

## 02. INDIAN ASCENT

**India is increasingly a focal point for the fashion industry, reflecting a rapidly growing middle-class and increasingly powerful manufacturing sector. These, together with strong economic fundamentals and growing tech-savvy, make India too important for international brands to ignore.**

Economic expansion is happening across Asia, but we expect that 2019 will be the year in which India will take centre stage. The country is being propelled by strong macroeconomic tailwinds and is predicted to grow 8 percent a year between 2018 and 2022. The Indian middle class is forecast to expand at 19.4 percent a year over the same period, outpacing China, Mexico and Brazil.<sup>8</sup> As a result, India is set to move from being an increasingly important sourcing hub to being one of the most attractive consumer markets outside the Western world.

India's apparel market will be worth \$59.3 billion in 2022, making it the sixth-largest in the world, and comparable to the UK (\$65 billion) and Germany (\$63.1 billion), according to data from McKinsey's FashionScope. The aggregate income of the addressable population (individuals with over \$9,500 in annual income) is expected to triple between now and 2025.<sup>9</sup> According to Sanjay Kapoor, founder of Genesis Luxury, an Indian luxury retail conglomerate, higher incomes are likely to create a whole new class of consumer: "We are moving on towards the 'gold collar' worker. It's a term that defines the well paid, highly paid professionals, who are happy to look

good, happy to feel good and are expanding the consumption of today."

Given these dynamics, it is little surprise that more than 300 international fashion brands are expected to open stores in India in the next two years. But India remains a complex market, which presents challenges as well as opportunities. The apparel business is still largely "unorganised," with formal retail accounting for just 35 percent of sales in 2016. Its share is likely to reach around 45 percent by 2025,<sup>10</sup> still a relatively low proportion.

To build momentum around conventional stores, Indian players are innovating the retail experience. Retailers are leveraging technology to enhance the in-store experience with digital marketing displays and improved check-out. For instance, Madura Fashion & Lifestyle launched the "Van Heusen Style Studio," which uses augmented reality to display outfits on customers. Malls have increased their share of food service and entertainment.

The growth in the apparel sector is also being driven by increasing tech-savviness among consumers. Ten years ago, technology was for the few, with just five million smartphones<sup>11</sup> in a

## 02. Indian Ascent

country of 1.2 billion people and only 45 million using the Internet.<sup>12</sup> These figures have since increased to 355 million and 460 million respectively (2018) and are expected to double by 2021, when more than 900 million Indian consumers will be online.

E-commerce leaders are moving to AI-based solutions. “Personalisation and curation, based on personal taste will become a lot more important,” says Ananth Narayanan, chief executive of Myntra, a fashion e-commerce player acquired by Flipkart in 2014. “It’s not about having the largest selection, it’s about presenting the most appropriate selection to the customer involved.”

The supply side of the industry is equally robust, and the growth of textile and apparel exports is expected to accelerate. According to a 2017 McKinsey survey, 41 percent of chief procurement officers expect to increase their sourcing share from India.<sup>13</sup> India’s average

labour cost is significantly lower than China’s and comparable with Vietnam’s. There is also a high availability of raw materials (e.g., cotton, wool, silk, and jute), which enable participation in the entire fashion value chain.

Still, players looking to enter the Indian market should recognise several inherent challenges. First, India is a mosaic of climates and tastes. “If you break [India] up into four parts, i.e., north, east, south and west, North India is the only region which is going to have winter, where you have mild to severe winter for eight weeks,” says Kapoor.

“Brands that are successful in India have understood that, how [Indians] consume, what colour they consume, what kind of designs work, what touch points and personalisation work may be very different from a consumer living in New York or Hong Kong,” Kapoor adds. “Indian women have kept a lot of their traditional sensibilities alive



Brian Sokol/Bloomberg via Getty Images

## Global Economy

and you see a beautiful mix of both Indian and Western sensibilities across the spectrum.”

International companies considering an entry into India should heed this important message. Traditional clothing is still very much the default choice for women, making up an estimated 70 percent of women’s apparel sales in 2017. Appetite for Western styles is likely to increase, but it is expected that traditional wear will still account for a 65 percent market share by 2023.<sup>14</sup>

**“We are moving on towards the ‘gold collar’ worker. It’s a term that defines the well paid, highly paid professionals, who are happy to look good, happy to feel good and are expanding the consumption of today.”**

Another challenge is the low quality of India’s infrastructure, which continues to lag behind that of many other Asian countries. Nearly 40 percent of the Indian road network was unpaved as of 2016.<sup>15</sup> Poor infrastructure can make last-mile delivery difficult. In addition, retail stock is also often below expectations.

