

PANTALOON RETAIL (INDIA) LIMITED



13th **A N N U A L** **R E P O R T** **1999 - 2000**

PANTALOON RETAIL (INDIA) LIMITED

OUR CORPORATE MISSION**Mission Statement**

- ✔ *"We share the vision and belief that by improving our performance through innovative spirit and dedication, we shall serve our customers and stakeholders satisfactorily.*
- ✔ *We shall be the trendsetters in fashion & offer a fair deal to all our customers.*
- ✔ *The Company shall strive to be the Indian Retailing Conglomerate, an efficient and low cost operator, with commitment to quality.*
- ✔ *Our positive attitude from our devotion, sincerity and united determination shall be the driving force to make us globally competitive."*

Our Core Ideology**Core Purpose**

- ✔ *To give an opportunity to the ordinary people to buy what only the rich can afford.*

Core Values

- ✔ *INDIANESS - Confidence in ourselves*
- ✔ *DEDICATION - To customer satisfaction*
- ✔ *LEADERSHIP - To be a leader, not a follower*
- ✔ *SELF DEVELOPMENT - By continuous hard work*
- ✔ *RESPECT - For every individual*
- ✔ *INTROSPECTION - Leading to purposeful thinking*

Our Retailing Principles

- ✔ *To define the core customer and merchandise for the store, its price points, its assortments and presentation of sales for that target group.*
- ✔ *To have consistency of quality in every merchandise of the store i.e. same taste and price points to every merchandise.*
- ✔ *To always have a unique and exclusive merchandise to differentiate itself from the competition.*
- ✔ *To give value for money to the customer.*
- ✔ *To get publicity and be on top of the mind awareness through various promotional schemes and excitement in stores which generate traffic and then business.*
- ✔ *To give convenience and service to our customers.*
- ✔ *To build people- to attract, retain and develop an outstanding team that can work together to achieve the Company's goals.*
- ✔ *To upgrade technology by way of barcoding, computerisation, recoding systems and to monitor inventories, analyse the customer data base for effective marketing.*
- ✔ *To be a low cost operator.*
- ✔ *To build successful partnerships with franchisees.*
- ✔ *To build stores through carefully thought of strategies and execution.*

ANNUAL REPORT 1999 - 2000

PANTALOON RETAIL (INDIA) LIMITED**OUR BOARD OF DIRECTORS**

The Company is managed by Shri Kishore Biyani, Managing Director under the overall supervision and guidance of the Board of Directors. The details of the Board of Directors of the Company are as follows :

Shri Kishore Biyani is the Managing Director of the Company. He is 39 years old and is a Commerce Graduate with a Post Graduate Diploma in Marketing Management. He has over 18 years of relevant experience in the field of manufacturing and marketing of ready-made garments. He is also a Director on the Board of PFH Mall & Retail Management Ltd, Dhruv Synthetics Pvt. Ltd., Pantaloon Finance Ltd. and Pantaloon Retail Technologies Ltd.

Shri Rakesh Biyani is a Whole-time Director of the Company. He is 28 years old and is a Commerce Graduate. He is actively involved in areas of Marketing, Production, Computerisation & Exports. He is also a Director on the Board of Pantaloon Finance Ltd.

Shri Gopikishan Biyani is a Whole-time Director of the Company and looks after the Manufacturing operations. He is 55 years old and has more than two decades of experience in the Textile business. He is also a Director on the Board of PFH Mall & Retail Management Ltd.

Shri Suneel Bhambhani is a Director and is 40 years old and is a garment expert. He is actively involved in the production strategies.

Shri Nitin Deshmukh, Nominee Director of ICICI has joined the Board on 28th April, 2000. He is 38 years old.

Shri Shailesh Haribhakti is a Director and is 44 years old. He is a Graduate Cost Accountant and a Certified Internal Auditor. He is the Deputy Managing Partner at Haribhakti & Co., Chartered Accountants. He was Chairman of the Western India Regional Council of the Institute of Chartered Accountants of India in 1987 - 1988, President of Bombay Management Association in 1988-89 and President of the Institute of Internal Auditors, Bombay Chapter for 1989 -90. He is currently the Chairman - Banking, Finance and Insurance Committee of the Indian Merchants Chamber and

serves on several prominent Boards such as AMC of Unit Scheme - 1964 of UTI, Bank of Nova Scotia, IDBI Capital Markets and GIC AMC.

