Research

Think India. Think Retail. 2020

Catch Them Moving

Report on Transit Retail

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FOREWORD

Shishir Baijal
Chairman and Managing Director
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The retail industry is no doubt, one of the fastest growing businesses in India. Today, the brick and mortar formats have evolved from the simple 'plaza culture' of the 1990s to the current crème de la crème malls and highstreets. With a total population of 1.3 billion and private consumption share of close to 60% in the economy's GDP, India presents a huge opportunity for retail.

Along with this, the pattern of urbanisation in India is becoming a strong driving force for economic growth as it entails huge investment in infrastructure, mass transit corridors, transportation hubs and associated need for goods and services. It is estimated that by the year 2050, 57% of India's population will live in cities (current urbanisation 45%) which will drive demand in the tier II and III cities. With the widening internet user base of 688 million as of 2019, the consumer of today is aware, demanding and well-travelled. With exposure to global brands, the propensity to spend and the desire for upscaling the lifestyle has broken barriers of a single retail format and is redefining the country's retail landscape.

With this huge consumption potential, the current push towards transport infrastructure and connectivity is only opening newer frontiers for retail to reach out to the consumers. Not only is retail acting on making the transportation nodes more dynamic, they are also increasingly contributing towards making the infrastructure projects more viable for the government. The impetus towards public private partnership for infrastructure development, commercial development and operation and monetisation of other sources of revenue potential for airports, metros, railways, highways and bus stations has assumed more importance today.

Retail along transit corridors is not a new concept in our country, but the increase in volume of passenger traffic across formats and the development of infrastructure through a public private partnership has presented huge opportunities to operators and retailers to monetise the potential of guaranteed footfalls with 'wait time'. As for the government, the involvement of private sector helps them deliver the infrastructure quickly and to specified standards without having to incur huge capital expenditure on construction and operation.

With this background, and in our endeavour to keep the stakeholders abreast with research on the upcoming trends in retail, we present our annual flagship Report **'Think India. Think Retail 2020'** which focusses on the untapped retail opportunity with regard to the various transportation formats of airports, metros, railways, highways and bus stations in our country - an opportunity which can help in making the transport infrastructure more viable.

Hope you find the Report relevant. We look forward to hearing from you.

EXECUTIVE SUMMARY

India's consumption-driven growth story is the backbone of its retail industry. With a total population of 1.3 billion and an economy size of USD 2.7 trillion, the seventh largest in the world, India presents a huge opportunity for retail. With this growing economy and a large population, most of the Indian cities are seeing a major overhaul in infrastructure and consumer dynamics.

The working-age demographics is favorable. Growth in urbanisation and the horizontal sprawl of cities to encompass the burgeoning millions has, on the one hand, put the urban infrastructure to test, and on the other hand, it has left us with little time for ourselves. This in turn, is opening newer frontiers for consumers and retailers to interact.

As cities expand, infrastructure augmentation and connectivity become enablers for furthering the economic growth of the city. Transport infrastructure in the form of roads, railways, metro, airport, ports and inland waterways is undergoing a massive revamp in India.

The concept of combining retail and transit is not new in our country. However, growing cities, improved transport infrastructure and connectivity, changing lifestyles and upwardly-mobile consumers have contributed to the evolution of transit retail from tea/coffee stalls and newspaper stands to mainstream retail like restaurants, cafés, fashion and accessories stores at the transportation hubs.

The connectivity and the already available catchment in the form of passengers proves beneficial for the retailers to take their products right up to the customers. Major transit hubs like airports, metros, railways and roads are undergoing transformation and reinventing themselves as mixed-use facilities, and retail activities especially, are being designed in and around these transit hubs.

The public private partnership (PPP) for construction and operation in large infrastructure projects have proven to be beneficial globally and the pace is picking up in India. The construction and operation of huge infrastructure projects incurs large capital expenditure for which public private partnership (PPP) and joint venture (JV) models are imperative for optimisation of revenue potential. Such models are currently being applied for upgradation and development of brownfield and greenfield projects of airports, metros, railway stations and bus stops.

With the increase in disposable incomes, airport traffic is increasing by a CAGR of 11% (2010-2019) and is expected to grow from 349 million in 2019 to 1.1 billion by 2030. Given the passenger profile, airports have become alternate retail real estate with a quality, captive audience which translates into propensity to spend, given the 1-2 hours of wait time at the airports. With share of non-aeronautical revenues of joint venture airports in New Delhi and Mumbai at 70% and 54% respectively, above the global average of 40%, the government of India is aiming to privatise more airports to monetise the retail potential of airports. The government has come up with various schemes like UDAN (2017) or 'Ude Desh ka Aam Naagrik', and Nextgen Airports for Bharat – NABH Nirman Scheme (2018) to improve regional connectivity and augment and upgrade existing airport capacity. The government is also encouraging public private partnership (PPP) for building 100 new airports and has given an 'in principle' approval to 21 greenfield airports.

Many metropolitan cities such as Hyderabad, Pune and Bengaluru are now opting for the metro as an option for mass transit for intra-city and inter-city connectivity to decongest the city. Pioneered by the Delhi Metro, retail at metro stations has only gained momentum in the last five years. Today, metro stations are actively teaming with quick serve restaurants (QSRs), convenience stores, food courts and cafés to augment their retail footprint and increase their non-farebox revenues. For metros, the share of non-farebox revenue is still low compared to international cities. For instance, the share of non-farebox revenue for Delhi Metro is as low as 12%, whereas for Hong Kong Metro, it is close to 37%. The upcoming metro developments in cities like Pune and Nagpur are targeting to increase their non-farebox revenues to match global benchmarks to help make the operations and maintenance, self-sustaining.

Highway retailing is now seen as a high volume, high business opportunity by the retailers, especially for the food & beverage category. But even though the roads and expressways see large quantum of passenger traffic, it is mostly fluid, which results in a mixed customer profile with a low transaction value. At present, the large-scale retail operations are through petro-retailing on expressways and organised retail formats on highways. In this regard, projects such as the 'Bharatmala Pariyojana' and 'Golden Quadrilateral' are going to act as catalysts in the development of retail along highways.

While the retailing potential is being tapped at airports, it is still at a nascent stage for metros, highways and expressways and bus stations. We estimate that the current transit retail market size in India - of which airports form a significant share - is approximately USD 2.2 billion. Currently, there is retail potential of USD 5.7 billion. This opportunity has not been fully tapped so far due to absence of retail nodes at appropriate transit modes. While the main ingredient - passenger traffic - is in place, there is lack of focus on developing appropriate retail infrastructure to harness this captive consumer base.

If the current infrastructure push is maintained and more transportation hubs are privatized, the transit retail opportunity is likely to increase significantly over the coming decade. This synergy between transportation nodes to tap guaranteed footfalls is a win-win situation for the retailers, operators and governing bodies. The revenue generated through retail at transportation hubs can contribute towards the maintenance and operation of infrastructure, making the transport infrastructure project more viable.

Considering the operator (lease rent) opportunity of USD 1 billion at present, the government can potentially monetise these transit-oriented retail assets to generate funding to the tune of USD 10 billion. Such monetisation will not only help ease pressure on passenger tariffs but also develop the retail eco-system for a largely unexplored territory. This will open a new revenue stream for future infrastructure development.

The growth and upgradation of India's infrastructure will have a momentous impact on the passenger traffic in all transportation formats in the coming years, which we foresee will translate into a retail opportunity of USD 22 billion across all major transportation hubs by 2030.

India Transit Retail

Parameters	Period	Airport	Metro	Railways	Roads	Bus Station	Total
Existing passenger traffic (Million, annual)	2019	349	2,623	16,134	190*	29,561	-
Retail market							
Estimated market size (USD billion, annual)	2019	1.4	0.6	0.1	0.1	0.01	2.2
Current retail opportunity (USD billion, annual)	2019	1.7	1.2	1.0	1.7	0.2	5.7
Projected retail opportunity (USD billion, annual)	2030	9.3	5.6	1.9	4.2	0.9	21.6
Private operator market opportunity							
Operator (lease rent) opportunity (USD billion, annual)	2019	0.4	0.2	0.2	0.2	0.03	1.0
Projected operator (lease rent) opportunity (USD billion, annual)	2030	1.6	0.8	0.3	0.5	0.1	3.2

Source: Knight Frank Research
* Growth in annual passenger traffic | Note: Retail refers to Modern Retail

The upside potential of transit retail compared to city centric developments

	Indira Gandhi International Airport	Chhatrapati Shivaji Maharaj International Airport	Kempegowda International Airport
City	New Delhi	Mumbai	Bengaluru
Retail revenue (USD billion, annual)	0.44	0.33	0.13
Mall	Select City Walk	Oberoi Mall	Brigade Orion Mall
Retail revenue (USD billion, annual)	0.22	0.14	0.15
Airport revenue as a multiplier of Mall revenue	2.0	2.4	0.9

Source: Knight Frank Research

The case of city centric retail development in the form of malls, shopping centres and high streets is well established. The eco-system for such developments has seen an encouraging participation of consumers, retailers, developers as well as institutional investors. Simultaneously, in many of these well performing city centric developments, the peak performance in terms of foot falls and consumer spending is explored to the hilt.

On the other hand, transit retail developments across the modes of airport, rail, metro rail, highways or bus stations have not been fully tapped. Having said so, even in the current form, the case for transit retail appears promising. For instance, in case of key markets of Mumbai and Delhi, the airport retail developments garner a revenue of 2.4 times and 2 times that of successful malls like Oberoi Mall and Select City Walk Mall in these markets. In the case of Bengaluru, the airport retail revenue stands at 0.9 times that of the successful Orion Mall in this market. While these are the present-day dynamics of some of the transit-oriented and city centric developments, with the right focus and retail infrastructure development, these benchmarks have a very strong upside potential.

APPROACH AND METHODOLOGY

With the growing urbanization and mobility in India, Knight Frank presents this in-depth study on the changing patterns of retail at transportation hubs. The Report not only analyses the existing market retail opportunity for retailers and operators but also estimates trends for the next 10 years for transport hubs of airports, metros and railways, highways and bus stations.

Applying the two core forms of data collection, namely primary and secondary data for gathering and analyzing information, benchmarking was done for all transportation hubs across cities on parameters such as passenger traffic, retail footprint, product category split and existing market size to understand the dynamics of retail across transit routes and ascertain their current and future potential across the airports, metros, railways, and highways.

Passenger traffic for the past decade was studied to understand the growth trends and to make future projections. Along with this, global benchmarking was done to understand the retail component along transportation hubs such as London, Paris, Dubai and Singapore for airports, and Hong Kong and London for metros.

Based on the passenger traffic trends, major Indian airports of Delhi, Mumbai, Bengaluru, Jaipur, Ahmedabad, Thiruvananthapuram and Goa were considered for case studies and benchmarking. In case of metros, major stations with significant retail presence were considered in cities of Delhi NCR, Mumbai, Pune, Nagpur, Hyderabad and Cochin. For road retail, the highways and expressways were looked at separately and benchmarking study was undertaken for Mumbai-Pune Expressway and the Delhi-Zirakpur Highway stretch of NH 44. Bus station developments at Lucknow (Uttar Pradesh), Rajkot (Gujarat) and Vashi (Maharashtra) have also been studied as potential future retail hubs. Cases studies such as Bhopal and Gandhinagar were referred for railways. In case of ports, Kochi International Marina, Amaravati Marina Development (planned), Cruise Terminal of Mumbai, besides international marina like Dubai Marina, Marina Del Rey in Los Angeles and Barcelona Cruise Port were referred to for this report.

Information regarding the retail footprint and revenues of transport hubs of airports, metros and railways and highways were collected through primary survey, and stakeholder interactions along with secondary sources such as financial statements, annual reports of the respective entities. The information collected was used for our analysis to calculate the revenue per passenger, understand the product category split, product preferences and future potential in the retail sector. Moreover, a consumer survey was conducted for airports and metros between Oct to Dec 2019 to understand the buying behavior of consumers.

AIRPORT

Non-aeronautical revenue share
>50% for privatized airports at Delhi, Mumbai and Bangalore while
13% for AAI managed airports

100 new airports coming up by 2040

1.1 bn passenger traffic estimated by 2030

349 mn passengers travelled by air in 2019

> 59% of lease rent revenue of private operator is from DutyFree

21 greenfield airports in 'principle' approved on **PPP** basis

Total retail opportunity for airports estimated to increase to USD **9.3 bn** by 2030 from **USD 1.7 bn in 2019**

METROS & RAILWAYS

500 operational Metro Stations across **21** Indian Cities

> 1,000 kms length of metro under construction in India

4.7 mn passengers travel daily by Delhi Metro

> 0.4 mn Daily ridership for Mumbai Metro at just **11 kms** of operational length

Non-fare box revenue share only **12%** for Delhi Metro

2.6 bn passengers travelled by Metro in 2019 and **7.3 bn** annual passenger traffic estimated for 2030

USD 5.6 bn total retail opportunity Metros by 2030 with a **USD 0.8 bn** total lease rent opportunity for operators by 2030

USD 1.0 bn of current retail opportunity for railways to reach **1.9 bn** by 2030

Annual passenger traffic of railways to touch **18.2 bn** by 2030

NATIONAL HIGHWAYS

Total length of National Highways in India
132,500 kms as of 31st March 2019

34,800 kms to be developed under Bharatmala Pariyojana – I by 2021-22

9,000 kms of economic corridors and **800 kms** of expressways proposed under Bharatmala Pariyojana - I

394 mn estimated growth in annual passenger traffic by 2030

USD 2.7 bn total F&B retail opportunity for NHAI / government agencies that develop and maintain National Highways **by 2030**

Total F&B retail opportunity for highways in India estimated to increase to **USD 4.2 bn** by 2030 from **USD 1.7 bn** in 2019

Total lease rental opportunity for highways in India estimated to increase to **USD 0.5 bn** by 2030 from **USD 0.2 bn** in 2019

BUS STATIONS

Total number of ISBTs in India **465**
estimated basis census 2011 categorisation of metros and cities

29 bn
estimated daily bus passenger traffic in India in 2019

56 bn
estimated daily bus passenger traffic in India by 2030

Total F&B retail opportunity for bus stations in India estimated to increase to **USD 0.9 bn** by 2030 from **USD 0.2 bn** in 2019

Total lease rental opportunity for highways in India estimated to increase to **USD 0.1 bn** by 2030 from **USD 0.03 bn** in 2019

RETAIL KALEIDOSCOPE

1. The changing retail spectrum

India has always been a traditional retail market with single stores and privately held shops. In the past, retail was limited to just a few necessity-based shops that mushroomed near travel junctions, village *chaurahas* (crossroads) and stopovers as mixed-use stores that sold everything under the sun. Gradually, these shopping areas became synonymous with specific product categories and themes such as apparel, handicrafts, woollens and leather items or shopping for weddings. Some branched into modern brick and mortar formats such as high streets, arcades and malls. The brick and mortar formats have evolved from the simple 'plaza culture' in the 1990s to the current crème de la crème malls and highstreets. The online marketplace is the latest edition of the retail format, and it is here to stay. Thanks to the technology savvy millennials and the digital wave, India is quickly becoming a global destination for online retailers. Urbanisation, the ever-expanding cities, the busy lifestyles today, do not give enough opportunity for visiting a store to make a purchase and so the online market place has come to add the nuance of convenience to the thrill of shopping.

As mentioned earlier, retail thrived at junctions, chaurahas and then transformed into the modern formats of today, but with pressing lifestyles and lack of time, retail is being reinvented and revisited on transit routes in expanding cities and along new transportation corridors. But before we dive into the newer formats of retail that will help us in tapping the consumer at the right time and place, let us look at some of the major trends and patterns that drive retail in India.

I. The new age consumer

Along with the change in formats, the retail market has witnessed an enormous change in consumer spending patterns. Exposure to global brands, increasing disposable income levels and the desire for upscaling the lifestyle has redefined the country's retail landscape. India's demographics work in favour of the growth in retail. With a total population of 1.3 billion, India's share of working age population (between 15 and 64 years) has increased from 58% in 1990 to 67% in 2018. The low median age of 27.7 years presents huge potential for the growth of the retail industry. An understanding of the underlying demographics presents unique nuances and insights into the buying behaviour that defines the interplay of retail and consumers.

II. Urbanisation

By 2050,it is projected that 57% of India's population will live in cities (current urbanisation 45%) leading to a spurt in consumption.[1] Currently, a majority of Indians live in rural areas; however, the economic opportunities and aspirations for a better lifestyle is slowly drawing people to cities. This movement to cities is characterised by higher spending to meet the ever-expanding needs and has created aspirations through exposure to media and the internet. The pattern of urbanisation in India is becoming a strong driving force for growth, as it entails huge investment in infrastructure in mass transit corridors, transportation hubs and associated need for goods and services. Cities in India contribute approximately two-thirds to the country's economy and are the main recipients of the bulk of foreign direct investments.

According to a recent research,India will house 10 of the world's fastest growing cities between 2019 and 2035 with Surat, Agra, Bengaluru, Hyderabad and Nagpur taking the top spots. [2]

◆◆

According to Oxford Economics, of the 50 cities globally, the Indian cities of New Delhi, Mumbai, Bangalore, Chennai, Hyderabad, Ahmedabad, Surat, Pune and Ghaziabad will see the biggest increase in population by the year 2030 translating to a consumption boom.

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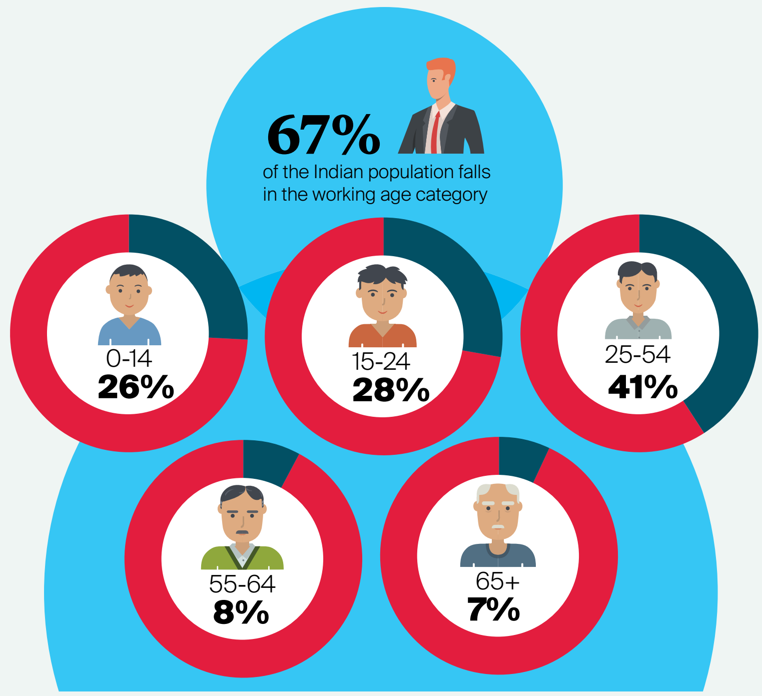
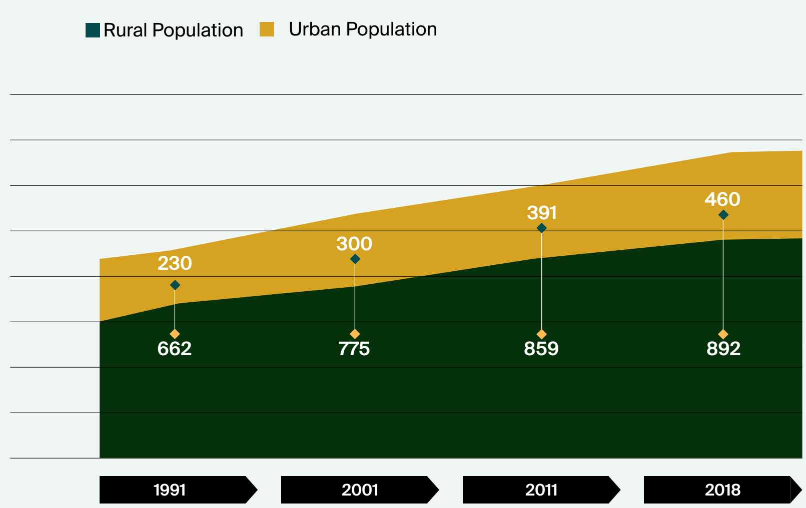
The Indian age pyramid

Total Population **1.3** billion



Source World Bank, Knight Frank Research

Urbanisation in India is growing



Source: World Development Indicators, World Bank

[1] United Nations Department of Economic and Social Affairs
[2] Oxford Economics

III. Technology boom

It is interesting to note that even though a majority of the Indian populace resides in rural areas, the internet penetration is at a good 34% for rural areas and 64% for urban areas. This corroborates the fact that many e-retailers have reported of their noteworthy sales coming from rural India. There are several catalysts playing concomitantly in favour of e-tail, the most significant being the strengthening ecosystem that makes buying online better every day. Information Technology (IT) infrastructure has improved significantly over the last decade. Customer experience has also become enhanced due to customer-friendly policies regarding exchange of goods, quick delivery and more.

IV. Adapting with time – The evolving omni-channel approach

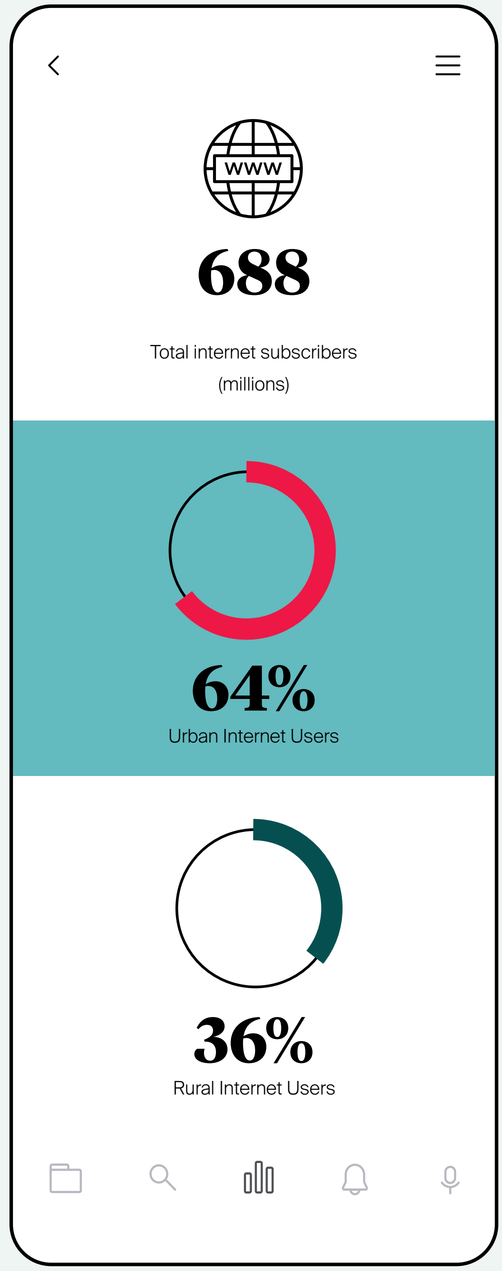
In the last decade, there has been a sea change in how the customer connects with retail. The speed at which this 'click-and-sell' model has grown in the last two years signifies a ground shift in the buying pattern of the Indian populace. However, with the number of leading e-tailers opening physical stores to showcase their products and services tells us that the deliberation on the 'bricks versus clicks' models is not relevant anymore. Today, both have been integrated seamlessly to create a satisfying shopping experience and has thus been rightly categorised as the omni channel strategy. An omni channel strategy connects consumers through various channels such as websites, mobile apps, social media, kiosks, physical stores, and strives to enable the consumer to shift between various channels seamlessly during his shopping journey.

