



MANAGEMENT DISCUSSION & ANALYSIS REPORT

1. Global Economy Overview

In the financial year 2015-16, global economic activity continued to remain subdued. The growth in emerging markets and developing economies, which account for around 70 percent of the global growth, declined for the fifth consecutive year, while the advanced economies continued to recover slowly. There were few key influencing factors to the global economy.

China's economy witnessed a faster than expected slowdown due to rebalancing economic activities moving away from investment and manufacturing towards consumption and service related activities.

Energy and various commodity prices witnessed a decline. Lower oil prices strain the fiscal positions of fuel exporters and weigh on their growth prospects, while supporting household demand and lowering business energy costs in importers. However, strain due to oil shock and its impact on investment climate and weak pick-up in oil-consuming economies due to limited pass-on of lower prices has resulted in global growth stalling.

The United States has been going through a gradual monetary policy tightening scenario where the U.S. Federal Reserve lifted the federal funds rate from the zero lower bound, while monetary easing continued in the euro area and Japan. Prospects of a gradual increase in policy interest rates in the United States as well as bouts of financial volatility amid concerns about emerging market growth prospects have contributed to tighter external financial conditions, declining capital flows, and further currency depreciations in many emerging market economies.

According to IMF, Growth in advanced economies is projected to rise by 0.2 percentage points in 2016 to 2.1 percent, and hold steady in 2017. Growth in emerging market and developing economies is projected to increase from 4 percent in 2015 the lowest since the 2008-09 financial crisis to 4.3 and 4.7 percent in 2016 and 2017, respectively.

2. Indian Economy Overview

India remained a relatively bright spot in the global economy with its growth story continuing to bloom. One of the contributors to the strong growth experienced by the Indian economy was the sharp decline in crude oil prices. According to Asian Development Bank estimates, the Indian economy grew at 7.6% in FY2015 (ending 31 March 2016). Despite a weak monsoon for a second consecutive year, agriculture grew by 1.1% in FY2015. While the industry and private consumption accelerated to a growth of 7.3% and 7.6% respectively, the services growth moderated to 9.2%.

India continued to remain at the top of Nielsen's global consumer confidence index for the sixth quarter in a row. The Foreign Direct Investment (FDI) inflows increased 40 per cent during April-December 2015 to reach USD 29.44 billion, compared to same period last year. Also, India's foreign exchange reserves remained comfortable at USD 356 billion in the week up to March 25, 2016.

The regulatory regime witnessed easing and the Reserve Bank of India (RBI) cut interest rates four times as inflation eased sharply. Rate cuts had been widely called for by the industry to reduce the cost of borrowing and help stimulate growth. The government's strong focus on reviving growth was evident from the Union budget, where the Finance Minister gave relief to small tax payers, nudged the affluent to shell out more while focusing on the rural economy with much higher fiscal outlays. The Finance minister also reaffirmed that the government would continue the reform agenda to usher in the long awaited GST by passing the Constitutional Amendment Bill in the Parliament.

On the government initiative front, the "Make in India scheme", "Smart cities plan", "Jan-Dhan Yojna", "Digital India plan", "Skill Development & Start-up India initiatives", "Power for All", "UDAY", "Housing for All", "Scheme to revitalise public sector banks", "Ease of Doing Business (EoDB) initiative" and



other ambitious infrastructure programmes presents significant opportunities for investors to be part of one of the largest development programmes in the world. These programmes are expected to transform not only the cities and the country as a whole, but also the way business is done in India.

As per the World Economic outlook released by the IMF, India will be the fastest growing major economy in 2016-17 growing at 7.5%, ahead of China, at a time when global growth is facing increasing downside risks. India's growth is expected to continue to be driven by private consumption, which has benefited from lower energy prices and higher real incomes. With the revival of sentiment and pickup in industrial activity, a recovery of private investment is expected to further strengthen growth.

3. Global textile at Apparel Industry Overview

The global textile market is estimated to be around US \$1.15 trillion which is nearly 1.8 % of the world's GDP. Almost 70-75% of this market is concentrated in Europe, USA, China and Japan. Comparing the major markets, India has the lowest per capita spend on garment (\$37) which is only 3 % of Australia, the highest one (\$1,131). China is the single largest exporter with a 39% share while India stands at a second with a 5% share. While the apparel market is still largely dominated by EU & USA, countries like China, India and Russia are emerging as future destinations for apparel consumption. The high growth in the market will be primarily driven by the increase in population as well as the per capita apparel spending of the already large population in these countries. A study by CRISIL and Wazir Advisors has estimated that the global apparel market will be around US\$ 2 Trillion by 2020. This high growth in apparel consumption in developing economies will further drive the growth of textile manufacturing and trade in these countries.

