INDIAN LUXURY MARKET

ASSOCHAM INDIA

MAZARS

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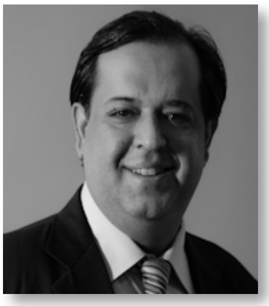
From Mazars Desk



Bharat Dhawan,
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The Indian growth story is hard to discount for any company as the luxury market in rest of the world stabilizes. For luxury industry players across the world, India has become the "hottest market place". This segment in India, valued at $14.7bn in 2015 is expected to grow at CAGR of about 25% reaching $18.3bn in 2016.

The biggest factor instrumental in the steep rise of this segment is increase in the number of billionaires in the country thanks to the stellar performance of the economy and a rising start-up culture. The number of high net-worth households in the country has grown substantially at a CAGR of 16% from 81,000 in 20011-12 to reach 146,600 in 2015-16. Their number is expected to increase to 294,000 representing a total net worth of ₹319tn.

The millennials driving this demand are aware of the new trends and events shaping up the world. Also, affordable devices and internet penetration have played a pivotal role in connecting today's consumer to the world and influencing consumer behavior. Wearable technology and high-end electronic segment are the fastest growing segments in the country with demand increasing by about 13% over the previous year.

While there is tremendous demand for high-end luxury goods in the country, the growth is hindered by factors like high import duties and local taxes. In some cases like fully assembled cars, the import duties are as high as 190%. While the import duties vary within the product category, introduction of GST is expected to bring in some respite for this sector. Other initiatives like Make in India if adopted by luxury product makers will give a tremendous boost for the sector.

ASSOCHAM is organising 4th India Luxury Summit on 25th November, 2016 at New Delhi. Along with ASSOCHAM, Mazars has released this background paper to provide an overview of the Indian luxury market along with the factors influencing the Indian consumers, upcoming trends in the market and key challenges the luxury sector faces.

I wish all the success for the culmination of this event and hope this paper offers the insights about the luxury market in India.

From ASSOCHAM's Desk

D S Rawat,
Secretary General,
ASSOCHAM

We are happy to announce the Fourth India Luxury Summit 2016 to be organized on 25th November, 2016 at Hotel Leela Palace, New Delhi.

The growth of the Indian Luxury Market is driven by an ever increasing base of ultra-high-networth households, which is likely to grow at a CAGR of 27 per cent through 2017-18. The market is likely to continue growing at a healthy pace to reach US$ 14 billion by 2016.

We are delighted to note that high profile Speakers from the French Luxury Industry and Italy are participating at this year's Annual Summit. We expect exchange of ideas, technologies and craftsmanship for upgradation of local skills from these countries, who are considered global centers of excellence for the Luxury Industry.

Among other things, the Make In India initiative aims at creating a healthy environment for design, innovation and entrepreneurship to flourish. The tilt in the image of India not just as a production hub, but as a trusted design resource, is integral to the upliftment of this sector and the economy. We need to focus on our own values and materials to build a global Luxury brand.

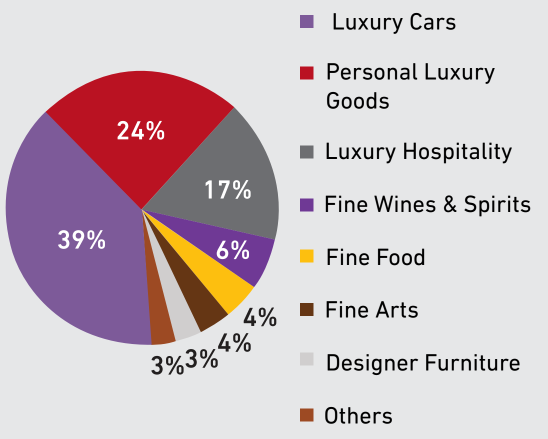
We would like to acknowledge the support of the Ministry of Textiles, Government of India, Incredible India Ministry of Tourism, Government of India and the efforts made by the Knowledge Partner Mazars India, who have jointly prepared with ASSOCHAM, this year's Paper for the 4th India Luxury Summit.

I do convey my best wishes for the success of the 4th India Luxury Summit.

GLOBAL LUXURY MARKET: GOING SLUGGISH IN GROWTH

Global luxury market is valued at a whopping €1 trillion in 2015, registering an increase of 5% over 2014 according to a report by Bain & Company. This market has reached an era of stable and sustainable single digit growth across categories over the world.

Global Luxury Goods Segmentation (100% = €1 trillion)

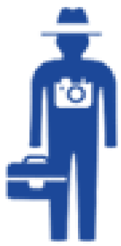


Note: Others include Private Jets, Yachts and Luxury Cruises

Source: Luxury Goods Worldwide Market Study, Bain & Co.

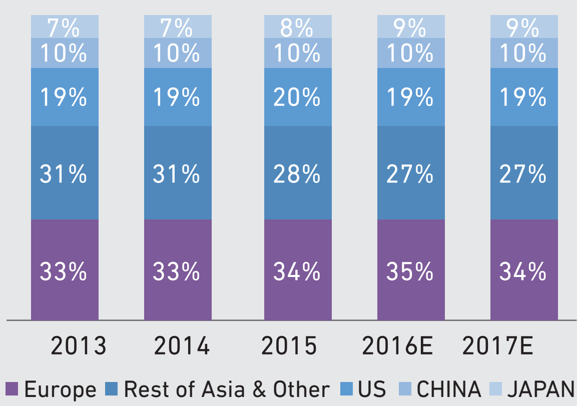
Luxury cars are the most favored segment in this market, accounting for about 39% followed by personal goods and hospitality amounting for about 24% and 17% respectively. Luxury cars segment value at about €390bn, registered a growth of 8% over the past year is one of the fastest growing market in the sector.

Personal luxury goods market showed a muted performance at 1% in 2015 reaching €250bn. Items like jewelry, watches, perfume, fashion and leather goods constitute this segment.



Currency fluctuations have influenced buyer behavior across the globe. Weakening of the Euro has led to an increase in tourists especially from China, who have primarily been instrumental in supporting the global luxury growth. An analysis of European tax-free goods sales has indicated that purchases by Chinese tourists of these goods accounted for a massive 64%, majorly in the affordable segment. These travelers have also benefited other markets like Japan and South Korea. While the Chinese tourists have benefited markets around the world, the sales in Mainland China and Hong Kong remain muted owing to economic uncertainty and government clampdowns against corruption and gift giving culture.

Global luxury goods sales by geography



Source: Valuewalk.com

The UK and European markets have been largely driven by tourists. Political and global unrest has therefore affected both markets. However, entry level goods and affordable brands have made been performing relatively well. Technological developments chiefly in the wearable segment have performed well even among the super-rich customers.

While the U.S. is the biggest market for luxury goods accounting for about 20% of global share in 2015, the overall demand slowed in this market. Strength of the U.S. dollar has led to decrease in the tourists' inflows and thus a lackluster demand. However, the local demand has seen a healthy uptick, helping both big & established and new & affordable brands grow. In upcoming markets like Latin America, Mexico and Brazil, expensive international travel and erosion of price benefits due to adverse exchange rates in international markets has led to lower demand. Other factors like reluctance of consumers to spend ostentatiously have also contributed to a lower demand in these markets. However, the outlook is positive in the long run especially for affordable luxury products.

