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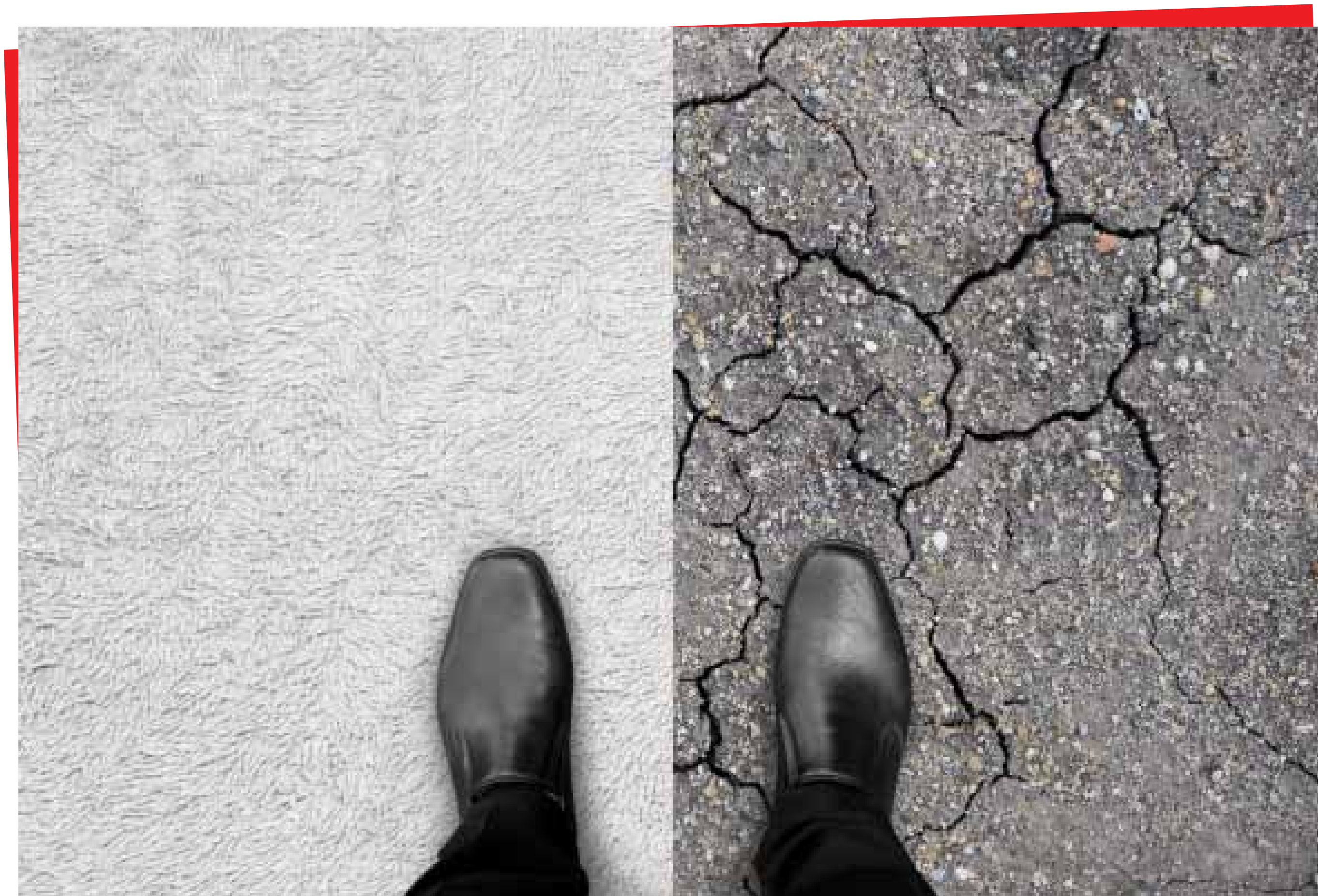


INDIA'S FASHION CONSUMPTION STORY HAS TAKEN OFF TO NEWER HEIGHTS ALTERING THE SIZE AND SHAPE OF THE APPAREL MARKET. TODAY, THE INDIAN APPAREL MARKET IS BEING POLARISED BETWEEN THE "ECONOMY AND VALUE" SEGMENT ON ONE SIDE AND THE "PREMIUM AND SUPER-PREMIUM" SEGMENT ON THE OTHER.