Presently, apparel constitutes more than half of the share of the global textile and apparel trade followed by fabric and yarn. Growth in global trade will bring about investments in the countries having strong supply. Textiles exports from India will touch US \$185 billion by the year 2024-25. Growth in exports of certain segments has increased such as handicrafts (17%), carpets (15%) and ready-made garments (12%). India has a share of approximately 5% of the global textile and apparel trade.

4. Indian Textile & Apparel Industry Outlook

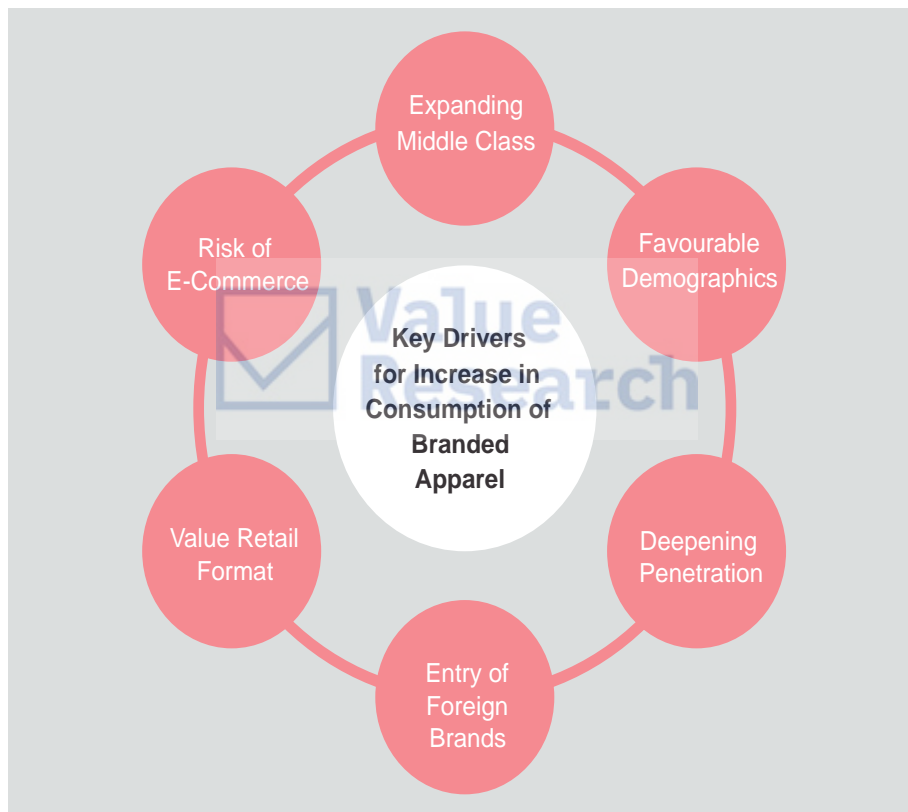
a. Indian Textile Overview The Indian textile industry accounts for about 24% of the world's spindle capacity and 8 % of global rotor capacity. Abundant availability of raw materials like silk, wool, cotton and jute combined with a skilled workforce have made India, a sourcing hub. The potential size of the Indian textiles and apparel industry is currently estimated to be around US \$108 billion and is expected to reach US \$223 billion by 2021, according to a report by Corporate Catalyst. The Textile Industry is one of the largest contributors to India's exports (11%) worth US \$41.4 billion and accounts for approximately 5% of India's GDP and 14% of overall Index of Industrial Production (IIP). It employs over 4.5 crore people directly and 6 crore indirectly, rendering it the second largest job creator after agriculture in the country.

