



TRACKING INVESTMENTS IN THE INDIAN RETAIL SECTOR

The superlative growth in the retail sector in India is an ode to the country's domestic consumption strength.

With a 1.3 billion population, we are the world's second biggest market for everything under the sun. Having transcended the so-called "hindu rate of growth" till 1990, liberalisation virtually opened the doors of the country. In the years to follow, through ups and downs, the country has remained on a steady growth curve and a stable and proactive regime at the centre has lorded over a period when India has been the fastest growing country globally for the past year or so. Interestingly, India is poised to grow at a similar scorching pace of over 7% in terms of GDP when the global GDP growth is pegged at just 3.9%.

India's rapid urbanisation and the structural shift in processes and reforms have given a strong fillip to growth in the country. While the country still deals with unequal growth in urban and rural areas, the overall increase in spending power and rising aspirations of its large middle-class population has spurred a retail revolution of sorts.

India's growing middle class which now constitutes about 50% of the total population, its young demographic with over 58% of the population in the 15-54 years age bracket and a median age of 29 years along with growing prosperity and a corresponding increase in aspirational consumption has caused a retail revolution in the country.

It is no wonder then that the retail industry has grown to be one of the largest in the country, contributing over 10% to the GDP and employing 8% of the country's total workforce.

WHY INVEST IN INDIAN RETAIL

India is now ranked number 1 on the AT Kearney's Global Retail Development Index 2017, up from number 2, outlining it as the hottest retail destination globally. The potential can be gauged by the fact that the share of organised retail in India still remains just around 10% of the nearly USD 780 billion Indian retail market.

The gigantic though nascent boom of the e-commerce retail sector has spawned another growth avenue in the retail sector. The potential in online retail is even bigger with rising internet and smartphone penetration with convenience in the Tier 1 cities and access to brands in tier 2 and 3 cities being key drivers for growth of this segment. Online retail sales stand at just USD 32 billion (just around 4% of the overall market).

As per various industry estimates by leading consulting firms, India's retail market is

expected to be a USD 1.2-1.3 trillion market by 2020-21 with share of organised retail for the brick-and-mortar and e-commerce formats slated to nearly double over the corresponding period.

It is therefore no wonder that the current dynamism prevalent in the sector has brought in its wake a spurt of global retailer entry, private equity money chasing returns on retail assets and the e-commerce phenomenon has resulted in the entry of multi-brand global retail giants and mushrooming of home-grown unicorns and fast-growing firms, especially in the apparel, consumer durables, electronics and home furnishings space.

5th
In terms of largest consumer market by 2025

2nd
Addition of new consuming class households by 2025

3rd
Biggest economy in terms of purchasing power parity by 2025

1st
On AT Kearney's Global Retail Development Index, 2017

TOTAL CONSUMPTION EXPENDITURE

\$3600Bn
2020

\$1824Bn
2017

'Changing lifestyles'

'Rising Disposable Incomes'

'Easy credit availability'

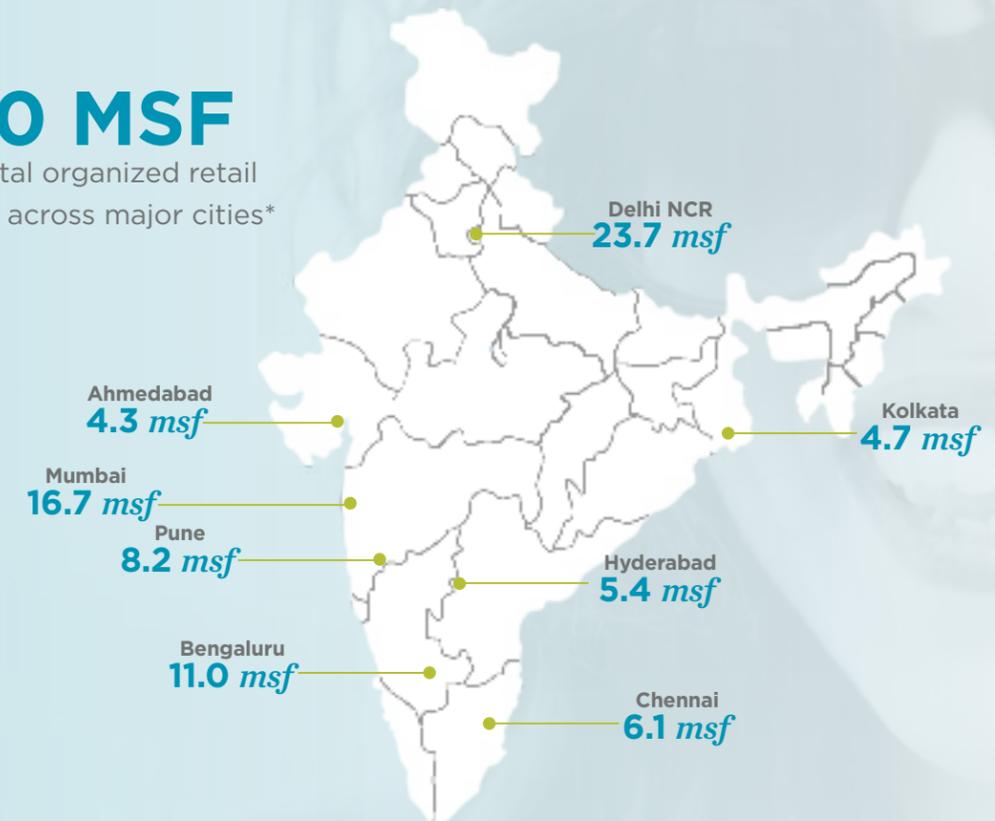
'Favourable demographics'