Dr. Darlie O. Koshy is a Director and is 45 years old. He is a graduate, an MBA and holds a Ph.D from IIT, Delhi. He has over 21 years of experience in the textiles and the garment industry. He is Executive Director of National Institute of Design, Ahmedabad. He has played a key role in setting NIFT Centres in Delhi, Chennai and Bangalore. He has been working and continues to be a part of the committees constituted under the Ministry of Textiles, Government of India. He is a renowned consultant in textile and garment industry specialising in Strategic International Marketing and Apparel Retail Management.

Shri S. Doreswamy 63 years old and is a well known banker. He has vast experience in banking and finance. He retired as Chairman & Managing Director of Central Bank of India. He is also Director in Kirloskar Electronics Co. Ltd., & Essar Shipping Ltd., Hindustan Motors Ltd., Jindal Vijaynagar Steel Ltd and Ceat Ltd.

Smt. Anju Poddar is 50 years old, a Bachelor of Engineering from University of Oklahoma. She has varied interests in textile and weaving, jewellery designing, contemporary modern art and counselling. At present she is a Director at National Institute of Fashion Technology, Hyderabad Chapter. She is also a Joint Secretary of Craft Council of Hyderabad.

COMPANY SECRETARY

Shri Shiraj Dej

AUDITORS

S.M. Kabra & Co., Mumbai

REGISTERED OFFICE

Pantaloon House,
G-11, M.I.D.C., Cross Road 'A',
Andheri (East),
Mumbai - 400 093.

BANKERS

State Bank of India

UTI Bank Limited

Syndicate Bank

PANTALOON RETAIL (INDIA) LIMITED

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PANTALOON RETAIL (INDIA) LIMITED

LETTER TO SHAREHOLDERS

Dear shareholders,

It has been a good year for us. Your Company's strategy has helped it to emerge as one of the top five retailers in the country with retailing space of over 1,50,000 sq. ft. under its fold.

I want to take this opportunity to share with you a few of my thoughts on the drivers of our past success and on the role of strategic assets in accomplishing the vision of the Company in the rapidly changing business environment.

Our vision - To be an Indian Retailing Conglomerate

Your Company aims to be the largest retailing conglomerate in the country with a total retailing space of approximately 2,50,000 sq. ft. by the year-end. Your Company has introduced the concept of mega stores in India and currently has **15 Family Superstores** and **40 Pantaloon Shoppes** across the country.

Pantaloon Retail India Ltd's (PRIL) retailing mantra not only revolves around understanding what sells where, but also in exponentially increasing the square footage of trading area at its command. It is this strong belief that every additional square foot of appropriately stocked trading space will result in profit maximization that has driven PRIL's sales to current levels.

PRIL plans to leverage on the experience gained in the last couple of years to consolidate its presence in southern and eastern India, rapidly expand in the western region and finally move to the northern region of the country.

Your Company plans to add a minimum of 1,00,000 sq.ft. of retail space every year, with three new stores coming up at Calcutta, Surat and Indore in FY 2000-2001. Details of our projected retail sales, location and additional retail space as part of the expansion planned are as follows:

Our Projections for Tomorrow

Year	Estimated Retail Sales (in Rs. Cr)	Additional Retail Space Planned (in sq. ft)
2000-01	146.10	130000
2001-02	243.80	170000
2002-03	311.90	130000

In the next three years, your Company plans to add a total of 4,30,000 sq.ft of retail space in various locations all over India. All the locations have been selected after careful deliberation. PRIL had decided to concentrate more on those centres in which it already has some presence rather than expanding quickly to a large number of new centres. In this way, each market was penetrated more sharply and while the market share climbed rapidly, the costs of achieving this share declined as economies of scale set in. The PRIL mantra of starting small, focussing on one region at a time, getting experience, partnering wisely and leveraging its core competency across the country has guided it in overcoming the real estate problem and learning the business at a far lower cost.

