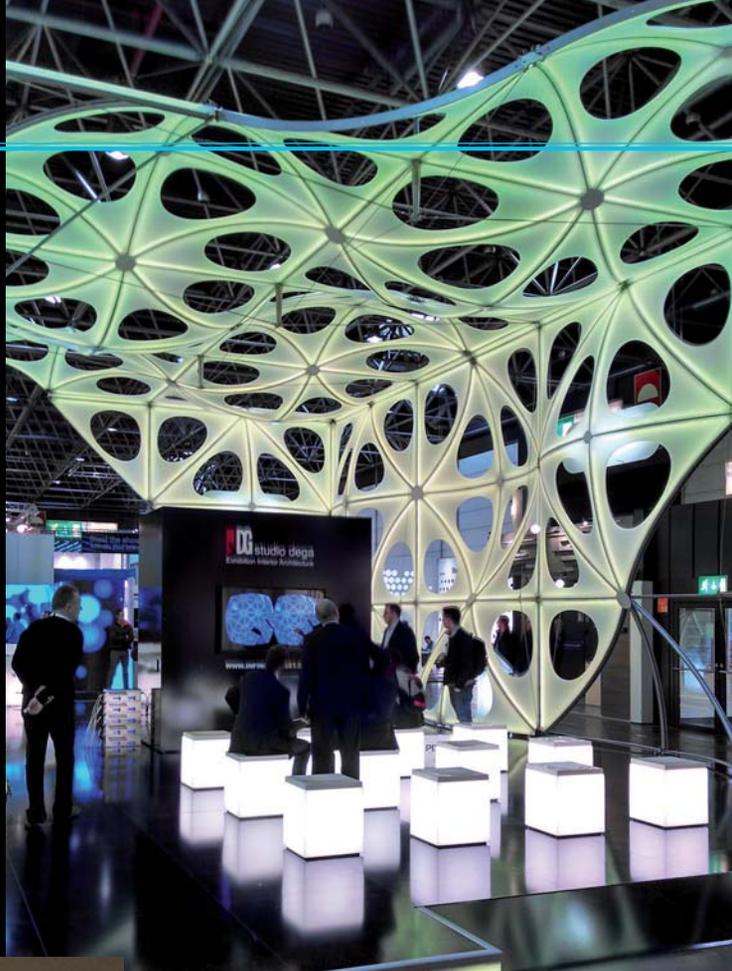
Cantabil Retail India has reported a standalone sales turnover of ₹31.36 crore and a net loss of ₹1.09 crore for the quarter ended December 2013.

While the company has not charted its expansion plans for the year yet, it is planning to invest close to ₹20 lakh per store, which it intends to raise through bank loans and internal accruals. The company is targeting a growth up to ₹140 crore in 2013-14, and sales up to ₹1 crore despite the Indian retail sector battling with dull consumer buying sentiment.

Euroshop, one of the leading retail trade fairs in the world, takes place in Düsseldorf, Germany every three years. In Euroshop 2014, lighting was the highlight; specifically defined as all things related to illumination, digital integration, and lighting as a design element for retail businesses

BEST OF EUROSHOP 2014 LET THERE BE

LIGHT



EuroShop, one of the leading retail trade fairs in the world, takes place in Düsseldorf, Germany every three years. 2014's Expo did not disappoint. Staged in 17 pavilions, 109,000 trade visitors from 110 nations attended the event, with 2.8% of the total foreign visitors coming from India. It seems that three years between shows provides enough time for designers to create, fabricate and innovate for those attendees seeking "What's Next." Two aspects were the focus of EuroShop 2014; the staging and emotionalisation of the shopping experience through spectacular shop fittings, innovative lighting concepts, creative design ideas and extraordinary materials. Secondly, the omnichannel experience pervaded the Expo halls and educational sessions. Yet to me, one area in particular stood out from all the others.

In looking back at previous years, innovations that debuted at EuroShop related to fixturing and materials have helped to push the industry forward. This year, lighting was the highlight; specifically defined as all things related to illumination, digital integration, and lighting as a design element, i.e. an object, a frame, a pattern.