V. The rising income and changing spending patterns

It is not news that India is a consumption-driven economy and with the increase in urbanisation, consumption is expected to rise manifold. India has emerged as fifth largest economy of the world with a total size of $2.9 trillion in 2019. The increasing disposable incomes have led to an increase in private consumption expenditure in the past few years which grew at a healthy CAGR of 8% between FY 14 to FY 19. Carving out a handsome share (close to 60%) in the economy's GDP, India's consumption story has always been the major driver for its growth. The consumer of today is well travelled and the increase in incomes and exposure has also fuelled the use of plastic money and an increase in discretionary spending. As per a research study by Oxford Economics, New Delhi (3.4 million, rank 16) and Mumbai (3.3 million, rank 17) will be the world's largest consumer cities in the middle-income households' group by 2030.[3] With development in the economy, the consumer spending pattern is shifting from essentials to luxuries and from goods to services.

This shift towards discretionary spending is also visible in the growth in spending on leisure travel by residents within the country. Expected to grow at a Compound Annual Growth Rate (CAGR) of around 8.2% during 2019-2025, the growth in domestic spending on leisure and business travel points toward the fact that new age India is ambitious, dynamic and upwardly mobile, which presents a huge potential to the Indian retail growth story.[4]

Internet broadband subscribers in India



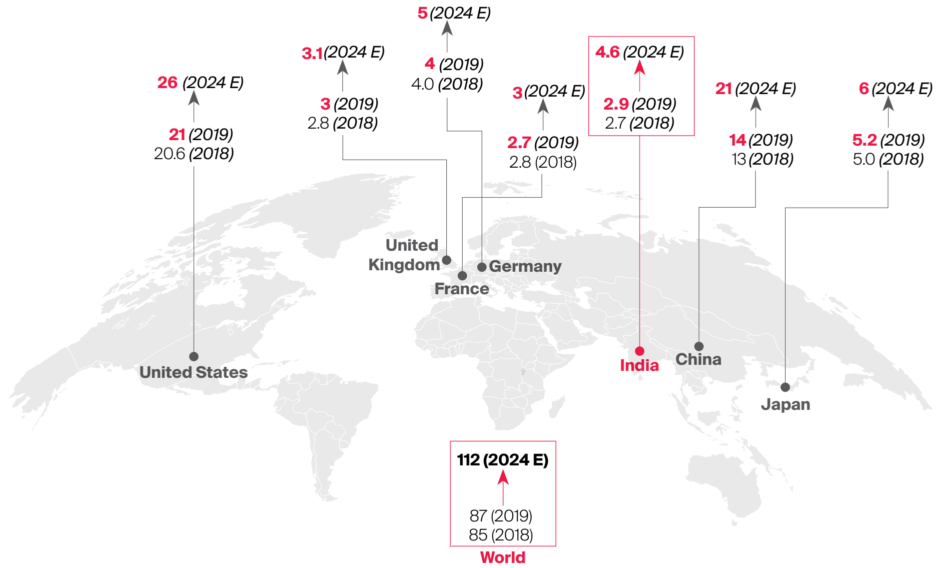
Source: The Indian Telecom Services Performance Indicators, 2019

[3]Middle-income US$10k-US$70K non-PPP 2012 prices and exchange rates.
[4] World Travel and Tourism Council

Global Giants - Top economies of the World

~ GDP, current prices (trillion USD)

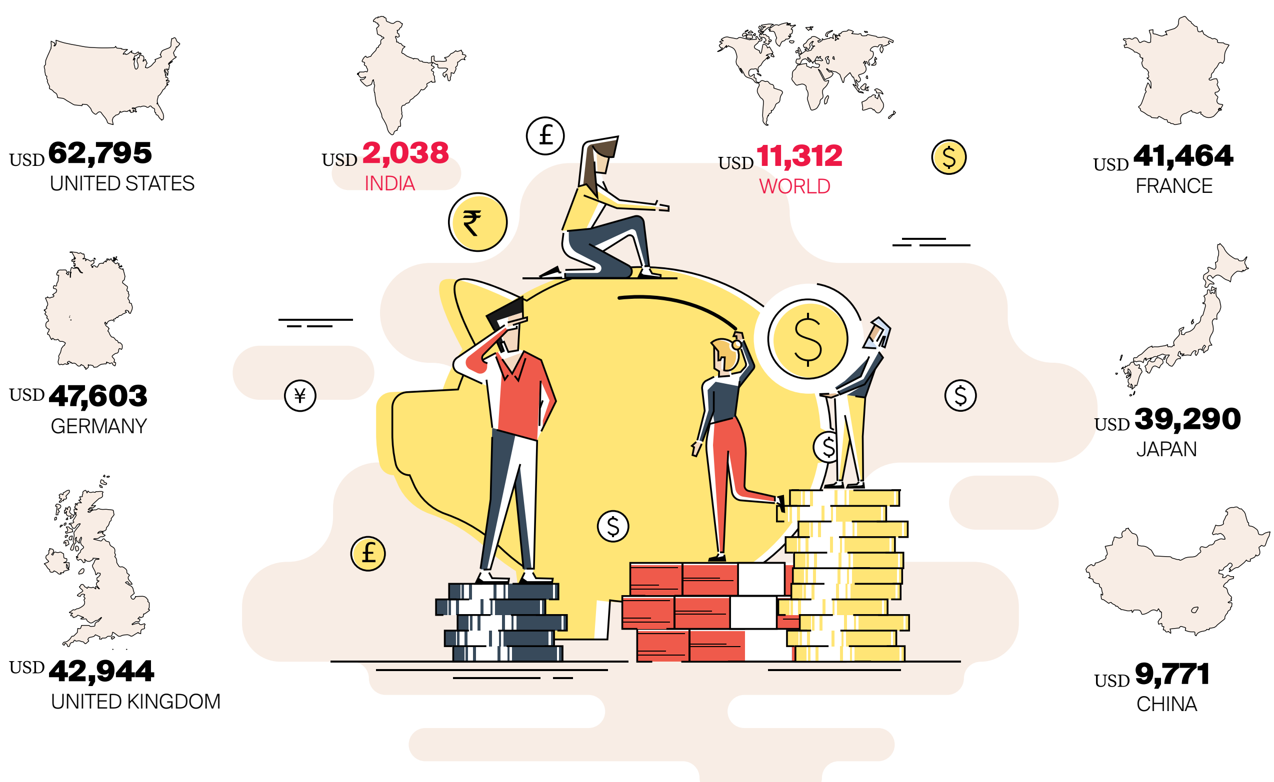
India has emerged as 5th largest economy in the world with a total size of USD 2.9 trillion in 2019



Source International Monetary Fund (IMF)

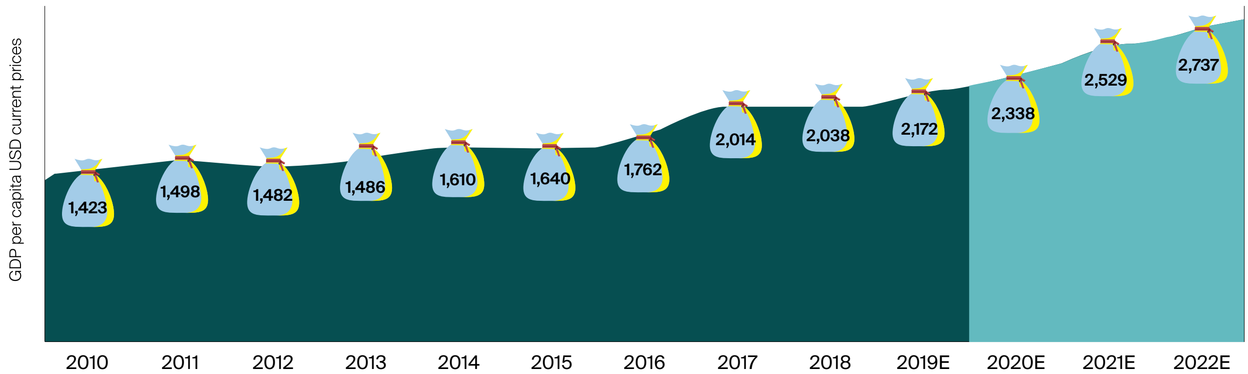
Global per capita GDP - India plays catch-up

2018, USD current prices



Source: World Development Indicators, World Bank 2019

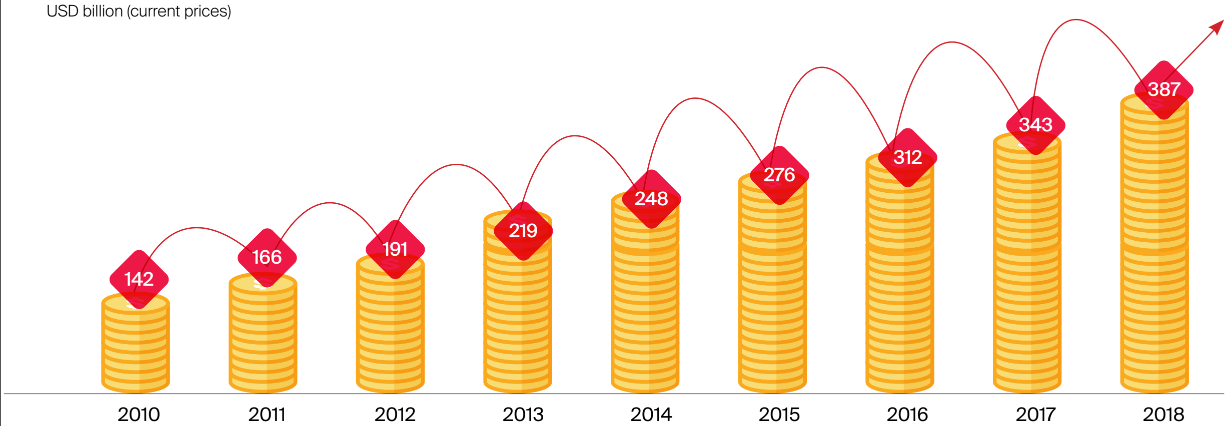
India's GDP per capita is growing at 6%



Source: International Monetary Fund

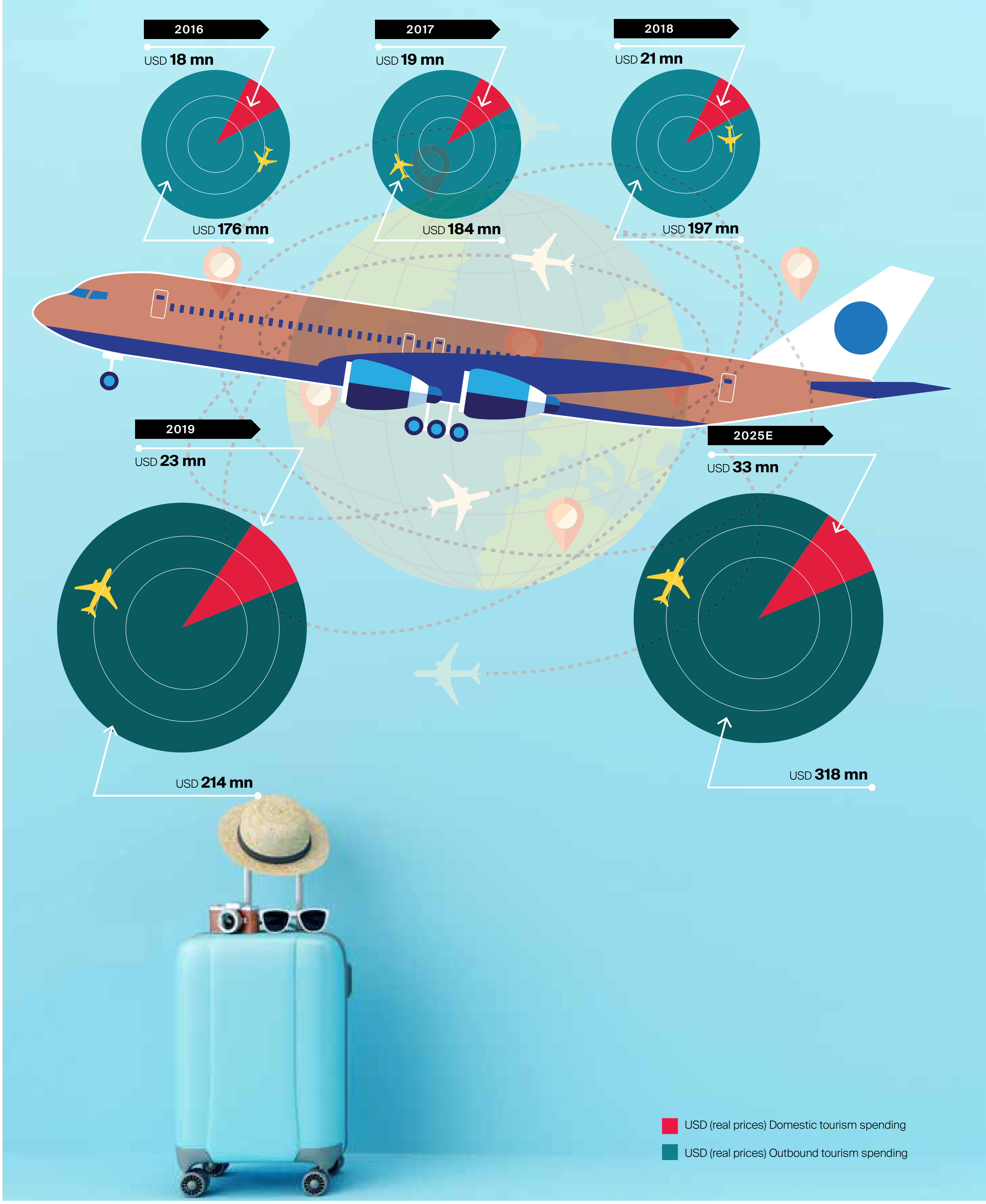
India's private consumption expenditure - An indicator of increasing disposable income

USD billion (current prices)



Source: Organisation for Economic Co-operation and Development (OECD)

Indians are spending on their leisure and business trips in and out of India[5]



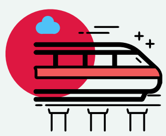
Source: World Travel and Tourism Council,

2. Infrastructure push shaping up retail footprint

As cities expand, infrastructure augmentation and connectivity become enablers for furthering the economic growth of the city. Transport infrastructure in the form of roads, railways, metro, airport, ports and inland waterways is undergoing a massive rehaul in India and is expected to see a capital outlay of USD 300 billion (annually) in the coming five years.[3] Government initiatives such as 'Bharatmala Pariyojana' (highways), Sagarmala (ports), railway station redevelopment programme, inland waterways development, regional air connectivity scheme in the form of UDAN (airports), and Smart Cities (urban infra) is slowly changing the urban landscape in India.

Along with this, the participation of private players in infrastructure projects such as airports, metros and railways are opening new avenues for retail to expand its footprint away from the conventional shopping centres and highstreets. Planned infrastructure revitalises the underutilised precincts of the city and brings significant change in its economic activity. For example, the coming up of new transit corridors and transportation networks is opening newer real estate opportunities for developers and brands to position themselves in the well in the eye of the customer.

Government infrastructure push for the next five years



Metro and Railways

Modernisation of Railways, with a plan to modernise 400 railways with passenger-friendly amenities and facilities.

Launch high speed trains and new version trains such as the Vande Bharat Express.

Expand metro infrastructure to 50 cities
Incentivise cities to intigrate public transport systems such as metros.

Develop suburban townships and new urban centres through infrastructure connectivity.

Airports

Operationalise 100 new airports for better connectivity.

Roads

Construct 60,000 kms of National Highways and double the length of national highways
Introduce new technology in design and construction.

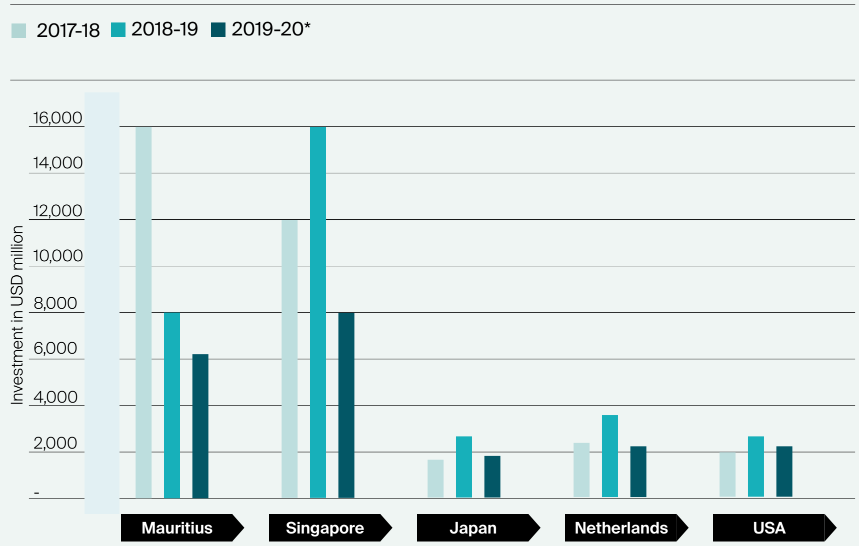
Source: Knight Frank Research

3. The policy perspective

Foreign Direct Investment in India on an on the upward trend

To attract more FDI, the Indian government is making policy more liberal by allowing 100% FDI under the Automatic Route in more sectors like single brand retailing, food products, airports, e-commerce activities, construction development, etc.[4] The process of FDI approvals has been streamlined and simplified to facilitate the investors, with the respective ministries/departments being the approving authorities and Department of Promotion of Industry and Internal Trade (DPIIT) being the single reference point. FDI investment has been increasing over the years with the top sectors being service sectors (banking, insurance, etc), computer software and hardware, telecommunications, construction development, trading, etc. As per FDI Statistics (DPIIT), the total FDI equity inflow received from April 2000 to September 2019 is USD 4,46,238 million and in 2019, till September, India has received USD 26,096 million.

Foreign direct investment - Top 5 countries investing in India



Source: FDI Statistics, Department of Promotion of Industry and Internal Trade (2019).
*Data for 2019-2020 is available till September.

[3] ICRA Limited estimates, 2019

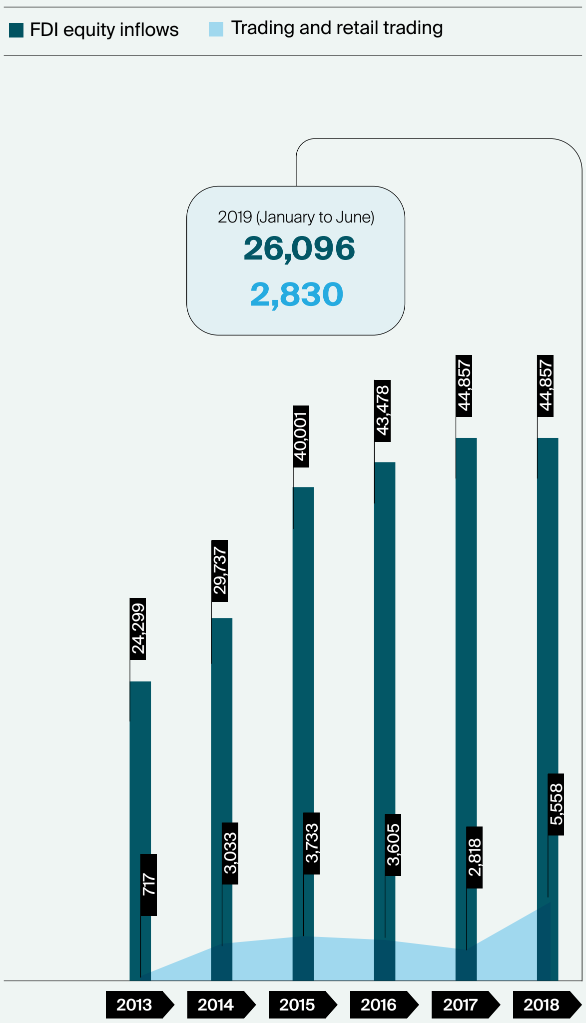
[4] Source: FDI Policy Press Note 4 (2019) and Consolidated FDI Policy (2017), Department for Promotion of Industry and Internal Trade

I. FDI in Retail – the Indian Scenario

Indian markets have not just grown but are also becoming more technologically advanced and sophisticated. According to the Global Retail Development Index (GRDI), Indian retail is ranked second with high market attractiveness and lower risks. With the rules being modified and relaxed for attracting more foreign investment, the Government of India is supporting and tapping into the potential of the retail sector. Retailers can invest through the Automatic or Government/ Approval Route under FDI. The 'Industrial Corridors' currently being planned, have also increased the opportunities of retail in such corridors. Introduction of Goods and Service Tax (GST) has decreased the cost and time of logistics and interstate transport. This has made the Indian retail market more lucrative for foreign investors who can invest in single brands, multi brands, wholesale/ cash and carry, e-commerce or duty free. There has been substantial increase in the FDI equity inflows into the retail industry from year 2014, and the highest has been recorded in year 2018. As per FDI Statistics by Department of Promotion of Industry and Internal Trade (DPIIT), from April 2000 to September 2019, wholesale and e-commerce have received USD 25,165 million and retail trading has received USD 1,898 million, which accounts for 6% and 0.43% respectively, of the total equity inflows. In 2019 until June, trading received USD 2,565 million and retailing received USD 265 million. [5]

FDI Equity Inflows - Total, Trading and Retail Trading

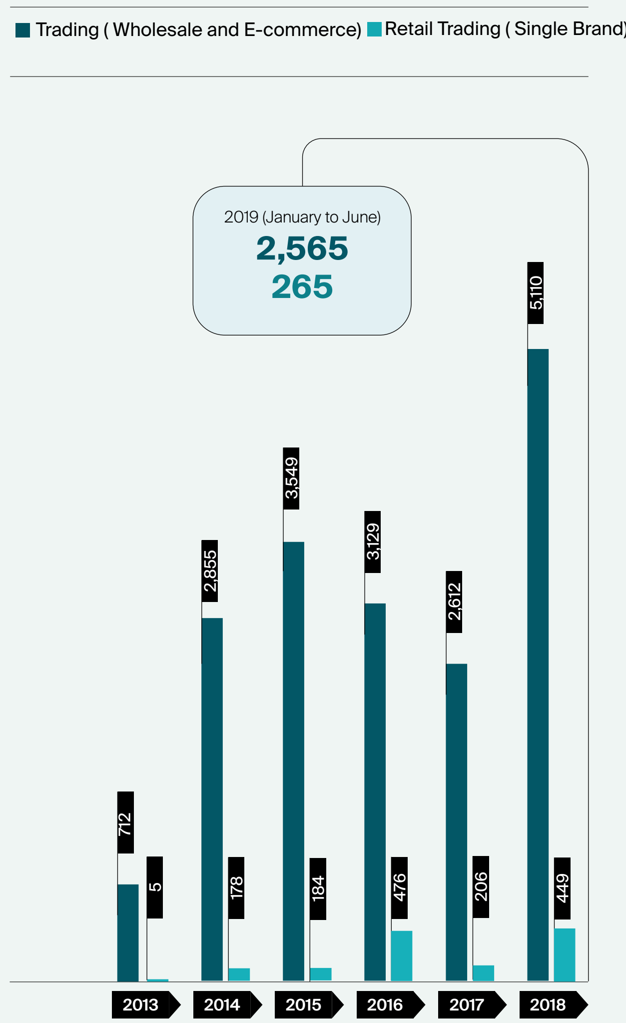
Investment USD (million)



Source: FDI Statistics, Department of Promotion of Industry and Internal Trade (2019)

FDI in Trading and Retail Trading

Investment USD (million)



Source: FDI Statistics, Department of Promotion of Industry and Internal Trade (2019)

[5] FDI Statistics, Department for Promotion of Industry and Internal Trade

II. FDI in Different Types of Retail

Single Brand Retail Trading (SBRT)

- 100% FDI is allowed under Automatic Route.
- No capping on minimum and maximum investment
- Single brand retailers operating from brick and mortar store, can also do e-commerce
- Single brand retailers with no brick and mortar store, can now sell through e-commerce, before opening brick and mortar store within two years
- Total of 30% local sourcing for first five years, and then 30% on annual basis for investments more than 51%

Up until 2019, 51% has been allowed in SBRT. Other conditions are that the product should be of 'single brand' and should be sold under the same brand internationally. The products should be branded during manufacturing. As mentioned in the consolidated FDI Policy, the local sourcing is to be done from 'Micro, Small and Medium Enterprises (MSMEs), village and cottage industries, artisans and craftsmen, in all sectors'. For the sourcing requirement, the company which will receive the foreign investment must be incorporated in India. For SBRT products having 'state of art' and 'cutting-edge' technology and where local sourcing is not possible, the local sourcing norm is not applicable for the first three years.