Our aim – to develop an Indian Model of Retailing

Globally, the trend has been to focus on a product or service and then take it in as many ways as possible to the customer. At Pantaloons, we have tried to focus on the customer and then concentrated on how to serve in a variety of ways, because we believe the essence of retailing is the customer.

Currently, we are servicing 20% of the consumers' expenditure basket through our current value chain. However we wish to increase our catchment area to meet the expanding needs of the loyal Pantaloon customer. Therefore, we plan to target newer customer segments by adopting different formats like Discount Stores. Also, we will now address a greater portion of the consumer's shopping pie, by moving into Food and Family savings, thereby addressing 74% of the consumers' need basket. Thus, from yarn to fabric, Pantaloons will have a presence in the entire Retail Value Chain. Certain key enablers are going to help us in increasing our Catchment Area.

This is the synergy we want to achieve with our Indian Model of Retailing. Pantaloon Retail (India) Limited would be the flagship company and form the interface between the customer and the group.

PANTALOON RETAIL (INDIA) LIMITED

THE PATH TO SUCCESS

Our mission and core ideology provide us with the direction to achieve our goal of becoming an Indian Retailing Conglomerate. We are supported in our endeavour by our core value of Indianess.

It is this core value which helps us decide upon the store format, the product mix and the marketing strategy.

The existing formats are the Familystores / Superstores in the Department Store format and the Shoppes in the Franchisee format. The concept of "Pantaloon" as a family store has evolved over the years with experience gained through continuous experimentation with the store format as well as the range of products offered. Over nine years of retail experience has provided PRIL with the ability to plan a basic product assortment for "Pantaloon". This has been supplemented by a strong local focus in terms of the region, city and customer preferences.

Today, Pantaloon offers a full-range of products for the entire family. Your Company's brands represent one of the most outstanding values in the department store market place. Your Company has not only added ladieswear and childrenswear to its range but has also introduced products like household goods, jewellery, perfumes, cosmetics, personal care products, books, music, stationery, accessories and sportswear. While a large proportion of the turnover from these department stores still comes from menswear, other products have been gradually increasing their share in the total business.

As a strategy to be a Rs.1000 crore company and in tune with the Indian Model of Retailing, your Company will now adopt the **Discount Store** format in addition to the existing Familystore / Superstore and Shoppe format. This is being done to increase our catchment area by not only addressing the expanding needs of the loyal Pantaloon customer, but also attracting newer customer segments who want to associate themselves with an aspirational brand.

Retailing Industry

Retailing industry in India has grown into three dimensions: private label retailing, organised sector multi brand retailing and small convenience stores. While private label retailing entails the dominance of manufacturers exclusive stores, the small convenience stores continue to work in an unorganised and informal structure. The emerging organised sector is in the form of large store formats that are primarily targeted at the upper strata of customers.

Globally retailing is carried out through a chain of outlets and is dominated by retailers having superstores, speciality malls etc. The US, Germany and France lead the global retailing industry with Wal-Mart emerging as the top retailer in the year 2000 with a turnover of US\$ 165 billion.

The entire retailing industry is witnessing a spate of consolidations with bigger players acquiring local players in various markets across the globe to increase their scale of operations. A retailer having competencies in the areas of marketing, distribution, customer satisfaction, inventory control and wide network is almost assured of success by providing quality products.

India with a population of more than 1 billion, next only to China has a potential to be among the biggest consumer markets of the world. About 8 per cent of India's population is engaged in retailing compared to 20 per cent in the United States. Thus there lies a potential for organised players to enter the market.

The immediate challenge facing the organised retail industry in India is competition from the unorganised sector. The 1990's witnessed proliferation of large general merchandise stores for the middle class. Business groups like Tatas, Piramal Enterprises, ITC, Mafatlals, RPG and S. Kumar's have entered the sector bringing with them quality service, efficient management and wide market presence.

