



## ESSEC India Research Center

Emerging Opportunities in India  
The Luxury Sector



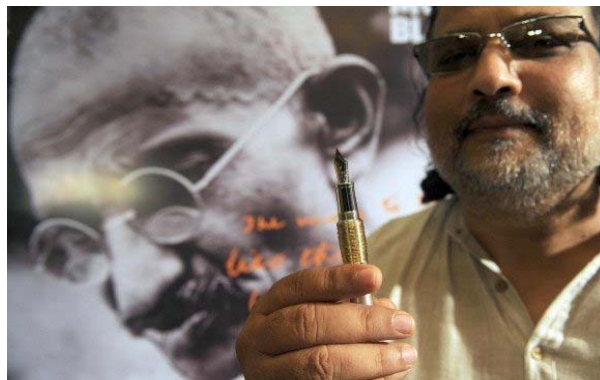
18 November 2009

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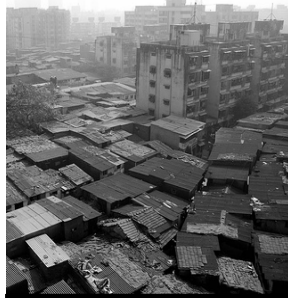
## India & Luxury ?



Montblanc launched a limited-edition **commemorative fountain pen in honor** of the 140th anniversary of the birth of the **Mahatma Gandhi** at a price of **\$25000**.

## The “India Paradox”

Break away from the preconceived notion, and discover the small but rapidly growing and highly lucrative India luxury sector



Dharevi slum: One of the largest slums in Asia, featured in “Slumdog millionaire”



Bangalore, India: “The Collection” Mall, houses only luxury brands

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- “Perception Problem” - Tendency to associate India with poverty
- Small, but burgeoning Luxury market is driven by
  - Growing urbanization
  - Rising income and positive demographics
  - Changing consumption habits and spending patterns

## Fact & Figures



## Key Facts & Figures

With its compelling demographic sweet spot, India is an attractive destination for luxury players



- GDP (PPP) ranks 5<sup>th</sup> in the world
  - \$3.297 trillion (2008 est.)
  - \$3.069 trillion (2007 est.) } 7.4%
  - \$2.816 trillion (2006 est.) } 8.9%
- One of the fastest increase in high net worth individuals in the world\*
  - 123,000 (2007 est.)
  - 50,000 (2002 est.) } 19.7% CAGR
- There are 1.5M households in India who could afford luxury goods;
  - Compared to 1.6M in China
- Urban population: 29% (338M, 2008)
  - rate of urbanization: 2.4% CAGR (2005-10 est.)

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\*individuals with financial assets over US\$1mn  
Sources: CIA World Factbook, Bain & Co., McKinsey, Capgemini, Technopak "India Luxury Trends"

## India's new Maharadjas

Rise of Plutonomy\*, an economy where growth is powered by and largely consumed by a wealthy few, driving the luxury market



**Residence Antilla**, arguably the most expensive home in the world designed to house Mukesh Ambani's family and a staff of 600, with 6 floors for parking of at least 168 automobiles. Costs about **\$1Bn to build**, a mere 5% of Ambani's wealth, who is reported to be the 14th richest man globally



**Megha Mittal**, daughter in law of Lakshmi Mittal acquired **ESCADA** in November 2009.



The world's most expensive tie was created by designer Satya Paul for the Suashish Diamond group and displayed at the 2004 Mumbai fashion show, costs over **\$220,000**. Studded with 261 diamonds and 150 grams of gold.

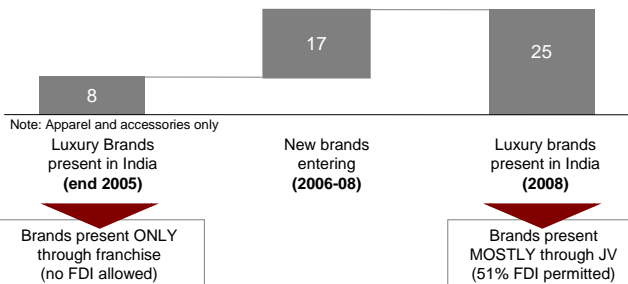
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\*a term coined by Citibank's strategists in 2005.  
Sources: India Macroscope - Citibank, Forbes, BBC news.