APPAREL MARKET POLARISATION AND NEW OPPORTUNITIES

— By Baqar Naqvi, Business Director and Willson Anand Associate Consultant, Wazir Advisors

More Conscious
More Demanding
More Unpredictable

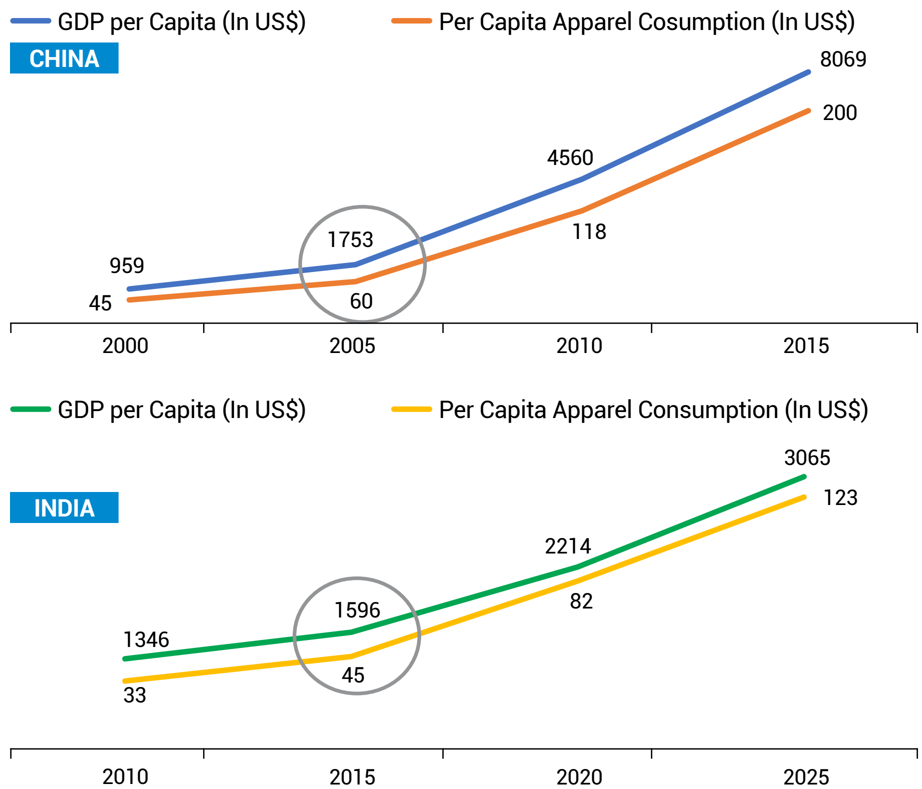
These words are best suited to Indian consumers whose apparel preferences are constantly being democratised. The apparel preferences which were an outcome of inherited traditions and lifestyles have pivoted to modernity, aspirations and trendiness. Contemporary Indian consumers are more conscious about the modern synchronicity of occasion and dressing, more demanding in fashion versus price balance and more unpredictable as they see apparel as a form of self-expression. This shift is due to the changing demographic and psychographic profile of the Indian consumers.

The Indian consumers comprise of 75 percent population with less than 40 years of age. Increasing number of these consumers are shifting from rural to urban areas in search of better education and jobs. This migration to urban areas is not limited to a few metros, but is happening across city types. Further, it is the mid and lower tier cities that are expected to see maximum population growth due to migration from smaller towns and villages in the same region. By 2025, 40 percent of the Indian population is expected to be living in urban areas rising from 33 percent in 2016.