Domestic textile consumption and textile exports are expected to cross 10% CAGR each. India's share in the global textile market is set to catapult to 8% in 2020 as per a report by Edel Invest Research. China is expected to vacate .USD100bn of textile space over the next 5-6 years due to appreciating currency, rising labour costs, high energy costs and sharpening focus on domestic market. Countries like India, Vietnam, Bangladesh and Sri Lanka are likely to be the key beneficiaries. The total Indian textile exports are estimated to touch US \$ 60bn over the next 5 years. The textile and apparel industry can be broadly divided into two segments -yarn and fibre, and processed fabrics and apparel.Increased penetration of organised retail, favourable demographics, and rising income levels are likely to drive demand for textiles. Rising government focus and favourable policies is leading to growth in the textiles and clothing industry. The Ministry of Textiles is encouraging investments through increasing focus on schemes such as Technology Up-gradation Fund Scheme (TUFS). As per the 12th Five Year Plan, the Government plans to provide a budgetary support of US \$4.25 billion to textiles. Free trade with ASEAN countries and



proposed agreement with European Union will also help boost exports.

b. Indian Branded Apparel Market Exciting time is seen ahead for the Indian domestic apparel sector which is set to double by 2021. Also it is expected that the branded apparel sector will out space the industry growth rate by 1.5 times. Strong precedent lies ahead as India moves towards a discretionary demand inflection point of US\$2000 GDP per capita. Top brands have registered 24% CAGR over 2011-2015 setting a strong precedent for what lies ahead and this growth is sustained over the next 5-10 years as the highly fragmented apparel market consolidates and consumers continue to upgrade to leading brands. Menswear market in India was INR 1,05,050 Cr in 2014, and is expected to grow at a CAGR of 9.2% to reach INR 1,61,570 Cr in 2019 and INR 2,52,550 Cr in 2024. Women's apparel market pegged at INR 93,080 Cr in 2014, is expected to reach INR 2,49,710 Cr by 2024 as it will grow at a CAGR of 10.4% during this period. The three fastest growing categories are Denim, innerwear and T-shirts growing at a CAGR of 18%, 17% and 15%. The following can be taken as the multiple growth catalysts for Branded Apparel in India:



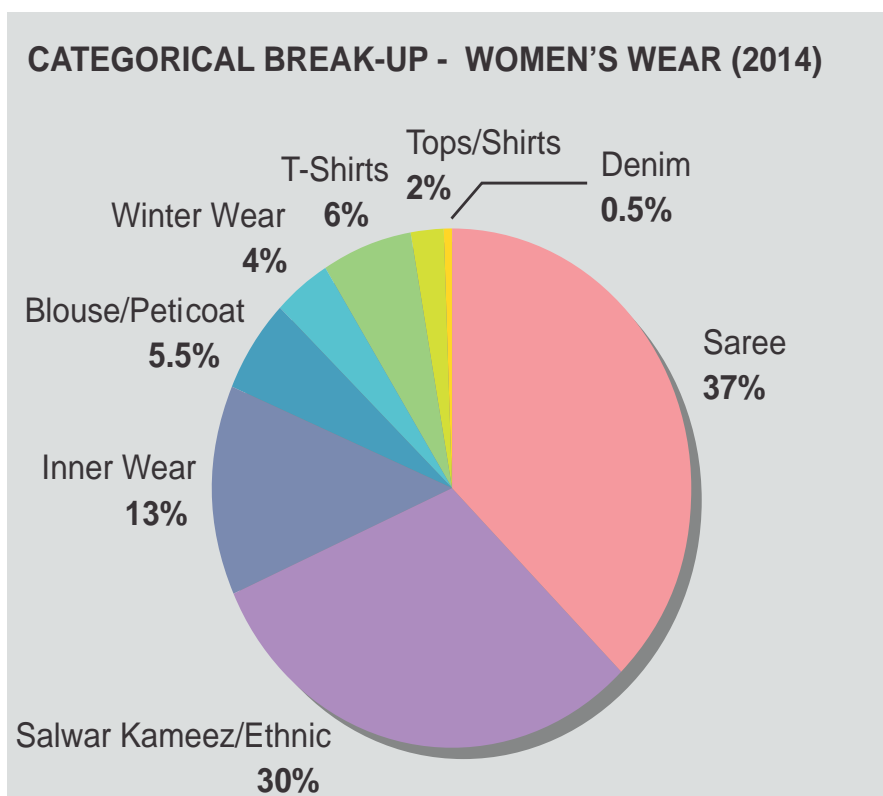
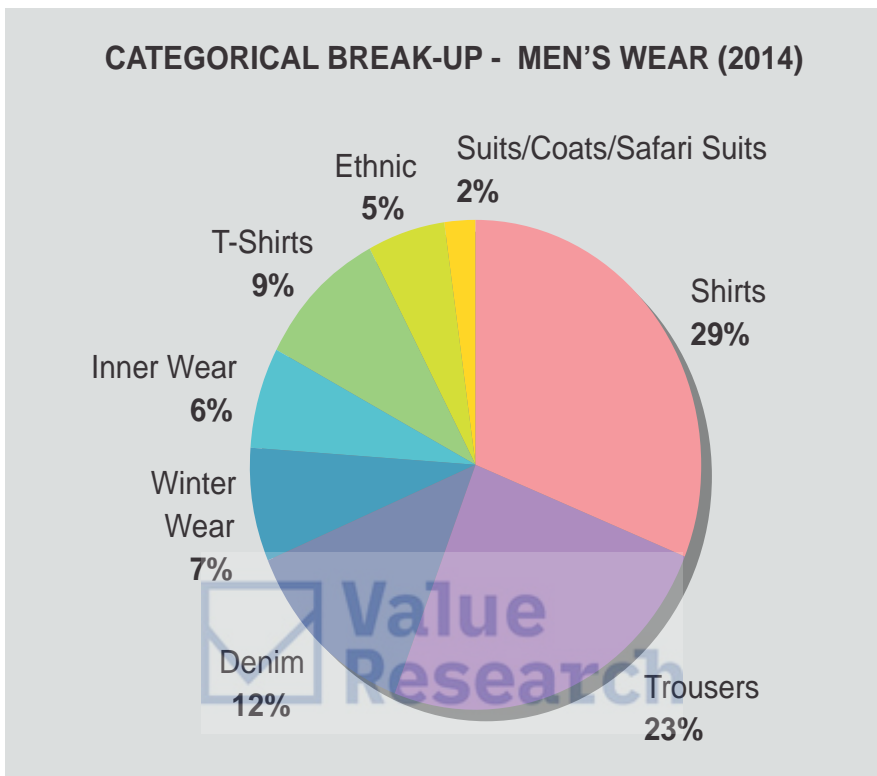
Source: CLSA