SOURCE: MCKINSEY INDIA ASCENT REPORT 2016 AND AT KEARNEY GRDI REPORT 2017

INDIA'S ORGANISED RETAIL PHYSICAL SPACE MARKET SIZE

~120 MSF

India total organized retail footprint across major cities*



*Including operational stock of 42 Msf in 38 major cities Tier 2 and Tier 3 cities in India

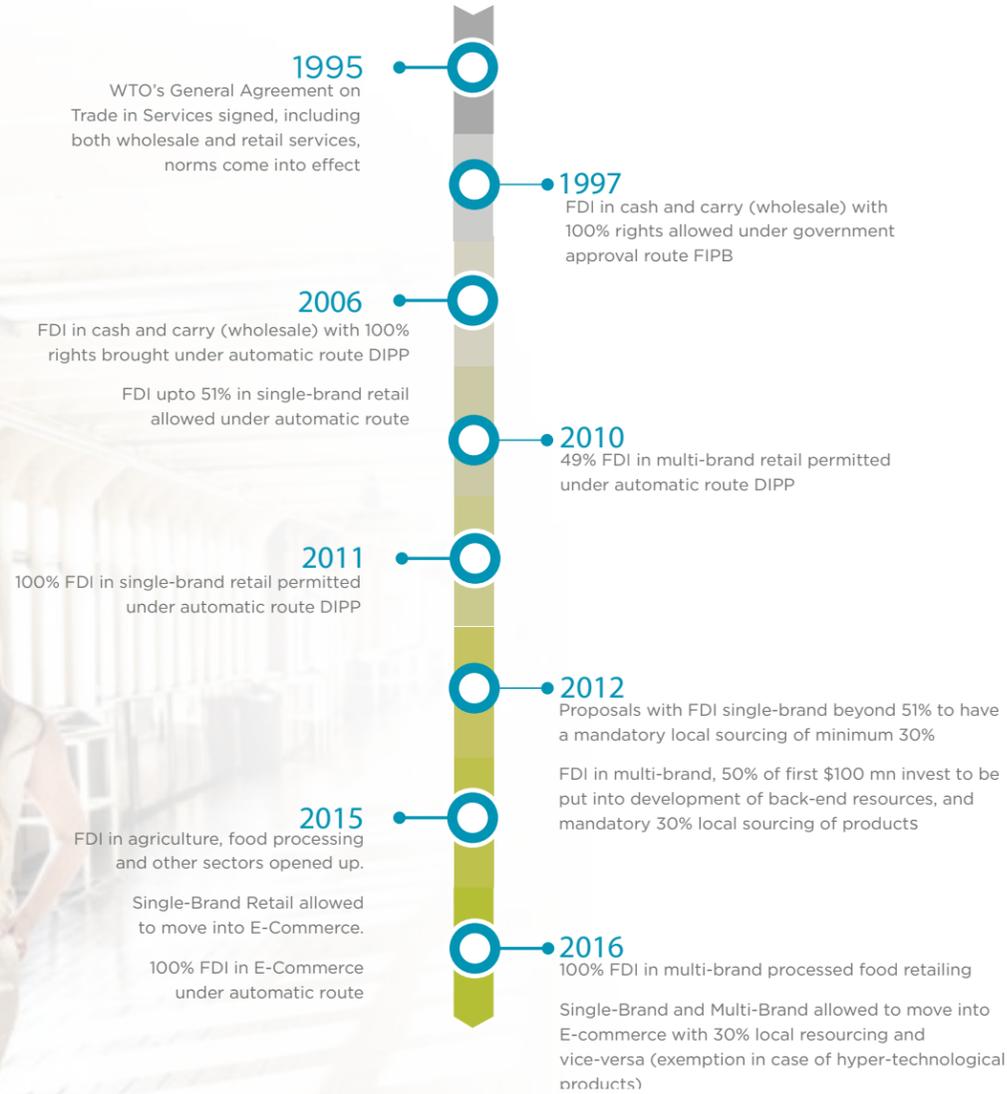
Over the past nearly two decades, India's organised retail sector physical foot print has grown from just under **1.5 MSF** in 2001 to **78 MSF** by end of **2018** across the top eight cities of India, a **CAGR of 24.6%**.