This urbanisation is ensuing in a ballooning of working population, resulting in an increasing wallet size which affects the spending pattern. With rising income, consumers first spend on basics which largely grow linearly with income. Once the basics are taken care of, there is an exponential growth in consumption of first level aspirational categories like fashion. This has been witnessed in many countries including China where apparel consumption took-off at a per capita GDP of US$ 1,800 - 2,000 from the year 2005 onwards. Similarly, Indian apparel consumption was also at an inflexion point in 2015 and since then, it has taken-off for new heights.

The economic changes in Indian consumers are fuelling the apparel consumption story. The Indian apparel market which stood at ₹4.25 lakh crores in 2016 is expected to reach ₹12 lakh crores by 2025, growing at a CAGR of 12 percent.

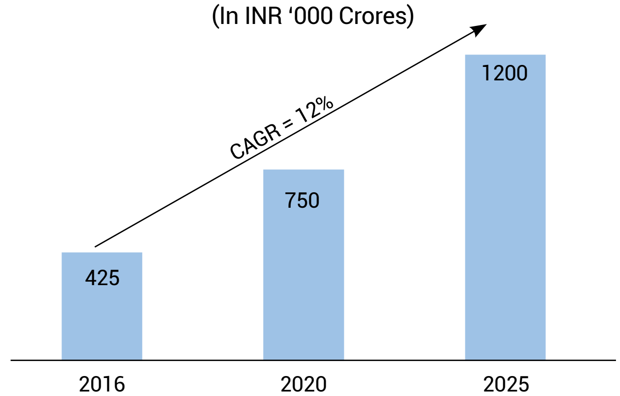
INDIA'S APPAREL CONSUMPTION STORY HAS TAKEN OFF FOR NEW HEIGHTS



Source: Wazir Analysis Based On Published Data

APPAREL MARKET IS ALTERING ITS SIZE AND SHAPE

Projected Apparel Consumption Across Segments (In INR '000 Crores)



Financial Year	Organised Vs. Unorganised		Ready-To-Wear Vs. Ready-To-Stitch	
	Organised	Unorganised	RTW	RTS
2016	35%	65%	80%	20%
2025	45%	55%	88%	12%

Source: Wazir Analysis Based On Published Data

APPAREL MARKET SEGMENTAL ANALYSIS

Segment	Higher Growth Categories	Slower Growth Categories
Men (CAGR = 11%)	Denim & Active Wear (CAGR = 14%)	Shirts & Trousers (CAGR = 10%)
	T-Shirts (CAGR = 12%)	Suits (CAGR = 10%)
	Ethnic Wear (CAGR = 12%)	Inner Wear (CAGR = 8%)
Women (CAGR = 12%)	Denim (CAGR = 25%)	Ethnic Wear (CAGR = 11%)
	Dress & Active Wear (CAGR = 20%)	Trousers (CAGR = 11%)
	Tops/T-Shirts (CAGR = 18%)	
	Suits / Blazers (CAGR = 16%)	
	Inner Wear (CAGR = 15%)	
Kids (CAGR = 13%)		

Source: Wazir Analysis Based On Published Data

Further, not just the size of the market, the construct will also be impacted due to the changing consumption behaviour. With rising consumption, the consumers are becoming more aware about existing brands, more open to trying out new and emerging brands and aspirational for better and international brands. The "flirtatiousness" of the consumers with regards to brands is ever increasing as brands and retailers are going all out to woo the consumers. New channels are emerging and the market dynamics are changing. These shifts are in-turn transitioning the overall apparel market, making it more polarised than ever before.

Changing Construct And Market Polarisation

The intersegmental analysis makes it very clear that women and kids apparel market are growing faster than men apparel market. However, adopting a macro perspective may not represent a true picture as deeper segmental analysis reveal that there are many product categories that are growing faster or slower than the segment itself.

The higher growth categories are beginning to see heightened competition as more and more brands are adding these categories. This expansion is based on the product category and subsequent brand fit. Further, the brands which are already present in these categories are continuously improving their value offer in terms of convenience, fashionability, affordability, sustainability, etc., in an attempt to capitalise early on the opportunity. As a result, higher growth categories are only getting "more branded" and starting to offer "improved value".