c. Indian Leisure Wear Market Overview Indian Casual Market is flourishing with the flourishing consumer sector which is driven by growth in income levels, changing lifestyles and the entry of foreign players. Casual wear brands in India have shown potential in all segments of the market- premium, medium, lower and is going beyond the boundaries of urban markets in major metros, casual wear is picking up pace in mini metros, Tier II and III cities as well.

The size of men's casual wear market was INR 41,500 Cr in 2014 and is expected to grow to INR 68,450 Cr by 2019. Owing to the gradual shift of men's apparel market towards casual wear such as denims, T-shirts/polo and active wear are growing at a much faster CAGR of 14%, 12% and 14% respectively. This is as a result of growing fashion consciousness and aspiration beliefs, increasing brandization, and acceptance of specialized clothing not just in metros, but also in mini metros and tier I and tier II cities across India.



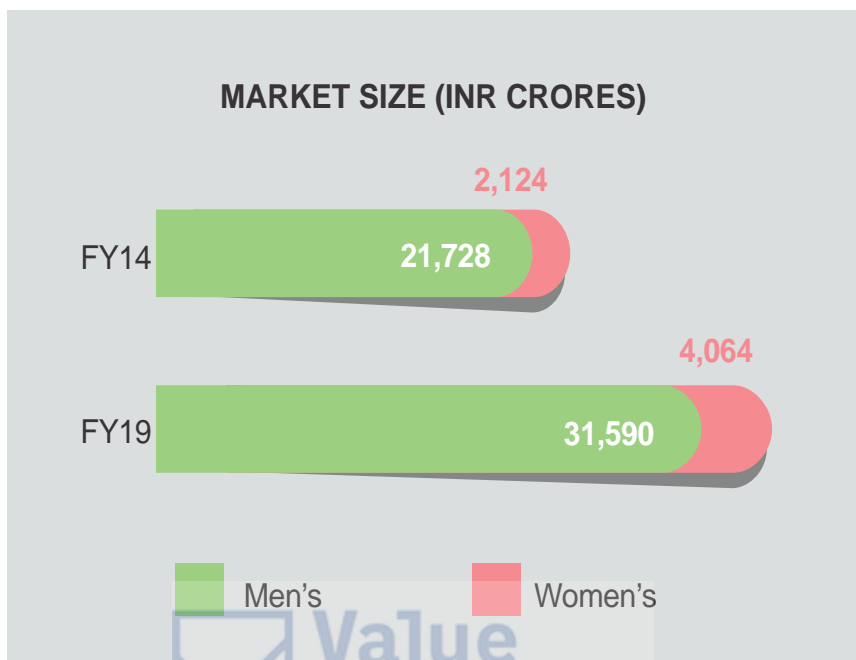
The women's casual wear market size was INR 4,350 Cr in 2014 and is expected to grow to INR 8,894 Cr by 2019. A women's casual wear collection largely comprises of fashionable skirts, tops made out of chiffon, silk, velvet, cargo, cropped or utility pants, capris and shirts made out of denim, silk and chambray, different washes of denim, leather or denim jackets etc. Because comfort and effectiveness is of utmost importance, casual wear is quickly replacing the traditional wear of woman's everyday wardrobe. Complimentary accessories like scarves, hats, mittens, handcrafted belts etc have made the women's casual wear market much more versatile and dynamic.





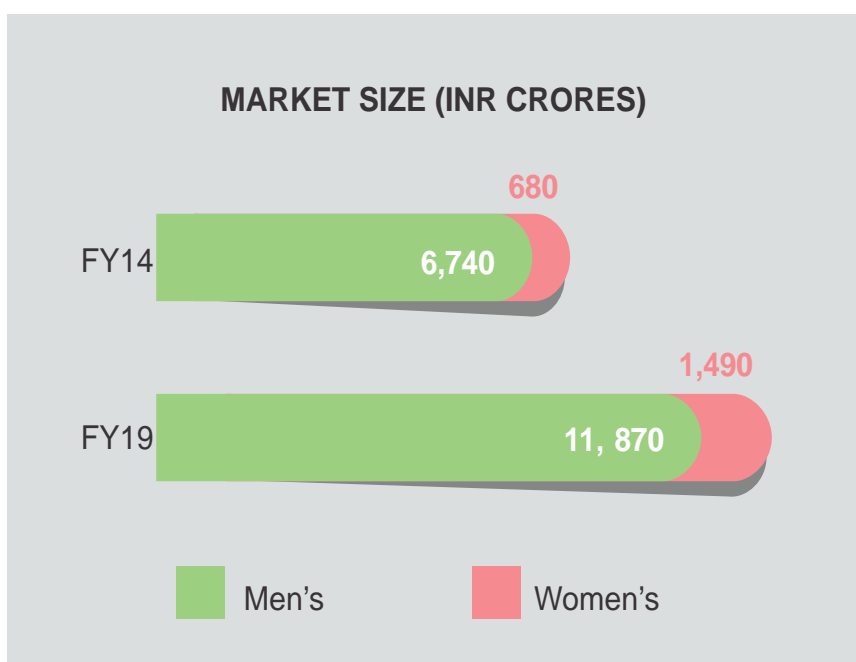
Casual Shirts/Tops/Trousers/Skirts

Due to comfort factor, a large number of choices for fabric, designs, fit - this category of casuals has been quite popular from many years with youth in both urban as well as rural areas. The market size for men's casual shirts and trousers was INR 21,728Cr in 2014 and is estimated to grow at CAGR of 7% to reach INR 31,520Cr in 2019. Whereas, the market size for women's casual shirts and trousers was INR 2,214Cr in 2014 and is estimated to grow at CAGR of 12 % to reach INR 4,064Cr in 2019.



T-shirts

T-shirts is considered as one of the most comfortable and dynamic categories of casual wear. Due to its soft knit fabric, the fits, and the versatile use t-shirts comprises of highly demanded product segment and is acceptable to a huge consumer range. The market size for men's T-shirts was INR 6,740 Cr in 2014 and is estimated to grow at CAGR of 14 % to reach INR 11,870 Cr in 2019. And for women, the market size for t-shirts was INR 680 Cr in 2014 and is estimated to grow at CAGR of 15% to reach INR 1,490 Cr in 2019.