BREXIT

The recent decision of Britain's exit from the European Union i.e. Brexit has led to weakening of British pound and uncertainties over trade regulations which may result in increase in the prices of goods as a result of import duties and taxes. This is expected to bring negative effect on the luxury goods sales as the tourists inflow maybe affected. Weak currency is expected to slightly soften the effect of less tourist's inflow especially in the affordable luxury segment.

E-tailing i.e. ecommerce retail is a growing trend amongst the tech-savvy consumer of today's generation, giving this sector a much needed boost. This growth has led to quick mushrooming of online retail shops and increasing competition among the existing and new players. Customers for these sites prefer a multi-brand environment over single brand platforms. Most of these ecommerce websites also offer in-store experience, thus improving the reliability of the website with guarantee of genuineness. This exponential growth has been a result of assurances to the buyer of the same online experience as in-store. This has also inspired the companies to roll out tools for experience enhancement like content, product selection and personalization. Many companies offer exclusive services and products online. One of the players in this segment is Nordstrom which tops the list of global luxury personal goods ecommerce player, operates multiple ecommerce sites apart from physical stores. It also operates in other segments like off-price through its outlet Nordstrom Rack.

INDIAN LUXURY MARKET

Over the past years, the Indian retail sector has undergone a huge change. Not only has it become more organized, the customers have also evolved to prefer branded goods. Luxury segment is one of the most upcoming segments in the country, being valued at $14.7bn in 2015, is expected to cross $18.3bn in 2016, growing at a high compounded annual growth rate (CAGR) of 25%. However, despite the high growth rate, India contributes a meager 1-2% of global luxury trade.

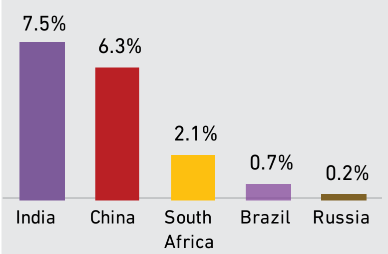
$14.7 Billion

The year 2015 was very dynamic for the Indian luxury market. It saw many new brands taking new interests or renewing lost interests in the Indian markets. Retailers like Versace, Christian Dior launched their stores while Auto maker Ferrari opened two showrooms in the country. The growing market size has renewed or attracted a host of international brands, including the ones who had delayed their plans to set up shops in India.

THE INDIAN GLAMOUR

Tremendous growth potential in the Indian market has brought not only foreign brands in the country but also has seen mushrooming of local homegrown brands.

Solid Economic Growth



Source: IMF predictions for 2016

- **India vs. BRICS**

India is the only country in the BRICS group that continues to perform well. In 2016, the country is expected to grow at 7.5% as compared its biggest rival, China at 6.3% and miles ahead of Brazil at 0.7%, Russia at 0.2% and South Africa at 2.1%.

Other BRICS countries are facing issues like:

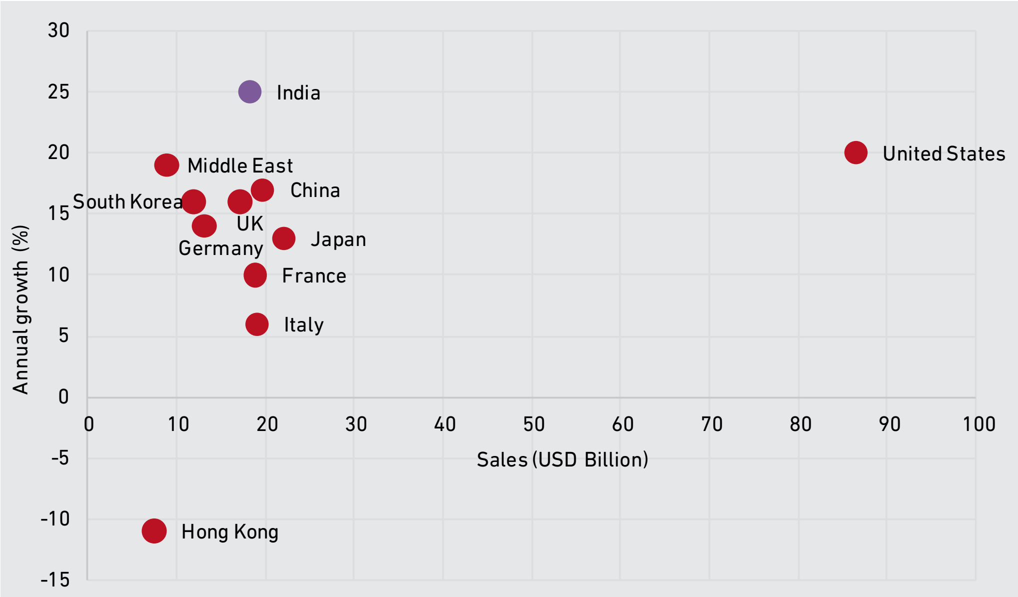
a. Recession in Brazil,

b. Commodities slump and drop in currency, growth deceleration and limited future growth potential in South Africa,

c. Slowdown in Russia

d. General slowdown along with other issues like clamp down of corruption and widespread refrain from buying expensive goods in the Chinese economy

- **Economic performance**



Source: CNBC - "World's biggest luxury markets in 2016", Mazars Analysis

Improvement of economic indicators like Current Account Deficit (CAD) and inflation suggest that the country is rightly placed for growth of luxury market. India's, Fiscal Deficit had declined from 4.5% in 2013 to 4% in 2015, CAD had seen a decline from 4.7% to 1.3% percent during the same period indicate a revival of economy. At the same time, decline in inflation from 10.4% to 6.2% in the same period indicates increase of disposable income. These factors are extremely positive for the sector's growth.

- **Valued nation brand**

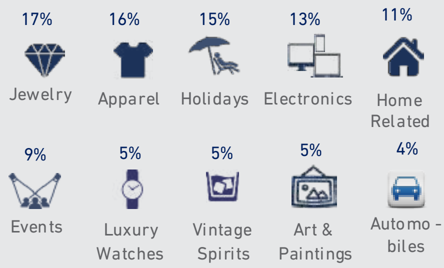
India has been voted as the 7th most "valued nation brand", which is up by 32% amongst the top 20 countries. India's position is second only behind China (ranked #2) as compared to rest of the BRICS nations. This indicates tremendous potential, thus increasing interests of big international brands in the country. India's brand value is estimated as $6.3bn in 2015.

Increasing Adoption Of Luxury Goods

While India still remains a savings economy, the population is gradually moving towards spending on personal items and luxury products. "The Top of the Pyramid" report by Kotak Wealth Management indicated that the Ultra High Net worth Individuals (UHNIs) prefer to save an average of 55% and spend the rest. However, the overall spending for luxury products in increasing.

An independent study by ASSOCHAM also corroborates with the above data. The study found that highest growth has been in in jewelry, high end electronics, SUV Automobiles and fine dining. Other products like accessories, apparel, wines & spirits continued growing strongly. These product areas represent huge opportunities for companies to invest.

Increase in Luxury Spending



Note: % increase in spending in 2016 over 2015

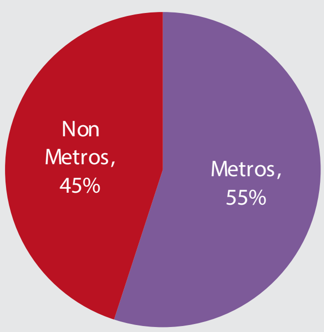
Source: Top of the Pyramid 2016, Kotak Wealth Management

Urbanization And Growing Middle Class

Increase in wealth of Tier-II and III cities has given rise to new middle class and HNIs in these cities. As per the report by Kotak Wealth Management, about 40% of India's UHNIs are concentrated in the Tier II and III cities. The post 1991 liberalization era, helped the rise of neo middle class. This has been the highest growing market, with high discretionary spending.

