Luxury goods market in India keep its cool

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New Delhi: Top government babus and honchos of India Inc maybe spending sleepless nights over inflation worries and choppy oil prices. But the luxury goods market in India manages to keep its cool.

In fact, across all luxury segments such as property, auto, apparel and accessories, manufacturers are reporting enthusiastic sales this year. The reason is simple - the uber-rich consumers' boisterous lapping up of products and services that command a premium.

With a growing millionaire base in India, the luxe market is growing annually at around 35% CAGR. IIM Bangalore's assistant marketing professor G Shainesh likes to apply the theory of Giffen goods to the luxury segment. "Whenever prices of such goods plummet, so does their demand and vice versa. This is because they lose exclusivity. If everyone flaunts Gucci bags, its original clientele will decrease," he points out.

Hence, a lower price tag wouldn't quite appeal to the affluent lot even in an economic slump. And the current scenario is proof enough that this holds good across all major categories.

Sample this: The economic downturn has not stopped India's largest real estate developer, DLF, from selling 90% of its upcoming luxury project, Magnolias in Gurgaon which will be ready for possession in 1-2 years. Ditto is the case for realtor Omaxe which is witnessing robust sales for its luxury apartments in the National Capital Region (NCR) priced at an upwards of Rs 6 crore.

It's pretty much the same trend in the luxury automobile segment. Buoyed by the great market performance of its cars in the Indian market; BMW, has had a good 2008 so far. "We have sold 1,673 cars in India so far this year. We have just revised our sales target for the year to 2,800 cars from 2,000 cars that we started with," says BMW India's official spokesperson. The 3 Series and 5 Series cars are the company's largest selling in the country. Similarly, compatriot Audi reported a 123% rise in sales in the first quarter of 2008 and now aims to sell 1,000 cars this year.

Meanwhile, BMW's rival Mercedes-Benz, which has been operating in India for the past 10 years, has reportedly set a target of 3,000 cars for 2008. It registered sales of 748 units in the April-June quarter this year as compared to 515 units in the same period last year. Obviously, Merc buyers are not pinching pennies, even if there's global recession.

The trend is seen even in the luxury apparel and accessories space. Industry estimates peg the luxury apparel market at around Rs 300-Rs 350 crore, while watches are a market worth Rs 500 crore in India.

The growth in the luxury segment ensures that even new brands keep stepping in from time to time on home turf. "We have recently launched some luxury brands and the response has been encouraging. Our niche clients have taken quite well to these brands and that has enabled stable growth so that we can implement our expansion plans. Thus, inflation and recession have had no effect on our brands," says Sanjay Kapoor, MD, Genesis Luxury Fashion, the company that sells international luxury fashion labels such as Canali, Aigner, Paul Smith, Kenzo and Just Cavali in India.

It is widely observed that in times of spiralling inflation and interest rates, players in the luxury space go unscathed. Be it apparel or high-end consumer electronics, the impact remains the same. "Luxury goods are purchased out of choice and so aren't impacted by inflation. We have been in India for the past three years and have been growing at a minimum rate of 15-20 %," says Prashant Todi, marketing manager, Bang & Olufsen's, India operations.

The Danish company that designs and manufactures high-end audio products, television sets and telephones currently has three outlets, one each in Delhi, Mumbai and Chennai. It plans to start three more in the next two to three years. Industry experts reckon that the top end consumer electronics segment in India is growing by 8-10% annually. Although the organised market for luxury consumer electronics is pegged roughly at less than 1% of the total consumer electronics market, is it largely the unorganised trade that rules the roost.

However, despite a good show by luxury brands in recent times there are some like Louis Vuitton Moet Henessey (LVMH) Watch and Jewellery India MD Manishi Sanwal who are cautious of the general downturn in sectors of the economy. "We do not think that the industry is insulated from slowdown and we are positively alert. Though, so far, we do not have a sustained drop to be called a slowdown.

It's just that the luxury industry is in a nascent stage in India and is growing at a scorching pace," he says. LVMH is the world's largest luxury conglomerate and markets niche brands such as Tag Heuer, Fendi and

Louis Vuitton in India. The company has managed to grow its retail sales in the country by up to 45 % over last year.

But this growth might be on back of the fact that luxury retail in India is indeed very small. Industry sources also point out that even in times of inflation, the disposable income of the rich is not dented much. “We are not of critical size yet.

Luxury forms a very small component of the Indian marketplace. People with money continue to buy things of their choice,” says Shantanu Mukerji, India MD of Italian luxury brand Zegna. And he too has an interesting market theory. “In inflationary times, the gap between the rich and the middle class widens considerably, leading to increased spending by them.”

So not everyone is gloomy. Regardless of high interest rates and inflation plaguing the rest of the Indian economy, the luxury segment sure is poised for sunnier, spending times ahead!