The slower growth in some product categories is due to slowing down or changing consumer demand. However, the slowing consumer demand may be true for the entire category, but not for every price segment within. Slower growth may also be a result of inability of brands to improve their value offer as per the evolving consumer demand. As a result, such categories can only pace up in-case of "improved value offer", "shift towards high growth price segments", or "renewed consumer connect".

The bottom-line for both higher or slower growing categories remains that growth is largely becoming polarised and driven by either the strength of the brand or the value offering. The same is evident on demand side too. Consumers are increasingly being divided into the ones seeking experience – the brand buyers, or the ones seeking better need addressal and/or functionality – the buyer of improved value offering.

Hence, on one side it is the economy and value segment and on the other side the premium and super-premium segments that are expected to grow faster than the market as whole. This is due to distinct "brand promise and experience" offered by premium and super premium players and distinct "fashion, quality and price balance" offered by economy and value segment players.

INDIAN APPAREL MARKET – PRICE SEGMENTATION (BASED ON MEN SHIRTS PRICING)

Mass	Economy	Value	Mid-Market	Premium	Super Premium
<INR 300	<INR 300 to 600	<INR 600 to 1200	<INR 1200 to 1700	<INR 1700 to 5000	<INR 5000

Source: Wazir Analysis Based On Published Data

PAST 3 YEAR REVENUE GROWTH FOR LEADING BRANDS ACROSS PRICE SEGMENTS

Segment	Economy		Value	
Brands	V-Mart	V2	Pantaloons	Max Fashion
CAGR	18%	28%	19%	24%

Segment	Premium		Super Premium	
Brands	US Polo	Tommy Hilfiger	Nautica	Gant
CAGR	20 – 25%	30%	50%+	25%+

Segment	Mid-Market	
Brands	Peter England	Killer
CAGR	10 – 15%	7%

Source: Wazir Analysis / Estimations Based On Published Data

Admist this polarization, the mid-market players are facing the heat from both value and premium players. A section of mid-market consumer is being drifted towards the unique fashion, quality and price balance offered by value players. At the same time, another section of mid-market consumers is being recruited by premium players through their ever prolonging EOSS or MBO specific product ranges which are relatively cheaper and bridging the gap pricing with mid market players. As a result, majority of the mid-market players are witnessing slower growth and many are sensing the need to change their model and positioning. Many are finding out novel ways to redefine their USPs and "value" offer.

Further, the comparative analysis of past three-year revenue growth for leading brands and retailers is also indicative of the same. If similar trend continues, the Indian apparel market will be largely polarised between "economy and value" segment on one side and "premium and super-premium" segment on the other.

The "Economy And Value" Segment

Currently, the economy and value segments jointly dominate the Indian apparel market with 55 – 60 percent market share. The market is further expected to skew towards both these segments as the opportunity size of ₹2.3 – ₹2.6 lakh crores in 2016 will grow to ₹7.7 – 8.2 lakh crores by 2025 at a CAGR of 13 – 14 percent. By 2025, both these segments will account for two-thirds of the entire apparel market.