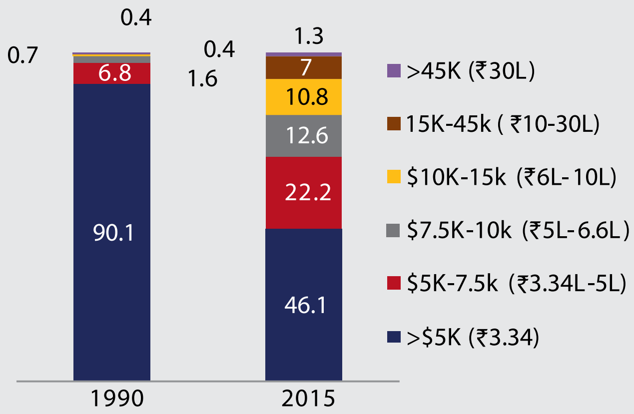
It is estimated that Indian cites will be a home to about 40% of the population, accounting for 60% of total consumption by 2025.

UHNIs distribution in India



Source: Top of the Pyramid 2016, Kotak Wealth Management

Increasing Middle Class



Source: Live Mint, News Reports

Increasing Awareness And Changing Mind Sets

The millennial generation of the country are globe trotters and tech savvy. Hence, they are more aware as they are exposed to on-goings of the world. Today's generation is open to spending and experimenting with different brands and styles that the earlier generation would have refrained. They expect newer styles than before and relatively exclusive products.

New Wealth

India has many startup founders and CEOs that have newly acquired wealth with funding from venture capitalists. For these people, acquisition of luxury is not only a necessity but also a way of giving back to the society. Buying arts from budding artists, buying goods that are environment friendly is their way of being responsible. Therefore assets like investment in paintings, sculptures etc. and environmentally effective home furnishings like pollution absorbent tiles etc. are witnessing rise in demand.

Young Vibrant Population

Over 72% of India's population is younger than 30 years. This trend is expected to continue for a foreseeable future. In 2020, India's median age will be about 29 years, while the working age population (15-64 years) will cross 1bn by 2050. Most of these millennials belong to the Double Income no Kids (DINK) and the High Income Not Rich Yet (HENRY) category. These categories represent the upwardly mobile population or the aspirants desiring a good lifestyle. This is expected to increase their disposable income and thus their spending capacity, representing a huge potential in India.

Expansion Of Modern Retailing

Expansion of multi brand retailers and high-end luxury stores in malls have increased consumer awareness of the brands and made them more accessible to modern consumer. This expansion not limited only to metro cities but has spread across Tier II and III cities.

INDIA'S LUXURY ASCENT

India's tryst with luxury goes far back in history, to pre-independence era with its many Rajas and Maharajas. Eminent brands like Cartier, Mauboussin, Chaumet etc. not just found inspiration in India but also counted the country's elite as their biggest client. Necklace commissioned for Maharaja Bhupinder Singh of Patiala was Cartier's biggest single commission execution. For luxury car maker Rolls Royce, India was its biggest client. Of the total 3,600 cars sold by them between 1907 and 1947, India accounted for more than 1,000. However, in the later times, all these big players have but disappeared from the Indian market.

India has one section of the society that is super rich that can afford the most expensive brands and yet another section lives on daily wages. High taxes and general conservative behavior of people after independence, discouraged them from ostentatious spending and display of wealth.

In today's times, the population is pragmatic and very conservative while spending money. Thus the demand for highly expensive luxury products has been limited. The HENRY generation of the country, focused on reducing costs, demands value for the products they buy.

This has given rise to the new generation businesses that imbibe the quintessential Indian values and traditions, targeting the super-rich segment of the Indian society. Brands like Amrut Indian Single Malt whiskey was ranked as third best in the world, retails for upwards ₹4,000 are extremely successful in appealing to the Indian customer's sentiments by matching the cost, value and brand aspect. The company has also helped reshape the world's perception of an Indian commodity. Other brands like Sabyasachi, Kama Ayurveda and Forest Essentials have redefined the way the Indian brands approach and operate in the local market. These homegrown brands have Indian origin but have global appeal and sensibility. Indian luxury diamond jewellery brand Nirav Modi has been the only one from India to be featured on the cover of Sotheby's and Christie's. Indian made Chandon that is owned by French company Moët Hennessy have proved that Indian made products can represent Indian products at international level. The rise of Indian brands on the global platform has indeed been phenomenal.

Following the example of Shanghai Tang, a luxury Hong Kong fashion brand that now has a global recognition, Indian luxury brands also aim to capture the domestic market before they spread their wings abroad. No.3 Clive Road, Indian luxury tea brand hopes to establish its brand in India before it hits the international markets. The market today still holds tremendous potential for home grown luxury brands that will become globally recognized in the future.

Thus, the time is ripe for the country for adoption of "Make-An-Indian-Brand" campaign, which can eventually be showcased to the world at large. Before that, the brand resilience needs to be checked in the Indian market itself. If brand is successful in garnering local acceptance, it could then launched in other countries as well. Brands like Forest essential and Kama Ayurveda, have followed this path and now have generated a global following. Ambitious plans like these require robust, readily available and affordable infrastructure. Indian companies and property developers could imitate European markets, where Luxury villages have been created on the outskirts of major towns, offering luxury products at affordable prices. Initiatives like these could find high appeal to the value conscious Indians who have yet to develop a taste for premium and luxury goods.

The Titan of Luxury Goods

2016 was a historic year for Indian brands as three of them were included in the "Global Powers of Luxury Goods", a report that identifies top 100 global luxury brands. Ranked highest among the three, Titan (at #32) along with Gitanjali Gem (at #40) and PC Jewellers (at #44), the company is now in league with other luxury giants like Louis Vuitton SA , Richemont, Estée Lauder etc. It took the company a whopping 30 years to reach this stage after its setup in 1987.

Established in the pre-liberalization i.e. license raj era, the company enjoyed first mover's advantage, etching itself permanently in the mind of the Indian consumer. However, post 1991 with entry of newer players, the market share of the company started declining. In the late 2000s the brand decided to reinvent itself, adopting a new philosophy – "Be More" with its new brand ambassador Aamir Khan.

Today, almost 15 years later, the company has diversified its product base, added new channels as the economic turbulence and changing government policies started affecting its core jewelry and watch business.

To combat these issues and to tap into the ever growing tech savvy population market in India, the company acquired Carat Lane Trading Pvt. Ltd which owns online jewelry portal Caratlane(dot)com. The company also entered luxury jewelry market with its brand Zoya with two stores. Advent of international watchmakers in India in malls and various online shopping portals started affecting the company's watch business. As a measure against this, the company recently announced its tie up with HP Inc. to introduce smart watches in the country. They also announced exclusive distribution partnership with Flipkart apart from selling through its own website Titan.co.in. In 2011, it acquired Favre Leuba, a Swiss Brand with which it entered the luxury watch segment. The company also announced its partnership with Swiss watchmaker Raymond Weil in 2016 which will enable it to exclusively sell the Swiss maker's watches through its flagship retail stores Helios. The company also diversified into unrelated business like eyewear, fashion accessories and perfumes. This category now accounts for about 5% of its total revenue.

