

Shopping Centre **News**

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Jewellery Retail:

Why do Indian jewellers shun malls?

With India becoming the third largest jewellery & watches retail market in the world, are shopping centres doing justice to the consumer fancy for jewellery?

By Amit Bagaria

The jewellery and watches (J&W) retail market in India is worth ₹180,500 crores, making it the third largest in the world. The US market was estimated at \$85 billion (₹436,000 crores) in 2011, more than 2.4 times the size of the Indian market. The Chinese market was estimated at 300+ billion Yuan (₹244,000+ crores) in 2011, about 35 per cent larger than India's. The Japanese market, at ¥910 billion (₹57,700 crores) in 2010, is less than a third of the Indian market. It has fallen almost 70 per cent in 20 years, showing the decline of Japan as a major economy.

The overall consumption of jewellery (including gold) in India is much higher at ₹278,000 crores and represents almost 6 per cent of our nation's private consumption expenditure – the difference between consumption expenditure and the retail market size being accounted for by gold or custom-made jewellery which is not sold in retail outlets.

Within the overall Indian retail market for jewellery and watches, organized retailers (those with a minimum of 10 outlets or minimum turnover of ₹50 crores) account for ₹76,800 crores, or a whopping 42.5 per cent – the second largest

organized retail penetration after automobiles. There are about 80 J&W retailers in the organized sector, with 3,150 retail outlets. The top 20, with over 2,250 outlets, account for ₹56,700 crores in sales, which translates to almost three-fourths of the organized sector market and almost one-third of the total market.

The top two spots in J&W retailing in India go to Kerala-based jewellers. The Kozhikode-based Malabar Gold & Diamonds is the No.1 jewellery retailer in the country, followed by the Thrissur-based Kalyan Jewellers. The two major national players – Titan-Tanishq (including Gold Plus) and the Gitanjali Group – follow at No. 3 and No. 4, respectively. India's top three J&W retailers – Malabar Gold & Diamonds, Kalyan Jewellers and Titan-Tanishq – will rank amongst the Top 10 J&W retailers in the world, based on their sales.

Malabar Gold & Diamonds is expected to have an estimated turnover of ₹8,800 crores in the just-ended fiscal year from 44 outlets in India (it also has 20+ outlets in the Middle East). Kalyan Jewellers' sales are estimated at ₹8,500 crores from 30 outlets across South India. It was recently in the news for buying an Embraer jet worth ₹30 crores. Both are expanding rapidly. Malabar Gold & Diamonds, currently present in South India and the Middle East, is expanding nation-wide in India and also has plans to open stores in South East Asia.

Eleven of the top twenty J&W players are based in South India. It is therefore surprising that most published research reports about this sector do not even recognize the existence of the South Indian jewellery retail giants, which have a combined turnover of more than ₹40,000 crores.

The world's largest retailer Walmart was also the largest jewellery retailer in USA, with estimated jewellery sales of about \$2.9 billion (₹14,880 crores) last year. Signet Jewelers is No.2, with domestic sales of \$2.74 billion (global sales: \$3.44 billion) from 1300-odd stores. The No. 3 is Zale Corporation, with 1,160+ retail stores, 670+ kiosks and 5 online stores, and annual revenues of \$1.74 billion, roughly the size of Malabar Gold & Diamonds.

China's largest jewellery retailer, Chow Tai Fook, with 1450+ points of sale across 320 cities in China and 60+ stores in Hong Kong, and sales of \$4.5 billion (₹23,000 crores), is also the world's largest jewellery retailer. Chow Tai Fook has a market cap value of ₹79,300 crores, 3.75 times that of Titan.

