

Retailers' Trading Densities in Indian Malls

In India, modern retail is just 22 years old (with the exception of Bata), beginning with the first Shoppers Stop outlet in Andheri, Mumbai, which sold only menswear. Shoppers Stop is today a chain of 61 stores spread across 27 cities, with an expected annual turnover of Rs 3,000 crore in the current fiscal.

How is the modern retail sector performing in India? How are retailers in India performing vis-à-vis each other? What is the trading performance of modern retail formats prevalent in the country today?

For an industry expecting to touch revenues of US\$50 billion within the next two years, it is imperative to understand both – the market and the performance of the retailers – and to know and analyze the average trading densities (ATD) of various modern retail formats across the country.

The data for the study was collected by Asipac researchers through direct contact with executives of more than 150 retailers currently active in India throughout the first seven months of 2013. The data pertains to malls in about 30 cities. Asipac senior management verified the data by cross-checking almost 30 percent of the figures and we are reasonably satisfied with the accuracy and reliability of the figures presented. In any extensive study of this nature, there are bound to be errors and omissions.

The trading density in India's modern retail sector has grown at an average of about 6.2 percent p.a. over the last four years. This is not difficult to believe, considering that the post-Lehman period (2009-2010) saw an overall growth rate of less than 3 percent, thus bringing down the four year average to just 6.2 percent. Prior to 2009, the average trading density of retailers in Indian malls was growing at a healthier 8-9 percent p.a.

The highest growth rate was achieved by Apple stores, perhaps because of the increasing popularity and proliferation of the iPad and the iPhone. Other categories that grew far better than the industry average were Health & Beauty Products, Beauty Salons & Hairdressers, and Pharmacy.

The two worse performing categories, both with negative growth rates, were Leisure Megastores (brands such as Landmark and Reliance Timeout), obviously due to the global decline in sales of music and books, which used to be the mainstay of these type of stores; and Watch MBOs, perhaps because of an increasing number of people depending on their mobile phones to tell the time, the primary function of a watch.

It must be mentioned, however, that, while the ATD of Watch MBOs had a negative 1.3 percent growth, the ATD of Watch EBOs went up by 4.7 percent p.a. during this period. Another major underperforming category was Fine Dining Restaurants.

We estimate that the overall ATD for most malls nationwide (falling within a GLA range of 250,000 sqft to 800,000 sqft) is INR 1184 per square foot per month (psfpm), based on carpet area. Larger malls have a lower ATD, with the ATD falling by about 5 percent for every increase of 100,000 sqft in GLA.

If the new central government (to be elected within the next seven months) and the new RBI Governor Raghuram Rajan (barely a month into the job) manage the economy well, Mall ATDs should start growing at 8 percent p.a. again, and should come very close to INR 1500 psfpm by FY16, but this will depend on micro-market factors such as demand-supply mismatch. If there is substantial oversupply in any micro-market (which is happening in many cities across the country),

the ATD growth for such micro-markets may be lower.

The estimated ATD of the best performing mall in the country – Select Citywalk in Delhi – is INR 2300 psfpm, almost double the national average. The High Street Phoenix & Palladium mall complex in Mumbai reported an ATD of INR 2013 psfpm in FY13, with a year-on-year growth rate of 18 percent. An ATD of 2013 in the year ending March 2013 is a sheer coincidence.

Against this, Phoenix Marketcity in Mumbai (Kurla) reported an ATD of only INR 383 psfpm in FY13, showing a huge contrast in ATDs within the same city. Phoenix Marketcity in Pune reported an ATD of INR 628 psfpm in FY13 and Phoenix Marketcity in Bangalore (Whitefield) managed to do INR 664 psfpm. All these three malls had average occupancy rates of less than 75 percent during the year and the ATDs have been estimated on a carpet area efficiency of 54%, the same as that of High Street Phoenix & Palladium.

In Bangalore, compared to an ATD of INR 664 psfpm for Phoenix Marketcity, Forum Mall in Koramangala's ATD in FY13 is estimated at about INR 1500 psfpm, Garuda Mall on Magrath Road at about INR 1100, Mantri Square in Malleswaram at about INR 1000, Brigade Orion in Rajajinagar at about INR 750, and Gopalan Signature Mall on Old Madras Road at about INR 550 psfpm.

The ATD for malls in USA is about INR 2925 psfpm (USD 45 psfpm) and hardly has any growth. In Bangkok (Thailand), it is INR 2750 psfpm, and is growing at less than 5 percent p.a.

As per a report published by the International Council of Shopping Centres recently, the Mall of Emirates in Dubai (the #1 mall in the world ranked by ATD) has an average trading density of INR 7700 psfpm.

Apple retail stores have an ATD of INR 32,770 psfpm in USA, against INR 8650 in India. Jewelry retailer Tiffany & Co. has an ATD of INR 16,342 in USA, against an ATD of INR 11,000 for the jewelry category in India.

CDIT retail giant Best Buy had an ATD of INR 4377 last year in USA, compared to INR 2800 for CDIT megastores (such as Reliance Digital and Croma) in India.

What these numbers prove is that Indian modern retailers' trading densities are quite low, not just compared with the western countries, but also compared with emerging markets. We believe that Indian malls are attracting the wrong retailers. Modern retailers' contribution to total Indian consumer spend is less than 15 percent, but they occupy more than 95 percent of the mall spaces.

Unless malls attract traditional local/regional retailers, they will continue to flounder. And the India modern retail story will be over, even before it has started to take off. Tamil Nadu retail giant RmKV and Kerala retail giant Kalyan Silks have estimated ATDs of about INR 1450, compared with Shoppers Stop's INR 653. Bangalore-based family-run CDIT retailer Girias has an estimated ATD of INR 3700 psfpm, compared with INR 2800 of Reliance Digital and Croma.

With real estate costs going up 8-9 percent per annum, for how long will modern retailers survive with just 6.2 percent growth?

(Source: A Research Study by Asipac published in Malls of India 2013)