Armed with a wide range of offerings, the company is targeting the mid-market consumer i.e. the affordable luxury segment. The company also has plans to add another 150 stores across its product categories.

Planned investments with a long term perspective of 10 years, the company has proved that an old established organization can also reinvent itself to keep pace with the changing times and become world class leader in itself.

TRENDS IN INDIAN LUXURY GOODS SECTOR

Women Driving Luxury Segment

A recent survey conducted by ASSOCHAM, targeting about 500 women earning in the range of ₹5-10lac per year found some interesting results. The Indian women luxury market is estimated to be around $9bn, with an overall share of 15%. The country currently boasts of over 1,200 highly affluent women with a combined net-worth of over $100bn. Increasing female workforce and their high incomes spread across metros and non-metros have contributed to this unprecedented rise. Apparels and accessories like jewelry and watches, personal care products and electronics are the most favored items of purchase by these women.

Entry plans

- Coach, has partnered with Genesis Luxury to enter Indian market. Through this partnership Coach plans to increase its retail presence in key Metros in the next few years.
- Italian company Safilo, which owns licenses of designer eyewear brands such as Dior, Gucci and Fendi plans to launch its portfolio of 30 brands in India by 2020. As a part of Safilo's vision 2020, the company targets to increase the share of its brands from 23% to 40%.

Online Availability Of Luxury Products

Internet penetration in the country is increasing, with about 350mn people using internet, many of them are youngsters who are eager to experiment and comfortable making online purchases. Today's youth is connected to the world and aware of its surroundings. They have increased knowledge of luxury goods and services and have sufficient disposable income to support a high lifestyle. Online partnerships by brands with shopping websites have increased brands' reach resulting in engaging more people. Presence of these shopping portals as mobile applications have also helped them reach many people in remote locations. While these brands are available online, Indian consumer still prefers to buy products, especially high value ones in physical shops.

Social Media Engagement

Many companies are actively engaging in social media analysis and use it effectively to increase their brand appeal to a broader set of consumers. As of August 2015, there were approximately 28mn social media users. This represents a huge opportunity for the companies who engage proactively in developing appealing and innovative content to lure potential customers. Effective social media engagements can increase brand recognition and appeal, and recognized brands are more likely to be preferred by the consumers.

Rise In Luxury Startups

As a response to robust increase in demand of luxury products, many startups have mushroomed in the country catering exclusively to luxury products. One of the startups Kidology caters exclusively to kids wear designed by well-known designers. There are many portals that focus on refurbishing and selling used luxury products. They not just guarantee the originality of the products, but also make luxury products more reachable to a segment of population that otherwise wouldn't be able to afford it. Online shopping startups like "Luxepolis" and "Confidential couture" are examples of this.

Seconds bargain

India is a young country with growing participation of population in the workforce. Increasing disposable incomes has given rise to a never before seen aspirational demand. Connectivity with the rest of the world has also increased the demand for luxury products that are otherwise not available in India or are too costly to be bought by a newly employed youngster. This has given rise to a new market – the second hand luxury goods market.

Growing demand for second hand products has resulted in mushrooming of startups specializing in this category. These organizations not only guarantee the genuineness of the products but also refurbish and sell the old ones, giving an opportunity for anyone to sell online and encash on their products. Termed 'gently used', 'pre-loved', 'nearly new' etc. these companies cater to the brand and value conscious Indian customers.

While some stores like Branded Bargains have physical presence in Mumbai or online only stores like Luxepolis are able to bring luxury to the highly aspirational but unwilling to spend customers. Presence of these kind of dealers will only increase in the future.

Entry Level And Mid-Level Luxury Goods Experiencing Growth

The products and brands that have seen most up-take are what are called "affordable luxury" or the "bridge luxury". This means that while the millennials are experimenting with luxury products, they are not willing to spend excessively for it. Which means brands have to offer products that are entry level and cheaper than its general offerings. This strategy has been followed by many players like Tag Heuer and Frazer and Haws.

In case of highly priced luxury products, the charm of buying a product while on a luxury trip abroad still remains, as people who can afford these are generally jet-setters and can afford to buy the products on trips abroad. Therefore these products may not find a big market in the country.

Increase In Demand For Home Decor And Furnishings

Historically, in India, this market has been much muted. However, due to increasing global exposure, Indians have started taking pride and expending on their houses. This has created an increased demand for these products. Assets like art, silver ware, high end technology, expensive furnishings etc. are some of the products that have seen increase in demand as a result of this trend.

CHALLENGES IN THE INDIAN MARKET

Exorbitant Import Duties

Import duties in the country currently are amongst the highest. The customs duty on leather goods averages 38% in India as compared to China which averages 17% and Japan with 11% while there is no customs duty in Singapore and Hong Kong. This coupled with other local duties and taxes has led to substantial increase in final price of the products affecting their sales. Thus the trend of Indians buying luxury goods from other countries has been constant.

		(INR)
CAR COST (ASSUMED)		1,000,000
Add: Import Duty	190%	1,900,000
		2,900,000
Add: Luxury Car Tax	1%	29,000
		2,929,000
Add: Profit Margin	15%	1,50,000
		3,079,000
Add: VAT	12.50%	3,84,875
Total		3,463,875
Excess amount paid by customer		2,313,875
Final price as a % of original		346%

High Local Taxes

Currently there is a plethora of taxes levied on the luxury sector. These taxes cumulatively inflate the prices upwards of 20% that a customer would pay in any other major market. This excessively inflates the ultimate price that the customer pays, thus making it a huge trade barrier for the industry. The implantation of GST which will likely be implement in April 2017 will rationalised the tax structure.

Shortage Of Quality Workforce

Historically, luxury in India has been limited to a very small proportion of the population, which also used to shop abroad. This restricted the general population's exposure to luxury product thus their understanding. With expansion of new luxury brands in the country, there is a lack of employable workforce who has knowledge of luxury products and skills to sell them. This is a major challenge for companies planning to set up/ expand their base in India. While many companies have their own training mechanisms, the issues still remain.

Counterfeit Products

Counterfeit products remain a big hindrance in development of this sector in a very cost conscious economy. This is also a major reason for expensive products to have lukewarm response on online market places. The market size of these products is expected to be ₹2,500-3,500cr, which is about 5-6% of the overall market for luxury products in the country. This is only expected to increase in the coming years to ₹6,000crs by end of 2016. Online shopping portals account for about 25% of total counterfeit sales. As per a report by Economic Times, most counterfeited brands are Burberry, Chanel, Louis Vuitton, Michael Kors and Gucci. Counterfeiting is such a mammoth problem plaguing the market that even covers product that are not existing in the original company's portfolio, e.g. Deodorants sold as a Harley Davidson product (the company doesn't have deodorant in its portfolio). These incident are wide spread in the Indian Luxury Market, and highlight an urgent need to educate the masses and bring in stringent processes and laws to curtail them.

Lack Of Quality Real Estate

In India, there are only three luxury malls catering to the luxury brand and clientele. Other malls lack the quality of real estate that international brands look for while entering India. The high streets infrastructure also is substandard as compared to other international destination. This is a major deterrent for expansion of luxury retail. However, many developers now realize the potential and the scope for quality retail real estate and are planning malls catering exclusively to the luxury segment in various cities.