(i) Casual Wear as a Lifestyle product

Indian market is an emerging market for the casual wear, as it suits the changing lifestyles and fast paced youth of this century and it meets the demand of comfort and hectic life style other than making them look and feel good. Thus, the manufacturers of clothes have started to make and offer a vast line of casual wear of different styles and price ranges. Also, because of the same reason most apparel brand are extending their formal wear brand and repositioning them into other wardrobe sections like casual wear so as to turn the brand into a lifestyle label.

(ii) E-tailing

Casual wear market has witnessed a rapid growth in e-commerce due to rising penetration of internet across India. Owing to its convenience, speed, competitive pricing along with multiple payment options such as online payment and cash on delivery is expected to aid the growth of apparel market through online retailing channel in the coming years.

(iii) Growth drivers

There are various growth drivers for success of Casual wear like the rising standard of living, also people are now left with higher disposable income and there is rise in casualization of men and women's wardrobes. One of the main keys for success of Casual wear brands is also constantly innovating new product range which includes wide range of styles in terms of prints, designs and fabrics, so as to match the changing preferences of the customers, they are being more creative.

India's growth driver is the youth and its preferences, and today's youth are exhibiting more mobility; openness and desire to experiment are opting for cool, smart casual wear. Basically, the rapid growing urban population has been the reason for changed taste, preference and trends towards fashion outfits. Due to large part of existing options, changing styles and exposure to world fashion, the average Indian apparel consumer has become much more whimsical.

(iv) The Way Ahead for Casual Wear

The Indian casual wear market is poised for promising growth. Factors including a booming middle class population, a paradigm shift in consumers' choices and disposable income ensure promising future for casual wear segment. There is a high scope for innovative products in this segment. India has become a market with a plethora of opportunities and brands and retailers who understand the needs of Indian customers' better are expected to leverage the opportunities to derive growth.

Source: Technopak

d. Indian Sportswear Overview

Today's generation is aware of the fact that different types of fitness activities require different attire. The products that fall under sportswear are sports bras, running shorts and tops, track pants, jackets, gym bottoms, socks, etc., which are not widely available. A limited range is available at intimate wear stores as the focus there is on innerwear alone and most products tend to get segmented under comfort wear. Hence, there is untapped opportunity can be cashed in on by brands and retailers. In major cities, foreign brands dominate this category with great variety along with private labels, creating sportswear brands visibility through a strong distribution network, even into tier-II and III cities via EBOs, organised MBOs, departmental stores, and unorganised stores. Indian brands continue to be available mainly through the unorganised route. Smaller local and regional players have greater presence through unorganised stores, in regions closer to the manufacturing units.



e. Indian Sleepwear Overview

The sleepwear category for women includes chemise, pyjamas sets, short length and long robes, tube dresses, nightgowns and nightshirts, top-pyjamas night suits. Sleepwear constitutes a fairly significant part of all lingerie outlets, with lower product width and depth compared to intimate wear. In comparison, for men its shorts, t-shirts, and pyjamas that form the core product range. In this category, consumers are not very brand-driven but are design, style, and comfort-driven. Indian and foreign brands, as well as private labels, are available in metros and mini metros through department stores and EBOs. Local, smaller players display a retail presence similar to that for active wear, with product availability concentrated regionally. Departmental stores enjoy a good standing with customers; however, it is the local unorganised stores which are most popular for this category.

f. Indian Kidswear Market

The kids' Apparel market in India that is for children as young as one year to as old as 14 years, is witnessing a CAGR of 9-10% and set to grow from INR 90,000 crore now to INR 100,000 crore by 2020. The volume of market share of kids' apparels in the total apparel market is at 24.9%, as against a 15% share in 2005.

Kids' Apparel Market is the fastest growing industry in India. Since Indian market is moving more towards international look also in terms of children's apparel, there is an excellent opportunity for the players to lay the strong foundation. Branded kids apparel market is in its nascent stage in India with a handful of national and international brands. Industry analyst estimate that market size of branded kids wear in India (including brands like Ruff Kids, Ruff Baby, Planet Kids, Gini & Jony, ZAPP, Li'l Tomatoes and Weekender Kids) is estimated to be around INR 1,000 crores. Today Indian kids wear branded market is growing at 15% per annum. The presence of international brands like Barbie, Mothercare, Benetton Kids, Pepe, Lee Kids, Tommy Hilfiger and Adams Kids in Indian market witnesses the growth potential.

