The opportunity to apply a global outlook to local consumption

Future Group is a pioneer in the retail space in India. Our editor, Vikas Dawra, Joint MD & CEO, YES SECURITIES, met Sanjay Jain, group CFO of Future Group, in Mumbai to talk about investment opportunities and the growth of the country's retail sector.

Sanjay Jain, group CFO of Future Group

What are your views on the investor interest and investment opportunities in the retail sector in India?

Immense future growth opportunities are driving the investor interest in this sector. Firstly, India's economy is currently close to US$2.3 trillion, and consumption is over US$850 billion. Even in a conservative case, if the gross domestic product (GDP) grows by 6% on average, that means an additional US$50 billion in consumption every year. Secondly, there is a structural shift happening towards the ever-more-organized retail sector. The current, large, growing addressable market is attracting a lot of foreign investment into the country. It's a long-haul game. Restrictions exist around solicitation of foreign capital in the retail sector. But there are specific pockets where there can be 100% ownership by foreign investors — for example, in single-brand retail or e-commerce platforms. I believe the vast nature of the market and the expected growth ahead are the driving factors for investment.

What are the unique challenges faced by a retail operator in a vast and diversified market such as India? How has Future Group innovated to emerge as a winner in this challenging market? What is likely to be your future course of action to sustain growth and enhance customer base?

I believe getting your back end and the entire logistic supply chain from farm to fork is key towards successfully running a retail chain in India. At Future Group, we have a presence across almost every state. You put a finger on the map in terms of where the consumption is happening, and we have a store there. In India, every 500-700 km, you find a different culture and different cuisine, and unique preferences. Customizing your product range to cater to these diverse consumption patterns is the key driver for success, in my view. After the effort put in over the last 30 years, the product range in our stores really reflects that local consumption pattern. And now as we try to cater to 1.3 billion Indians who have local consumption patterns every 600 km, it helps that you have a vast supply chain in place. For our high-end stores in big cities, typically one would have 80,000 to 100,000 stock keeping units (SKUs), whereas at our smaller stores the SKUs will be much larger. You are also then handling the complexity. On one hand you have a geographical spread, on the other hand you have the complexity of handling the SKUs. So I guess we have been continuously investing in building our product and supply chain capabilities. We now have close to 500 million annual customer footfalls, nearly 150 million unique footfalls, and close to 45 million active customers on various loyalty programs. So we have to make a relative choice about whether we should start focusing on increasing footfalls or whether we believe there is enough footfall and, through better engagement via data, loyalty programs, etc., we can aim at a larger share of the customer's wallet. Can we provide a more customized service to the customer and therefore get a larger share of the revenue? So data and supply chain are key driving factors as far as our trajectory ahead is concerned.

Future Group has successfully completed several M&A transactions. What have been the key drivers to pursue this inorganic strategy?

Firstly, retail is a business where size and scale is very important — this has driven consolidation in the Indian retail sector over the last few years. In this sector, there is a back-end cost to doing business. Unless you can amortize this cost over a larger base, getting the desired amount of returns is a difficult task. These consolidation opportunities helped Future Group come closer to that objective. Secondly, as I said, it's one economy, one country, but at the same time there is huge diversity. So in order to meet our twin objectives of achieving larger scale to improve cost-efficiencies and get better foothold in local markets, we acquired/merged some regional players who have built successful regional businesses. I think we have been pretty active and made the most of the attractive consolidation opportunities in this sector. I guess right now and for the foreseeable future, the focus will be to get the best out of the organizations we have merged with or acquired.

But equally importantly, you have also been raising equity capital from marquee investors during your growth life-cycle. How have you been able to attract marquee investors and do you believe there are significant investment opportunities in the future not only for Future Group but also across the entire Indian retail value chain?

As I said, it is a US$800 billion to US$850 billion market, increasing by US$50 billion every year. There is a structural shift happening from unorganized to organized, so there is a tremendous opportunity in hand and ahead of us. If these opportunities are available, and if you are an investor who comes across a credible operator who is very well placed to make the most of these opportunities, I think that is where the successful deals happen. We have spent the last 30 years making the most of this scenario. Slowly and gradually, the restrictions around multibrand retailers have been easing off. For example, any foreign portfolio investment (FPI) can go up to 9.99% in multibrand, in single-brand it can be up to 100% ownership. At our end, as a group, we maintain an active interface with the investors, and that is resulting in some attractive investments coming our way.

I don't think any conversation about retail would be complete without some discussion of online versus bricks and mortar. In India, we see that the opportunity is so huge that both can coexist. But are you seeing some pressure on the modern retail format from the e-commerce online players, or do you think there is still some leeway for both to coexist and grow?

We should probably reassess the word "versus." It is no longer online versus offline. Twenty years back, a lot of mindshare was with modern retail. Everybody felt that the days of *Kirana* (mom and pop) stores were gone and the era of modern retail had begun. But look where we are 20 years down the line. Modern retail growth is somewhere around 10%. In the last few years we have seen the mindshare growing for online entities. The realization is that online and offline are going to work together. Physical retail has built a strong on-the-ground presence. In various categories the customer wants to touch and feel the products. But, let's acknowledge the fact the online is here to stay and grow. If online channels generate some interesting leads and through the physical store layout those leads can be fulfilled at an optimum cost, then it's an excellent combination. If at all, these partnerships should lead to more and more throughput for the physical retailers. As I said, at every single store of ours, every 600 km, the assortment reflects the consumption. So if integration with e-commerce allows the lead to get passed on to that store, then the assortment is nothing but the inventory. For me as a physical retailer, it's an additional channel leading to sales. My entire gross margin goes to my EBIDTA margin. For the online retailer, the cost of delivery can probably be the lowest. In some of the global acquisitions, in places such as North America (the upcoming market of e-commerce), the touchpoint with the customer is very important. But at the same time, as a physical retailer I believe e-commerce is here to stay and grow. So let's work together. For me, it's not versus e-commerce anymore, it's with.