Entry plans

Upcoming luxury malls in India:

DEVELOPER	PLACE	MALL SIZE
Reliance Industries	Bandra Kurla Complex (BKC), Mumbai	N.A.
Oberoi Realty	Prabhadevi, Mumbai	500,000sq.ft
DLF	Chanakyapuri, Delhi	200,000 sq.ft

- Realtor Maker Group is also planning a luxury mall in Mumbai's BKC area

Prohibitive Rental Cost

Lack of quality infrastructure has resulted in inflating the real estate rentals, thus dissuading many companies to set up shop in the country. Rentals in the country match those of developed market while the demand does not, which has led to limited expansion of sector.

There is a pressing need to create dedicated luxury hubs like luxury villages in UK, in the outskirts of the city, where people from various walks of life could visit and purchase goods they desire. A similar concept has been emulated in Aerocity, Delhi called Next Generation Central store by the Future Group While this real estate can be taken as an experiment to test market acceptance, rental cost of this place will have to be rationalized for it to be successful.

GOVERNMENT'S EFFORT FOR INDIAN ARTISANS

The work of Indian artisans reflecting the local heritage, culture and craft has been recognized across the world. Hence, to promote them further, the government has to take initiative to showcase and promote their abilities globally. Government bodies, such as National Handloom Development Corporation (NHDC) etc. must device processes and policies that help local artisans for the above cause. With current government's Digital India initiative, this could be achieved by giving these artisans an online platform. This may require creation of a cooperative or building an artisans directory. This will eliminate the middleman, resulting in a direct connect between the customer and the artist, ensuring full price paid by the customer is received by the artisan. An artisans' cooperative will also ensure that the prices of the products are largely standardized reducing discrepancy and scope of negotiations.

STRATEGIES TO ENTER THE INDIAN MARKET

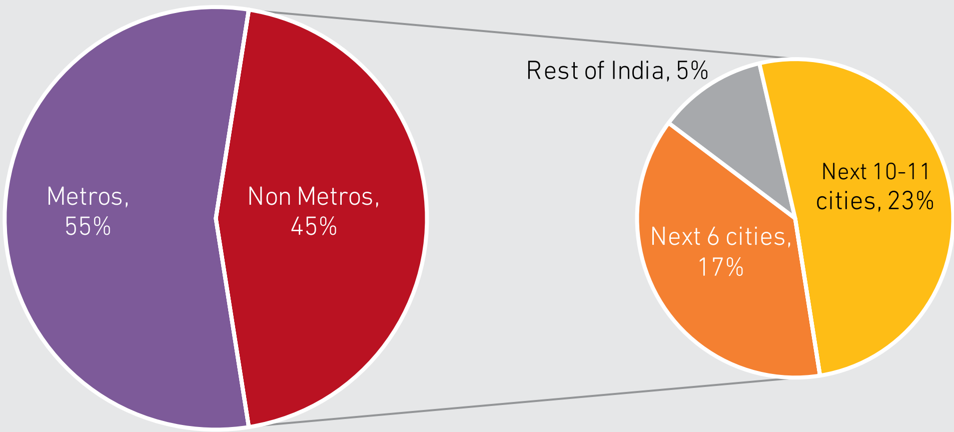
Understanding The Customers: Knowing Where They Are And Who They Are

Where they are: Mapping the presence

In order to determine an entry in any new market, it is imperative to know where most of the potential customers are located and how to target and serve the next biggest number of clientele.

Liberalization in India has led to distribution of wealth across the country not limited to the metros. Digitalization has further brought the vast country together and made it possible to reach remotest of the customer. According to the recent report by Kotak Wealth Management, the metro cities in the country viz. Mumbai, Delhi, Kolkata and Chennai are home to just 55% of the UNHIs in the country, while the rest are spread across the country.

Location of UHNIs



Note 1: Metros: Mumbai, Delhi, Chennai, Kolkata

Note 2: Next 6 cities: Bengaluru, Ahmedabad, Pune, Hyderabad, Nagpur, Ludhiana

Note 3: Next 11-20 cities include: Chandigarh, Surat, Jaipur, Lucknow, Kanpur, Jamshedpur, Amritsar, Raipur, Indore, Aurangabad

Source: Top of the Pyramid 2016, Kotak Wealth Management Report

Who they are: Understanding demographics

Source of income

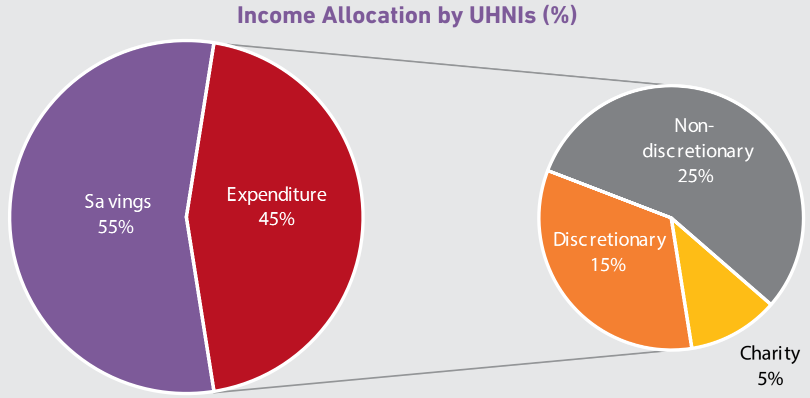
The country's nouveau riche derive their wealth from either entrepreneurship or professional services, other than the traditional source of inheritance. While the inheritors mainly expend their money on maintaining their high lifestyle, the other two categories spend on luxury seeking to alleviate lifestyle and value for money.

Age of the ultra HNIs (UHNIs)

The average age on UHNIs is under 40 years, which decreasing thanks to the startup nature of the economy. These are aspirational spenders and thus willing to spend large amounts of money. The companies must explore the opportunities to target these new buyers.

Spending patterns

While the country's wealth is increasing, the magnitude of expenditures is not increasing in the same proportions. India has traditionally been a savings economy, and these values are seen followed by the young UHNIs as well.



Source: Top of the Pyramid 2016, Kotak Wealth Management Report

As seen from the adjacent graph, a major part of expenditure is non-discretionary. The Kotak Wealth Report also revealed that 64% of the individuals surveyed are impulsive buyers for apparels and accessories. These individuals are extremely conscious as well, expending a whopping 5% of their income on charity.

Entry Strategies

Focus on bridge/ affordable luxury

Spending on luxury is a relatively new concept in India. The Indian customer is a brand and price conscious customer. While the Indian consumer desires high-end brand, they are very cost conscious and generally not willing to spend very high price for them. To address this issue, the companies can introduce sub-brands that are generally cheaper than their product portfolio. Mercedes was one of the first brand to recognize this category and introduced niche products for the same with its A and B class hatchbacks. These were priced between ₹20-25Lacs. Other car makers have followed this suite with introducing their own models in this range.

Entry plans

Volvo Car Corp. plans to launch a series of compact models specifically for the luxury car market in India. The initial models in the category would be a sport-utility vehicle codenamed Concept 40.1 and a sedan codenamed Concept 40.2. The models will compete against the rival automaker's entry-level luxury models focusing on young urban consumers.

Coopetition

One of the most important and most adopted entry strategy in India is coopetition which is a healthy co-operative competition between two entities for mutual benefit of both. Many foreign brands have entered India by forging partnerships with Indian brands or designers.

Many Indian HNIs and their family members are very fashion conscious. They are willing to spend on exquisite designer wear. Fashion conscious women of the family also prefer Indian Designer apparel and accessories from prominent international brands. The Indian designers have an established customer base that a brand entering in India can take advantage of. It would help them establish their own brand name and create a ready client base when they enter India with exclusive shops.