Changing with the times

Your company is gearing up for a major thrust in the e-tailing business and is in the process of setting up e-tail kiosks at strategic locations to complement the sales of the Pantaloon mega stores. A separate company, Pantaloon Retail Technologies Ltd, has been floated to look after e-tailing, while Pantaloon Retail (India) Ltd will take care of the distribution logistics for e-tailing. Here, the Company's website will retail not only its own merchandise but also a whole range of products from various companies.

The future holds great promise, and it will be our constant endeavour, as always to deliver superior all-round performance, thereby maximising overall shareholder value, and bring prosperity to all of you.

With all the proactive strategies we are implementing and the focussed approach of our teams towards establishing the Indian model of retailing, it gives me confidence that we will continue to achieve excellent results every year while also getting ready to face the challenges of the new millennium.

Kishore Biyani
Managing Director

Disclaimer Clause:

Forward-looking statements in the letter to the shareholders should be read in conjunction with the following **cautionary statements**. Certain expectations and projections regarding future performance of the Company referenced in this Annual Report are forward-looking statements. These expectations and projections are based on currently available competitive, financial and economic data along with the company's operating plans and are subject to certain future events and uncertainties, that could cause actual results to differ materially from those that may be indicated by such statements.

PANTALOON RETAIL (INDIA) LIMITED

RETAILING: THE BUSINESS OF TOMORROW...

The Indian retail industry is only now beginning to evolve in line with the transformation that has swept other large economies. In this section, we tend to map the changes in Indian Retail. Before we do that, however, we will provide some texture to the potential scale and scope of this transformation through an overview of the global retail industry.

But what do we exactly cover under the aegis of retailing?

Retailing is timely delivery of goods and services demanded by consumers. Organised retailing is done through:

- Point of Sale (POS) like super market, discount stores, mega malls etc.
- Catalogue shopping through TV, mail order etc. and
- Electronic medium i.e. online shopping.

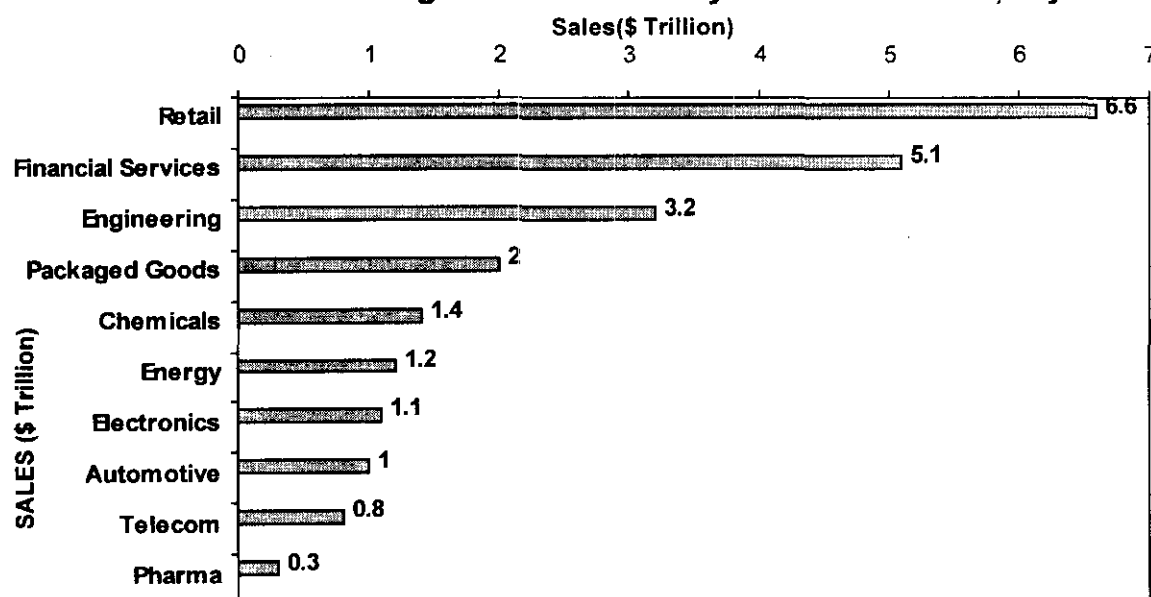
The essential industry functions in retailing are marketing, distribution, customer satisfaction and inventory control. A retailer with these competencies and wide network is assured of success by providing quality products.