“ *Location and mall positioning are key success factors and along with an active tenant management strategy and project control through complete ownership are key drivers towards creating a successful retail format which can be replicated to then create a portfolio of such high-functioning retail assets.* ”

TRACKING FDI

IN RETAIL REAL ESTATE

FDI Tracking



A liberal FDI regime in the last five years, the presence of successful and established retail malls, rising income and consumption levels and a need for diversification of their India real estate investment portfolio has seen a spurt of private equity activity in the Indian real estate space.

It has been an added incentive that mall space has risen in the major cities over the past decade and select malls have clocked impressive sales performances for private equity to look at this asset class. In fact, majority of the funds have been invested in retail in the last five years or so and what has been interesting has been the fact that PE firms have employed very distinct investment strategies when investing into the retail space.

INVESTMENT

	TIER I	TIER II/III	TOTAL	
INR Bn	2015	2.50	8.00	10.5
	2016	43.50	5.00	48.05
	2017	16.08	41.00	57.1
	2018	8.00	2.50	10.5

SOURCE: C&W RESEARCH



PRIVATE EQUITY

PHYSICAL RETAIL DYNAMIC

What is interesting to note is that of India's current operational retail malls, only around 50% is held under single ownership. This also translates to around 62% share of such malls in gross leasable area terms.

This is symptomatic of the gap and consequently the investment opportunities that exist to create quality retail developments across the country.

Here is what is driving enhanced retail mall performance and consequently resulting in increased private equity interest in this asset class.

127Bn
invested since 2014 in
pure retail assets

Additionally, another
22-24Bn
invested as part of mixed-use
projects with majority coming from
the GIC investment into DLF's rental
portfolio which included premium
malls in Delhi

56Bn
invested in Tier I/III cities

~96%
of investments done by
foreign private equity players

59%
of total PE investments made in operational assets; 29%
share of investments in greenfield projects

PE FUND



Setting up a subsidiary - Nexus Malls and acquiring stakes in successful malls across Tier I/II/III cities

CITY PRESENCE

Mumbai, Pune, Ahmedabad, Indore, Chandigarh, Amritsar, Bhubaneswar



Picking up equity stakes in existing, successful malls

Mumbai, NCR



Virtuous Retail South Asia (VRSA) - platform set up with APG to pick up under-construction as well as greenfield assets to create landmark retail developments

Chennai, Bengaluru, Surat, NCR, Chandigarh



Island Star Mall Developers - platform set up with Phoenix Mills Limited to identify greenfield/brownfield opportunities as well as existing malls of its partner

Bengaluru, Pune

Developers have realized that this a specialized business and are focusing on getting the fundamentals right. There is a stark difference with the superior assets consistently outperforming the lower grade assets

Both domestic and international retailers looking for quality space in order to facilitate their expansion plans. Superior assets are constantly clocking occupancies of over 90%, steady rent growth and a steady increase in trading densities.

Single-brand retailers are increasing store count and planning growth strategies with relaxed FDI norms allowing for 100% ownership in this segment

Big-box retailers remain interested due to the immense consumption potential in the country

Relaxed norms for multi-brand retail pushing growth in physical space for cash-and-carry models. 100% FDI in processed food category

India's organised retail market share still remains low compared to other countries with a low per capita retail space enabling creation of world-class retail experience and thus providing avenues for investments for PE players.