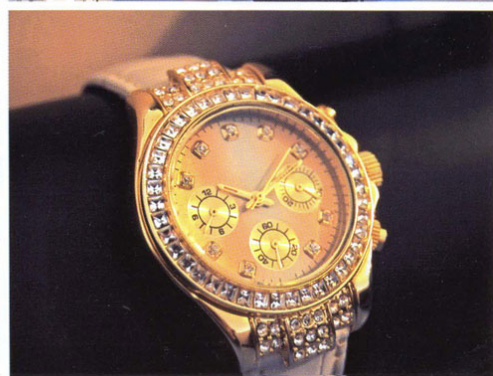
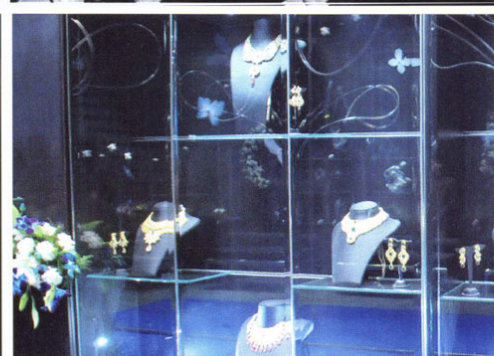
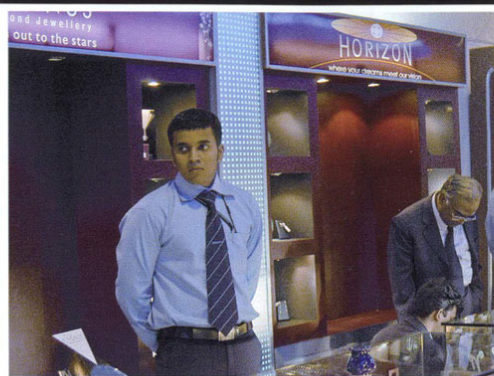
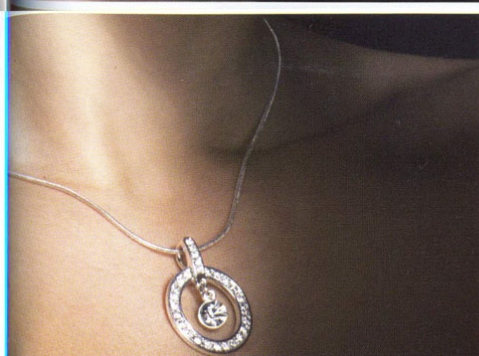
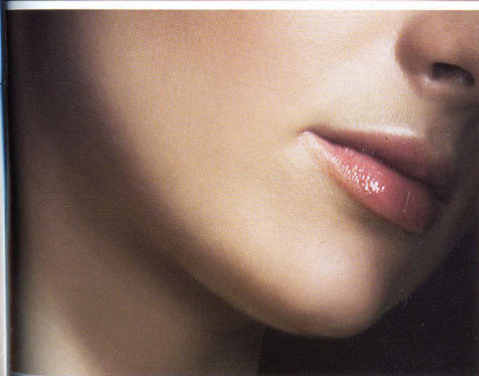
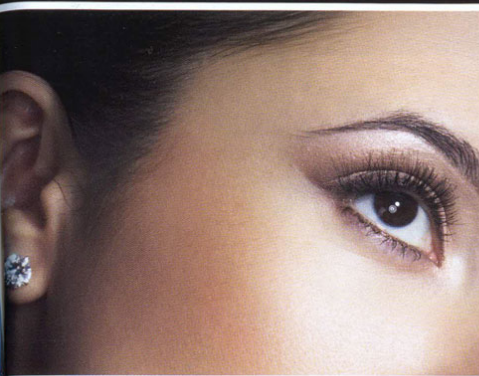
The second largest Chinese jewellery retailer Lao Feng Xiang has estimated sales of \$1.8 billion and the No. 3, Chow Sang Sang, of about \$1.65 billion, which is less than that of Malabar Gold & Diamonds of India. Tiffany & Co., with global sales of \$3.6 billion, is the second largest jewellery retailer in the world. Only half of its sales are in the US, where it is the fifth largest domestic retailer.

The top two Japanese retailers, As-me Estelle, with sales of ¥27.07 billion (₹1717 crores), and Kuwayama, with sales of ¥25.06 billion (₹1588 crores), would not even make it to India's Top 10 in terms of sales.

The per capita consumption of jewellery in India is only ₹1,480, compared to ₹12,500 in the USA, ₹10,700 in the EU, ₹4,850 in Hong Kong, ₹4,530 in Japan and ₹1,825 in China. In urban India, it is ₹3,735 and, if we account for only the urban middle and upper classes, it goes up to ₹8,360 per person.

Retailing of jewellery and watches accounts for 7.2 per cent of the total Indian retail market (including automobiles), whereas organized J&W retailing forms 19.8 percent of the total Indian organized retail market. Yet we do not see this phenomenon represented in Indian shopping centres – one has to wonder, why?

Based on different trading densities in different retail categories, the mall development consultancy Asipac has estimated that about 7.8 per cent of the total carpet area in an Indian shopping centre should be dedicated for the retailing of jewellery and watches. Therefore, in a shopping centre with 350,000 of total carpet area (GLA of 500,000 sq.ft.), as much as 27,300 sq.ft. should be dedicated to J&W. Assuming that a centre of this size caters to a catchment of 200,000 people in the middle and upper classes, we are talking about annual expenditure of ₹167.2 crores



Jewellery retailers typically like to buy property rather than rent it. Mall developers should understand this fact to attract them to their properties.

(at ₹8,360 per person) on J&W. This translates to a trading density of ₹5,100 – which is in line with the trading density in this segment.

As the J&W counters in department stores would account for about 2,300 sq.ft. out of the 27,300 sq.ft., the balance 25,000 sq.ft. has to be spread across 10-15 vanilla stores in this segment. Barring maybe one or two, no shopping centre in the country has done this. What is the reason that Indian shopping centres do not have enough J&W stores?

To my mind, one of the reasons could be that jewellery retailers typically like to buy property rather than rent it. Therefore, shopping centre developers who do not wish to sell shop spaces can look at an

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alternative. If they are expecting a rent (including CAM) of ₹125 per square foot on carpet area, with an escalation of 15 per cent per annum, they could take a one-time deposit of ₹9,723 per square foot in lieu of 12 years' rent and CAM. This is the NPV (net present value) of the future rent and CAM payments for 12 years (including 15 per cent escalation in the fourth, seventh and tenth years), taking cost of money at 15 per cent.

For a jewellery retailer, it would be quite easy to pay this one-time deposit of ₹9,723 per square foot, as he would be already investing more than ₹30,000 per square foot in interiors and inventory. This would make it a win-win situation for both parties – the landlord and the tenant.

The Tanishq store at Inorbit Mall in Malad (Mumbai) is the best performing Tanishq store in the country. Reliance Jewels is doing

well in good malls. Malabar Gold & Diamonds has signed up at the Forum Mall in Chennai. With roughly 25 to 30 organized sector J&W retailers present in every region in India, it is about time that we see 10 to 15 of them in every shopping centre of 500,000 sq.ft. and above. Otherwise the "Indian experience" of shopping at a mall is just not complete. ●

About the author:

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