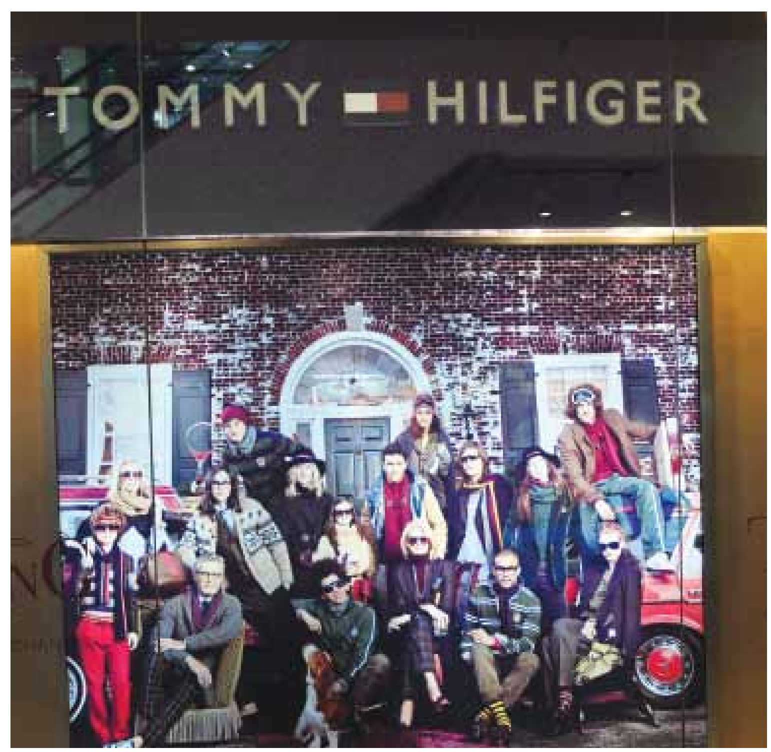
Despite the common theme of distinct "fashion, quality and price balance", both these segments target very different consumers. The economy segment is targeted at consumers having annual household income of ₹1.5 – 5 lakhs. These consumers are early or first time users of branded apparel.

GROWTH IS LARGELY BECOMING POLARISED AND DRIVEN BY EITHER THE STRENGTH OF THE BRAND OR THE VALUE OFFERING. THE SAME IS EVIDENT ON DEMAND SIDE TOO. CONSUMERS ARE INCREASINGLY BEING DIVIDED INTO THE ONES SEEKING EXPERIENCE – THE BRAND BUYERS, OR THE ONES SEEKING BETTER NEED ADDRESAL AND/OR FUNCTIONALITY – THE BUYER OF IMPROVED VALUE OFFERING.

The value segment is targeted at consumers having annual household income of ₹5 lakh plus. These are brand buying consumers seeking fashion and quality at affordable price. This segment is also driven by the idea of "smart" buying, where brands and retailers are offering consumers brand equivalent quality at much lesser price.

Compared to the potential of the market, there are very few "large scale" players that are serving these segments. While the economy segment is largely fragmented across regional retailers spread across similar tier -II and -III cities, the value segment is dominated by select pan India retailers having stores in metro, tier -I and -II cities.

Going forward, these retailers will have to drive growth based on both market penetration and market development at the same time. The economy players will have to begin geographic expansion in tier 4 cities and value players will have to pave the way to select tier 3 cities. These cities today are in a continuous process of moving up on the fashion consumption ladder and achieving liberalisation in fashion palate. Their apparel consumption pattern are becoming similar to tier -II and tier -II cities, as affordability improves.



LEADING RETAILERS ACROSS ECONOMY AND VALUE SEGMENTS

Value Retailers	Store Count (As Per March 2017)	Retail Space (In Mn Sq.Ft.)	Revenue (FY17) (In INR)
Reliance Trends	350+	4 – 5	5000+
Pantaloons	209	3.2	2552
Max Fashions	190	2.1	2048
Westside	107	1.9	1785
FBB	54	~0.7	NA

Retailer Name	Store Count (As Per Company Website)	Retail Space (In Mn Sq.Ft.)	Revenue (FY17) (In INR)	Coverage
V-Mart	141	1.2	932	Largely North & East
CityLife	74	0.6	350+	North & East
Baazar Kolkata	51	0.3	500+	East & North East
M – Bazaar	45	NA	345	East & North East
Bazaar India	44	0.5	NA	North, East & North East

Source: Wazir Analysis / Estimations Based On Published Data

Further, retailers will have to drive market development in the current cities to continuously increase same store sales based on global retailing and local merchandising model. Following this, the retailers will have to continuously formalise and structure the front-end operations as well as incorporate local product differences based on native preferences, ethnicities, seasonality, festivals, etc., to improve sell through.

> THE INCREASED CONSUMPTION WILL ALTER THE SIZE AS WELL SHAPE OF THE MARKET. WHILE THE SIZE OF THE MARKET GROWS ~3 TIMES, THE ORGANISED AND RTW MARKET WILL INCREASE ITS SHARE BY 10 PERCENT AND 8 PERCENT RESPECTIVELY, OVER THE NEXT DECADE.