Some major changes in trends are taking place which are:

1. There is shift taking place on account of rise in the disposable income of the people and the increasing influence of western world.
2. The emergence of kids as an independent buyer group. Influenced by mass media and peer pressure, today's kids are more informed and self-conscious.

g. Indian Innerwear Market

The Indian innerwear market is worth INR 17,750 crore (2013), which is estimated to grow at a CAGR of 13% to reach INR 59,540 over the period of 2013-23 and women innerwear market is estimated to grow at a CAGR of 15% to INR 44,000 crores over the same period. Higher disposal income, consumers' shifting focus from a price sensitive category to a brand sensitive category coupled with growing number of working force and the increasing demand of western wear continues to drive growth in the sector.

Source: AUM Report, Technopak Advisors.

Source: Technopak

(i) The women's innerwear market

The women's innerwear market is worth INR 10,880 crores contributing to around 60% to the market and growing at a promising CAGR of 15%. With the increase share of working women, there has been an increase in the share of western wear in their wardrobe. Also, with the increase in exposure, there is an increased demand for better fits and quality alongside the demand for a wider range of colours, styles and accessories.



Brand consciousness is no more restricted to external apparel. Women are increasingly getting conscious about the brands and styles of their intimate wear too. In fact, this changing preference is no longer restricted to just the metros, but has spread to mini metros, tier-I, II and III cities. This openness to indulge in branded lingerie has led to a growth in the number of international and domestic innerwear brands present in India.

On the basis of product pricing, the innerwear market is divided into super-premium, premium, medium, and economy segments. Due to the increased awareness, the increase in number of brands, and rising discretionary spending, all segments have registered growth. Foreign brands have brought in variety through international styles and fabrics. Indian women are also willing to spend higher-than-before amounts on innerwear. This has provided an exponential boost to premium and super-premium innerwear brands. Mid-segment brands have started extending their product portfolios. In women's innerwear, the mid-premium segment makes up 52 percent of the market and is expected to grow the fastest, at a CAGR of 22 percent over the next 5 years.

Within the women's innerwear segment, there is potential of growth in maternity wear segment. Currently only selected brands, mostly international ones, offer multiple styles of maternity products.

(ii) The men's innerwear market

Men's Innerwear market is roughly INR 6,870 crore which is growing at 9 per cent includes products like vests, briefs or boxers, basic t-shirts, shorts, pyjamas, sleepwear and active wear. Various apparel brands and retailers which were predominantly focusing on active wear, casual wear and formal wear have extended their product portfolios to men's innerwear segment to leverage its growth.

Men's innerwear can be divided into super-premium, premium, medium, and economy segments. Within that the economy segment is the highest contributor at 55 percent, the mid-price segment contributes 36 percent, and the premium and super-premium segments together constitute 14 percent. It is expected that the premium and mid-price segments will grow fastest, and exponentially, in the next few years. This is largely due to consumers becoming more informed and they seek high fashion quotient along with comfort, hygiene, brand image and smart prices.

Consumers residing in tier-I, II and III cities are not necessarily fond of premium brands alone, they straddle all segments including the mass segment. Premium brands are still aspirational for these consumers. Price, comfort and easy availability form the basis of any purchase for this consumer.

5. TRENDS IN THE INDIAN FASHION MARKET

a. Changing consumer trends and preferences There has been an exponential change in the trends and preferences of the consumers taste, needs and wants. The price sensitivity population has been replaced by quality, brand recall and stylish. Rising demand for readymade garments is replacing stitched clothes along with higher comfort level.

b. Fast fashion creating innovative disruption Fast fashion implies quickly capturing the latest fashion and catwalk trends and replicating them in a retail format. This requires an efficient supply chain and quick & inexpensive designing and manufacturing. This philosophy of quick and outsourced manufacturing, replicating latest designs at affordable prices with a short shelf life, is used by some of the apparel brands as new products are launched every week, existing products have a short shelf life, inducing shoppers to visit stores often, generating higher volumes. As the inventory is fast moving, the need to discount products to clear out stock is low, keeping margins stable.

c. Modern retail key to success Explosion of malls, high streets, large format stores and multi-brand outlets has spurred preference for branded apparel and thus, relatively minuscule and unknown domestic brands have also started growing rapidly as they gained visibility in the modern retail milieu.