## India Luxury Development and Trends

**Drawn by the huge spending power of the wealthy, international luxury players are increasing their presence in India**

- Awareness of luxury is increasing in the India market through
  - **Fashion magazines:** International magazine publishers are aggressively investing in the Indian market, after government opened up 100% foreign ownership rights in the non-news category in print media
  - **Big Fashion events:** Wills Lifestyle India Fashion Week & Lakme India Fashion Week



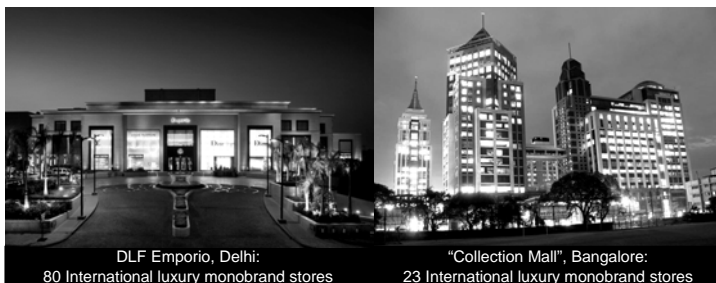
Source: Value Partners 2008, Wall Street Journal Jul 2008

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## India Luxury Development and Trends

**Brand exposure is enhanced by the expansion of retail space through malls dedicated to luxury brands, improving accessibility**

- **80-90% of luxury retail currently in Hotels**
  - Restrictive environment with limited visual impact
- **Between Jun 2009 and 2010, an additional 32M-square feet of mall space will be created across India through over 100 new shopping malls**
  - Easier for shoppers to choose from a wide range of products under one roof



DLF Emporio, Delhi:  
80 International luxury monobrand stores

"Collection Mall", Bangalore:  
23 International luxury monobrand stores

Source: Cushman & Wakefield and Jones Lang LaSalle Meghraj 'Mall Realities India 2010'

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## India Luxury Development and Trends

With the increased exposure and accessibility to luxury, India high-end indulgence appears to have an impact across the whole nation

### Changing Mindset

- The thriftiness has given way to belief in living well and spending more for it.
- There is increased brand consciousness, and favorable attitude towards luxury goods

### Trickle down effect

- Luxury previously restricted to a limited market due to financial and cultural restraints, **now appeals to a greater mass**
- Branded products, comfort and convenience in shopping are high on the agenda of consumers

### Consumer Preferences

- Established foreign brands especially appeal given their exclusivity and international recognition
- Prefer fusion of India's indigenous culture with the West



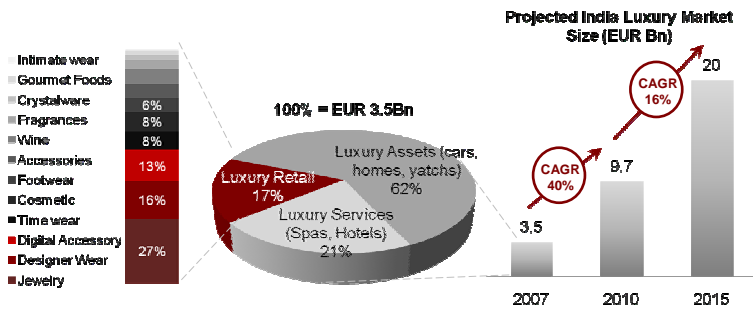
## Business Opportunities



## India Luxury, Market Size

While the Western markets are faltering, India luxury market is at its nascent stage, poised for robust growth

- While India makes up just 0.4 percent of global luxury good sales, the market is growing at double digit CAGR
- Market is dominated by assets, with retail commanding a small portion
  - However, retail is showing a strong growth momentum compared to the slowdown in developed markets



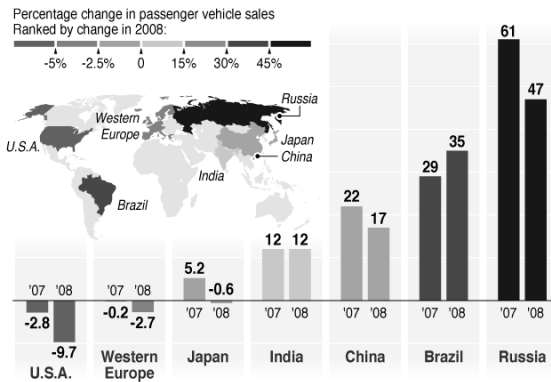
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Source: India Luxury Review 2007