Examples: IKEA, Hennes & Mauritz (H&M), Uniqlo

Multi Brand Retail Trading (MBRT)

- 51% FDI is allowed under Government Route.
- Minimum investment of USD 100 million1.
- E-commerce is not allowed

50% of the first tranche brought as FDI from the USD 100 million to be invested in 'back end infrastructure'. The retailers in this sector can set up retail stores in cities having more than 10 lakh population (as per Census 2011), or other cities or urban agglomerations depending upon the decision of the State Government. Amongst the products, fresh agricultural produce (fruits, vegetables, flowers, grains, meat and fish products may be unbranded.

Examples: Star Market (TESCO with TATA)

Food Brand Retail Trading (FBRT)

- 100% FDI is allowed under Government Route for food products manufactured and/ or produced in India.
- E-commerce is allowed.

Example: Amazon Pantry (Amazon Retail India)

Cash & Carry Wholesale Trading/ Wholesale Trading (WT)

- FDI allowed up to 100% under Automatic Route.
- Cash & carry wholesale trading/ wholesale trading includes sale of goods or merchandise for trade and business purposes (only B2B and not B2C)
- Permits/licenses/registrations to be obtained from respective State Governments.

Apart from the trade with government, all other trade will be considered as cash and carry wholesale trading/ wholesale trading. It includes sourcing from Micro and Small Enterprises (MSEs). The trading business can be done with entities having valid trade licenses and registrations (VAT, sales tax, hawker's license).

Examples: Best Price (Walmart), Metro Cash and Carry

E-Commerce

- 100% through Automatic Route in 'marketplace' model (includes only connecting buyers and sellers on an online platform)
- No FDI allowed in 'inventory-based model' (includes selling owned products directly to customers through e-commerce).

In t he marketplace model, more than 25% of yearly sales value should not be from one vendor only. To avoid predatory pricing, the e-commerce entity shall not be allowed to influence the price of goods and services sold.

Example: Amazon India

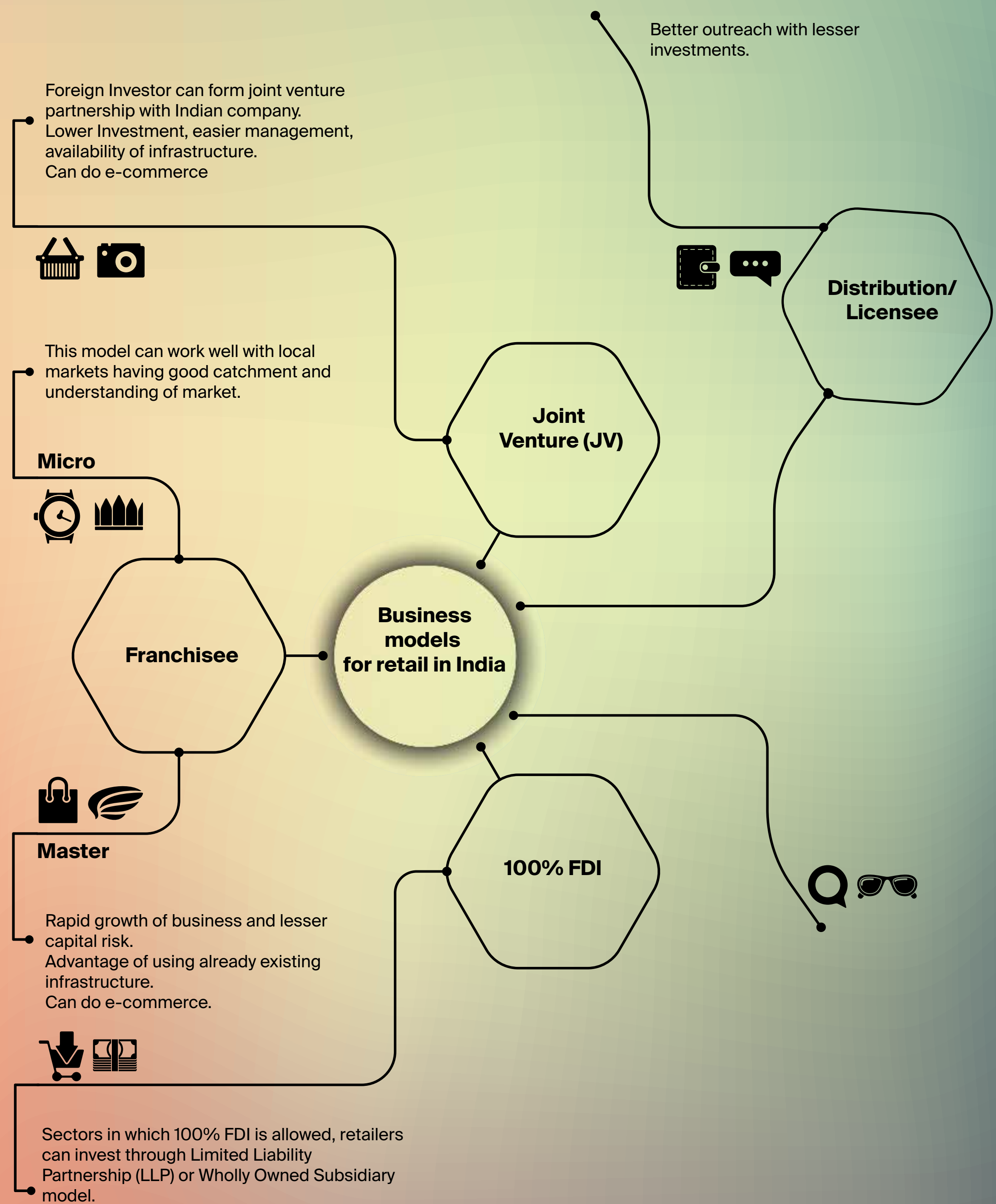
Duty Free Shops

- 100% FDI allowed under Automatic Route.
- Shops to be operated only in custom bonded areas like international airports, international seaports and land custom stations.
- Shops cannot operate in Domestic Tariff Area.

Example: Dufry AG, who has invested in Duty Free at Kempegowda International Airport in Bangalore.

Source: FDI Policy Press Note 4 (2019) and Consolidated FDI Policy, Department for Promotion of Industry and Internal Trade (2019)

Types of Business Models for Retail in India



Source: FDI Policy Press Note 4 (2019) and Consolidated FDI Policy (2017), Department for Promotion of Industry and Internal Trade, Latest Industry Sources

Aman Kapoor
Chief Executive Officer - Airports Land Development
GMR Group

Over the past few years, Airports that once housed the Duty-Free shops and a few restaurants have now transformed into a complete ecosystem that enable enormous options for retail and commercial formats. Across the globe, airports are now being designed (redesigned) to cater to this new phenomenon of “Travel Retail”. The Schiphol Amsterdam airport, The Jewel Changi airport, Tampa International airport are leading the fray in airport retail. Delhi and Hyderabad Airports are classic Indian examples of airport retail where the non-aeronautical revenue is a significant percentage of the total revenue of operations. Much to the likes of airport retail, the non-aero lands at the airport are also becoming the hubs of retail, F&B and entertainment - Delhi’s Aero city and “Interchange – A Destination Retail Village” being developed at the Hyderabad Airport City. Airport retail has tremendous growth opportunity provided the retailers can keep up with the changing consumer behaviour and use technology to make airport retailing a delightful experience.

TRANSIT RETAIL GAINING MOMENTUM

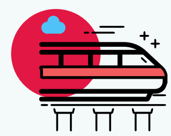
1. Concept

Combining retail and transit in India is not a new idea, but with urbanisation, the growth of cities and improved connectivity, the concept is evolving from coffee stalls, news stands to mainstream retail like restaurants, cafes, fashion and accessory stores etc. Due to the infrastructure push, transit hubs like airports, metros, railways and roads are undergoing a major transformation by reinventing themselves, and mixed-use facilities are being designed in and around these hubs. Offering a mix of retail, in some cases, they are also becoming destinations in themselves thriving on passenger traffic, but also attracting the catchment for its retail offering.

Major formats of transit retail

Airports

- Captive audience
- High wait time
- Disposable income
- Quality retail ecosystem
- High value transactions
- Suitable for all product categories



Metro and Railways

- Fluid audience
- Restrictive wait time inside station
- High frequency
- High traffic
- Low value transactions
- Quick selling restaurants dominant

Highways

- Fluid audience
- High frequency
- High traffic
- Convenience shopping
- Low value transactions
- Quick selling restaurants and cafes dominant

Source: Knight Frank Research

2. Symbiosis of transport infrastructure and retail spaces

It is no guess game that as mass transit hubs continue to grow, there will be more opportunities for retailers and developers. Since major infrastructure projects mean huge capital expenditure for the government, the new age transit hubs are conceived not only to cater to the commuting passenger traffic but to enhance the overall transit experience by providing retail, food & beverage and other facilities and amenities. If done right, the government can monetise this availability of space and infrastructure to offset some of its capital cost.

As for the retailer, these well-connected transport hubs help them to take the product right to the customer with a targeted profile. Insights suggest that retailers and operators are extensively conducting surveys to know their customers better. They are identifying critical aspects such as wait times and demography, to detect windows for traveller boredom for creating impulse and convenience shopping. It is beyond doubt that the impact of the thriving transit hubs will be extended beyond the realms of the airport or metro boundary and have a significant bearing on the nearby catchment areas, thus making the cities more vibrant and alive. Such developments will create energised ecosystems which combine the energy and vibrancy of both the transit population and the adjoining residential and office developments.

The changing face of Indian urban scape and the push to infrastructure is opening new opportunities and bringing a paradigm shift in how transit retail is perceived in India. The governing bodies are encouraging Public-private partnerships (PPP) and joint venture models to bring in state of the art infrastructure and realise the commercial potential of transport infrastructure.

B.S. Nagesh
Founder
TRRAIN

Airports are an expensive proposition for retailers from a rental perspective. Having a very steep trading density as compared to conventional retail formats such as malls and highstreets, airports incur high capital expenditure on interiors and fitout. In line with this, retail at airports will only be able to do well and match the global benchmarks when passenger traffic increases significantly across our cities. Along with this, for a retailer it is important that the revenue share at airports comes down which will help to make airport retail more viable for retailers and not act purely as stores for brand recall. Impulse category such as gifts and souvenirs and the food & beverage category will be the major drivers for retail at airports going forward followed by fast fashion and accessories category which do not require significant 'dwell time'

In India, though the airport infrastructure is more evolved and modern than the metros and railways, it is only two decades old compared with International benchmarks. The Indian aviation industry having established itself amongst the top seven aviation markets for passenger traffic in the world for the year 2018, is set to become the 3rd largest aviation market in the world by 2040 after China and United States.[1] Identifying this opportunity, the recent impetus on regional air connectivity through *'Ude Desh ka Aam Naagrik (UDAN)'* scheme, NABH - Nirman Scheme which is aimed at increasing India's airport capacity, and modernisation and construction of new airports through private sector participation has only helped the cause of development.

The non- aeronautical revenues of an airport contribute significantly towards the profitability of the airport and according to the Airports Council International, of the total airport revenues in 2016, 40% was contributed from non- aeronautical segments such as retail, food & beverage, advertising etc. In India, non-aeronautical revenue from the Indira Gandhi International Airport is as high as 70% of the gross revenue of which 34% comes from retail, food & beverage and duty-free components, thus reinstating the importance of integration of retail into the transit formats on a more pronounced basis.[2]

[1]World Airport Traffic Forecasts, Airport Council International (ACI), 2019

[2]Delhi Airport International Limited (DIAL), Auditor Report, March 2019

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Global View

Shop while you Fly

80 mn
Passengers in 2018-19

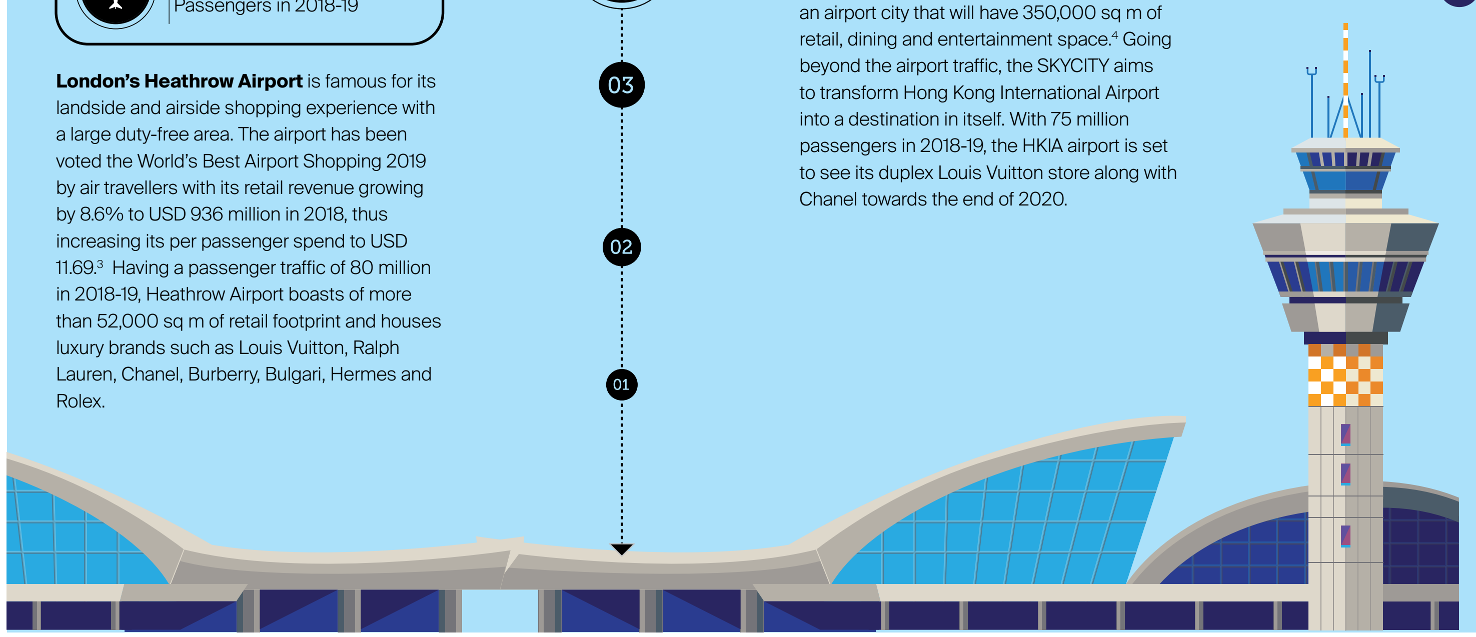
London's Heathrow Airport is famous for its landside and airside shopping experience with a large duty-free area. The airport has been voted the World's Best Airport Shopping 2019 by air travellers with its retail revenue growing by 8.6% to USD 936 million in 2018, thus increasing its per passenger spend to USD 11.69.[3] Having a passenger traffic of 80 million in 2018-19, Heathrow Airport boasts of more than 52,000 sq m of retail footprint and houses luxury brands such as Louis Vuitton, Ralph Lauren, Chanel, Burberry, Bulgari, Hermes and Rolex.

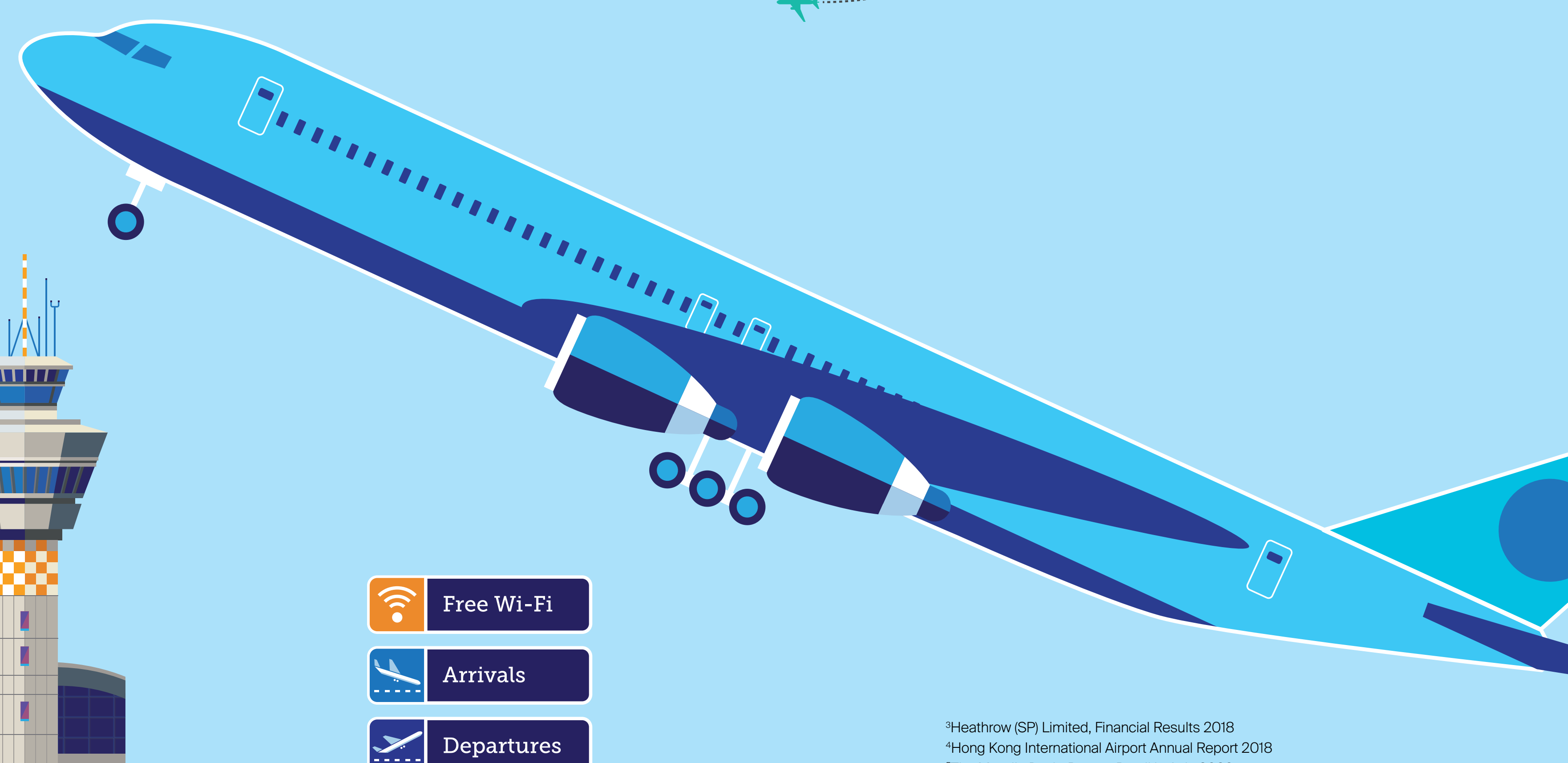
75 mn
Passengers in 2018-19

Hong Kong's growing transport network and retail and commercial activities around the nodes has propelled the Hong Kong International Airport from being a city airport to be an airport city. Under the SKYCITY project, the Airport Authority Hong Kong is developing an airport city that will have 350,000 sq m of retail, dining and entertainment space.[4] Going beyond the airport traffic, the SKYCITY aims to transform Hong Kong International Airport into a destination in itself. With 75 million passengers in 2018-19, the HKIA airport is set to see its duplex Louis Vuitton store along with Chanel towards the end of 2020.

68 mn
Passengers in 2018-19

Seouls Incheon Airport, South Korea hosted 68 million passengers in 2018-19 and is underway to increase its passenger capacity to 100 million by 2023. Posting an all-time high duty-free annual sale of USD 2.4 billion in 2019, the airport duty free retail is ahead of Dubai which posted USD 2.01 billion in the same year.[5] Cosmetics and Fragrances was the biggest category with 41% share followed by Liquor and Tobacco at 23% share.





[3]Heathrow (SP) Limited, Financial Results 2018
[4]Hong Kong International Airport Annual Report 2018
[5]The Moodie Davitt Report, Retail in Asia 2020

Policy initiatives are underway to reduce losses in the Indian Railways, and one of them is to frame policies for increasing its non-fare revenue generation.[6] Along with this, the public private partnership (PPP) model of infrastructure development has been sought by the Government of India to achieve faster development of the state-owned Indian Railways. One of the schemes for encouraging private sector participation is the 'Adarsh Station Scheme', under which, of the 1,253 stations that were identified for development and upgradation, 1,149 have been renovated. The scheme entails improvement of the building façade of the station, as well as various passenger amenities and facilities such as retiring room, waiting room, landscaping of circulating area etc. for changing the character of the railway station. The Indian Railways - fourth largest railway network in the world by size - carried 8.6 billion passengers (suburban and non-suburban) in year ended March 2019.[7]

Similarly, built on the lines of the Heidelberg Railway Station in Germany, the redevelopment of the Habibganj Railway Station in Madhya Pradesh by Indian Railway Stations Development Corporation Limited (ISRDC) and Bansal Group on a PPP model is a commendable example of how commercial elements can be incorporated in transit projects. The station will house gaming zones, a museum,

THINK INDIA. THINK RETAIL. 2020

retail and food & beverage facilities. Other stations following suit are the Gandhinagar and Surat Railway Stations in Gujarat, and the Baiyappanahalli Railway Station in Bengaluru, where elements such as restaurants, retail and hotels are getting incorporated into the transportation infrastructure thus creating a huge opportunity for retail and allied commercial activities in railway infrastructure.