Recently a prominent Indian Designer Sabhyasachi Mukherjee announced partnership with Christian Louboutin, a premier international footwear brand.

Localizing offerings

India as a country has myriad of religions, languages, and cultures. which serve as a clear distinction between each of the states. These factors affect the respective population's view about various products. Thus a brand cannot adopt a "one size fits all" marketing technique. Brands have to make differences in their marketing including soft aspects like tone of language, colors used and general communication by the employees with the customers.

Targeting the great Indian wedding

While the Indian customer is essentially conspicuous, they spend extravagantly on weddings. From designer branded trousseau to destination weddings, expensive return gifts etc. Indians spend no holds barred. Many big companies are recognizing this and targeting this specific market with their customized products. Wedding season has turned into a peak selling season for Indian market. Swarovski, Christian, Louboutin and Gucci are few brands that have specific strategies chalked out for targeting this season.

Market assessment through Duty Free Shops

The government permits 100% FDI in duty free shops in India. These may be located at International Airports, International Seaports, and Land Custom Stations, areas that see transit of international traveler. Setup in these areas can be good testing grounds for the international brands.

REGULATORY ENVIRONMENT FOR LUXURY GOODS IN INDIA

Most of the luxury products sold in India, are imported. Manufacturing of luxury goods in India is still at a nascent stage.

Laws And Regulations Applicable To Importing Companies

FDI in Retail

This is one of the primary regulation for a company importing goods in the country. The government has defined this sector into different categories and FDI rules differ in different categories. While the rules have been clarified with every subsequent notifications, many still remain open to interpretation.

TYPE OF STORES	FDI ALLOWED (%)	EXAMPLES
Brick and Mortar Stores :		
Multi Brand Retail	51	Tesco-Tata
Single Brand Retail	100	Ikea, H&M
Wholesale Cash and Carry	100	Walmart, Metro
Online Stores/ E-Commerce :		
Market Place	100	Amazon, Fipkart, Snapdeal, Paytm
B2B	100	Walmart, Alibaba
Inventory Led	Nil	-

Source: Business Standard

Local sourcing norms have been relaxed for companies that bring in cutting edge technology to the country. These ease of norms have helped companies like Apple Inc. While these norms have been relaxed to eight years i.e. "three years plus an additional five years", the company is expected to comply with them once this period is over. However, other companies not operating in the technology space have to comply with the 30% local sourcing norms.

Customs Duty

Most of the imports in the country are subject to customs duty. Luxury goods in India are the most taxed to enter the country. These duties vary for different products.

Item category	Customs Duty (%)
Luxury watches	20
Jewelry – precious metal and diamonds	35
Jewelry – others	25
High End Cars (Completely Built up)	190
Designer apparel and footwear	20

Source: Central Board of Excise and Customs (CBEC)

As seen in some cases, the duties are as high as 190%, increasing the final cost of product that the consumer pays. Also, weakening of the Indian rupee further adds to the cost of the imported product, reducing its demand greatly.

Taxation

At present, India has a plethora of indirect taxes that are applicable to luxury goods viz. Value Added Tax, Luxury Tax, Octroi, entry tax etc. These taxes are not only ample in numbers but also differ in various states, further complicating it for the retailers and adding up to increase the price that a customer would ultimately pay.

With the introduction of the Goods and Service Tax (GST), the aforementioned indirect taxes will be clubbed into one, marginally reducing the overall rate, thus giving a respite to customers. However, an additional cess is also proposed to be levied in case of luxury goods and ultra-luxury goods like cars. A cumulative effect of these taxes is expected to marginally be lower than the existing tax structure for most of the products. Luxury products like cars that are currently taxed at 50% will be charged at 28% (+ cess) under GST, which is a small breather for the sellers selling these cars. Services like hotels and restaurant previously had a multitude of taxes inflating the bills by about 30-35%. Introduction of GST, will result in savings of about 10-15%. Sin products like liquor have been left out of GST, hence will still be mired by the existing high tax structure. Luxury items like jewelry that have large demand in India will actually be taxed more under the GST regime. Under the current taxation system i.e. VAT, jewelry is taxed at 1%, under the GST it will increase to 4%. This may prove to be counter productive for this sector.

Other Mandatory Requirements

In the recent years, the government has made it mandatory for customers to share their PAN card details for retail transactions above ₹50,000. This rule has been introduced to curb black money and illicit transactions. However, it has greatly reduced a market for luxury goods. Also there is a 1% luxury tax levied on goods worth ₹200,000 and above. This has affected sales of goods like bags, jewelry, watches etc.

Despite the plethora of taxes and the dissuading tax structures, many international companies have made India their home and succeeded in positioning it as one of the biggest revenue generators for their companies. These companies have not only adopted local customs but also various incentive programs launched by the Indian Government. One of these programs is the **Make in India Campaign.**

Demonetization of ₹500 and ₹1,000

In India, most luxury goods are bought using cash. The recent move to demonetize the ₹500 and ₹1,000 notes is also expected to have a short term negative impact. These goods saw an abnormal increase in sales on the day the move was announced. However, these transactions have also come under the scrutiny of the IT department which may ask for details of such transactions. The negative impact on this industry is expected to last for a short term, rationalizing the industry in the long run. The impact of this may also help curb the counterfeits market, as most of the transactions are finalized by cash, further helping the industry.

MAKE IN INDIA

Indian market holds a gargantuan potential for the luxury industry, having the highest growth rate than any other country, ahead of China by 8%. Growing number of HNIs supporting increasing aspirational demand for luxury products will provide a substantial boost for the industry. The growth and the size of the Indian market are impossible for an international player to ignore.

What Is Make In India?

Government of India's (GoI) 'Make in India' campaign encourages domestic as well as multinational companies to set up and expand manufacturing capabilities in India. For the success of this campaign, the Indian government plans to develop dedicated infrastructure zones and investment parks like Industrial Parks (IPs) and National Investment & Manufacturing Zones (NIMZs). The government also aims to provide incentives that are sector specific, area specific, tax deductions and promoting exports to boost local manufacturing. Automobiles, automobile components, textiles and leather are among the key focus areas for the government.

Driving Luxury

Luxury cars are the most sought after products of the country's nouveau riche. This segment is expected to register a growth of 15%p.a. in the next three years, while the unit sales are expected to reach 87,300 by the 2020 from current 35,300. Driving on this luxury bandwagon are the German manufacturers Mercedes Benz, Audi and BMW, catering to about 80% of this demand, together selling about 31,000 units. These manufacturers have managed to beat the high entry barriers in form of import duties that can range between 60% for a partly assembled car to 190% for a fully assembled unit and benefit from the high demand.

Local manufacturing has been the key reason for success of these companies. Entering India in 2004, Audi sold about 11,200 units in 2015. A major chunk of these sales amounting to about 90% comes from the models that are locally built. Another German manufacturer Mercedes Benz has achieved up to 60% of local manufacturing at its plant in Pune. The company manufactures six of its nine models sold in the country. Among the big three, BMW as achieved least localization at 50%. The luxury car manufacturer has set up its local manufacturing unit which has a capacity to produce 13,000 cars.

These localization efforts have enabled the companies to control costs by reducing import duties. These reduced costs are passed on to the customers thereby reducing prices of the models, achieving high sales. All these brands have been able to position themselves in the entry level luxury market and have products starting from about ₹25 Lacs onwards in the sub ₹1cr category.