In the past few years, mall management has evolved and is more focused on experiential retail, use of technology and as well as consumer analytics to enhance the experience for visitors

Despite the e-commerce revolution, brick-and-mortar retail has sustained and emerged stronger with global F&B, apparel, lifestyle and entertainment formats reigning supreme

Omni-channel retail with online retailers creating offline stores indicates that user visual experience is still critical. Also experience centres being created by such online retailers are also helping push physical retail market growth

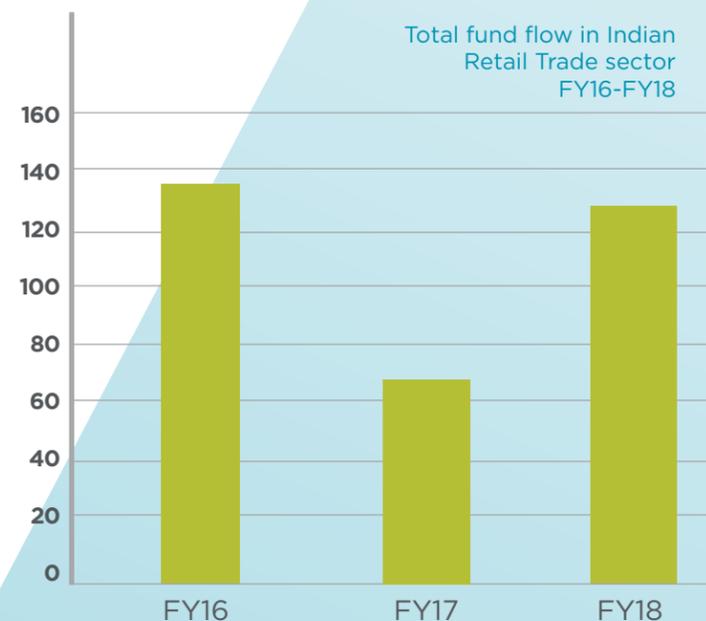
INVESTMENT AND INDUSTRY TRENDS

IN ORGANISED INDIAN RETAIL TRADE

No discussion on global investments in Indian retail sector can now be complete without mentioning the e-commerce explosion in Indian which has transformed the retail and shopping fabric of the country. Coming on the back of increased internet and smartphone penetration, India's online retail sales have seen a quantum jump in the last couple of years. Additional events such as demonetisation which caused a massive structural shift in the digital payment space and e-wallets, have also played their part in Indians taking to the online shopping space. The deep discount models and emergence of Indian unicorns and entry of global giants like Amazon spawned a whole generation of online-only retail formats especially in the apparel, electronics and lifestyle segments.

India's retail sector has seen a spate of M&A and inbound and outbound investments which has made the retail space a very active one over the last 3 years or so.

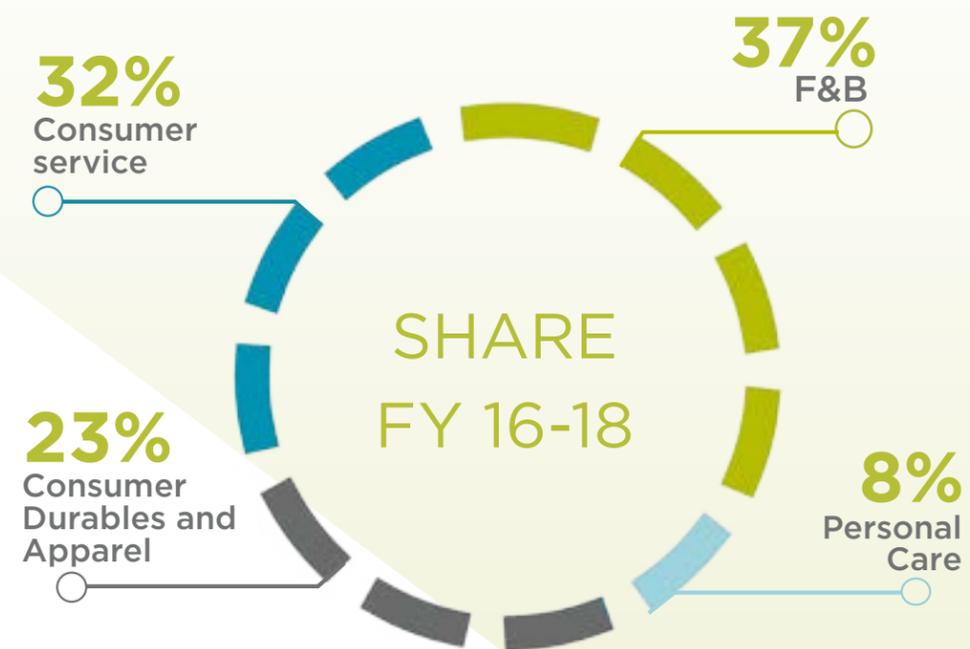
As per data by PwC, a cumulative INR 324 billion worth of transactions have been recorded for FY 2016-2018 across M&A and foreign and domestic capital investments for both inbound and outbound deals. During this period, a total of 416 such deals were announced and recorded.