The metro rail story in India is recent and began with the operation of the Delhi Metro in 2002. Aimed to ease traffic congestion, the Delhi Metro has been a game changer in providing urban connectivity and ease of traffic to a great extent. In 2006, the celebrated Delhi Metro Rail Corporation (DMRC) first started its retail operation in select stations since the fare-box revenues were not enough to sustain metro operations. With a daily ridership of 4.8 million,[8] it is only now that more impetus is being given towards realising revenues through leasing and allied commercial activities. Metro station retail is more time sensitive unlike airport retailing where there is a longer lounge period. Secondly, this form of retail is also price sensitive characterized by low fares and rentals for the commuters and the retailers.

Global View – Retail on Wheels

5.8 mn daily ridership passengers

21 USD Profit in 2018

The 'Real Estate Value Capture' model of **Hong Kong's Mass Transit Railway (MTR)** is a classic example of realising the potential of a metro station as not only a station but as a real estate asset that can be monetised. This means that the MRT captures the increase in the value of land after the metro infrastructure is built. With a ridership of 5.8 million passengers daily, the MTR Corporation Limited posted a profit of USD 21 billion in 2018.[9] With this model, the Corporation made a profit by real estate development making it one of the most profitable metros in the world.

4.8 USD billion operating revenues from retial services

3.2 USD billion Revenue from real estate and hotel activity

In Tokyo, the privately-owned rail lines such as E**ast Japan Railway Company (JR East)** have diversified their business beyond connectivity and are profiting from it through monetising on the real estate holdings and retail leasing by turning their passengers into customers.[10] The Company registered 101% penetration with USD 4.8 billion operating revenues from retail & services, while real estate and hotel activity brought in USD 3.2 billion in the year ending March 2019.

0.1 mn annual ridership (FY2018)

123 year old Denver Union Station

Another example of reinventing the transit hubs is the 123-year old **Denver Union Station** which after its renovation in 2014 has added a mix of retail restaurants, coffee shops and the 112-room Crawford Hotel under its 19.5-acre mixed use offering.[11] The Station has an annual ridership of close to 0.1 million (FY 2018) with 10 retail and F&B outlets, 1,115 sq m of public common area called the 'Great Hall', and 3,716 sq m of outdoor plaza space.

4 World's most extensive train station

1.2 mn annual ridership

The World Trade Centre Transportation Hub is another great example of how new developments are incorporating the retail element in their design and concept.[12] Opened in 2016, the station is touted as the world's most expensive train station at a cost of USD 4 billion. Catering to more than 2,50,000 commuters daily, the stations' Oculus Hall in Lower Manhattan has a of dedicated retail space with brands such as BOSS, Dior, H&M, Starbucks, Sephora, Victoria's Secret and Tumi, and draws approximately 1.2 million footfalls annually. The station is also home to the flexible workplace major WeWork.

[6] Lok Sabha, Government of India Ministry of Railways, November 2019
[7] Statement of Railway Receipts and Expenditure, Regular Budget 2019-20
[8] Includes New Delhi, Gurugram and Noida

[9] The Guardian
[10] East Japan Railway Company (JR East), Financial Results Presentation, FY 2019
[11] The Great American Stations
[12] The Making of the New $4 Billion WTC Transit Hub, Bloomberg 2019

Vinay Kumar Singh
Managing Director
National Capital Region Transport Corporation (NCRTC)

With rapidly growing population, increasing pace of urbanisation and expanding urban agglomeration, second revolution around regional connectivity is required. One of the fastest growing regions of the world, NCR in India is facing serious issues of road congestion and air pollution due to lack of efficient and reliable regional public transport. To address these issues, the NCRTC is implementing the Regional Rapid Transit System (RRTS) - India's first regional rail, which is poised to change the way people live and commute. In this regard, the implementation of 82 km Delhi-Meerut RRTS Corridor is already in full swing and is the first amongst three prioritised RRTS corridors, others including Delhi-Alwar and Delhi-Panipat. The proposed RRTS will bring significant direct benefits such as reduction in travel time, road accidents, air-pollution, road congestion, etc. and economic benefits such as agglomeration benefits, improved productivity, regional development and induced employment, unlocking economic development potential of NCR. Several commercially viable options, like retail, food, offices, co-working spaces, hotels, etc. are being planned along the corridor to develop the non-fare box revenue sources which will help to make these public funded capital-intensive transit projects more sustainable. NCRTC will strive to bring people and places closer to improve quality of life of people sustainably.

Retail alongside highways and expressways, is more at a nascent stage in India; concepts such as petro retailing and strip malls have only been catching up in the last few years with improvement in roads. Having one of the largest road networks in the world with a length of 5.8 million kms, the Indian roads carry ninety percent of the passenger traffic of the country. In the Union Budget 2019-20, the Government of India had allocated USD 11.6 billion under the Ministry of Road Transport and Highways to upgrade and build new road infrastructure.

It is seen that though the roads and expressways sees huge traffic, the passenger traffic is mostly fluid with low transaction value and a mixed customer profile unlike the airports and metros. On the other hand, some of the highways in India such as the NH-44 or erstwhile NH-1 has grown its F&B and retail footprint organically over the years. Murthal on the NH-44 for instance, has developed as a cluster of restaurants and '*dhabas*' such as Amrik Sukh Dev, Garam Dharam, Chokhi Dhani along with many others making it a destination in itself which is not only frequented by the daily passenger traffic but also by food lovers from the neighbouring areas of Ghaziabad, Noida, New Delhi and Greater Noida of the National Capital Region of New Delhi.

The new access-controlled expressway infrastructure with fewer entry and exit points does not allow easy exit from the expressway and so retail opportunities on expressways are more concentrated towards the entry and exit points of the expressway. The growth of roads in India has also pushed for the development of bus stations to emulate airports and metro stations and monetise revenue potential by retail and other commercial developments.

3. Transit retail a win-win for retailers

There is enough evidence that transit retail or travel retail in the form of airport retailing has fetched good sales for the retailers as well. Transit retail solves the most important problem of location for a retailer while setting up store. The major transit hubs or corridors, as in the case of roads, are the busiest city centres and thronged by people moving in and out to commute. More footfalls imply more customers, just as it does for any high street or out-of-town shopping centre. A retailer gets a homogeneous target audience and can create a better 'brand recall' in the minds of the passengers.

It was very unusual when **Stockholm-based retailer H&M** opened their 36th retail store in HUDA Metro Station in Gurugram in India. The brand took its store to the metro station to attract a good volume of relevant customers (70,000 passengers daily as of 2018) from the services segment that travel to and from Gurugram every day.

For the British retailer **WHSmith**, travel retail (mainly airports, railways and metros) has brought in an increase in their overall revenue. With 433 international units in Europe, the Middle East, Australia, South-East Asia and India, the travel profits are now almost twice the profits of High Street.[15] For its travel segment, the total revenue was up 22%, with a profit of 14% to USD 152.8 million till August 2029 (2018: USD 134.4 million).

Another international retailer, **Luxottica Group** has reinvented its store **Sunglass Hut 4.0**, to capture its growing travel business, and as per the Company, the airport points of sales (POS) generate twice the business done by their outlets in malls and highstreets.[16] The brand Sunglass Hut presently has 3,600 stores globally, of which 300 are in the travel business segment.

However, the success of the retailer will depend to a great extent on the location and the product offering. For example, airports with its populace in the mid to high income category will be drawn towards premium and bridge to luxury brands, whereas transportation hubs such as metro stations and railway stations will be heavily dependent on smaller items or 'grab and go' products that are easy for transit riders to carry. That rota includes quick serve restaurants (QSR), pharmaceuticals, and convenience items.

◆◆

As the transportation network evolves, modern transit nodes in the form of airports, railway and metro stations, bus stations will be imperative for cities' growth. These transportation hubs will provide increased revenues for both the transport hubs and retailers, as well as support the government's smart city initiatives for transforming cities into engines of economic growth.

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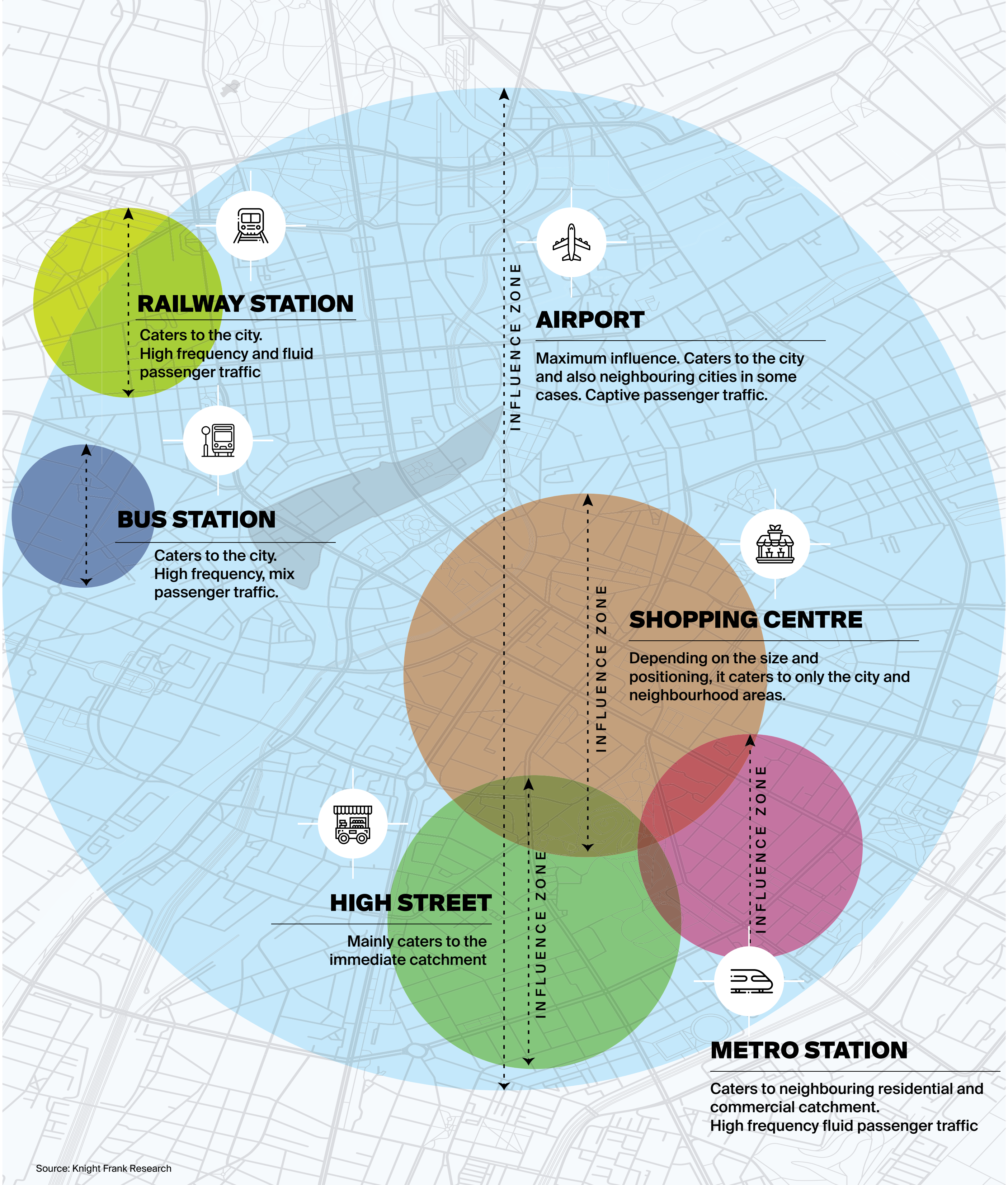
[15] WHSmith PLC, preliminary results announcement for the year ended 31 August 2019

[16] The Moodie Davitt Report, December 2019

Influence zone of transit retail versus conventional retail formats



Source: Knight Frank Research

Varun Kapur
Executive Director
Travel Food Services

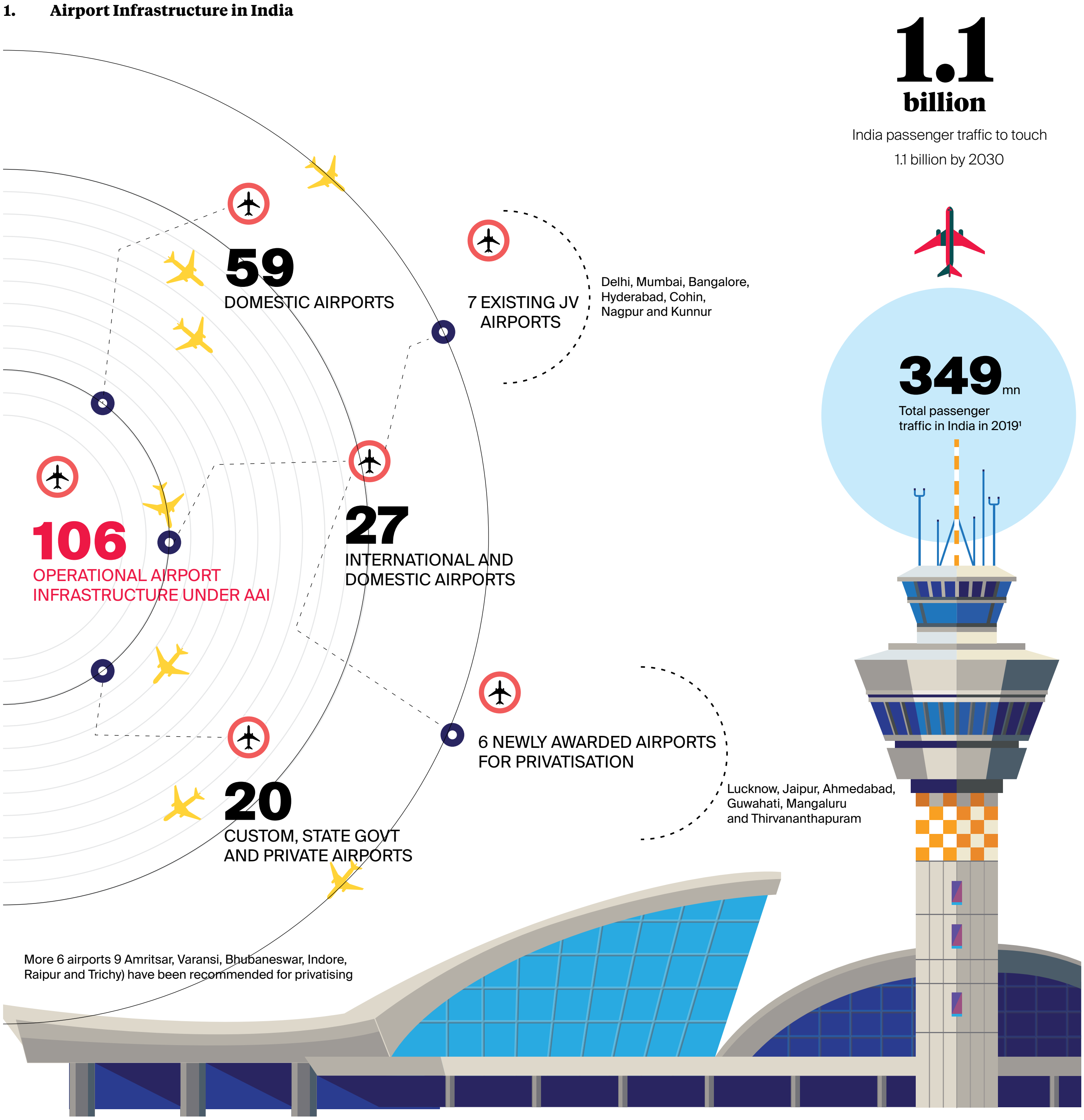
Travel retail has arrived as the next big thing in retail in India, with airports developing into highly matured & well-planned retail destinations. They have evolved from utility stops to hubs offering services and facilities all under one roof. In addition to traditional business travel, the leisure travel experience has emerged as a non-negotiable activity for Millennials and Gen-Z, resulting in travel retail not severely affected despite the economic slowdown, thus indicating the relative stability that the industry possesses. However, at the same time, the travel retail industry is one that leaves no room for error in execution & business performance considering the challenging and fast-paced environment that is coupled with expensive occupation costs at travel hubs. The recent past has seen significant shocks affecting the industry with closure of Jet Airways & Thomas Cook, tensions in the Middle East, economic pressures in India and more recently the Coronavirus epidemic in China. Despite these challenges, with the government's initiatives to enhance connectivity, we see travel retail as an important facet of modern retail in India and are excited to be part of this growing industry as we continue to work towards providing a delightful experience to our guests

AIRPORT RETAIL

CAPTIVE QUALITY RETAIL ECOSYSTEM

Airports in India have come a long way since catering only to the business of flying passengers. This transformation is credited to the improvement in the airport infrastructure in the major metros, post arrival of private operators. Not only are the Indian airports matching up with global airports in developed economies, they are transforming into niche retail destinations, both in terms of business and the 'look and feel'. Coupled with the improvement in infrastructure, the airports are catering to the well-heeled Indian and also the bourgeois with high disposable incomes. It is not surprising then, that sales in some of these airports are at par with conventional retail markets and high-street shops. Given the rapid development of airport infrastructure in the country, airport retailing is poised for an impressive growth in India.

1. Airport Infrastructure in India



Source: Airports Authority of India Traffic News, December 2019

The growth in urbanisation, increase in the upwardly mobile populace and the corporate service sector, has pushed the aviation industry to expand rapidly in India especially with regard to the domestic travel segment. As a result, the total passenger traffic in India, growing at a CAGR of 11% since 2010, has registered a 150% jump to reach 349 million passengers in 2019.[1]

Air travel in India is no longer perceived as the privilege of a select few. Competitive pricing and the government's push towards connecting 2 and 3-tier cities through the Regional Connectivity Scheme (RCS) and UDAN – 'Ude Desh ka Aam Naagrik'), has brought air travel within reach of the growing middle class with fares as low as USD 35 for a one-hour flight. Other government initiatives such as Nextgen Airports

[1] Air Traffic Report 2019-20, Airports Authority of India

for Bharat - NABH Nirman Scheme (2018) for constructing airports and expanding airport capacity, 100% Foreign Direct Investment (FDI) to promote competitive pricing and provide more choice to consumers - are all steps to augment the capacity and infrastructure of the civil aviation industry.

Additionally, private sector participation, to attract investments through public private partnership to upgrade existing airports and construct and operate greenfield airports, acts as a catalyst in the growth of the Indian civil aviation industry. The Ministry of Civil Aviation has introduced the master concessionaire model for retail and food & beverages at 14 selected airports (Chennai/Kolkata/Lucknow/Jaipur/Ahmedabad/Thiruvananthapuram/Guwahati/Indore/Trichy/Mangaluru/Bhopal/Bhubaneswar/Raipur/Srinagar) to upgrade passenger amenities and expand the retail footprint at these airports.[2] In line with the concept of privatising the airports for better infrastructure and revenue streams, the Airports Authority of India (AAI) has chosen Ahmedabad, Lucknow, Jaipur, Mangaluru, Thiruvananthapuram and Guwahati in the first set of six airports for operation, management and development through a public-private partnership (PPP) model for a period of 50 years, and has recommended the airports of Varanasi, Amritsar, Bhubaneswar, Trichy, Indore and Raipur as the next set of airports to be opened up for private sector participation.

The government has also envisioned the construction of new airports under the Greenfield Airport Policy (2008), and as of end 2019 the ministry has given an 'in principle' approval to 21 greenfield airports on a public private partnership to cater to the increase in passenger traffic . Some of the prominent, upcoming airports in this category include the airports of Navi Mumbai, Mopa (Goa), Bhogapuram (Vishakhapatnam), Dholera (Ahmedabad), Hirasar (Rajkot), and Jewar (Greater Noida).

With the current momentum of passenger traffic increase, especially in the domestic segment, and\ the government's push towards privatisation of airports to upgrade infrastructure and optimise revenue, we estimate the annual passenger traffic[3] to touch 1.1 billion by 2030.

UDAN or *'Ude Desh ka Aam Naagrik'* is a Regional Connectivity Scheme (RCS) of the Government of India launched in 2017 with the objective to 'stimulate regional air connectivity by making it affordable'. The previous phase of the scheme included connecting of tourism routes and the inclusion of seaplanes for connecting water aerodromes. Currently, the scheme, in its fourth round (UDAN 4.0), is said to prioritise remote region connectivity for North East, the hilly states of Jammu & Kashmir and Ladakh. The government has allocated USD 65 million under the Regional Connectivity Scheme in the budget for FY21.
Nextgen Airports for Bharat - NABH Nirman Scheme (2018) on the other hand, is an airport capacity augmentation scheme aimed to increase the number of airports in the country and their capacity to handle increasing passenger traffic to the tune of one billion trips annually. Encouraging private sector participation to support the UDAN scheme, the government aims to establish 100 new airports by 2024 with an estimated investment of USD 56 billion.[4]

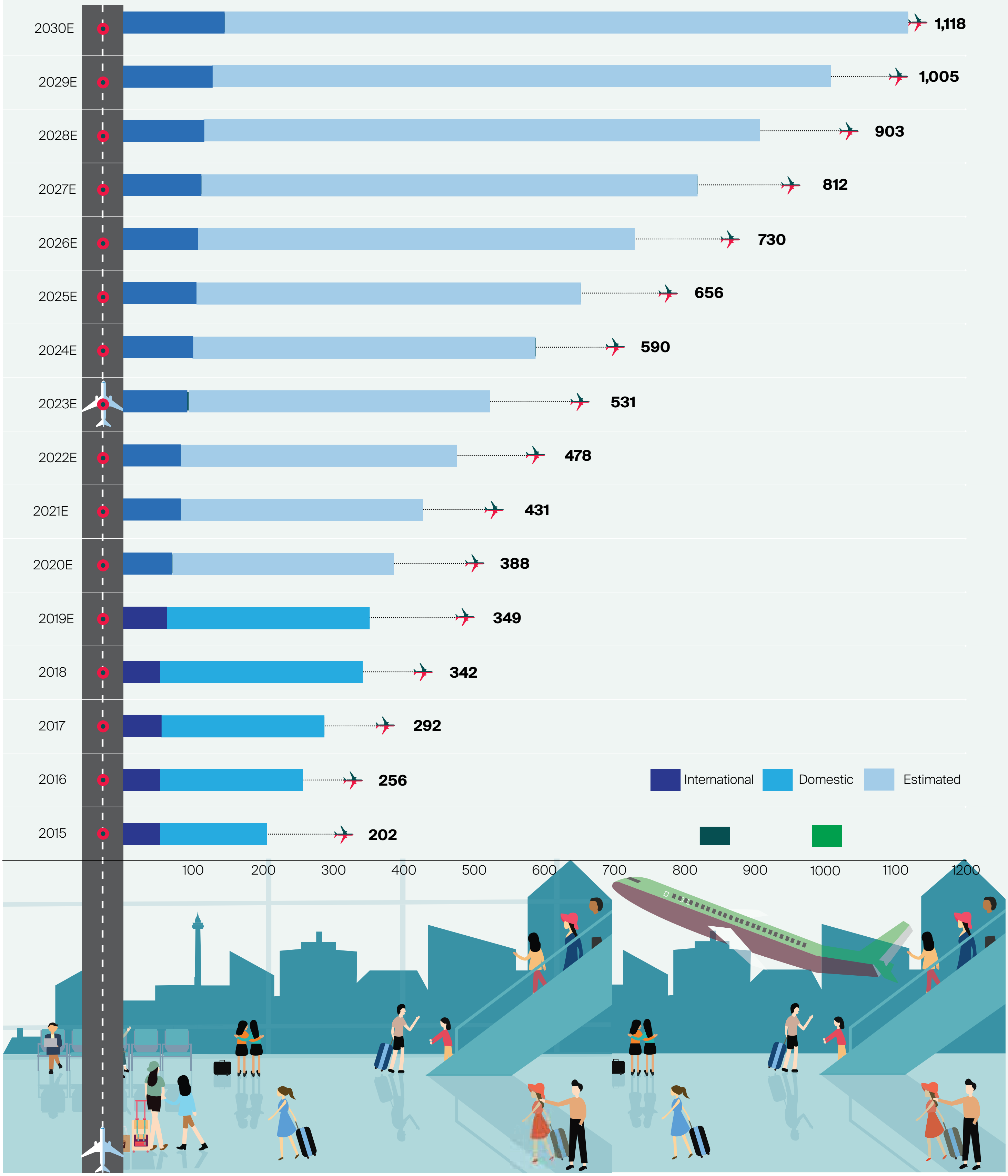
The three major upcoming greenfield airports in India

	Navi Mumbai International Airport	Goa International Airport	Jewar International Airport
Location	Navi Mumbai, Maharashtra	Mopa, Goa	Greater Noida, Uttar Pradesh
Contract type	Public-private partnership (PPP) Build and Manage	Public-private partnership (PPP) Design-Build-Finance-Operate-Transfer (DBFOT)	Public-private partnership (PPP) Build and operate
Concession period	30 years expandable up to 10 years	40 years expandable up to 20 years	40 years
Total Capacity passenger per annum (ppa)	60 million	30 million	70 million
~Area	1,160 Hectares	94 hectares	3,000 hectares

[2]Government of India, Ministry of Civil Aviation, Lok Sabha, 29th December 2019
[3]Government of India, Ministry of Civil Aviation, Lok Sabha, 5th December 2019
[4]Union Budget of India, FY20-21

The passenger traffic in India is on an upward swing!