The dynamics of retailing stems from the complexity of dealing in a multi-product environment, coupled with the necessity for immediate customer response.

The Global Retail Industry**Business Potential**

Retail with total sales of \$6.60 trillion, is the world's largest private industry, ahead of financial industries, engineering industry, telecom, etc and is home to a number of world's largest enterprises. Over 50 of the Fortune 500 companies and around 25 of the Asian Top 2000 companies are retailers. The industry accounts for over 8% of the GDP in Western economies and generates average shareholder returns of 18%.

Worldwide, retailing is big business, commanding major market shares in the country's economy. Globally the operations of retailers are performed through a chain of outlets. There has been a growth of 20% for the top retailers during the year 2000. There are more than 1 million retailing companies with about 1.4 million retail establishments accounting for \$3 trillion in annual sales (1999) in the United States alone. Significantly, retail is also one of the world's largest employers, accounting for 16% of the US workforce. In fact, Wal-Mart's annual employee turnover equals GM's total workforce. Factors such as scale in sourcing, merchandising, operational effectiveness and ambience have driven the spread of organised retail.

Retail Is The Largest Private Industry In The World Economy

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Evolution

Traditionally, most retailers have had very localised operations. This localised nature of the industry is changing as retailers face low rates of growth and threatened profitability at home. New geographies will help them sustain topline growth as well as permit global sourcing. Further global markets will progressively get easier to tap as product market barriers are relaxed. In fact, a few retailers are now aggressively targetting Asia – Carrefour has already grown to 22 hypermarkets in China in under 4 years and also has stores in Taiwan, Thailand and Korea.

Over the last few decades, retail formats have changed radically. The basic department stores and cooperatives of the early 20th century have given way to mass merchandisers (Wal-Mart), hypermarkets (Carrefour), warehouse clubs (Sams Club, Makro), category killers (Toys "R" Us), discounters (Aldi) and convenience stores (7-11). Each of these formats has been driven by marketers' need to offer relevant, distinctive and economic propositions to an evolving consumer base.

Shopping of goods globally is done through mega-malls and/or supermarkets, which provide one stop shop for various consumer needs. Superstores and malls throughout its chain offer consistent quality of products and services and provide overall entertaining experience for all members of the society.

The sector is dominated by global retailers having superstores, specialty marts, department stores, hypermarkets and discount & convenience stores. Internationally, retailing is highly organised. Almost 80% of all retail sales in the U.S.A. is controlled by the organised retail sector, 70% in Western Europe, 40% in Latin America, 35% in Taiwan and Korea and 30% in East Europe.

Global retailers have reached a position of strength that enables their brand to be leveraged across a wide range of services. Many of them have expanded their offering, over the years, to include fuel retail, car retail, convenience services and personal finance services. This has put them in a position where they are not only beginning to capture growth from geographical expansion, but are also entering large new areas of business.