Lighting as Architecture

To some extent, store lighting plays an integral role in making products visible and appealing. Lighting impacts the space from many perspectives; from the fixtures, display and design elements, to the experience being seen as dynamic, ever-changing and localised. Today, lighting is reinvented beyond anything that might be typically thought of in traditional brick-and-mortar architecture.

However, one challenge is that many of these techniques require a degree of nuance; and by nuance, everything from foot candles to the use of sophisticated textures require the development and management of content relative to imagery and media. These also require a high degree of execution and maintenance -- all historic challenges within the Indian marketplace, but challenges that are constantly being addressed and overcome. In the future, these will be essentially seen as non-issues as the best and brightest of retail rise to both the challenges and the opportunity of next generation stores.

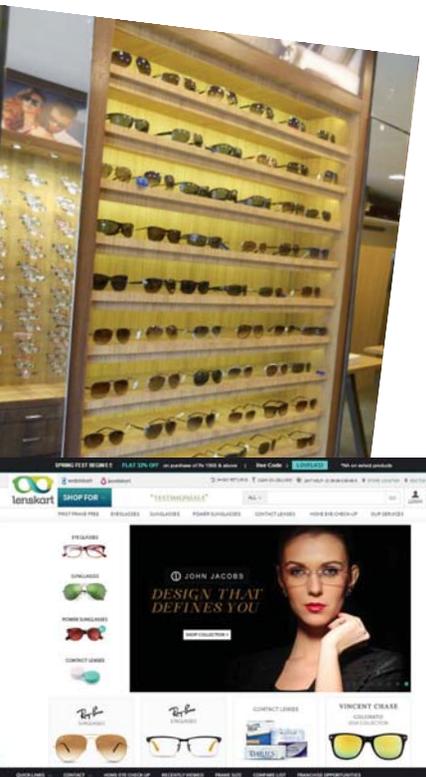
Sanjay Agarwal, MD at Future Research Design Company (FRDC) in Bangalore, also attended the show and explained, "EuroShop offered a vast intelligent and smart lighting solutions from a number of brands. The lighting portion of the Expo was more focused toward showing usefulness of lighting and how micro-



Retailing in India is not just about offline (brick-and-mortar) model or online (e-commerce). There is a huge gap between these two models that online retailers are trying to bridge by going hybrid - a fusion of online and offline retailing

HYBRID RETAILING A FAD OR MARKET REALITY

By Shubhra Saini



Hybrid model is the future

A Technopak Study estimates that currently only 0.2 per cent of US\$ 490bn Indian retail market (market size for 2012) is online, which is expected to grow to 5 percent by year 2021.

Given the challenges of trust, touch and feel factor, transacting online, product quality, Internet penetration and adoption, it will require quite an effort for online players to change their mindset and get the offline junta to join the online shopping bandwagon. Consumers today research about products online but shop offline.

Most e-tailers, who have adopted hybrid offline retailing, today are looking at the opportunity to build and grow the market fast along with bridging the consumer gap in understanding online retail. Keeping all these factors in mind, many e-tailers believe that this is not a fad but an evolutionary step for modern retail.

Talking about the same, Peyush Bansal, CEO and Founder, Lenskart.com, said: "Even if we look at the eyewear industry for a ₹20,000 crore market, we would estimate the organised players would be close to odd ₹1,000 crore. The remaining ₹19,000 crore is unorganised and is thriving as your next-door optician. We are used to buying spectacles from these stores in a certain way since childhood and if

I want to suddenly go and shop online on Lenskart.com, it would require me to change my mindset and behaviour. This is a considerable effort on the consumer's part contrary to what they have done until now."

Online is just one of the channels of reaching out to the consumer. Hence, it becomes imperative for brands that are established in either channels to leverage the reach and advantage of the other channel. Looking at offline or online as silos will not be beneficial for any progressive looking brand. There are many synergies possible in the offline and online channels.

Sharing his views on the topic, Berry Singh, COO, Ace Turtle Services said: "As mentioned earlier, these aren't water-tight compartments. In fact, a judicious mix of these will enable the brand to service the exiting customers better, increase their chances of interacting with the brand, and add new customers in their fold. These channels draw from the same brand lineage, inventory and many other common assets. Hence, it is only a question of when and not if, that the existing brand owners would like to



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