Passengers in millions



Source: Airports Authority of India, December 2019

Rajiv Suri
Customer Care Associate, Managing Director & Chief Executive Officer
Shoppers Stop

Currently we are present in 6 key airports across the country. A growing focus on upgradation of airports and the plans to open new ones will bring many opportunities especially for first movers like Shoppers Stop. As a customer centric brand, we want to provide a delightful shopping experience every time across each of our stores. Airports help us provide the right mix of product categories be it across beauty, apparel, non-apparels, gifting, to our target segment. As a bridge to luxury brand we are able to provide a seamless and delightful shopping experience to our Target Group. In line with the Travel retail expansion strategy, Shoppers Stop has opened 5 locations this month at Hyderabad Airport including our new Arcelia beauty store (which is India's first luxury multi-brand beauty store) along with our other store formats. Further, additional openings are planned in the coming weeks. Needless to say with better macros, growing disposable incomes and increasing travel (both national and international), we will continue to look for such opportunities in the future.

2. Airport Economics

I. Revenue streams for airports

Revenue streams from the airport can broadly be divided into aeronautical and non-aeronautical. Aeronautical revenues are collected from sources such as landing charges, airline terminal space rentals, gate usage charges etc. which are restricted either by regulated tariffs, contractual agreements between carriers and airports, or a combination thereof; whereas the non-aeronautical revenue comprises of lease rentals, revenues from advertising, car-parking, land rentals, cargo etc. The lease rents paid by retail outlets, food & beverage, duty free areas in the airside component of the airport. The non-aeronautical revenue for the airport is based on a fixed percentage of revenue share that the retailer must pay to the operator of the airport. The operator also has a fixed percentage of share that must be paid to the Airports Authority of India.

The change in the global aviation dynamics with low airfares due to increased competition, airport privatisation and growth in the passenger volumes has made it imperative for government and private operators to look for other revenue sources to maintain profitability. Thus, the non-aeronautical revenue today has assumed more importance than ever and is one of the major revenue generators for modern airports across the globe.

II. Non-aeronautical revenue gaining importance

According to the Airports Council International (ACI), approximately 40% of the global airport revenues in FY2017 were from non-aeronautical revenue sources with retail concessions emerging as the largest source of non-aeronautical revenue (30%) along with car parking (20%) and property revenue/rent (15%).

In the Indian context, though the share of non-aeronautical revenue for the airports managed by AAI is has grown sharply in FY19, its share in the overall revenue stream remains as low as 13%. It is noted that 89% of this total non-aeronautical revenue is contributed by rent & services and trading. On the other hand the share of non aeronautical revenues for the top the privately managed airports and busiest airports for New Delhi, Mumbai and Bengaluru for the same financial year stood at 70% and 54% and 49% respectively, thus emphasising the fact that private sector participation opens up avenues for fully utilising the untapped retail untapped at the airports.[5]

Today non-aeronautical revenue has become a very vital component to measure an airport's health. The rise in the number of global travel passengers and the changing demographics is bringing the tectonic shift in how retail and food & beverage offerings are viewed at the airport. Agreeably so, airports are no longer transit hubs but are emerging as retail destinations catering to the well-heeled consumer, and so the retail offering at the airport is slowly mirroring the offering of a city centre.

◆◆

Non-aeronautical revenues for the top privately managed airports (FY19) stood at New Delhi 70%, Mumbai 54% and Bengaluru 49%. While it stands at 13% for the AAI managed airports in India.

◆◆

[5]DIAL, MIAL, BIAL standalone financial statements FY19

Non-aeronautical revenue - a major driver for the top three airports in India

	Indira Gandhi International Airport, New Delhi	Chhatrapati Shivaji International Airport, Mumbai	Kempegowda International Airport Bengaluru
Passenger traffic (millions)	70	50	32
Total revenue (~)(USD million)	456	524	198
Share of non-aeronautical revenue	70%	54%	49%
Revenue from retail concessions (~) (USD million)	109	84	26
Share of retail concessions	Non-F&B Retail (A) 21% F&B (C) 20% Duty Free (B) 59%	Non-F&B Retail (A) 25% F&B (C) 21% Duty Free (B) 54%	Non-F&B Retail (A) 47% F&B (C) 23% Duty Free (B) 30%

Source: Knight Frank Research
*Exchange rate USD 71.6

3. Airports as future retail and entertainment destinations

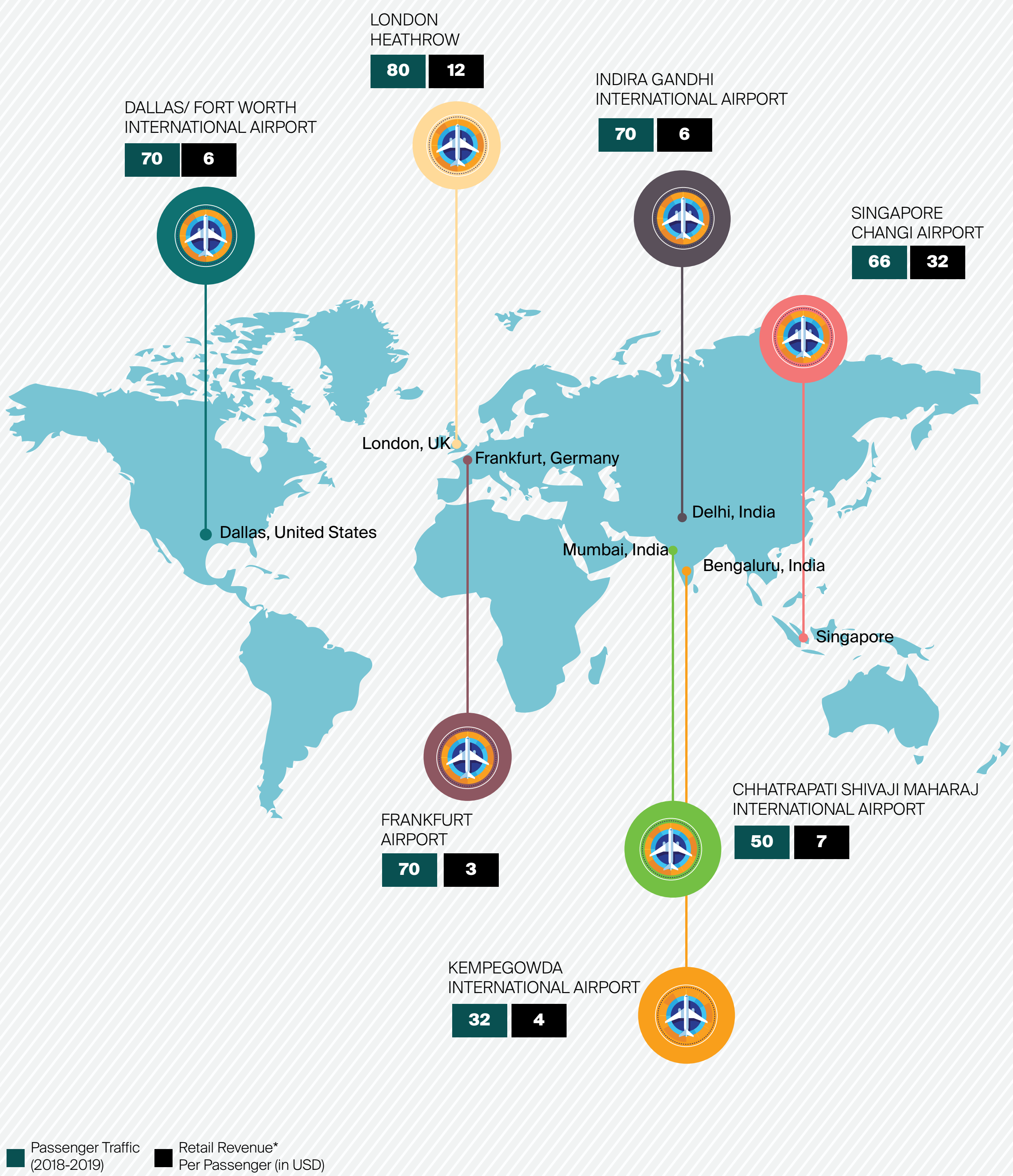
I. Growing retail footprint – More attentive footfalls

Airside retail has its set drivers that make it different from other forms of captive retail such as malls. The drivers also differ from other transit retail modes such as metros, railways and roads. In a short span of time, airports in India are fast turning out to be one of the most promising sectors for retail development with almost every premium brand in various segments wanting to reach out to capture the quality captive audience, which helps them tap the potential retail consumers. Unlike a mall or a high street, airports provide a high-volume quality captive target audience within its airside segment who are well travelled and have the propensity to spend. It is because of this quality of demographics that brands can position themselves in the eyes of the consumer and create a strong 'brand recall'. Besides, the stipulated time spent at the airport is relatively higher than any of the other transportation hubs like metros, railways or highways. It is this restricted time and an aware consumer that is the main driver for retail shopping at the airport.

India is among Starbucks fastest growing markets and we are deeply humbled by the overwhelming response to that the brand has received here. Talking of transportation hubs, airports are extremely important for us as we witness a large number of captive urban customers with a high propensity to spend. For a brand like Starbucks, the overall retail ecosystem of creating comfort, experience and convenience is very important for which airports have been ideal locations for us in the transit retail format. Another format that we believe will drive our future expansion plans is the expressways. A right size format with clear titles and quality infrastructure to cater to the urban passenger traffic is imperative for our positioning and the improving expressway infrastructure will only act as a strong driver for us to consider such locations.

Siddharth Agarwal
Head Business Development
TATA Starbucks Private Limited

Indian airports are catching up with global airports with similar capacity



Source: Knight Frank Research
* Per passenger spend - Total retail at the airport (F&B, retail and duty free)

Retail footprint of the top airports in India

	Indira Gandhi International Airport, New Delhi	Chhatrapati Shivaji International Airport, Mumbai	Kempegowda International Airport Bengaluru
Total retail (~) area (sq m)	21,400	22,500	4,400
Share of duty-free area	20%	29%	14%
Share of retail area (F&B plus non-F&B)	80%	71%	86%
Passenger density per sq m of retail space	3,271	2,222	7,272

Source: Knight Frank Research
* Area includes international and domestic terminals retail space

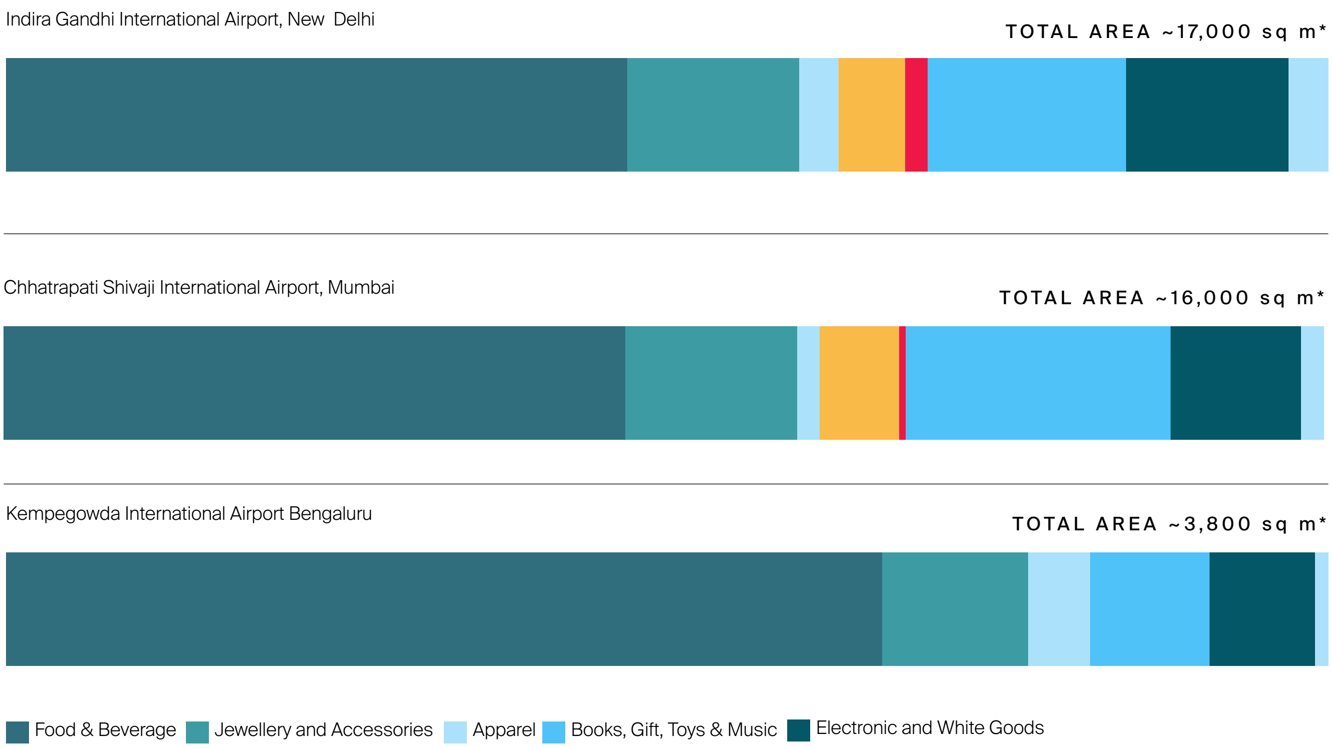
II. Definitive product category - Curated brands for a captive audience

Airports have bettered their function as mere transportation hubs and are now evolving into prime real estate for retailers of travel essentials, fashion, perfumes & cosmetics. This retail format comprises carefully selected niche brands and merchandise to attract the target audience. Not all forms of retail will do well at the airport and the retail offering will be guided by the buyer profile and demography of the passengers of the airport. Globally, the major product categories at airports include food & beverage, bridge to luxury (BTL) and luxury products that are there to attract the well-travelled consumer. The concept of an anchor store, just as a mall, is also imminent to attract daily passenger volume. Product categories such as wine and tobacco and personal care items which include beauty, cosmetics and fragrances are popular buys at the duty free area while food & beverage is most picked up by the domestic travellers.

It is seen that due to this positive response at airports, many of the personal care companies have set up separate verticals which strategically delve into the nuances of travel retail. For instance, the New York based cosmetic major Estee Lauder Companies (ELC) attributed its global boost in sales to the growth in its travel retail segment. The Company targeted the emerging markets in Asia Pacific to introduce their brand through programmes aimed specifically for skin care during flights.

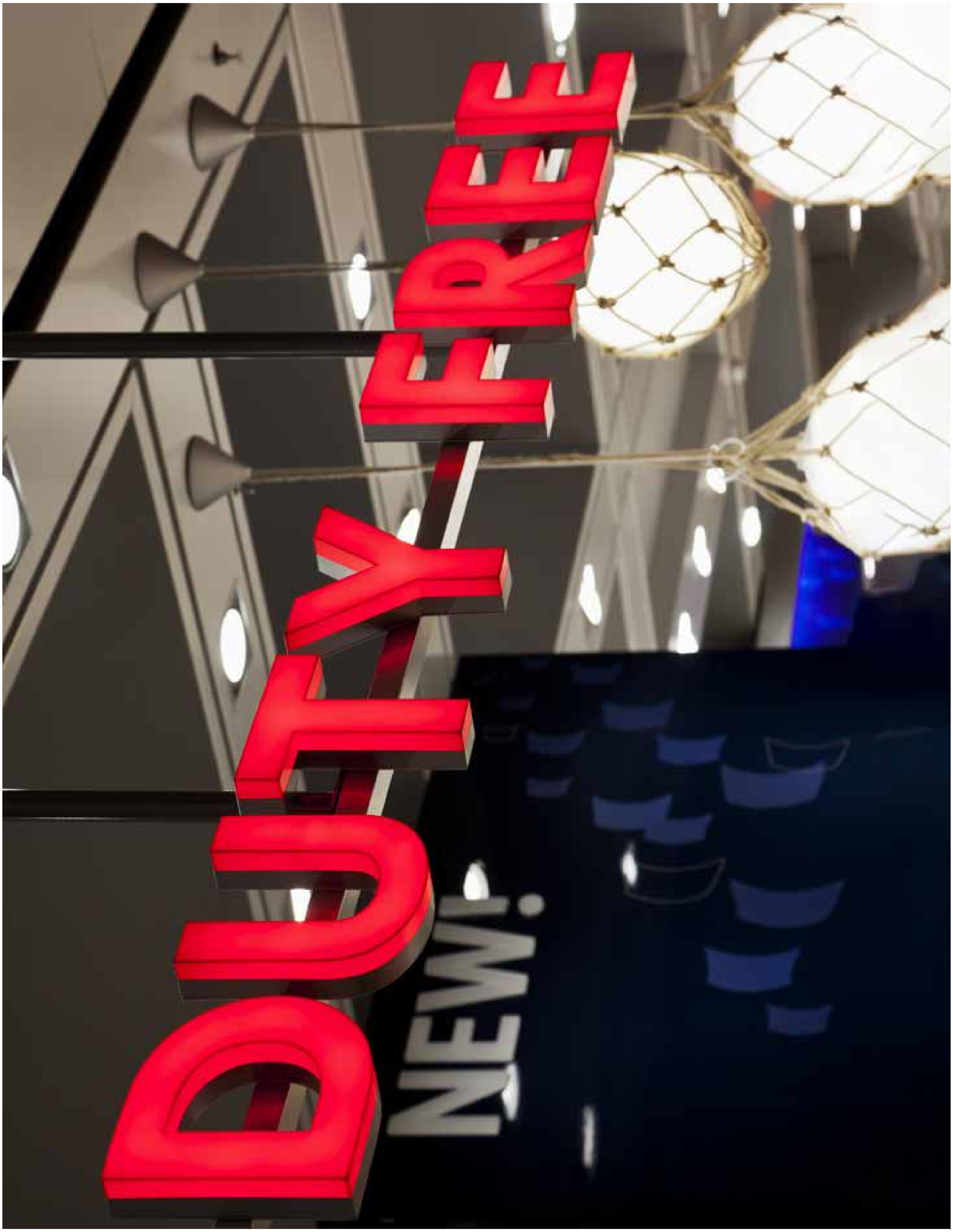
According to a survey conducted by the Knight Frank Research, after food & beverage, personal care (fragrances and cosmetics) and fashion apparel were the most shopped product categories while on domestic trips; whereas during international trips, it was duty free shopping for personal care followed by wine and liquor. According to our survey, in the F&B category, Quick Service Restaurants (QSR) form the major component in the top three airports in India followed by apparel, jewelry and accessories. Though the share of wine and liquor in the overall retail footprint of the studied airports is insignificant, the category takes up significant space of the duty-free area in both Delhi and Mumbai airports.

Food & beverage category dominates top airports in India



Source: Knight Frank Research

*The area does not include duty-free area


DUTY FREE
NEW!

III. The world of duty free

The concept of duty free shops evolved in the late 1940s when the first duty free shop opened at Shannon Airport in Ireland. Goods sold in duty free shops are exempted from some of the taxes and duties that are applicable locally or nationally. The products to be sold under duty free may vary as per the rules and regulations of different countries. The duty free shops are allowed in areas like airports, ports, land border shops, cruise ships, etc. As per major retailers in duty free retail, the emerging markets in the Asia-Pacific region have been significant contributors to their overall revenues. Guided by laws, there is a capping on how much of what product category one can buy in a duty free zone. For instance, there is a capping on the amount of liquor, tobacco, cigarettes/ cigars and perfume that one can carry. In India currently, one can purchase a maximum of 2 litres of alcoholic beverage or wine, 100 cigarettes or 25 cigars or 125g of tobacco. There is no restriction on other items, except that all items must be personal use items only.

Airports and Duty-Free

Airports have emerged as hubs of duty free retail, since they have a large number of captive international consumers with a relatively high propensity to spend. Duty free revenues constitute a significant share of the retail revenue at airports. Famous duty free areas in airports like Singapore's Changi Airport, London's Heathrow Airport and Dubai International Airport have become destinations in themselves with their per passenger spend for duty free as high as USD 34 and USD 20 for Paris and Dubai airports respectively.

As per a study carried out by the Duty Free World Council (DFWC) and Asia Pacific Travel Retail Association (APTRA), airports and airlines accounted for 75% of the total duty free and retail in the Asia Pacific region in 2017. As per Dufry, one of the leading duty free retailers, duty free retail through airport channels is going to continue to be the largest and fastest growing components of their business. According to Knight Frank Research, the duty free market size in India is currently estimated to be to USD 0.7 billion which will grow to USD 2.4 billion by 2030.

Duty free revenue per passenger for top airports in India

Source: Knight Frank Research and DIAL, MIAL, BIAL standalone financial statements FY19

The product categories in duty free generally include perfumes, cosmetics, liquor, tobacco, apparel and accessories, confectionary, etc. Dufry reported in year 2018 that 61% of net sales was through duty free, out of which 90% was through airport channels with the highest sales coming from perfumes and cosmetics followed by food and confectionary, and wine and spirits. The Dubai Duty Free also reported the highest sales from perfumes, followed by liquor, cosmetics, tobacco and electronics. Some of the major duty-free retailers are Dufry, Lotte Duty Free, The Shilla Duty Free, China Duty Free, Lagardere Travel Retail (Duty Free), etc.