What is interesting to note is the mix of the transactions in terms of retail segments. F&B by far seems to be the most in vogue segment in terms of activity and investments. Consumer Services were the second biggest retail trade category which saw major action, while the consumer durables and apparel categories with their lifestyle and aspirational qualities driving growth for them, have also seen a healthy amount of business and fund flow activity during the past three years.

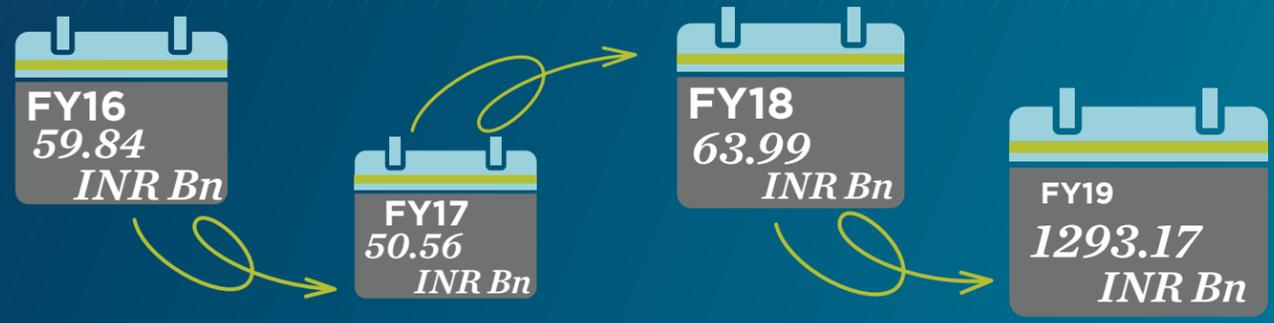
Source: PwC Quarterly newsletters and VCC and C&W Research Analysis

Retail Trade Fund Flow by Segment



Source: NSS and C&W Research analysis

With respect to pure PE deal flow in the retail trade sector, we have seen cumulative inbound capital flows of INR 1468 billion from FY 2016 till date for FY19. While the initial years were average in terms of performance, the recent transaction of Walmart's stake acquisition in Flipkart has been the chief contributor to the overall volumes with this single transaction accounting for USD 16 billion (Approx. INR 1,140.7 Billion) alone.



Source: PwC Quarterly newsletters and VCC and C&W Research analysis



Current operations of Walmart India limited to cash&carry stores with maximum local sourcing of products

↓

FDI investment into Flipkart gives opportunity to tap into E-Commerce ecosystem with dedicated apparel and phone payments platform and flexibility of just 30% local sourcing

→

Norms allowing Single & Multi Brand Retail to venture into E-Commerce and vice-versa allow Walmart to tap into its global supply-chains for competitive product pricing and dive into the vast network of Indian cities and townships where Flipkart's logistics arm has a deep supply chain network, to become a majority stakeholder in E-commerce and E-Retail in India.

Flipkart

JABONG CDM

PhonePe

eKart

- 800 cities
- 5,00,000 daily deliveries
- GMV \$7.5 Bn
- Net Sales \$4.6 Bn
- 50% Y-o-Y Growth
- 40% of total Indian Online Retail