Six Global Formats

- **Supermarkets:** This format was at the forefront of the grocery revolution, and today controls 30% of the grocery market in many countries. These self-service stores are 4000 – 20000 square feet in size and have a strong focus on food and personal care.
Tesco, Ahold and Safeway are key players in this format.
- **Hypermarkets:** These are very large (40,000 sq. ft. plus), out-of-town stores that stock grocery (typically 50% of sales and space), apparel, electronics and consumables. These stores enjoy very low operating costs and extremely high consumer traffic and account for 30-40% of the grocery market. Hypermarkets target the monthly stock-up occasion. **Carrefour** is the world leader in this format, and averages sales of \$180 million per store for its 100,000 square feet format. The **Supercentre** is Wal-Mart's response to the hypermarket.
- **Warehouse Club:** A unique format, this started in the 1980s as a replacement for traditional wholesalers. It targets large institutional buyers and households looking to buy in large quantities, and offers them a limited range of bulk packs at prices that are significantly lower than the market price. In many countries, this format has captured 10% of the grocery market. **Makro** and **Sam's Club** are leading players in this format.
- **Discounters:** These are stripped down supermarkets, offering a basic range of grocery products typically at real discounts. They run extremely cost-efficient operations by reducing inventory complexity, offering a basic ambience (for eg. Products are often not unpacked but are displayed in their cartons) and low labour costs. This format has 34% of the German grocery retail market and **Aldi** is the world leader.
- **Convenience Stores:** These small (400-2,000 sq.ft.), self-service formats provide easy top-up shopping to residents in crowded urban areas. They charge a premium for their convenience benefits, and typically have longer than usual opening hours. **Fuel retail chains** and **7-11** are key competitors in this format, which accounts for 10 % of the grocery market.
- **Mom-and-pops:** This traditional format is either dying out or repositioning itself on the basis of convenience and quality.

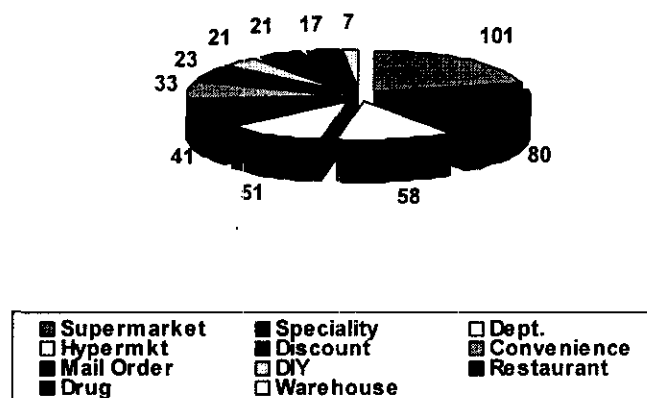
Market Players

The global market is huge with top 200 retailers having a combined turnover of US\$ 1880 billion in 1999. Around 40 % of top 200 retailers are based in USA with international operations, followed by Japan, United Kingdom, Germany and France.

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Walmart with a turnover of US\$ 165 billion in year 2000 leads the global market. The other major players from Germany are Metro AG Gruppe and Rewe Gruppe, from USA are Sears and K-Mart, from France is Intermarche.

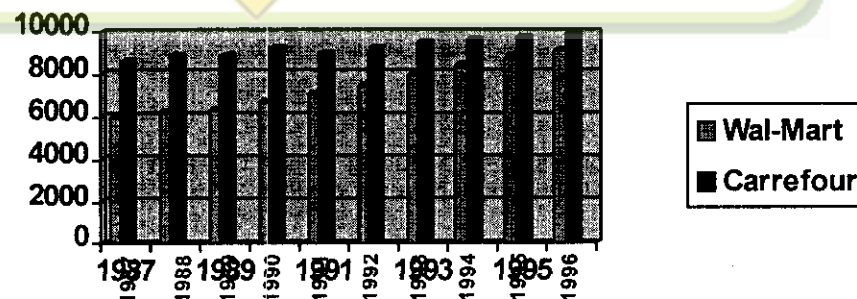
Sector composition of the top 200 retailers



Recent Trends in Retailing

The entire retailing industry is witnessing a spate of consolidations with bigger players acquiring local players in various markets across the globe to increase their scale of operations. All over the world, the large retailers are taking a larger share of the market and everywhere stores are getting bigger, as retail boom takes place worldwide. Departmental stores predominate, followed by volume discount chains and speciality stores. Recently, Wal-Mart acquired the British super-market chain Asda, while Carrefour has bid for Promodes. This will create the world's second largest retailer, behind Wal-Mart. Such 'trigger-pulling' deals will accelerate merger activity throughout Europe, creating even larger retail conglomerates. Such mergers also take care of the limited real estate available to retailers to build new stores.