According to Knight Frank Research, the duty free market size in India is currently estimated to be to USD 0.7 billion which will grow to USD 2.4 billion by 2030

Major duty-free players and their Revenue in 2018-19

9 USD BILLION
DUFRY

5 USD BILLION
THE SHILLA

7 USD BILLION
LOTTE

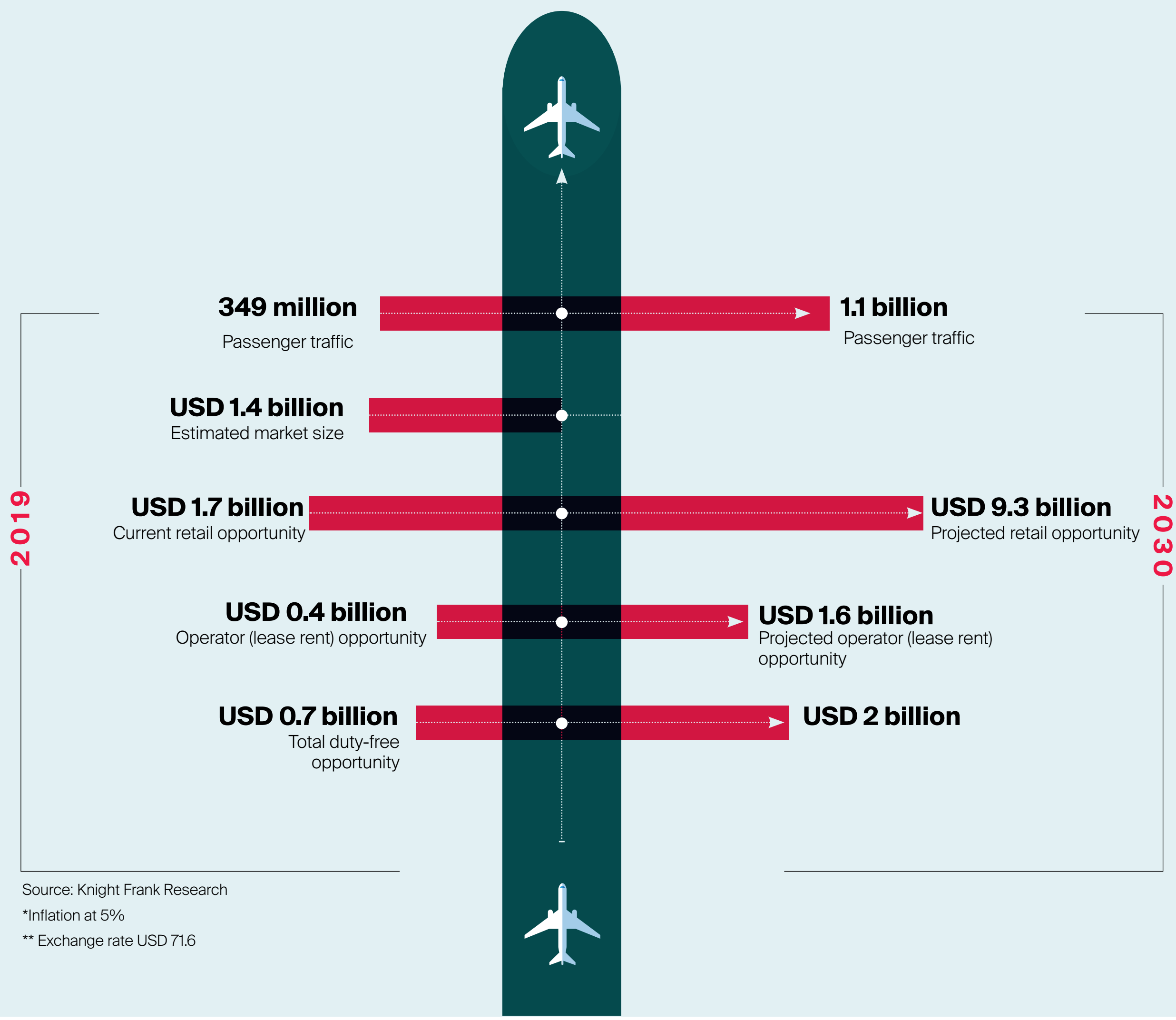
Source: Moodie Davitt Report 2018, Dufry Annual Report 2018-19 and Industry Sources

The largest duty free area in India is currently operated by Mumbai Duty Free at Mumbai International Airport Limited (MIAL) followed by New Delhi International Airport Limited (DIAL) which is operated by New Delhi Duty Free Services (DDFS). The duty-free revenue per passenger for New Delhi and Mumbai is the highest in India at USD 10 per passenger for FY2019. Duty free retail forms a major chunk of the total lease rent revenue earned by the airport operator with a share of 59% in case New Delhi International Airports Limited (DIAL) and 54% in case of Mumbai Airports International Limited (MIAL).

4 Airport retail opportunity

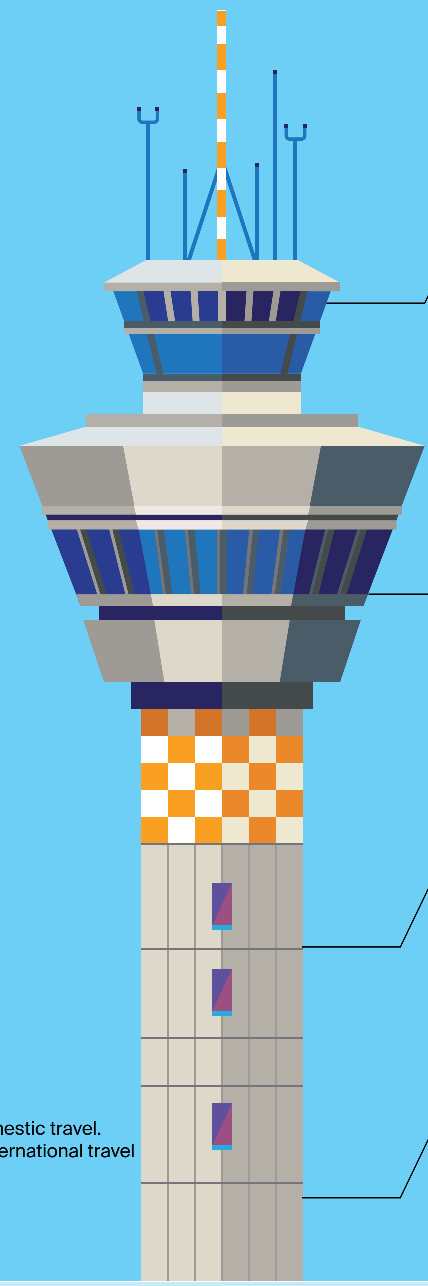
ith the government's vision to establish 100 new airports by 2024, and upgrade and build new airport infrastructure through public private partnership and policy interventions such as UDAN or 'Ude Desh ka Aam Naagrik', and NABH Nirman Scheme (2018) or 'Nextgen Airports for Bharat' - the airport infrastructure is set to grow exponentially over the next decade. With the current population of 1.3 billion and an aspirational middle class, we see the number of air passengers (annual) touching 1.1 billion by 2030, of which the domestic passenger traffic will have a significant share.

We have seen that the share of non-aeronautical revenue for the top privately managed airports (DIAL, MIAL, BIAL) is significantly higher as compared to the government owned (AAI) airports, which presents us with a potential opportunity to scale up non aeronautical revenue streams by promoting more public private participation in airports. A step in the right direction, the AAI has already privatised the first set of six airports namely Ahmedabad, Lucknow, Jaipur, Mangaluru, Thiruvananthapuram, and Guwahati through a public-private partnership (PPP) model for operation management and development and has recommended airports of Varanasi, Amritsar, Bhubaneswar, Trichy, Indore and Raipur as the next set of airport to be open for private sector participation. The growth and upgradation of airport infrastructure will have a significant bearing on the passenger traffic in the coming years which will translate into retail opportunities for operators and retailers alike. With all the steps in the right direction and the current passenger momentum, we estimate the total retail opportunity for airport retail at USD 9.3 billion by 2030.



Source: Knight Frank Research
*Inflation at 5%
** Exchange rate USD 71.6

Shopping behaviour of Air Travelers in India



40% are above 25 and below 34 years

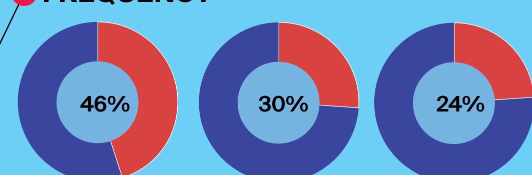
PROFESSION

79% Of the travellers were working professionals

REASON FOR TRAVEL

People indicated they travelled more for leisure and other personal purposes

FREQUENCY



More than 4 times a year | 2-3 times a year | Less than 2 times a year

What drives shopping during air travel

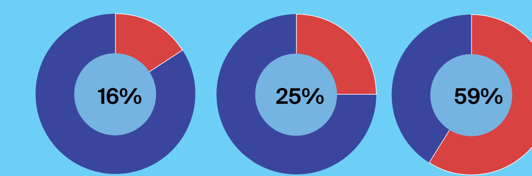
Impulse rules shopping during domestic travel.
Duty-free attracts buyers during international travel

60%
Travelers indicated they do not mind shopping at the airport

Most likely	Sometimes	Least likely
21%	60%	21%

Source: Knight Frank Research

MOST PEOPLE SPEND 1 – 2 HOURS AT AIRPORT



Less than an hour | More than 2 hours | 1-2 hours

78%

Think prices at airports is higher than outside

UAE, Europe and Thailand most travelled for leisure

Singapore USA, UAE most travelled for business

Mumbai, Delhi most travelled for business

Goa most travelled for leisure

Food & Beverage dominant product category during domestic and international travel

Domestic Travel				International Travel			
Wine & Spirits	Fast fashion (Apparel & footwear, accessories,)	Fragrance & Cosmetics	Food & Beverage	Food & Beverage	Fragrance and Cosmetics	Wine & Spirits	Fast fashion

METRO AND RAILWAY RETAIL

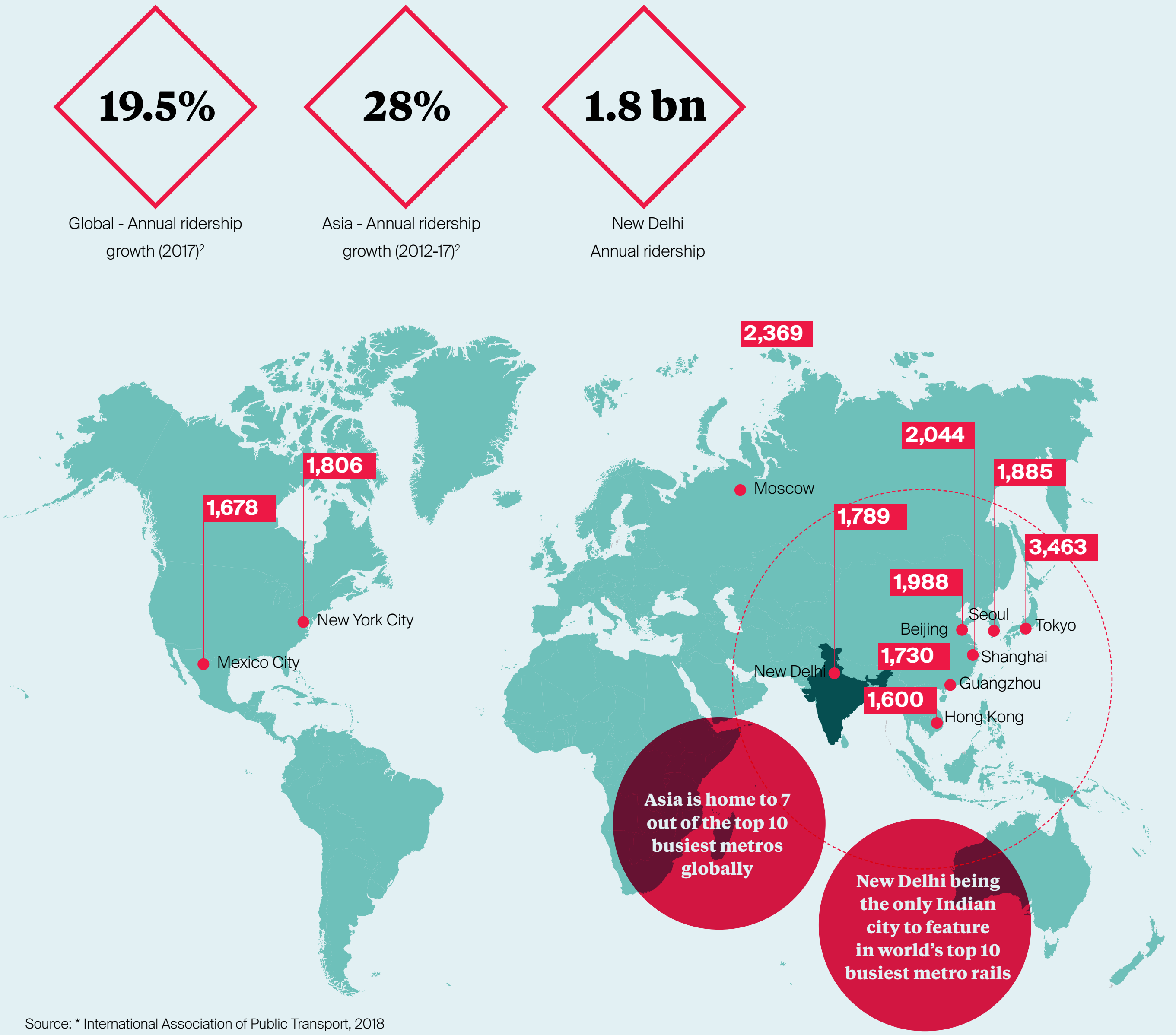
HIGH CAPACITY, HIGH FREQUENCY

Metro system – A Global Summary

The world's first metro, the London Underground in England, more commonly known as the Tube, was opened in 1863. The technology quickly spread to other cities in Europe, the United States, Argentina and Canada. In the 21st century, many new metro systems and expansions were noticed in Asia, with China becoming the world leader in metro expansion with nearly 60 cities either operating, constructing or planning a rapid transit system.

Top 10 Busiest Metro Rails

(Annual Ridership in million)[1]



Source: * International Association of Public Transport, 2018

Globally, annual ridership grew by 19.5% or 8,716 million passengers in 2017 . Between 2012-17, ridership growth rate in Asia was 28%. Asia is home to 7 out of the top 10 busiest metros globally with New Delhi being the only Indian city to feature in world's top 10 busiest metro rails with an annual ridership of 1,789 million. Operation and Profitability of Metro Systems

Constructing a metro system involves high capital cost. Coupled with that, there is also a risk of cost overruns and benefit shortfall. Most metro systems are publicly owned by either local governments, transit authorities or national governments and involve high fixed costs. There are two components of a metro system's revenue stream –

a) Fare box revenue – Primarily includes the fare or the fee paid by the passengers for use of metro

b) Non-fare box revenue – This is the secondary or the new stream of revenue from ancillary sources such as advertising, infrastructure leasing, such as space, telecom assets, income from real estate portfolios, commercial and retail related activities in stations, such as kiosks, shops, etc.

[1]International Association of Public Transport, 2018
[2]International Association of Public Transport, 2018

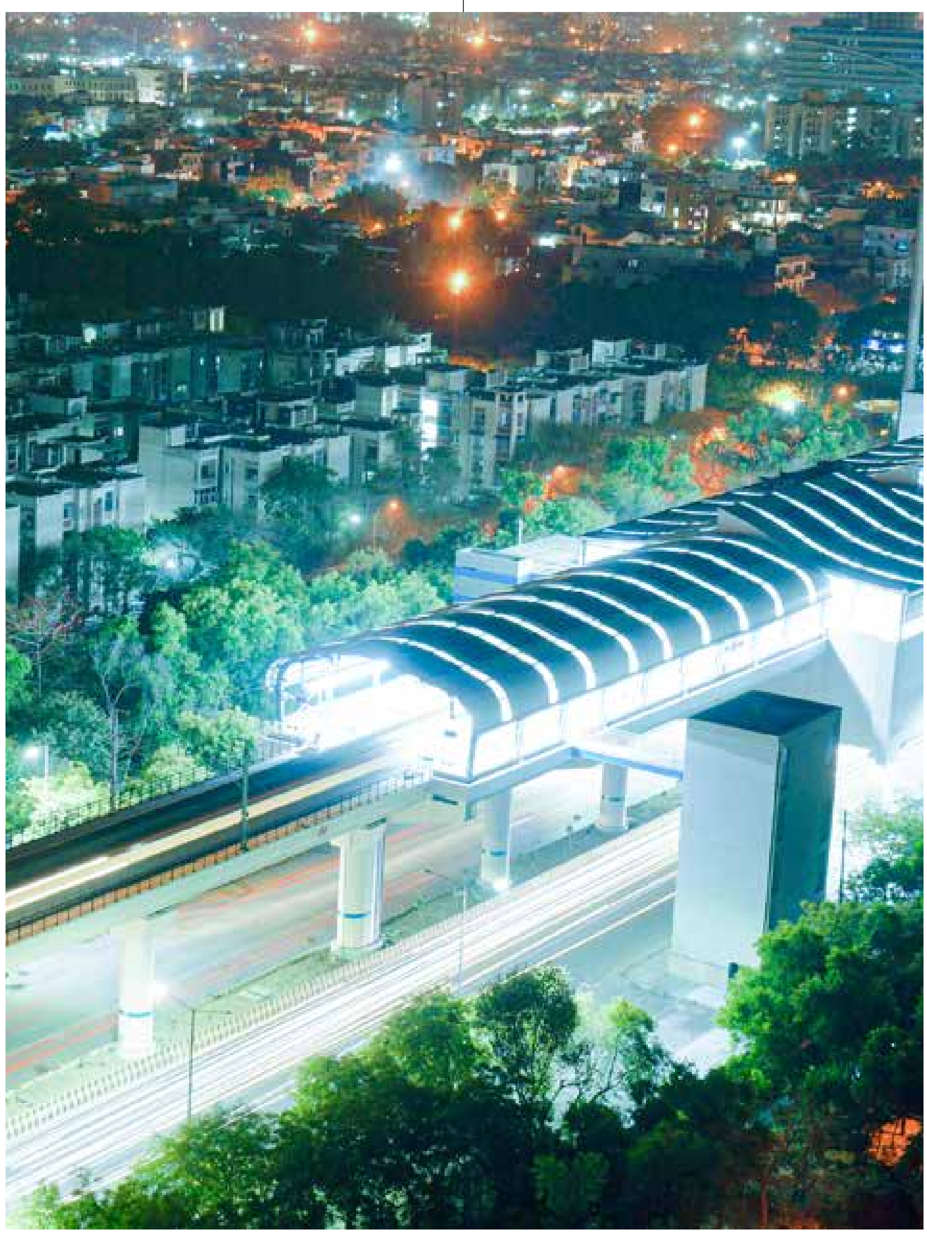
Almost all transit systems operate at a deficit, requiring fare revenue, advertising and subsidies to cover costs. Few metro systems boast beneficial fare operating ratios and must develop ways to increase revenue through new streams. Hence, the reliance on non-fare box revenue generating streams can't be ruled out. Apart from advertising, retail activities are common to most metro systems globally.

Retail at Metro Stations

As metro stations function as hubs to allow passengers to board and disembark from trains, they provide a huge opportunity for retailers to attract mass footfalls if they have a presence at or near the metro stations. Globally, metro stations are used not just for travel but also for fulfilling daily needs by the population residing in adjoining or adjacent neighborhoods. There are numerous examples of placement of retail formats, both inside and outside the metro stations globally. An example of inward-looking retail at a metro station would be the British multinational supermarket chain Tesco's virtual store at 'Seonreung Subway Station'. It is a successful integration of technology with retail and such 'virtual stores' have helped it to expand operations in Asia, its second-largest market. Passengers can place orders via QR code while waiting for the Metro and pay online while on the go. Metroplaza Shopping Centre in Kwai Fong, Hong Kong, situated opposite a Mass Transit Railway (MTR) is a good example of outward-looking retail as it attracts footfalls directly from the station's entry and exit points. In a well-planned Transit-Oriented Development (TOD), retail elements can be incorporated for both inward and outward looking retail in the form of station retail outlets as well as shopping malls connected by skywalks to drive footfalls to the retail area.

Metro System in India

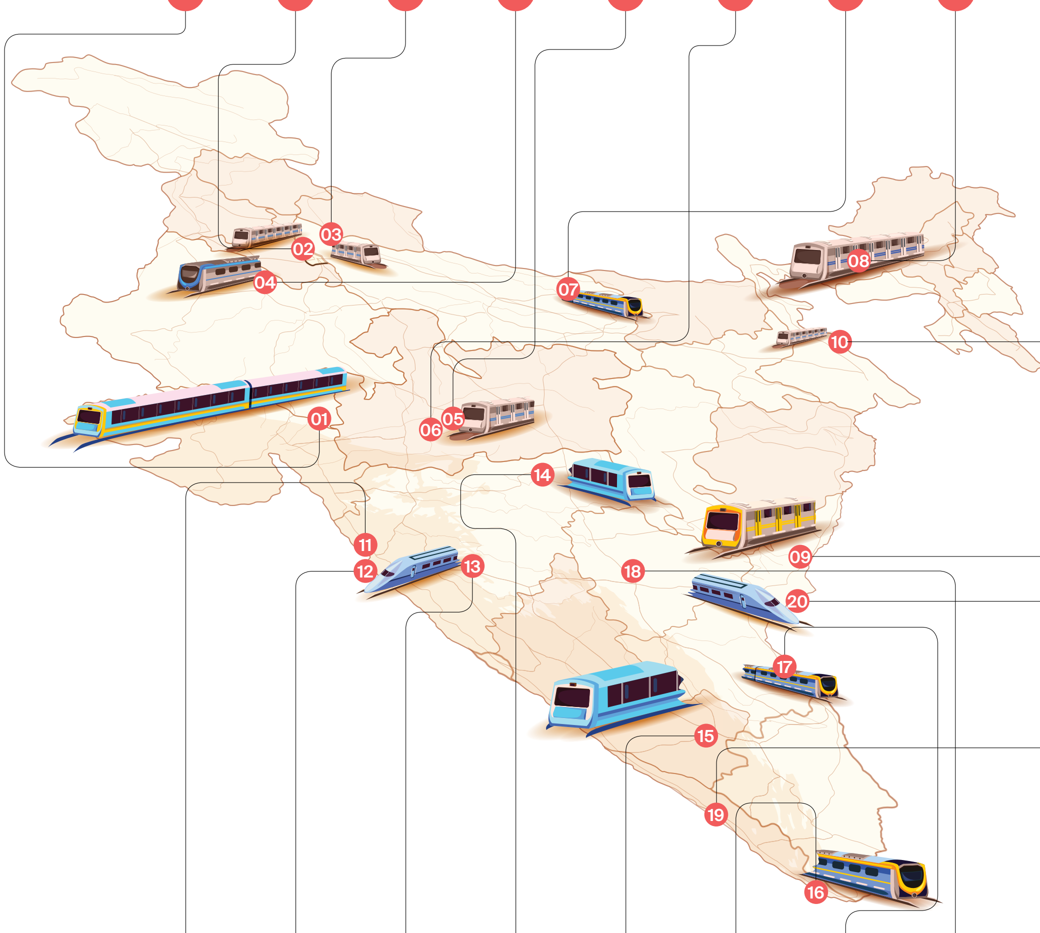
In August 2017, the Union Cabinet of India approved a new Metro Rail Policy with a focus on compact urban development, cost reduction and multi-modal integration. This policy has opened a big window for private investments across a range of metro operations making the Public Private Partnership (PPP) component mandatory for availing central assistance for new metro projects. Private investment and other innovative forms of financing have been made compulsory to meet the huge resource demand for capital intensive high capacity metro projects. The new policy mandates TOD to promote compact and dense urban development along metro corridors since TOD enables efficient land use in urban areas. To ensure financial viability of metro projects, the new Metro Rail Policy requires the states to indicate in the project report the measures to be taken for commercial/property development at stations and on other urban land, and for other means of maximum non-fare revenue generation through advertisements, lease of space etc., backed by statutory support.