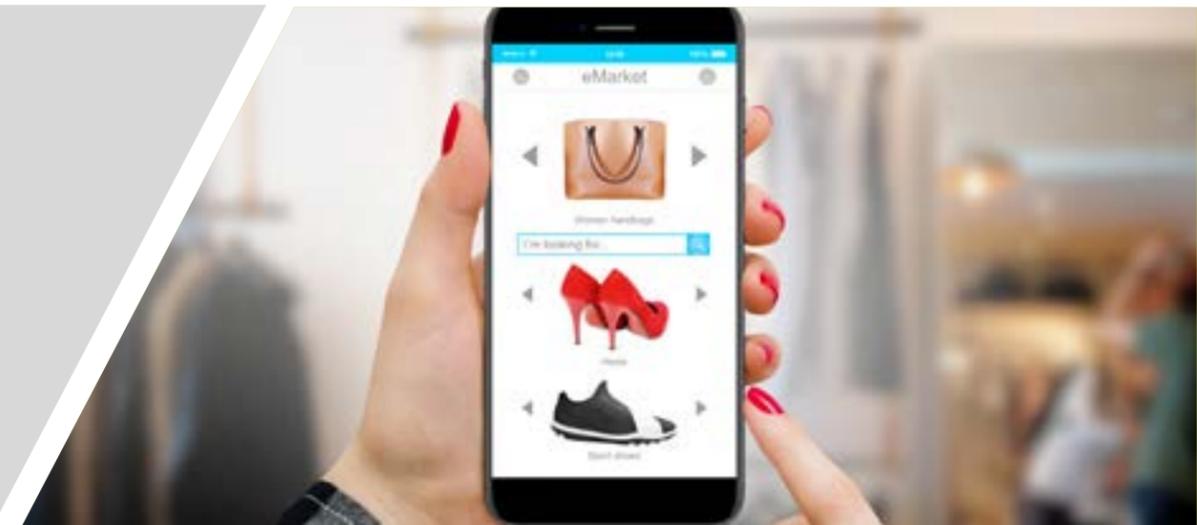
OMNI CHANNEL RETAILING

IS THE WAY FORWARD

Rather than an anomaly, this should be looked at in terms of how the Indian e-commerce space has come of age. With the lines between online and offline blurring to merge in to an omni-channel retailing strategy, India's retail sector is poised to grow at a scorching pace with likelihood of more such investment opportunities being snapped up by interested investors.

We expect that more such acquisitions are in the pipeline from global players eyeing the Indian consumption pie, with Amazon seeking the right opportunity and Alibaba also continuing to invest as it looks to enter the Indian market in a big way.

We have listed below some of the landmark transactions in the Indian retail trade category over the past four years to illustrate the opportunity that this sector presents to investors across the value chain.



Quarter and Year (FY Basis)	Invest/Target Firm	Investor/Purchaser	Sector	Invested Amount (INR Bn)
Q2 FY17	TCNS Clothing Company	TA Associates	Apparel and retail	9.3
Q2 FY17	Arvind Fashion Limited	Multiples PE	Apparel and retail	7.4
Q2 FY18	Kalyan Jewellers	Warburg PE	Apparel and retail	5.0
Q2 FY18	Vini Cosmetics	Sequoia Capital, Westbridge Capital	Personal Care	11.0
Q2 FY18	Dixcy Textiles	Advent International	Apparel and retail	8.1
Q2 FY18	Shree Renuka Sugars	Wilmar Sugar Holdings	Consumer Services	7.8
Q2 FY18	Hypercity	Future Group	Multi-Retail	6.4
Q2 FY18	Havmor Ice Cream	Lotte Confectionery	F&B	9.7
Q2 FY19	Walmart	Flipkart	E-Commerce	1140.7
Q2 FY19	Shree Renuka Sugar	Wilmar Sugar Holdings	Consumer Services	8.1
Q2 FY19	Paytm Mall	Softbank	E-Commerce	26.0
Q2 FY19	Swiggy	Tencent Holdings + other investors	E-Commerce	56.0
Q2 FY19	Future Lifestyle	L Catterton	Apparel and retail	8.7
Q2 FY19	Future Group	Skechers, AION Capital	Apparel and retail	20
Q2 FY19	Zomato	Ant Financial	E-Commerce	14.7

Source: C&W Research and online publications

We are in for exciting times in the Indian retail sector with the physical retail space attracting private equity and patient capital for core as well as build-to-core opportunities across major Tier I and II/III cities, even as quality retail space has high occupancy levels making it difficult to secure quality retail space amid increasing size of the consumption wallet with growth becoming broad-based.

The world's fastest growing economy, digital penetration and favourable demographics with the world's youngest population just add the cherry on the cake for retailers as they rework and strategise to put their best foot forward to serve the varied essential and aspirational needs of the Indian consumer.



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