Their success prompted many international brands to enter India. Hence, in recent years there has been increasing traction in organised retail. Apparel players opt for the franchisee format to grow, as franchisees operating on reasonable scale with control over their working capital are capable of generating free cash flows.

d. E-commerce revolution a blessing in disguise Due to retail space, infrastructure and operational challenges, most retailers had to look for other avenues to reach out to consumers. E-commerce provides this platform anchored by rising internet penetration and jump in the number of Indians owning an internet-enabled smart phone. E-commerce offers consumers attractive discounts on good quality trendy products, a larger bouquet of products & brands to choose from, convenience of cash on delivery and ease in returning products. The online retailing market is expected to grow to USD44bn by 2018 (USD13bn in 2014) with apparel being one of the biggest beneficiaries (31 % online retail presence already).

6. CHALLENGES FOR FASHION RETAIL IN INDIA

Some key challenges faced by retailers and fashion retailers in general, have been addressed through innovative thinking by some retailers, but many of these issues need to be addressed by collective bargaining and mutual collaboration at industry level.

a. Heterogeneity of the Market

Heterogeneity is a key characteristic of the Indian retail market in general. The Indian retail market is characterized by a diverse spread of customers with unique preferences. From a retailer's perspective, this requires a thorough understanding of consumer preferences across the country and of the similarity and differences in consumer buying patterns.

b. Evolving Customer Needs

Indian retail fashion markets requires rediscovering the customer within a short time span and then rearrange the organization's structure, retail formats, and product portfolios accordingly. It has to continuously focus on the process of learning, unlearning, and relearning. Again, this alone is not sufficient; the insights gained in the process must be translated into actionable business decisions.

c. Rising Real Estate Rentals

High leasing costs resulting from mispriced commercial real estate is a major concern for Indian retailers. Additionally, it is very difficult for retailers to find suitable commercial retail space in most Indian cities. Real estate rents and space availability are characterized by fragmented ownership, irregular auctions, inappropriate store designs, etc. Retailers have to push governments to allocate more retail space which can be rented/leased- out at reasonable cost.

d. Complex Tax Regime

Thanks to multiple tax enforcement authorities, varying tax rates, duplication of taxes at different points the current tax regime continues to be complex and also the taxes charged by different states vary from one another, and so a national retailer needs to understand state-specific tax rules and plan retail models accordingly. The Goods and Services Tax (GST), which aimed to enforce a uniform tax regime, is yet to come into force.

e. Infrastructural Bottlenecks Indian fashion retail is hit by infrastructural bottlenecks due to the poor conditions of roads, highways, etc. which creates supply chain constraints and increases inventory costs.

f. Demand of Fibre & Polyester based products

There is lack of fibre neutrality. Customer demand for manmade fibre-based apparel is growing globally.



It is unfortunate that India lacks to manufacture and process manmade fibre-based apparel in general and polyester-based apparel. This bottleneck is partially caused by government regulations that impose high excise duties and import duties on polyester. There is thus a need to overcome the deficiencies in the polyester-based fashion products segment as it is difficult to resist the growing demand for manmade fibre-based clothing.

7. CONCLUSION \

The opportunity in this market is immense for those who can visualise the future and reinvent them at par with changing consumer preferences and associated challenges. To stay in the market, realigning and restructuring of the business models as per the evolving needs of the dynamic market is essential. The industry encompasses a plethora of opportunities but tapping these opportunities, and converting them to business value, requires a holistic understanding of the industry, starting from fibre-to-fashion retail. Fashion retailers have to go beyond the boundaries of sales, marketing, merchandising, and category management, and have to explore upstream and allied industries with accuracy. Many organizations in India are now gradually moving towards improving their profitability and efficiency by implementing various supply chain techniques. The most commonly used tools are information technology-based apparel retailers have started seeing information technology as an important tool to improve efficiencies and are taking definitive steps towards leveraging IT tools in reducing the gaps in the supply chain. Companies have begun understanding the need for building a sufficiently flexible supply chain which enables them to capitalize on new growth possibilities like developing a new product in the shortest possible time. The future belongs to those companies wherein a robust and flexible supply chain can become the base for any growth initiative.

Sources: IBEF, CMIE, CCI, Edel Invest Research, Wazir Advisors, Technopak