1. Metro Infrastructure in India

There are currently more than 500 operational metro stations and nearly 1,000 kms length under construction in India. The Delhi Metro has the largest operational network in the country with a high daily ridership of 4.7 million.[3]

	Ahmedabad Metro	NCR* Delhi Metro	Meerut Metro	Jaipur Metro	Bhopal Bhoj Metro	Indore Metro	Lucknow Metro	Guwahati Metro	Vizag Metro	Kolkata Metro
Opening year	2019	2002	2024	2015	2023	2023	2017	2024	2025	1984
Number of Stations	6	285	-	9	-	-	21	-	-	24
Length in Operation (kms)	6.5	389	-	9.6	-	-	22.9	-	-	27.2
Length under construction (kms)	33.53	5.6	35	2.4	95.03	31.55	11.1	61.42	42	113.4
Daily ridership	1,695	4,780,000	76,000	19,360	324,510	250,000	60,000	47,850	100,000	550,000
	01	02	03	04	05	06	07	08	09	10



	11	12	13	14	15	16	17	18	19	20
	Navi Mumbai Metro Line 1	Mumbai Metro	Pune Metro	Nagpur Metro	Bengaluru Namma Metro	Trivandrum Metro	Chennai Metro	Hyderabad Metro	Kochi Metro	Vijayawada Amaravati Metro
Opening year	2020	2014	2022	2019	2011	2025	2015	2017	2017	2025
Number of Stations	-	12	-	11	44	-	32	49	21	-
Length in Operation (kms)	-	11.4	-	13.5	42.3	-	45	46.5	23.8	-
Length under construction (kms)	23.4	246.3	54.58	29.5	78	21.82	9.1	15.7	28.1	66.2
Daily ridership	4000	405,107	95,000	363,000	407,376	47,900	95,000	460,000	45,477	74,550

Source: Knight Frank Research

[3]Delhi Metro Rail Corporation
*Includes Gurguram and Noida

Ramanath Subramanian
Executive Director
Maharashtra Metro

In a metro development, as the farebox revenue covers only 40-45% of the overall cost of operations, the non-fare box revenue stream must be tapped into to make metro development more viable. Places like Swargate in Pune see a merger of different transport nodes, hence the huge footfall at such places can be monetised for commercial development. Conceptualised as a public interface area with a provision of shopping and other public amenities developed on the stations via the Public--private partnership (PPP) model, we envision to make the station self-sustainable without the need to go for viability gap funding from the State government. Two non-farebox revenue streams have already started accruing revenues for the Maha metro. The increase in stamp duty by 1% of which 75% will come to Maha Metro and rest 25% will go to the Urban Local body along with the densification of the metro corridor by increasing the FSI to 4, with 50% of the premium going to Maha metro, the upcoming metros of Nagpur and Pune are going to become major examples of monetising on the potential of non fare box revenue streams in India.

2. Metros cashing in on the high frequency high capacity transit

Transit-oriented retailing is an out-of-the-box opportunity to cater to a huge target group. The development and expansion of metro infrastructure presents a plethora of newer avenues for retailing in India. Integration of retail with metro stations can transform them into the next retail destinations. There are several consumer and retailer drivers which have led to the emergence of retail in and around metro stations in India.

a) Consumer drivers

India, China and Nigeria are expected to account for 35% of the projected growth in the world's urban population until 2050[4]. Of these three, the absolute growth in urban population is projected to be the highest in India. The largest urban transformation of the 21st century is thus happening in India and its transportation demand has grown by more than eightfold since 1980. The interminable urban sprawl has increased pressure on public transport systems such as the metro. Long distance commute translates into more time spent at metro stations for interchange and last mile connectivity. Emerging housing areas in suburbs or peripherals have a higher commute time too and are increasingly getting connected by upcoming metro systems in both Tier I and Tier 2 cities. With long working hours, ultra-busy commuters are left with no time to shop at the nearest brick-and-mortar stores for groceries and daily needs. Increased sense of time pressure and usage of metro systems by the upwardly mobile executives warrants the need for inclusion of retail elements at the metro stations. The culture of shopping for convenience at metro stations is slowly coming to India and one can already find premises inside and outside metro stations teeming with quick service restaurants (QSR), cafes, food courts, convenience stores and other retail outlets.

b) Retailer drivers

Retailers are increasingly becoming aware of the huge opportunity to tap into 'travel retail' with the addition of new metro stations and as much as nearly 1,000 kms of length under construction across 21 Indian cities. Metro stations have excellent linkages to alternative modes of transport which results in creation of footfalls and provides a captive market of consumers to retailers. Incremental revenue stream that can be generated by targeting the price-sensitive and time-poor commuters has got retailers interested and it is not just the local, regional or national brands, but also the foreign brands that have started exploring this space in India. Picking up a quick bite 'on the go' is a well-established norm and many Food & Beverage (F&B) brands are understanding the importance of maintaining footprint at metro stations.

Leasing of Retail Spaces at Metro Stations in India

Part I – Auctioning of Retail Space by Metro Line Operator to invite retail space operators or property developers

The metro line operator, such as DMRC, conducts an open auction of shops at metro stations for retail operations to invite multinational/national agencies /corporates/ partnerships/organizations. The metro line operator lets out the shops on licensing basis for a fixed period to the selected bidder. The security deposit is equal to one year's license fees which is paid by the selected operator (licensee). After the tender is granted, the selected operator sub-leases the space to retailers across categories. In some cases, the metro line operator gives the land in and around the stations to developers on a license model. In New Delhi, it has been observed that the developers picked as licensees have introduced the concept of 'Metro Malls' at some metro stations. In such a case, the developer shares a license agreement with the metro line operator wherein it further subleases projects to retailers. For example, Pacific Group (D21 Dwarka Sector 21 Metro Station, New Delhi).

Pacific D21 Mall – the new kid on the block

City: New Delhi

Location:
Sector 21 Metro Station, Dwarka

Operational since: November, 2019

Daily Ridership: 55,000 commuters

Area of the Mall: 27,870 sq m (300,000 sq ft)

Number of Brands: 100+

The Pacific D21 shopping mall is situated right at the metro station and shares the parking lot. The multi-level parking facility can accommodate more than 500 vehicles and is designed for the shopper's convenience. Dwarka, one of the largest suburbs in New Delhi lacked a single organized retail development, apart from a couple of high streets, which still do not have some of the finest brands. D21 has attracted a good retailer mix across categories such as entertainment, food and beverage, apparel, home and lifestyle, amongst others. Prominent brands such as Home Center, Lifestyle, Max, Big Bazaar, Reliance Trends, Chaayos, Kama Ayurveda, New U, Looks Salon, Adidas, Reebok, Puma, Miniso and PVR are housed in the mall with several others lined up for opening soon. With a convenient parking facility, this retail development is well positioned to cater to the impulse buying behaviour of commuters as well as serve as the retail destination within reach on weekends and weekdays alike.

[4]UN Department of Economic and Social Affairs (UN DESA)

◆◆

Compared to London and Hong Kong, Delhi Metro has the lowest percentage share of non-fare box revenue at 12%. There is a large scope for increasing its contribution to total revenues. Delhi Metro Rail Corporation (DMRC) has been trying to grow retail and other related businesses to stabilize earnings and its non-fare box revenue target is 30% of its total earnings

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Part II – Subleasing of retail space by retail operator or property developers to retail brands

The sub-lease model revenue arrangement is structured as minimum guarantee plus revenue share or higher of the two. Revenue share percentage arrangement varies depending upon the area leased but can be as high as 15-19%.

Delhi's metro system is one of the strongest globally

Compared to London and Hong Kong, Delhi Metro has the lowest percentage share of non-fare box revenue at 12%. There is a large scope for increasing its contribution to total revenues. Delhi Metro Rail Corporation (DMRC) has been trying to grow retail and other related businesses to stabilize earnings and its non-fare box revenue target is 30% of its total earnings.

City	Daily Ridership (in millions)	Total Route Length (in kms)	Number of Stations	Fare Box	New Delhi - Annual ridership	Revenue Sources of Non-Fare Box
Hong Kong	4.9	211	161	63%	37%	Property Development (45%) Station Commercial (24%) Property Rental (22%) Advertisement and Misc. (9%)
London	3.7	427	270	85%	15%	Property Development (25%) Grant (22%) Misc (22%) Advertisement (19%) Congestion Pricing (12%)
New Delhi	4.7	349	253	88%	12%	Advertisement (48%) Telecom Business (16%)ATM, Shops (14%) Misc (12%) Rents (10%)

Source: Knight Frank Research, International Association of Public Transport

3. Metro as future retail and entertainment destinations

To understand the growth of retail component by product and brand categories at metro stations in the Indian context, a primary survey was carried out at a few metro stations in India. There is a vast degree of variation in the station typology, type of tenants sub-leasing spaces at metro stations, size of retail development and catchment catered to. We have taken two metro stations in National Capital Region (NCR) for a detailed study. This is mainly due to the similarity in their characteristics in terms of a huge commercial and residential catchment around, which supported the case for retail opportunities at these hubs and presented a comparable sample.

Transit points present a good opportunity for the retail sector. With rapid urbanization & growing infrastructure in terms of highways which are now rapidly being modernized into multi-lane high speed highways, metro lines being created across key cities and Tier I and Tier II cities, and the Government's push towards airport development under the UDAAN Scheme, these transit formats are pegged to grow exponentially.

Customers using these transit formats will demand and seek quick, hygienic & safe food options, and at McDonald's, we view this as a strategic lever to increase accessibility and deepen penetration. In fact, we are one of the few organized players operating on the highways with close to 25 stores across key routes We are excited to leverage this opportunity and expand our footprint across all these transit formats.

Sanjay Soni
Senior Vice President
McDonald India

Case Study I -

Why HUDA City Centre Metro Station?

HUDA City Centre in Gurugram is strategically important as it is the last mile connectivity station or the end terminal of Delhi Metro's Yellow Line. It has constantly witnessed an increase in daily ridership and connects several locations in New Delhi with Gurugram through an elevated corridor. From nearly 42,000 commuters in 2015, the daily ridership increased to 70,000 in 2018. The physical infrastructure near HUDA City Centre is improving as Gurugram Metropolitan Development Authority (GMDA) has awarded the contract for constructing a flyover and underpass. Construction work is currently under progress. Decongestion of the HUDA City Centre junction will improve accessibility to the metro station.

Around the Station

Fortis Hospital, Max Hospital, Hotel Crowne Plaza, Hotel Park Plaza, Sector 44 Institutional Area, Unitech Business Park and Signature Towers

Attracts Footfalls from nearby residential areas such as

Sushant Lok, MG Road, Sector 56-57

Retail Development at HUDA

Developed as a Metro Mall with retail and office spaces

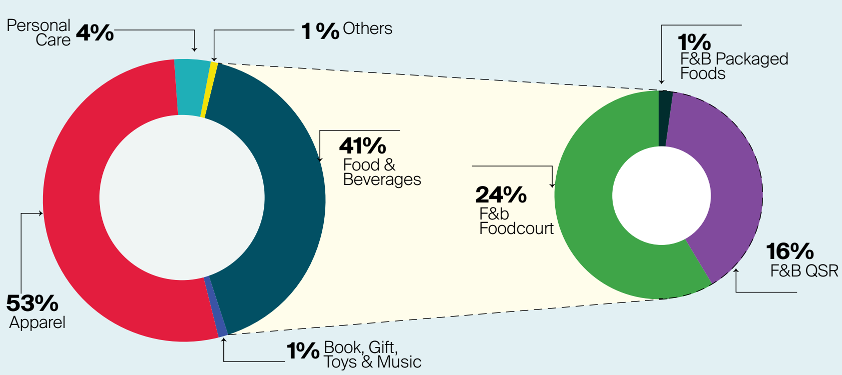
Dedicated retail space is on two floors which is approximately 4,552 sq m (49,000 sq ft) (super built up)

Percentage of dedicated retail area from overall area – Nearly 26% excluding the metro station area

Nearby offices, residential catchment and HUDA junction is a major highway interchange making it a suitable location for restaurants and other retailers

Stylish hangout area outside the metro station

Product Category Penetration at HUDA Metro Station



Source: Knight Frank Research

Average Trading Density (ATD)

sq m/month (sq ft/month) in INR

Apparel	64,600-70,000 (6,000 - 6,500)
Books, Gifts, Toys & Music	64,600-67,800 (6,000 - 6,300)
Food & Beverages	107,600-116,300 (10,000 – 10,800)
Others	118,400-129,200 (11,000 – 12,000)
Personal Care	0-3,200 (0-300)

Source: Knight Frank Research

Due to the presence of two prominent international retailers, apparel constitutes 53% of the total retail footprint amongst all product categories at HUDA City Centre, followed by F&B at 41%. The share of the F&B category emerged as the second highest, predominantly due to a large Food Court on the ground floor. F&B Food Court constitutes 24% of the total retail footprint and 60% of the F&B category specifically. F&B QSR is also an emerging sub-category under the F&B umbrella and currently accounts for 16% of the total retail footprint.

Case Study II -

Why Nehru Place Metro Station?

Nehru Place Metro Station is located between Kailash Colony and Kalkaji Mandir stations on the Violet Line and provides connectivity to the domestic terminal of IGI Airport via the Pink Line. Accessibility to the metro station by all forms of public transport has encouraged the use of its retail space for 'retailtainment'. Daily ridership for this metro station is nearly 20,000[5]. Its ample parking space has ensured footfalls in the retail area over and above the people using it for commuting. The Nehru Place commercial area across the road from the metro station is India's biggest electronics district due to which there is a lot of unorganized retail and a very informal atmosphere around the metro station.

Around the Station

Nehru Place Business Centre, Hotel Mint Casa, Eros International Hotel, Shaheed Bhagat Singh College LSR College and Deshbandhu College

Attracts Footfalls from nearby residential areas such as

Nehru Enclave, East of Kailash, Kailash Colony, CR Park and Greater Kailash

Retail Development at Nehru Place Metro Station

Developed as an exclusive business cum recreation destination on the existing metro property in association with DMRC

Dedicated retail space is approximately 6,500 sq m (70,000 sq ft) (super built up)

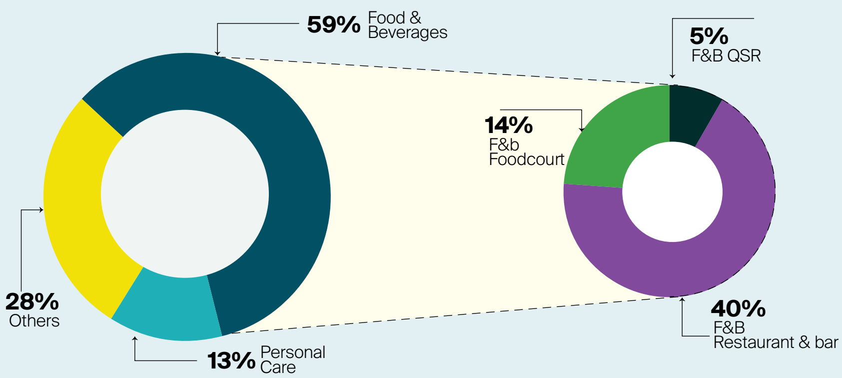
Prime attractions are Epicuria Food Court and INOX Insignia theatre

Apart from QSR, several other fine dining restaurants, pubs, gymnasium and salon are present.

Restaurants and bars at this metro station regularly feature in social media posts as 'must visit' places in New Delhi

Rents for retail spaces – INR 5,382-8,073/sq m (INR 500-750/sq ft) for F&B categories

Product Category Penetration at Nehru Place Metro Station



Source: Knight Frank Research

Average Trading Density (ATD)

sq m/month (sq ft/month) in INR

Apparel	64,600-70,000 (6,000 – 6,500)
Food & Beverages	34,400-39,800 (3,200 – 3,700)
Others	10,700-12,900 (1,000 – 1,200)
Personal Care	0-3,200 (0-300)

Source: Knight Frank Research

F&B emerges as the dominant product category with a 59% share in total retail footprint, followed by Others (multiplex) at 28% and Personal Care at 13%. Interestingly, despite having a huge food Court, the share of F&B restaurants and bars is 40% of the total retail footprint and 69% of the F&B category.

[5]Estimate based on previous year's growth rate

Key Findings from Case Studies

ATD comparison of an international coffee chain at a Metro Station, High Street and Shopping Mall

Case I	Daily footfalls	Average revenue per footfall (INR)	Size of the store (sq m) [7]	ATD/sq m/ month (in INR)
International Coffee Chain at HUDA City Centre	160	500	232	10,345
International Coffee Chain at a nearby mall	400	450	251	21,514
International Coffee Chain at a nearby high street	650	350	68	100,368

Case II	Daily footfalls	Average revenue per footfall (INR)	Size of the store (sq m) [7]	ATD/sq m/ month (in INR)
International Coffee Chain at Nehru Place Metro Station	325	350	139	24,550
International Coffee Chain at a nearby mall	478	475	250	27,246
International Coffee Chain at a nearby high street	200	450	78	34,615

Source: Knight Frank Research

While in both cases, the ATD achieved by the high street store of the coffee chain remains the highest due to small store sizes, it is only in Case II that the ATD/sq ft/month for a metro station is comparable to a mall. In Case I, despite the similar store size at a metro station, there is a vast difference in the ATD. This is mainly because footfalls are low due to ongoing construction work outside the store at the metro station which has made accessibility to the store difficult for passengers. However, to operate efficiently and save on operating costs, smaller store formats may be more relevant as footfall variations can hamper its revenue generating potential. Also, retail store performance depends on a lot of factors. Location and catchment are key factors which impact a retailers' revenues. In Case II, the brand's footprint at a metro station facilitates footfalls which are higher than the high street nearby, as this retail development has been successful in attracting footfalls other than the metro commuters, which is benefitting the coffee chain's business.

Analysis By Footfalls

Name of the Property	GLA of Retail Area (sq m)	Daily Footfalls	Retail Space Per Person (sq m)
CASE I			
Shopping Mall in Gurugram	157,934	71,428	2.21
HUDA City Centre, Gurugram	4,552	8,560	0.53
CASE II			
Shopping Mall in Saket	37,160	38,071	0.98
Nehru Place Metro Station	6,559	8,485	0.78

Source: Knight Frank Research

*GLA - Gross leasable area

[7] Size of the store is super built up area depending upon loading difference in carpet area. Retail store efficiency in a mall is typically 65%

22% The retail space per person for HUDA City Centre is 22% of the retail space occupied per person at a mall in the same location.

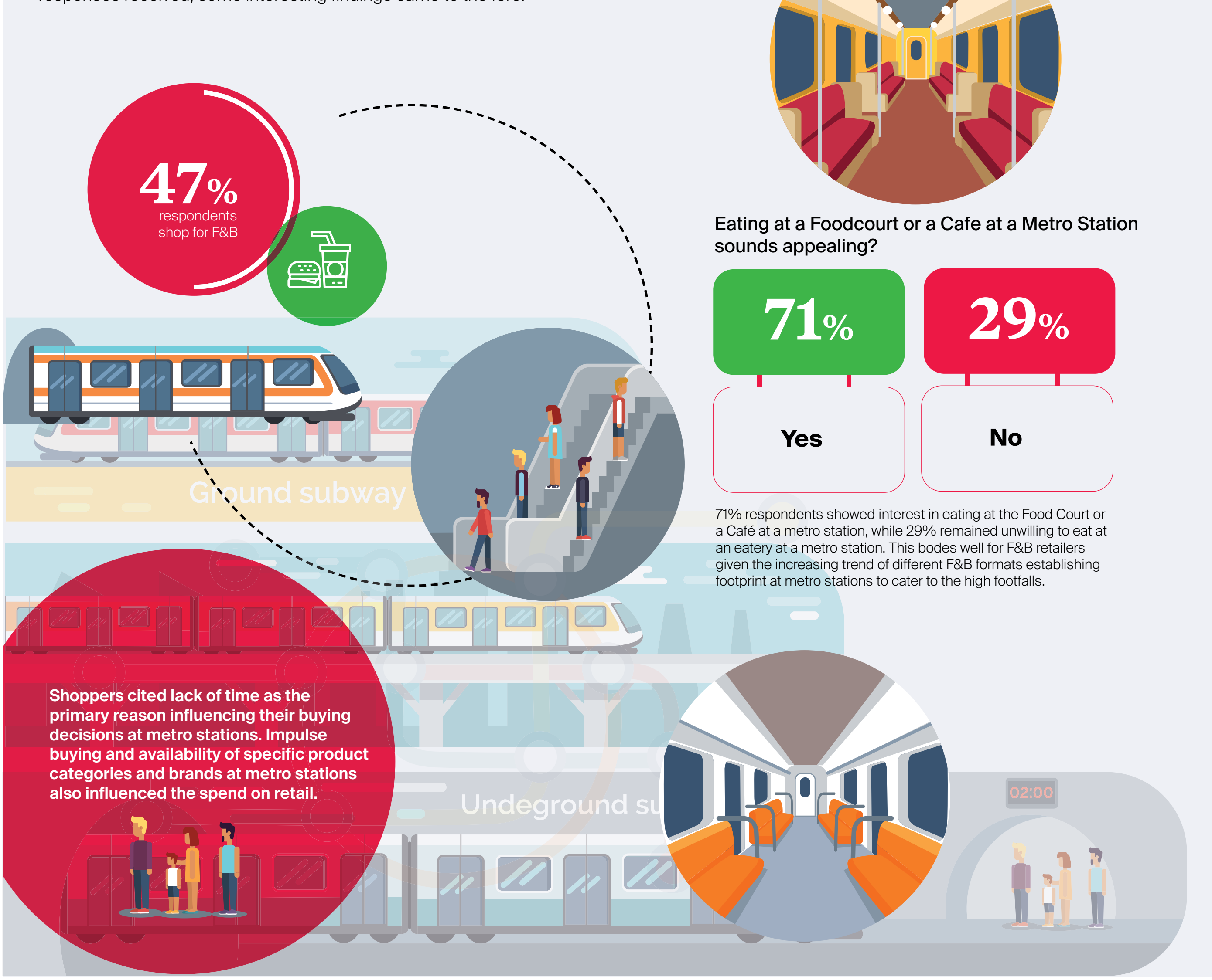
80% The retail space per person for Nehru Place is 80% of the retail space occupied per person at a mall in the vicinity.

The idea behind these comparisons is to understand whether the retail formats at metro stations, given their smaller size in comparison to a mall, are comparable in terms of the space occupied per footfall. While the size of retail development at metro stations certainly makes a difference to the analysis, in terms of footfalls, both HUDA City Centre and Nehru Place Metro Station largely fare the same. It is interesting to note that in the second case, the difference in retail space occupied per person at a mall vis-a-vis a metro station is only 0.20 sq m, while the gap is much wider in Case I. Retail formats at metro stations are only taking off in an organized manner now and yet the comparison does not present a dismal picture as the smaller size of these developments are getting the footfalls in, and making an impact on the consumer segment.