However, there are signs of improvement. “We have two fantastic luxury malls coming up in Bombay at the Bandra Kurla Complex along with the convention centre,” says Darshan Mehta, founder and chief executive of Reliance Brands, which operates over 500 stores for international brands. “So there is a whole new fantastic retail ecosystem.”<sup>16</sup>

One sign of India’s challenges, and also an indication of latent demand, is the growing level of inequality in the country, which follows a broader global trend of rising income inequality.<sup>17</sup> The gap between the top one percent of earners

and the middle class is at its highest level in 92 years.<sup>18</sup> Another consideration is the possibility of corruption. According to Transparency International, India ranks 81<sup>st</sup> out of 180 countries on its Corruption Perception Index (versus China at 77).<sup>19</sup> A significant number of licences is required for new entrants, so executives should beware of the potential for complicated negotiations.

Still, many brands are determined to take advantage of India’s blossoming growth. The majority are likely to choose one of three routes. First, players can partner with existing e-commerce platforms. This is most suitable for players with little brand awareness and with relatively low capital to invest, and offers a good way to test demand and customer preferences. Second, brands that have little local knowledge and are looking for fast entry can enter with a franchise model, developing brick and mortar retail spaces. Finally, players that have significant local knowledge and capital resources can create fully owned and operated stores.

Indian authorities are certainly keen to promote investment. Relaxed FDI regulations (e.g., allowing 100 percent foreign-owned single brand retail operations), will likely lead to more overseas-originated activity through the value chain. We expect more outsourcing and more brand-owned stores without Indian partners in the years ahead. Most activity is likely to be focused on major urban centres, reflecting demographic trends, rising urban consumer spending power and improving infrastructure in those areas.

In short, the Indian market offers great promise. Despite structural challenges that include inequality, infrastructure and market fragmentation, we expect strong economic growth, scale and rising tech-savviness will combine to make it the next big global opportunity in fashion and apparel.

---

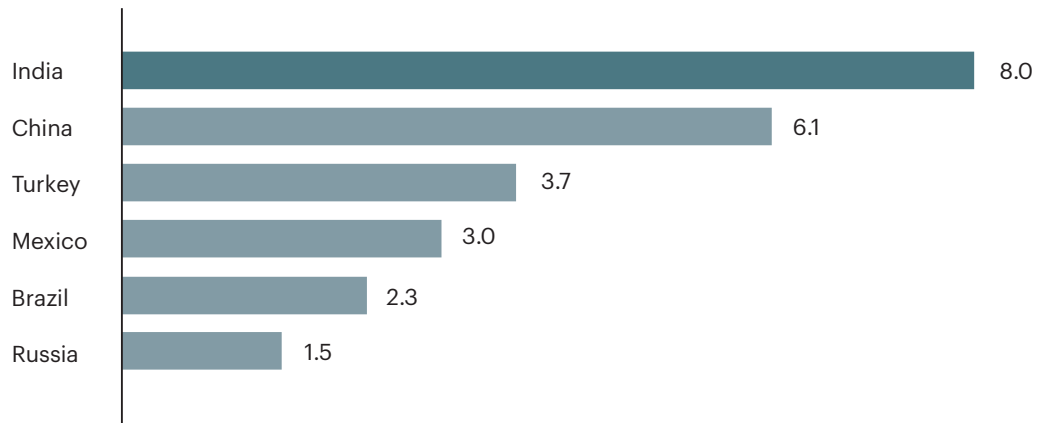
**Of the top emerging markets, India's GDP is expected to grow at the highest rate**

---

Exhibit 6:

**India powers ahead of other major emerging markets**

Real GDP CAGR 2018-22 forecast, %



Source: Economist Intelligence Unit

Executive Interview

## Darshan Mehta

President & Chief Executive of Reliance Brands



The State of Fashion 2019

The chief executive of the fashion division of Reliance Industries, India's largest private sector conglomerate with consolidated turnover of \$63 billion, talks about seizing opportunities in the fastest growing major economy in the world.

— *by Robb Young*

**BoF: If you look at most five-year forecasts, growth projections for India's apparel market and the broader economy are quite impressive. But just how upbeat do you feel about business opportunities in 2019?**

**DM:** Very upbeat. Last quarter our GDP grew 7.7 percent. So, we continue to retain the highest GDP growth in the world and everything prime minister Narendra Modi is doing — barring currency pressure — looks very good.

For a very long time, the Emporio Mall in Delhi became a bit of torch bearer of luxury [moving] out of five-star hotel lobbies into the mainstream consumer mindset. Ten years later we now have two fantastic luxury malls opening in Bombay so there is a whole new fantastic retail ecosystem. The Jio World Centre and Maker Maxity, both coming

## 02. Indian Ascent

out of within a kilometre distance to each other and Bandra Kurla Complex, are going to increase competition.

**DM:** I think mid- to the high-end because there is natural progression upwards. It's what I call [going from] the hundred dollars to the thousands of dollars.

Trump government and their approach [to] trade wars [are another concern].

The second is the rise of oil prices, especially given that India produces negligible amounts of its own oil and is largely dependent on oil imports. This is [worsened by] a rupee-dollar exchange rate which has eroded by close to six to seven percent since the beginning of 2018. From a consumer [spending] point of view, it's not always easy. You can either pass on the impact in volume shrink or you can have... deeper and more frequent discount on the product — both of which erode the margin.

