

INDIA: FEW MACRO FACTS

India is among the top 10 economies (by GDP) in the world, and it is poised to become the 3rd largest by 2030. India has registered a healthy real GDP growth of over 7% per annum for the past few years and by 2025, India is expected to rank among the top 5 economies in terms of consumption, an improvement from its 12th position currently. The median age of the population in India (~26 years) is among the lowest globally and the share of the working group aged 15–64 years is expected to increase from 65% (~818 Million) in 2012 to 67% (~886 Million) by 2017. This large working population will emerge as the key consumer group and would drive the growth of consumption in the apparel space.

INDIAN RETAIL SECTOR: AN INTRODUCTION

In 2012, the retail sector was worth USD 500 billion and was among the largest employers in the country and by 2017, the sector is likely to touch USD900 billion, indicating a CAGR of more than 12%. The distinct trends in the macroeconomic scenario, the favourable demographic dividend, retail specific policies, and consumer buying behaviour, have triggered a transformation in the fashion retail market which is also reflected in the changes undergone by the Indian retail industry. The rapid growth of alternative retail channels, e.g. direct selling, home shopping networks, and e-tailing indicates the evolution of alternative retail landscape.

APPAREL INDUSTRY IN INDIA

Apparel retail has a strong organized presence across India. After the first round of changes in the FDI policy for single-brand retail in 2006, retailers ventured into the market with Exclusive Brand Outlets (EBOs) across categories such as footwear, personal products, apparel, food services and entertainment (28% Apparel; 15% Consumer durables; 19% Food and Grocery; 15% Personal products; 9% Food services and entertainment).

With the evolution of the Indian organized market, the commitment levels of foreign brands/retailers have increased, resulting in higher capital investment in their Indian operations. Some players have set up a subsidiary in India and operate the store network through unit/ store-level franchising models, while others have established a joint venture with Indian partners to derive benefit from the policy liberalization.

The industry is also witnessing a surge in the demand for private labels to gain better control over products and to increase the profits associated with brand recognition. Popular Indian brands include Shoppers Stop, Lifestyle, Pantaloons and Westside.

WOMEN APPAREL RETAILING IN INDIA: KEY ASPECTS

- With increasing income and rising number of working women, the women apparel Industry is witnessing rapid growth from past few years and this trend is expected to continue in future as well. The Indian women apparel market is anticipated to grow at a CAGR of around 11% during 2013-2015.

- List of foreign fashion brands for women that have exclusive outlets in India include Forever New (Australia), Mango (Spain), Zara (Spain).
- Typical retail margins in Apparels is 35%-50%
- Ethnic apparel and Accessories - Ethnicity remains the dominant preference in women's apparel in India. More than 75% of women's apparel sold in India are ethnic in style driven by strong local culture and heritage. However, with over 350 million Indians in the age group of 18-40, a new hybrid fashion called *fusion-wear (India inspired western wear)* is growing. Also Indian shoppers are buying different clothes for party, formal and sportswear.
- Least loyal to stores: Over 60% Indians buy at more than one retailer
- Convenience and Service Matter- Travel is difficult and expensive in India. Over 64% Indians are willing to pay a little more for conveniently located stores. Services such as home delivery are becoming common.
- Occasion-oriented shopping- 38% of Indians claim that special occasions drive most apparel purchases, as against 6% of Chinese and 3% Russians, across income groups and cities
- Brands as proxies- In apparel, brands serve as proxy for the latest fashion as well as right quality

REGULATORY ENVIRONMENT FOR SBRT (Single Brand Retail)

Foreign Direct Investment (FDI) to the tune of 100% is permitted under SBRT, with prior government approval being a pre-requisite. The regulations state that up to 49% FDI is permissible under the automatic route (no prior Government of India (GoI) approval is required) while beyond 49% FDI is permissible subject to prior GOI approval

The SBRT regulations have the following preconditions:

Single Brand	Products to be sold should be of a single brand
Same Brand Internationally	Products should be sold under the same brand internationally, i.e., products should be sold under the same brand in one or more countries other than India
Branding during manufacturing	Products should be branded during manufacturing
Investment by more than one non-resident entity	A non-resident entity or entities, whether owner of the brand or otherwise, is permitted to undertake SBRT, directly or through a legally tenable agreement, with the brand owner. The onus for ensuring compliance with this condition shall rest with the Indian entity carrying out SBRT in India
E-commerce prohibited	Retail trading, in any form, by means of e-commerce, would not be permissible, for companies engaged in SBRT in India
Sourcing	In cases where FDI exceeds 51%, sourcing of 30% of the value of goods purchased by the SBRT entity should be done from India, preferably from micro, medium and small enterprises, village and cottage industries, artisans and craftsmen, in all sectors. It is sufficient to comply with the 30% sourcing condition cumulatively in the first five years of FDI Investment. Thereafter, sourcing requirement to be complied on an annual basis

OUR COMMENTS

Based on favourable demographics, changing consumption pattern, favourable regulatory environment for SBRT, increase of working women in the working population, there is no ambiguity that there exists a huge potential for growth in the women apparel sector in India. Retailers however, have to keep in mind price range, create occasions to drive consumption and build core franchises. Knowledge about fashion cycles, ethnicity and quality must be built. Offering controlled markdowns will be a key driver of price perception, as will broadening the range through expanded use of private labels.

As suggested next steps once, Sparrow Business Solutions LLP will be happy to do a more detailed market study on the opportunities in India. This market study along with a visit to India will help the international company's management in deciding their India strategy.

Compared to the competitive and saturated western market, India offers a high potential for growth and a much potential market to cater to.

Sparrow will be honoured to be appointed as the trusted advisor to the client for the India entry strategy.