The "Premium And Super Premium" Segment

The premium and super premium segments are relatively smaller in comparison to other segments. Both these segments jointly hold only 8 – 10 percent share of the total apparel market. However, these segments are growing the fastest. The opportunity size which stood at ₹34,000 – ₹42,500 crores in 2016 is expected to reach ₹1.65 – 2.0 lakh crores by 2025 at a CAGR of 18 – 20 percent.

Besides the common theme of "distinct brand promise and experience", these segments also target very different consumers. The premium segment is targeted at consumers having annual household income of ₹10 Lacs plus. These consumers are aspirational in nature as they are seeking fashion and quality at best price. Further, they are largely concentrated in tier -I and -II cities.

The super-premium segment is targeted at consumers having annual household income greater than ₹20 lakhs. These consumers are relatively more homogeneous in their fashion palate as they are seeking global on-trend fashion and for them price takes a second fiddle. Further, they are largely concentrated in metro and tier -I cities.

Over the next decade, the size of these consumers will increase by 2 times, from 23.5 million households in 2016 to 45.8 million households in 2025. With this, the apparel brands will stand a better chance to scale faster. The present times menswear market leader namely Louis Philippe took more than 10 years to reach ₹500 crores sales mark. Today, brands are targeting to achieve the same benchmark within 5 - 6 years. As a result, it is just a matter of time when "Large Scale" will no longer remain limited to economy and value segments only and many premium brands will be able to quickly achieve that scale.

For growth, premium and super premium brands will have to offer multiple product categories. However, driven by strong need to maintain the brand DNA, such brands may not be able to expand beyond adjacent product categories. Further, building multiple brands will be a capital intensive process. In that case, forming partnerships with international brands seems more feasible as it saves brand building efforts and allows to target multiple product categories and expanded consumer need base while maintaining "distinct brand promise and experience". The solution in that case will be to build a "House of Brands" in which Indian companies can partner with multiple

international brands to manage their India operations. This can be through licensing, JVs or other modes of partnerships.

In present times, the best suited example for "House of Brands" are Arvind Fashion and Reliance Brands. These players have successfully built a portfolio of brands in multiple product categories to target premium and super-premium consumer. Further, the topline that has been achieved by these companies is just a new beginning. The true scalability potential for these companies can be gauged from the comparative analysis of scale for select brands in India and China.

As the market grows at the premium and super premium level, the scale of such brands will grow multifold and the true value of these "House of Brands" will unfold.

ARVIND FASHION LIMITED

Brand Portfolio (Product + Retail Brands) (As On March 2017)

Brand Type	Number of Brands	Brand Names
Joint Venture	2	Tommy Hilfiger, Calvin Klein
Licensed / Franchise	15+	Arrow, Gant, US Polo, Nautica, Ed Hardy, Cherokee, Hanes, The Children Place, Gap, Aeropostale, etc.
Owned	10+	Flying Machine, Ruggers, Colt, Excalibur, Edge, Newport University, Karigari, Unlimited, The Arvind Store, etc.

Revenue (INR Crores) (Latest + Projected)	FY16 (A)	FY17 (A)	FY22 (P)	CAGR ('17 – '22)
	2302	2898	9000	22 – 24%

RELIANCE BRANDS LIMITED

Brand Portfolio (Product + Retail Brands) (As On March 2016)

Brand Type	Number of Brands	Brand Names
Joint Venture	6+	Diesel, Paul & Shark, Brooks Brothers, Zegna, Iconix, Muji
Licensed / Franchise / Distribution	12+	Gas, Superdry, Quick Silver, Roxy, Kenneth Cole, Steve Madden, Thomas Pink, Dune, Stuart Weitzman, etc.