Report Junction.com



Average Store Size in the last 10 years (sq.m)

Reaching The Consumer

In many industrialised countries mall owners have been proactive to changing tastes and moods of consumers. The consumer decisions are based on their concept of value that incorporates socio-cultural benefits in addition to product utility. Retailers are using innovative merchandising and marketing concepts to lure consumers to their stores. They are managing costs more efficiently through global sourcing, technological innovation and the Internet.

While, both volume discounters and specialist chains are squeezing departmental stores, consumers tend to favour retailers that offer either cost advantage or superior service. Moreover, since the department stores have to compete with discounting stores, the former are responding by bringing in new types of anchors like entertainment, etc. In fact, the concept of shoppertainment is really catching on with retailing.

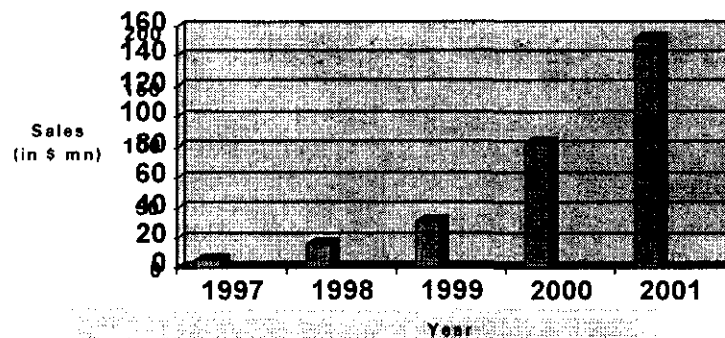
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Technology Impact

The recent evolution of the Internet has helped further broaden the scope of operations of large retailers. While the Internet was initially driven by start-up attackers, for eg., Amazon, the landed retailers have begun to reclaim their superiority in many product categories. The "bricks-and-clicks" business model is emerging as a superior option to the pure "clicks" model, in terms of consumer acceptance, and in terms of operating costs (estimated 3-7 % cost advantage). In areas like apparel, retailers like Gap and JC Penney have clearly captured the leadership positions. Further, a number of large retailers are pursuing innovative demand aggregation and supply chain streamlining initiatives using B2B technology. Driven by competition, retailers are using technology to reduce cost, reduce response times and streamline processes. Wal-Mart for instance, has invested \$500 million in highly sophisticated information systems, last year, almost in the same league as GE and Motorola.

Internet is the newest challenge to various retailers. It can broaden consumer markets by offering products, services and store information and on-line purchasing transactions. It is expected that there will be a huge growth in sales through non-store retailing formats like e-tailing and cataloguing.

Projected e-retail sales



Indian Retailing Industry

Introduction

India with a population of more than 1 billion, next only to China has a potential to be among the biggest consumer markets of the world. The country has a large middle class segment of about 300 million consumers. India with its sheer size in terms of population and geographical area has growing numbers of metropolitan and cosmopolitan cities with high spending capability. The long-term growth in GDP for last 20 years has averaged 5 %. The economy has sustained such growths even at times of world crisis during late 1990's.

Market Size

According to a retail census conducted by a leading market research agency, the total number of retail outlets in India is around 51,30,000 generating a turnover worth Rs 4,79,568 crores.

Background

The organised sector evolved with cities having 2-3 departmental stores for the elite class. The stores specialised in a particular category of products, a feature that lasted 3 decades till 1980's. Organised sector retailing in India is commonly present in food and beverages, pharmacy, books, music, footwear, apparel and jewellery.

The 1990's witnessed proliferation of large general merchandise stores for the middle class. Business groups like Tatas, Piramal Enterprises, ITC, Mafatlals, RPG and S. Kumar's have entered the sector bringing with them quality service, efficient management and wide market presence.

Market Potential

Retailing is India's largest industry, the largest source of employment after agriculture, has the deepest penetration into rural India and generates more than 10% of India's GDP.

However, retail is also one of India's least evolved industries. In fact it is not even considered a real industry.

Retailing in India still remains largely unorganised. About 8 per cent of India's population is engaged in retailing compared to 20 per cent in the United States. Thus there lies a potential for organised players to