Benefits Of Setting Up Manufacturing In India

Catering to India specific demand

Luxury goods that generally find acceptance in India are entry level or bridge luxury. The goods that fall under these categories are not craftsmanship or artisan oriented but can be mass produced in factories. The luxury goods manufacturers can thus set up manufacturing units in the country. It will also increase the reach and depth of availability of brands.

Reduction of prices through eliminating import duties

To address a growing market it is imperative for the companies to have a set-up in India, which means importing a substantial portion of the goods intended to be marketed here. However, India's multitude of taxes including import duties and local taxes make many goods out of reach for a large portion of the population which is highly price conscious. Hence, most of the luxury goods purchases are likely to be made outside India. This ends up greatly restricting the market to only those who travel abroad. Bringing goods to the consumers will only enhance the market. Making in India will eliminate the custom duties, that are applicable when a product is imported drastically reducing its price. It will also increase the brand presence in the country, improving its awareness and loyalty and general public ownership of the brand.

Favorable FDI norms for manufacturing

As stated earlier, FDI limit for a foreign entity classified under the "Single Brand Product Retail Trading" is 100% subject to 30% local sourcing in respect of FDI proposals above 51%. However, in cases of companies where having "state of art" or "cutting edge technology" where local sourcing is not possible, the government may also relax the sourcing norms. Recently, the government granted a three year respite to Apple Inc. regarding local sourcing, paving way for the country's first Apple store.

For companies that cannot be classified as "cutting edge", this has been considered as a major hindrance. However, auto manufacturing companies like Mercedes Benz, Audi etc. have proven technology transfer and production of high end goods in India is possible and greatly benefits a company in terms of sales.

India permits 100% FDI in all the industries for manufacturing, except some sensitive and notified industries. Manufacturing in industries like textiles & apparel, leather goods, footwear, jewelry etc. enjoy the 100% FDI allowance via automatic and government route.

Other Incentives

- **Sector specific initiatives:** Various sector specific subsidies for promoting manufacturing in the country e.g. electronics sector is entitled to a capital subsidy of up to 25% for 10 years.
- **Area based incentives:** Units established in SEZ/NIMZ enjoy special benefits as specified in respective acts or setting up project in designated special areas like North East Region, Himachal Pradesh & Uttarakhand and Jammu & Kashmir.
- **Incentives under income tax act:** Sector specific tax deductions and incentives are available for setting up of manufacturing units.

- **Investment Allowance:** Investment allowance at the rate of 15 per cent has been provided to a manufacturing company that invests more than $4.17mn (USD) in any year in new plant and machinery by the GoI in Union Budget 2014-15.
- **Deductions:** Additional deductions are provided for encouraging manufacturing. E.g. a deduction equal to 30% of additional wages paid to new regular workmen is allowed for assesses employing over and above 50 workmen.
- **R&D Incentives:** Higher weighted deductions at 200% is provided for expenditure related to R&D, subject to fulfilment of conditions.
- **Export Incentives:** Under the foreign trade policy; exports have been provided with several incentives like duty drawback, duty remission schemes etc. These may vary between sectors.
- **State Incentives:** In addition to above, each state in India offers incentives for industrial projects. Some also have separate policies for textile sector. Incentives range rebated land cost; relaxation in stamp duty exemption on sale/lease of land; power tariff incentives; concessional rate of interest on loans; investment subsidies / tax incentives; backward areas subsidies; special incentive packages for mega projects.

Setting up online and physical shops

In today's tech savvy world, a prospective customer takes informed decisions by checking, comparing and reading about the products online. Thus, not having an online dedicated presence would have an adverse impact on the sales of the product and also its brand name. An international seller not having a physical shop/ manufacturing unit in India is not allowed to have an own dedicated e-commerce platform in the country. However they can enlist help of "Marketplace based e-commerce players" like Amazon, Ebay, Snapdeal etc. While presence on these market places increases the geographical reach of the player, it does not instill confidence regarding genuineness of a product. As per report by the Economic Times, online shopping portals account for 25% of all counterfeit products sold. This is a huge deterrence in case of luxury goods as people prefer to physically check and ensure brand integrity before buying an expensive item. Hence it is imperative for a brand to have its own online portal to sell goods directly to the customers.

According to the Department of Industrial Policy and Promotion:

"Foreign Direct Investment (FDI) policy permits 100% foreign investment under the automatic route in companies engaged in e-commerce provided that such companies would engage only in Business to Business (B2B) e-commerce. Further, an entity is permitted to undertake retail trading through e-commerce under the following circumstances:

i) A manufacturer is permitted to sell its products manufactured in India through e-commerce retail.

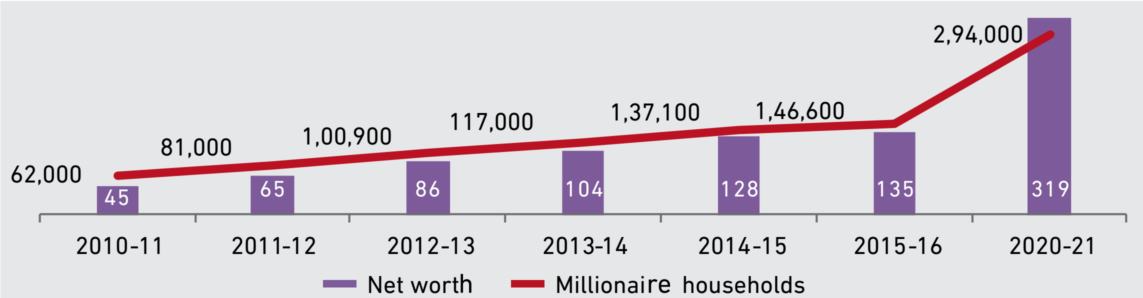
ii) A single brand retail trading entity operating through brick and mortar stores, is permitted to undertake retail trading through e-commerce."

Having manufacturing in India, will increase the product availability, help brands build up consumer confidence and improve geographical reach.

FUTURE OF LUXURY

Growing Number of HNIs

India's super rich and affluent class currently is only 4 percent of the overall population, expected to grow from 10 million in 2016 to 26 million by 2026. According to recent report by Kotak Wealth Management, in India, households earning upwards of ₹250mn were about 146,600 in 2016 (with combined net worth of ₹135tn). These were up by 7% from 137,100 (with combined net worth of ₹128tn) in 2015. However over the past 5 years, the increase in the number of households has been very steep at 16% Compounded Annual Growth Rate (CAGR) from 81,000 in 2011-12. These are expected to increase substantially to about 294,000 by 2021, holding a total net worth of ₹319tn.



Source: Top of the Pyramid 2016, Report by Kotak Wealth Management

Demand for luxury goods is expected to grow in congruence with increasing HNIs' and their wealth. Being a savings nation, personal and business investments are priority for the UNHIs over other expenditure, accounting for 45% of total income. Of the expenses, personal and family centered expenditures like holidays, apparel, jewelry, events and home décor etc. have traditionally been the most favored buys and are expected to continue to be the topmost category, contributing to 68% of their total spends. Steady economic growth coupled with increased disposable income and a strong government will help provide an impetus for the rising optimism and growth in this sector.

Rising Wealth of Women

Increasing participation in workforce by women and their brand consciousness has increased the demand for luxury products. Increased connectivity has raised awareness about global beauty and fashion trends, increasing demand for those products. Strong economic growth and increased disposable income of the female population of the country is expected to further strengthening the Indian luxury market demand.