Revenue (INR Crores) (Latest + Projected)	FY14 (A)	FY15 (A)	FY16 (A)	CAGR ('14 – '16)
	102	185	225	49%

POS COMPARISON FOR SELECT BRANDS IN INDIA AND CHINA (AS PER COMPANY WEBSITE)

Brand Name	India	China
Tommy Hilfiger	171	327
Steve Madden	16	71
Gap	11	136
Gant	8	61
Paul & Shark	3	65

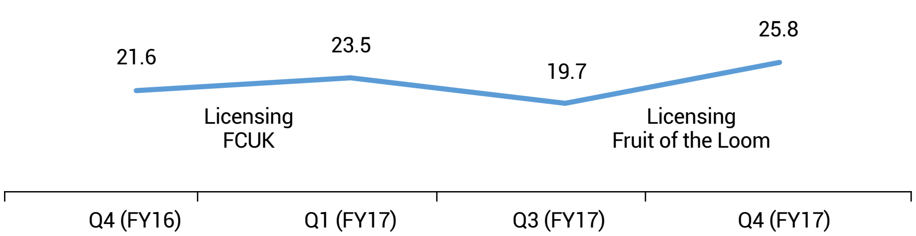
Source: Wazir Analysis Based On Published Data

Further, the apparel companies which have traditionally been a "Branded House" - focused on building sub-brands under a parent brand are also realising the opportunity of partnering with premium and super-premium international brands.

One such example is of Rupa & Company which has entered license agreement with "FCUK" and "Fruit of the Loom" in FY17. Over the years, Rupa has transformed itself from being a commodity centric product company to a brand-led company. Rupa retails under more than 10 sub-brands largely targeting segments other than premium and super-premium. However, Rupa is intending to cover both these segments via "FCUK" and "Fruit of the Loom".

The concept of "House of Brands" is also well appreciated by market and projected valuation for Arvind is a further testimony to same. In 2016, Arvind raised ₹740 crores by selling 10 percent stake in its brand business arm. The stake sale gave brand

RUPA & COMPANY MARKET CAP (IN INR BN)



Source: Wazir Analysis Based On Published Data

business arm an enterprise valuation ₹8,000 crores at a one year forward multiples of 20 – 25 times. Similar appreciation was also noted in case of Rupa and Company when stock market cheered for the licencing of "FCUK" and "Fruit of the Loom".

Conclusion

Wazir believes that India's apparel consumption story has taken-off for new heights. The increased consumption will alter the size as well shape of the market. While the size of the market grows ~3 times, the organised and RTW market will increase its share by 10 percent and 8 percent respectively, over the next decade. With these shifts, the segments which stand to gain maximum are women and kids segments.

Deeper segmental analysis reveals, there are many product categories across segments which are growing at higher or slower rate than the segment as a whole. The market is also largely becoming poliarised and driven by either the strength of the brand or the value offering. As a result, the "economy and value" and the "premium and super-premium" segments are expected to grow faster than the market as whole. This is due to distinct "brand promise and experience" offered by premium and super-premium players and distinct "fashion, quality and price balance" offered by economy and value segment players. The mid-market, is being squeezed from both sides and is losing its consumers to either value or premium segment. As a result, majority of the mid-market players are witnessing slower growth and many are sensing the need to change their model and positioning. Hence, the Indian apparel market is being polarised between the "economy and value" segment on one side and the "premium and super-premium" segment on the other.

> THE MARKET IS ALSO LARGELY BECOMING POLIARIZED AND DRIVEN BY EITHER THE STRENGTH OF THE BRAND OR THE VALUE OFFERING. AS A RESULT, THE "ECONOMY AND VALUE" AND THE "PREMIUM AND SUPER-PREMIUM" SEGMENTS ARE EXPECTED TO GROW FASTER THAN THE MARKET AS WHOLE.

For capturing the "economy and value" segment opportunity, the economy players will have to begin geographic expansion in tier 4 cities and value players will have to pave the way to select tier 3 cities in the coming years. At the same time, these retailers will also have to drive market development in the current cities to continuously increase same store sales based on global retailing and local merchandising model.

For capturing the "premium and super-premium" segment opportunity, Indian companies will have to build "House of Brands", through partnering with multiple international brands to manage their India operations. This can be through licensing, JVs or other modes of partnerships.