## India Luxury, Market Size

Luxury cars is the fastest growing segment in India luxury assets, growing at a steady speed of 25% per annum

- Often perceived as a status symbol, the sector is driven by a modern Indian generation armed with higher incomes and unafraid to flaunt their wealth
  - Sales for Mercedes-Benz has increased 33% to 2,174 cars for the first 7 months of 2008 compared to 1,454 cars sold in the same period in 2007



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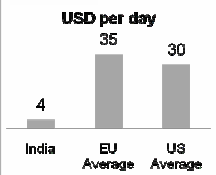
Source: JD Power & Associates, Reuters

## India Luxury, Market Benefits

Cutting costs intelligently can be achieved without reducing quality by utilizing the talented and cost effective Indian manpower

### Low Cost Labour

- Availability of abundant skilled labour
- Average Indian labor cost is approx. 1/8<sup>th</sup> of the EU and US average



### Skilled Manpower

- Talented and skilled manpower (designers) available for production of high-end luxury products
- Availability of English speaking staff
- Available training institutes in hospitality and other sectors
- Large pool of designing, engineering and management colleges

### Access to raw material

- Availability of raw material like metal, textile etc
- Access to diamonds – global diamond polishing and finishing activities are carried from India

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Source: Gitanjali Group "Living in Luxury"

## India Luxury, Key Luxury brands

Brands	Stores	Location
Louis Vuitton	3	New Delhi, Mumbai, Bangalore
Aigner	2	New Delhi, Mumbai
Hugo Boss	3	New Delhi, Mumbai, Bangalore
Ermenegildo Zegna	2	Mumbai, Bangalore
Canali	3	Mumbai, Bangalore, Hyderabad
Chanel	1	New Delhi
D&G	1	Mumbai
Vertu	2	Mumbai, New Delhi
Girard-Perregaux	1	Mumbai
Rolex	1	Mumbai
Mont Blanc	7	Ahmedabad, Bangalore, Chennai, Hyderabad, Mumbai, New Delhi
Moet & Chandon	2	Mumbai, New Delhi
Omega	2	Mumbai, New Delhi
Jean Paul Gautier	1	Bangalore
Lanvin	1	Bangalore
Paul Smith	1	Bangalore
Givenchy	1	Bangalore
Tiffany & Co	1	Bangalore
Salvatore Ferragamo	1	Bangalore

Source: Ernst & Young "The Retailer"

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## India Luxury, Market Considerations

**Investment restrictions and cultural differences may call for a different expansion strategy altogether. International luxury brands can fully exploit the potential by making the right moves**

### Create Infrastructure

- Opportunities to participate in developing existing infrastructure for "luxury environment"
- Via retail/real estate with developers intending to set up luxury malls and domestic corporate intending to bring in the big name brands

### The Right Partner

- Partner with reputed player that has strong competence in retail, consumer understanding and real estate.
- Track record of partnership in JV with international players is a plus

### Indianise Products

- Foreign brands need to understand the Indian Personality and fashion elements to 'Indianise' their products
- e.g. Single Season and brighter colors for ladies

### Price Points

- There are high duties on luxury items, however brands would benefit by keeping their prices competitive; similar to Singapore, Dubai, middle East etc.
- Luxury product buyers travel globally; no reason to buy 20-25% higher price than abroad

### Utilize Indian Talent

- A win-win situation for global brands is to utilize the talented and cost effective Indian Designers

Thank you !



## Contacts



### Geneva

Avenue Calas 8  
1206 Geneva  
Switzerland  
T +41 22 347 5193  
F +41 22 348 2820

### Milan

Via della Posta 8  
20123 Milano  
Italia  
T +39 02 39680061  
F +39 02 39680060

### Mumbai

Level 8 Vibgyor Towers  
G Block C62  
Bandra Kurla Complex  
400 051 Mumbai  
India  
T +91 22 4090 7377  
F +91 22 4090 7272

### Paris

Level 5, Louis Vuitton Building  
101 Avenue des Champs-Élysées  
75008 Paris  
France  
T + 33 1 56 52 93 05  
F + 33 1 56 52 93 06

### Singapore

33-08 UIC Building  
33rd Floor, 5 Shenton Way  
068808 Singapore  
T +65 6327 9434  
F +65 63279435

[contact@gerejecorporatefinance.com](mailto:contact@gerejecorporatefinance.com)  
[www.gerejecorporatefinance.com](http://www.gerejecorporatefinance.com)

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