Indian Luxury market has experienced a strong growth of around 25% in 2015-16 over, with each sector witnessing individual and independent growth. Luxury service such as fine dine, luxury travel, luxury personal care and goods like electronics and jewelry are expected to grow by 30-35% over the next three years.

Personal Luxury Items

Personal goods is one of the fastest growing market in India. For the Ultra HNIs in the country, brand value is the biggest factor to be considered while shopping for apparels and accessories. Most of the purchases in these categories are impulsive purchases especially for goods labelled as “limited edition release”.

A survey conducted by Diamond Producers Association (DPA) found that millennials are actually twice as likely to have bought a diamond jewelry as compared to the rest of the population. The jewelry purchases are also likely to be made as a fashion item than an investment, as they are more likely to prefer one meaningful gift item than several smaller ones.

Entry Plans

Swiss Luxury watch brand H Moser & Cie plans to enter India through partnership with Mumbai based retailer Regalia Luxury. The watches will be priced upwards of ₹11.5 lakh, and will be sold through appointments only format.

Italian fashion house Valentino in partnership with IDFS Trading plans to enter Indian market and is in discussion with DLF Luxury Retail for retail presence. In early 2016, French luxury leather goods brand Longchamp and Swiss watch brand Bovet have been launched in India.

India’s apparel market is valued at $43bn, of which a major portion i.e. about 35% is dominated by the women amounting to about $15bn. In the women’s market segment, Women’s western apparel market is expected to witness a stupendous growth of CAGR 15%, while the ethnic clothes market is expected to grow at CAGR 10% by the year 2019.

India’s luxury watch market has shown a healthy growth rate of 20%, expected to grow at similar rate for medium term. Luxury time pieces currently account for 20% of total watch sales in India. This represents a major potential for growth.

Luxury Cars

Driven by the growth of the rich and affluent class, owing a high-end car is no longer a dream for many. This is one of the highest growing segments in the economy. Three largest players in the country– Mercedes Benz, Audi and BMW led the growth, with a combined sales of 31,000 units of the total 35,300 units sold in 2015 in the luxury segment. This number is expected to grow to 87,300 units by 2020. This sector is expected to register a growth of 15%p.a. between 2015-2018. Many automakers have plans of new launches, expanding dealer network

80 % of the market

German Car Makers
Audi, Mercedes-Benz and BMW

Entry Plans

British luxury brand Aston Martin plans to launch new product every nine months in India as the company expects good growth in the domestic market. The company has recently launched Aston Martin DB11 in October 2016.

in emerging cities and better finance availability for customers to equip themselves to the phenomenal growth. The German auto maker Mercedes Benz as a part of this strategy, has already launched 87 outlets in 40 cities. It has also lined up four new models, taking the total to 12 cars in product bouquet by the end of the year. Additional to seven dealerships, it will also launch three more outlets by the end of 2016.

Luxury Travel

According to a study by Amadeus, India's luxury travel market is expected to grow at a CAGR of 12.8%, till 2025, ahead of China which is expected to grow at 12.2%. India's growth rate is highest among the 25 countries including BRIC nations surveyed by the group. The Indian traveler prefers medium and long-haul flights as compared to domestic travel. The country's burgeoning middle class offers tremendous potential for the sector over the next decade.

ABOUT MAZARS

Mazars is an international, integrated and independent organisation specializing in audit, consulting, accounting and tax services. Directly present in 77 countries, Mazars unites the skills of 17,000 professionals. Through correspondent and the offices of representation agreements, Mazars also serves clients in 21 additional countries, with teams of professionals who are at the forefront of technical and ethical standards.

In India, Mazars has an ambitious growth plan. We have a national presence with offices located in Bengaluru, Gurgaon, Mumbai, New Delhi and Pune, as well as arrangements to serve our clients in all major cities in India. We serve an impressive portfolio of clients in various sectors like automotive, BFSI, energy, manufacturing, real estate, retail, technology and telecom. Mazars in India, with over 700 highly skilled professionals, ensures quality for its clients in each engagement. Working in close-cooperation as a globally integrated and flexible team, our global partnership allows our clients to receive and maintain continuing support and benefit from our connection with our offices around the world. Our approach consists of using international best practices whilst taking into consideration the applicable national standards and operational realities, as well as the requirements described by the client.

ABOUT ASSOCHAM

THE KNOWLEDGE ARCHITECT OF CORPORATE INDIA

EVOLUTION OF VALUE CREATOR

ASSOCHAM initiated its endeavour of value creation for Indian industry in 1920. Having in its fold more than 400 Chambers and Trade Associations, and serving more than 4,50,000 members from all over India. It has witnessed upswings as well as upheavals of Indian Economy, and contributed significantly by playing a catalytic role in shaping up the Trade, Commerce and Industrial environment of the country.

Today, ASSOCHAM has emerged as the fountainhead of Knowledge for Indian industry, which is all set to redefine the dynamics of growth and development in the technology driven cyber age of 'Knowledge Based Economy'.

ASSOCHAM is seen as a forceful, proactive, forward looking institution equipping itself to meet the aspirations of corporate India in the new world of business. ASSOCHAM is working towards creating a conducive environment of India business to compete globally.

ASSOCHAM derives its strength from its Promoter Chambers and other Industry/Regional Chambers/Associations spread all over the country.

VISION

Empower Indian enterprise by inculcating knowledge that will be the catalyst of growth in the barrierless technology driven global market and help them upscale, align and emerge as formidable player in respective business segments.

MISSION

As a representative organ of Corporate India, ASSOCHAM articulates the genuine, legitimate needs and interests of its members. Its mission is to impact the policy and legislative environment so as to foster balanced economic, industrial and social development. We believe education, IT, BT, Health, Corporate Social responsibility and environment to be the critical success factors.

MEMBERS – OUR STRENGTH

ASSOCHAM represents the interests of more than 4,50,000 direct and indirect members across the country. Through its heterogeneous membership, ASSOCHAM combines the entrepreneurial spirit and business acumen of owners with management skills and expertise of professionals to set itself apart as a Chamber with a difference.

Currently, ASSOCHAM has more than 100 National Councils covering the entire gamut of economic activities in India. It has been especially acknowledged as a significant voice of Indian industry in the field of Biotechnology, Banking & Finance, Corporate Social Responsibility, Civil Aviation, Company Law, Corporate Finance, Competency Building & Skill Development, Corporate Governance, Defence, Environment & Safety, Energy & Power, Education, Economic and International Affairs, HR & Labour Affairs, Information Technology, Infrastructure, Luxury, Legal Reforms, Mergers & Acquisitions, Real Estate and Rural Development, Sports, Telecom, Tourism to mention a few.

INSIGHT INTO 'NEW BUSINESS MODELS'

ASSOCHAM has been a significant contributory factor in the emergence of new-age Indian Corporates, characterized by a new mindset and global ambition for dominating the international business. The Chamber has addressed itself to the key areas like India as Investment Destination, Achieving International Competitiveness, Promoting International Trade, Corporate Strategies for Enhancing Stakeholders Value, Government Policies in sustaining India's Development, Infrastructure Development for enhancing India's Competitiveness, Building Indian MNCs, Role of Financial Sector the Catalyst for India's Transformation.

ASSOCHAM derives its strengths from the following Promoter Chambers: Bombay Chamber of Commerce & Industry, Mumbai; Cochin Chambers of Commerce & Industry, Cochin: Indian Merchant's Chamber, Mumbai; The Madras Chamber of Commerce and Industry, Chennai; PHD Chamber of Commerce and Industry, New Delhi.

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