The [other issue] is... the price value equation, which is getting substantially reset [due to the commoditisation of our sector by] the likes of Amazon and Flipkart. After the US, India is seen as possibly the next [market where this will happen], so that's a worry.

**“Every time you look at India through the Chinese lens you will not see [the opportunity] correctly. India is a whole different ball game. In India, it is not about the traditionally rich Indians — they shop all over the world. It is about the 999 others who are the customers of tomorrow.”**

**BoF: Indeed. One of the biggest challenges for fashion in India has been the lack of retail infrastructure. Is this changing? Could 2019 be a watershed year?**

**DM:** Absolutely, I think in the same way that 2008 was. In 2008, the Emporio Mall started but the challenge with the Emporio was that unfortunately it was the same year the terrorist attacks happened in Oberoi and the Taj Hotel in Bombay. It took away some of the wind from the sails but nonetheless the Emporio marked a bit of a turning point. I think 2019 is going to be similar, we are going to see a very big change. Quest Mall in Calcutta is doing well; Palladium Mall in Chennai, early days, but you can see the traction is building; in Saket [an upmarket suburb of Delhi], the DLF mall is going through a complete overhaul [and then you have the new Mumbai malls so] we are going to see quite a bit of activity.

**BoF: Which categories or segments do you think will reap the most benefits?**

**BoF: What we hear about most are the middle classes swelling resulting in a massive boost in more affordable fashion segments. Is it premature for us to expect the Indian middle classes to make a big impression in lower end brands?**

**DM:** There are some categories where marketers and brands already reaped what we call the democratic dividend of the rich middle class. In a lot of these categories, individual players have worked very hard to create the [right] price-value equation. Fashion spending and trading up in the category should become a habit and it is, but I think the fashion industry overall has not done enough.

**BoF: Despite the upbeat climate, India is still not an easy place to do business. What sort of pain-points worry you most?**

**DM:** One of the biggest worries, which could become a substantial pain-point, is the forex situation. The economics of the Donald

**BoF: Let's talk more about that. There is so much dynamism happening in Indian e-commerce market; how bullish are you about e-commerce as an opportunity for a business like yours, which is skewed more toward luxury?**

**DM:** Very bullish. We've created very clever software where all our stores' inventories are parallelly given digital exposure. Last year a significant portion of our brick-and-mortar sales [were driven by] online. It also doesn't [impair] the price-value equation because it is one inventory, one image and one price. For a place like India, which has pockets of

## Executive Interview

wealth, I am able to have access to that because those pockets of wealth may still not be ready for a fully-fledged store, [but] the customers that exist in the town can still shop through my store.

**BoF: Reliance recently upped its stake in Genesis Luxury Fashion, the Indian group that distributes brands like Bottega Veneta, Giorgio Armani, Michael Kors and Coach and has a joint venture with Burberry for the Indian market. Does Reliance have ambitions to become a luxury conglomerate along the lines of an Indian LVMH?**

**DM:** We're certainly not trying to clone anyone else. When the Genesis opportunity came, we knew that they had a whole bunch of private equity players who were not so strategic in their approach. We saw a good opportunity when L Catterton wanted to exit and bought out all the other private equity players.

[Genesis Luxury founder] Sanjay Kapoor had created a good pool of talent, a good entrepreneurial ecosystem, some high-quality real estate, and a great brand portfolio, all of which sat well [with us]. We will never be predatory in nature, so having bought the first 40 percent [stake] our intention was to sit as a new partner along with Sanjay and his other partners to create more value.

**BoF: Through Reliance's direct partnerships with brands like Zegna, Diesel and Bally, you have daily contact with many Western luxury executives. Generally speaking, how good of an**

**understanding do Western executives now have of the Indian luxury consumer?**

**DM:** The singular mistake that they make is that the European mindset comes from a few centuries of inherited riches. In India we're now looking at the first wave of what I call first generation wealth, which spends very differently than inherited wealth. On the one hand, it is a very rich and powerful consumer movement because new wealth has an innate need to announce itself in many ways and fashion is clearly one of the ways. Yet, on the other hand, first generation wealth also has very sharp and recent memory of how that wealth was created and hence they spend differently because it is the wealth creator [himself or herself] who is spending it.

Second, because geographically we are juxtaposed to China, every time you look at India through the Chinese lens you will not see [the opportunity] correctly. India is a whole different ball game. In India, it is not about the traditionally rich Indians — they shop all over the world. It is about the 999 others who are the customers of tomorrow, who will find it too intimidating to go into the five-star hotel lobby or a gallery to shop there. So [former Burberry chief executive] Angela Ahrendts came and took the bold decision to set a Burberry opposite a Zara store [because] a woman coming out of the Zara store will feel less intimidated to go window shopping at the Burberry store.

*This interview has been edited and condensed.*