Source: Knight Frank Research

Assessing the Shopping Behaviourof Buyers at Metro Stations in India

To assess the buying patterns of shoppers at retail outlets in metro stations, we conducted a consumer survey. Of the total responses received, some interesting findings came to the fore:



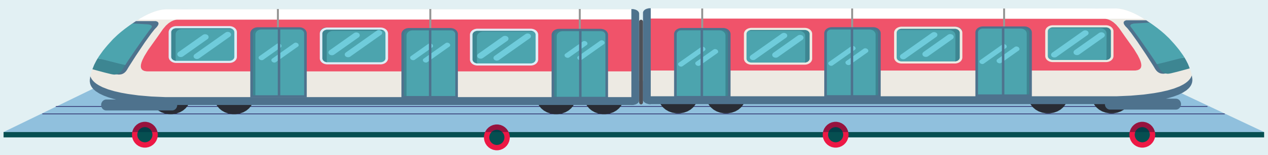
Hyderabad Metro –
A new retail therapy destination

Operational since	No. of stations:	Operational length (kms):	Daily ridership:	Concessionaire:
2017	**49**	**46.5**	**460,000** commuters	**LTMRHL** L&T Metro Rail Hyderabad Limited

Hyderabad Metro Rail (HMR) is the world's largest Public-Private Partnership (PPP) project in the metro rail sector. As an integrated urban transport development project with inter-modal connectivity and skywalks, this project is one of its kind. It is a planned TOD development with revenue generation streams identified as 49% from ridership, 49% from property development and 2% from advertising revenue. This project will include 18.5 million sq ft of TOD in earmarked locations and depots.

HMR has both inward-looking retail (station retail) and outward-looking retail components as part of its development. Typically, in a metro station, retail space ranges from 232-929 sq m (2,500-9,000 sq ft) Interchange and special stations have larger spaces ranging between 929-3,716 sq m (10,000-40,000 sq ft) These stations can be promoted as destination stations for the whole family. Ameerpet, a major interchange station with daily footfalls of 32,000 commuters has attracted a lot of regional and national F&B retailers inside the metro station selling shawarmas, biryani, tea etc. A few regional apparel brands have also established footprint inside the station.

Apart from station retail, four metro stations have retail malls developed under the brand name *'Hyderabad Next Galleria'*. These metro stations have already become hangout spots because of the massive retail therapy they provide.



	HITEC City	**Punjagutta**	**Irrum Manzil**	**Moosarambagh**
Operational since	**2018**	**2017**	**2018**	**2018**
Approx size in sq m (sq ft)	**27,870 (300,000)**	**46,451 (500,000)**	**30,193 (325,000)**	**21,367 (230,000)**
Major Tenants	**PVR, Pantaloons, Max, Reliance Trends**	**PVR, Taco Bell, Pizza Hut, Big Bazaar**	**PVR, Decathlon, Lifestyle, Marks & Spencer**	**PVR, Lifestyle**

Other similar projects are on the anvil and may be commissioned in a phased manner, going forward. The positioning of these malls as 'premium family destination malls' with a unique tenant mix of leading national and international brands is a good strategy which can translate metro ridership into revenues. A model, other states should experiment with.

Metro line operators must look at restructuring their revenue models and look at ways to increase non-fare revenue. Augmenting retail trade by targeting more retailers is one of them. Since the sub-leasing model includes minimum guarantee plus revenue share percentage arrangement, the profits earned can be invested back as capital in improving the amenities and infrastructure of the station. We estimate the lease rent opportunity for Metro operators to increase to USD 0.84 billion by 2030.

Key Learnings

Thoughtful planning for retail elements - Metro stations are rapid movement and high traffic zones. Individual station typology and land available for retail development impact retail revenues, hence, design and placement of the retail component inside the metro station is crucial to direct footfalls to the stores. New and innovative concepts in design and detailing for retail planning for upcoming station developments holds the key to unlock the potential and opportunity that retail real estate developments present. The entry and exit of the retail zone at metro stations should be such that it not only attracts commuters but allows easy accessibility to customers outside the metro station from nearby residential and commercial catchments.

Its F&B all the way - Metro retailing is a far cry from airport retailing. It is more time sensitive and has a lesser lounge period. Hence, all product categories that do well at airports will not necessarily fare well at metro stations. As seen from the case studies, F&B remains the only product category to dominate the retail footprint at both Nehru Place and HUDA City Centre with a 59% and 41% share respectively. F&B also attracted the highest ATD/sq ft/month due to the dominance of F&B Food Court, F&B Restaurants and Bars and F&B QSR. Various F&B formats such as these will continue to dominate retailing at metro stations in the near term while other product categories will continue to co-exist.

Rationalised rents for retail spaces on offer – Since spaces designated for retail let-out at metro stations are prime properties, the rents charged are also much higher than high streets in the vicinity. This is mainly because of the large consumer base that a metro station provides. In some cases, the rents charged are more than double that of the nearby high streets. For example, in Mumbai, the rent for retail space along the metro station on Versova to Ghatkopar line is INR 8,611-10,764/sq m (INR 800-1,000/sq ft) whereas the Versova Station Market and Azad Nagar highstreets nearby have a rental range of INR 3,229-3,764/sq m (INR 300-350/sq ft). The Jaipur Metro Rail Corporation (JMRC) had to revise the quoted rent downward by half in 2019 to get more takers to participate in the tender process. As the concept of metro retailing is at a nascent stage in India, rents charged from retailers should be rationalized for a better response and the maximum license period should also be increased for retail formats to bring them into mainstream. Metro line operators should consider leasing out unutilized spaces inside the stations for retail outlets.

Integrating technology with retail –

To cater to fast paced lifestyles, retail opportunities at metro stations should be developed to make the metro a ‘one stop shop’ for commuters. Promoting ‘virtual stores’ to capture demand from ultra-busy and tech-savvy commuters can be one such step in that direction. Much like Tesco’s virtual stores in Seoul, wall-length billboards on the walls of metro stations should be installed which look like shelves from a supermarket and display product pictures along with a QR code. For groceries and other FMCG items, this model can work well as commuters can place their orders while waiting for the metro train and pay online while the deliveries can be made by the e-commerce or online grocery chains directly at the commuters’ doorstep. Tying up with e-tailers and online grocery stores such as Amazon, Flipkart or Big Basket that can handle delivery orders for the virtual store, will help increase non-fare revenues from the metro station.

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Metro stations are rapid movement and high traffic zones. Individual station typology and land available for retail development impact retail revenues, hence, design and placement of the retail component inside the metro station is crucial to direct footfalls to the stores

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4. Metro Retail Opportunity

The current metro rail network is set for huge expansion as many Tier II cities get ready to inaugurate this mass transport system while augmentation of existing network continues in key cities such as Delhi, Bengaluru, Hyderabad and Mumbai. Metro networks are developing ways to increase revenue through new streams to compensate loss making operations or boost their profitability. Property development and lease income from retail business will thus form a big proportion of the non-fare box revenues in the next decade. Going forward, we expect, that by 2030, metro station retail will grow as the network expands, and new TOD developments emerge. We estimate the current retail opportunity at metro stations at USD 1.17 billion. With the annual passenger traffic likely to touch 7.32 billion by 2030, we estimate the projected retail opportunity to grow to USD 5.60 billion by 2030.[8]

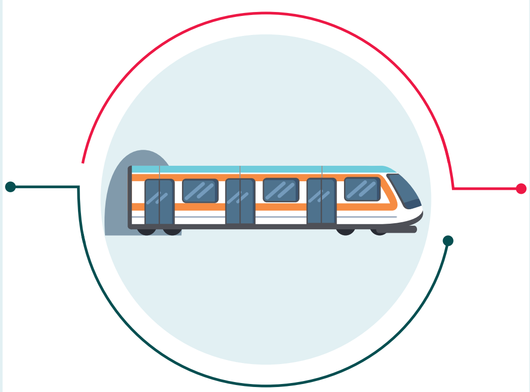
2019

2.6 billion
Annual passenger traffic

USD 0.6 billion
Estimated market size

USD 1.2 billion
Current retail opportunity

USD 0.2 billion
Total lease rent opportunity for Metro Station Retail



2030

7.3 billion
Annual passenger traffic

USD 5.6 billion
Projected retail opportunity

USD 0.8 billion
Total lease rent opportunity for Metro Station Retail

Source: Knight Frank Research
Exchange rate: USD 71.6 | Inflation at 5%

[8]Retail opportunity considers the untapped potential of retail at metro station network.

RAILWAY RETAIL -
FACELIFT TO BRING IN OPPORTUNITIES

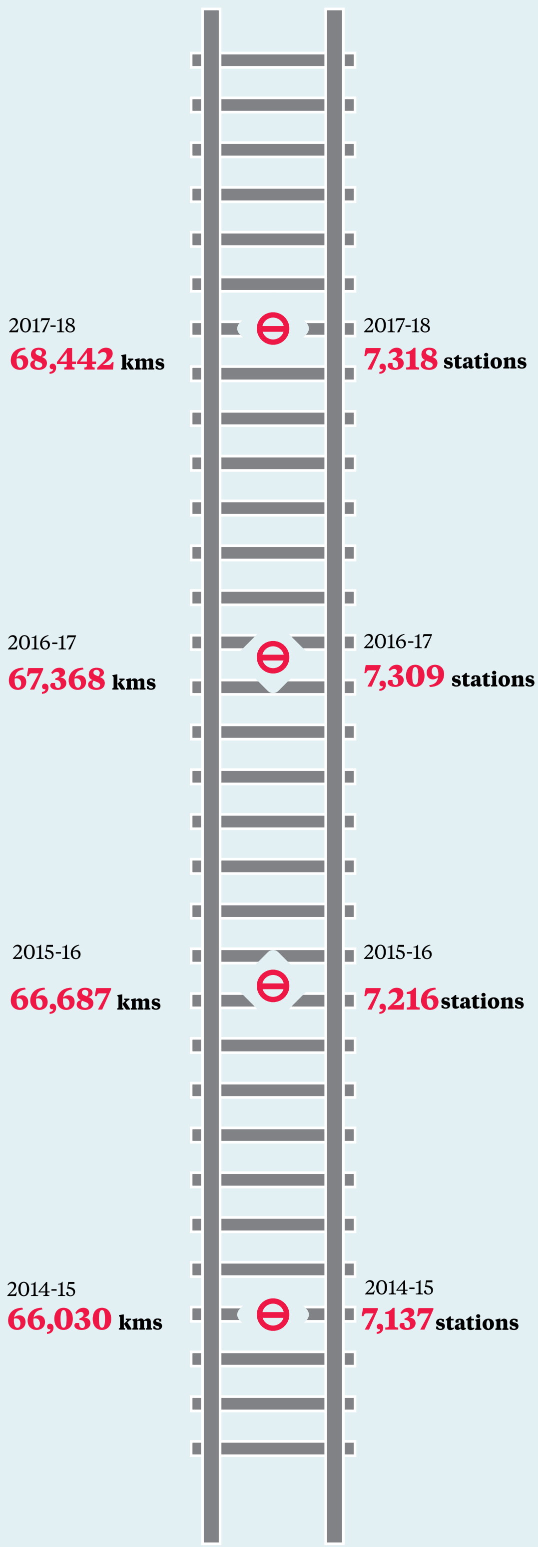
Indian Railways is the world's third largest rail network and operates 13,452 passenger trains daily. In 2017-18, Indian Railways had a total route network tof about 68,442 kms[9]. However, over the past few years, it has been observed that the pace of Indian Railways expansion hasn't been as robust as envisaged. With several growth initiatives and growing public-private partnership, Indian Railways is set for an image makeover which will open huge opportunities for other sectors too.

9 India Brand Equity Foundation, Indian Railways

Sanjeev Kumar Lohia,
Managing Director & CEO
Indian Railway Stations Development Corporation (IRSDC)

Railway Stations have a significant potential to develop into retail hubs. With the huge number of footfalls that they see, and in most cases 24x7, these transport nodes could certainly act as anchors to the retail economy. More so in suburban metros as most commuters pick things on the go. So there is immense opportunity to bring in certain product categories such as Food and Beverage (F&B), especially Quick Service Restaurants (QSR) or fast food; grab-and-go products; gift shops and so on, within the railway ecosystem. In principle, retail thrives on footfalls and railway as well as metro stations have them in abandon. In fact, the railway stations can act as anchors to not only retail economy but also food and beverage, hospitality, start-up hub, co-working spaces, training hubs.

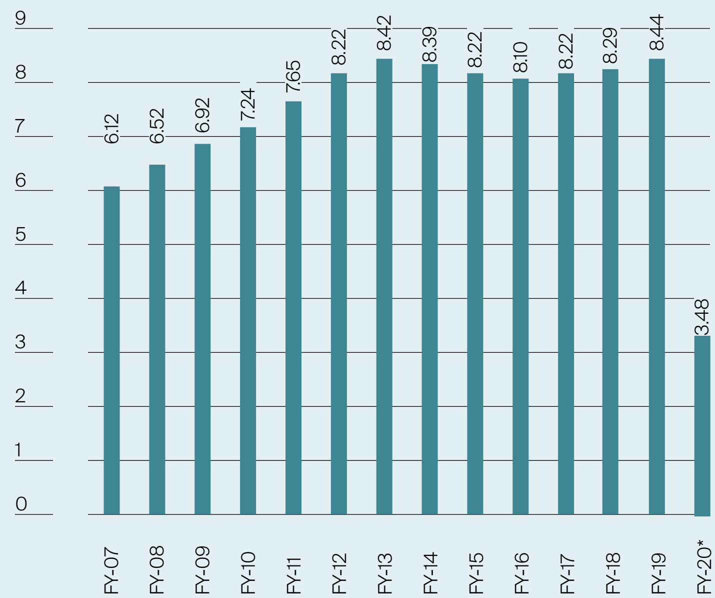
Railways Infrastructure in India



Source: Knight Frank Research, Indian Railways

Trends in passenger volume present a dismal picture

in billions



Source: Knight Frank Research, India Brand Equity Foundation

* Up to August 2019

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Total route in kms (both electrified and non-electrified) grew at an abysmal rate of 1-2% YoY in the last 4-5 years while growth in number of operational railway stations remained stagnant with hardly a 1% uptick in new stations added YoY since 2014-15.

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1. Railway Infrastructure in India

Train travel remains the preferred transport mode for long-distance travel for a majority of Indians and the demand for passenger trains is increasing due to urbanisation and rising income standards. Passenger traffic in the country grew at a CAGR of 2.71% during FY07-19, despite addition of fewer stations and low growth in total route length. Revenues from the passenger segment of Indian Railways have increased at a CAGR of 6.43 per cent to USD 7.55 billion (INR 52,766 crore) in FY19 from USD 3.80 billion (INR 26,558 crore) in FY08. Passenger earnings of Indian Railways is estimated at USD 3.20 billion (INR 22,384.97 crore) in FY20 (up to August 2019). Freight remains the major revenue earning segment for the Railways, accounting for 64.02 per cent of total revenues in FY20 (up to August 2019), followed by the passenger segment.[10]

[10] India Brand Equity Foundation

Higher investments in Indian Railways to open doors for organized retail

Indian Railways is projected to account for 40% of the total share of passenger traffic globally by 2050[11]. The Indian Government's focus on augmenting rail infrastructure and modernising existing stations have enabled higher investment allocation for this sector. As per Union Budget 2020-21, the Government of India budgeted USD 10.14 billion (INR 72,216 crore) as capital support for Indian Railways. The Cabinet's approval for 100% Foreign Direct Investment (FDI) in areas such as high-speed train systems and suburban corridors (amongst others) will help in modernisation and expansion of the railway network. This massive upgradation drive will make Indian Railways an attractive bet for sectors such as retail to set foot in and tap into consumption arising out of increased passenger traffic.

Push for Public-Private-Partnerships (PPP)

Private sector companies are being encouraged to participate in rail projects to unleash faster development across segments such as railway electrification, higher speed passenger trains, etc. In 2012, the Cabinet approved 'participative models for rail-connectivity and capacity augmented projects', which allows private ownership of some railway lines. The Delhi-Lucknow Tejas Express becomes the first train to be operated by private players and there is a privatisation push for 150 trains across 100 routes, which will be a big milestone for Indian Railways. The huge capital expenditure of USD 750 billion (INR 50 lakh crore) cannot be met by public sector alone and has increased the dependence on private investments. Five key areas/projects have been identified by Railways under PPP; redevelopment of stations is also one of them.

Railways as future retail and entertainment destinations

Indian Railways is focusing on a few key areas as part of its modernisation strategy. Modernising core assets such as stations and terminals, exploring new revenue models for land and high-speed trains and focusing on enablers from a holistic and long-term perspective are the pillars of this drive.

Stations Redevelopment – a boon to usher in retailing

In 2017, the Ministry of Railways launched the first phase of station redevelopment program covering commercial development of 400 stations across the country which is expected to see investments worth USD 13.96 billion (INR 1 lakh crore). This is expected to be the largest TOD program ever executed in India and holds huge commercial value. As part of this vision, Railways will provide approximately 2,700 acres of land at these stations to the developers on a 45-year lease period. The redeveloped stations will provide amenities like digital signage, escalators, self-ticketing counters, executive lounges, restaurants, malls, theatres and even wi-fi facility. The developers participating in the program can earn through the increase in non-fare revenue of the station through sub-leasing for retail.

Though retailing at Railway Stations is largely done in an unorganized manner with little participation from international retailers, redevelopment and modernisation will form the crux of organized retailing in railways. We studied three such brownfield developments to assess the potential for retailing once the stations are modernized and/or redeveloped.

Adarsh Station Scheme

Started in 2009-10, this scheme identified 1253 railway stations to be developed which included various passenger amenities, improvement to façade of the station building, retiring room, waiting room (with bathing facilities), separate waiting room for ladies, landscaping of circulating area, earmarked parking, signages, Pay & Use toilets, Foot Over Bridge (FOB), ramps at entry to station etc. as per station category. Of the total 1149 stations developed so far, Eastern Railways (24%), Southern Railways (10%) and Northern Railways (9%) account for the highest share.

The remaining 104 stations are targeted for completion by 2019-20.

[11] The Future of Rail Opportunities for energy and environment, Internal Energy Agency

Case Study I -

Habibganj Railway Station Redevelopment Project (ongoing)

Location	Habibganj, MP Nagar Zone 2 Bhopal-462011, Madhya Pradesh
Platforms	5
Zone	West Central Railway zone
City-Division	Bhopal
Per Day Passenger Traffic (before redevelopment as the work is under progress)	22,000 persons/day
Catchment	Arera Colony (EI to E4) and MP Nagar
Retail at Railway Station	Largely unorganized with few local and regional F&B stalls
Commercial Development	USD 48. 8 million
Station Redevelopment	USD 13.9 million
Station Maintenance	3+5 years
Current Status	Work commenced since March 2017. Expected completion of the station redevelopment is 2020, while the commercial and retail development will be handed over in a phased manner between 2021-2023.

Source: Knight Frank Research

Habibganj is the first Railway Station to be privatized by Ministry of Railways in 2017. This station's redevelopment is undertaken by the PPP mode between Indian Railway Station Development Corporation Limited (IRSDCL) and Bansal Pathways Habibganj Pvt Ltd (developer) for a lease period of 45 years. The station redevelopment envisages Habibganj to be developed as a 'premier station', to become an integrated transport modal hub with Rail, Bus Rapid Transit System (BRTS), Inter State Bus Terminal (ISBT) and the proposed Metro alongside. The station redevelopment scale involves a planned development for arrival/departure segregation, building a concourse with retail, F&B outlets and kiosks, canopy roofing and high-quality flooring, escalators and elevators at entries and exits and passenger lounges. 'Bansal City Centre' is being developed inside the redeveloped station which will be a mixed-use development with office and retail spaces. Enquiries from international coffee chains and QSR chains are already floating in as brands see potential in capitalizing on rising footfalls from the increase in passenger traffic once the new station opens. Again, the first of its kind and nothing short of what an airport has. At present, there are only a handful of local and regional F&B stalls offering local cuisines for travelers and operating out of small stalls of 60-80 sq ft. After the station redevelopment is complete, the entire backdrop outside the station will also get a makeover as there will be commercial establishments, office lobbies, serviced apartments, hotels, hospitals, spas and convention centres too. A good social infrastructure coupled with segregation of passengers, non-passengers and a well-designed circulating area with access to concourse, will bode well to attract national and international retailers, mainly in the F&B categories.

Case Study II -

Gandhinagar Railway Station Redevelopment Project (ongoing)

Location	Gandhinagar, Gujarat
Platforms	3
Zone	Western Railway
City-Division	Ahmedabad
Per Day Passenger Traffic (before redevelopment as the work is under progress)	7000 persons/day
Catchment	Sector 13B, Sector 13C, Sector 14, Post Office Colony
Retail at Railway Station	Largely unorganized with a few local and regional F&B stalls
Commercial Development	USD 15.7 million
Station Redevelopment	USD 12.1 million
Current Status	Work commenced in March 2017. Though the target date of completion was January 2019, the work is still under progress

Source: Knight Frank Research

Envisaged on similar lines as Habibganj, a special purpose vehicle (SPV) Gandhinagar Railway and Urban Development Corporation Ltd (GARUD) has been formed between the Government of Gujarat (GOG) and IRSDCL with equity contribution of 74% from the Government of Gujarat (GOG) and 26% from the Ministry of Railway (MOR). Gandhinagar Railway Station would be re-developed as a travel hub of international standards by leveraging land/air space around the station and will include development of a 5-star category 300 rooms hotel on the airspace of the station as well as management of the Mahatma Mandir and the Exhibition Centre at Helipad Ground for enhanced utilization of these facilities. The salient features of this redeveloped Railway Station will include segregation of arrival and departure of passengers, building of two subways connected to ramps and a dedicated transit hall for passengers with around 604 seats. The transit area will also boast of food stalls, toilets, kiosks, book stalls and shops. Other features such as a space frame structure, prayer rooms and a huge parking facility to accommodate 1000 cars, 200 two wheelers and 100 auto-rickshaws are all set to change the look and feel of the Railway Station and will introduce an environment which will attract different retailers to set up footprint. Apart from F&B, several other product categories will be able to tap into both passengers' and non-passenger's consumption needs for daily use products, books, toys, music, etc. A well designed and planned station will transform the environment in and around the station into a nerve centre of the city. Presence of an upcoming hotel, temple and a convention centre are added advantages for the flourishing eco-system which will be an enabler for organized retail, as it will also attract footfalls from tourists disembarking in Gandhinagar apart from other passengers and non-passengers.

Case Study III -

KSR Railway Station in Bengaluru (operational)

Location	Bengaluru, Karnataka
Platforms	10
Zone	South Western Railway
City-Division	Bengaluru
Per Day Passenger Traffic	175,000 persons/day
Catchment	Malleswaram, Gandhinagar, Rajajinagar, Chamrajpet
Average Rents in INR/sq m/month (INR/sq ft/month)	8,900-25,000 (830-2,400)
Size of Retail stalls/kiosks in sq m (sq ft)	5.57-9.29 (60-100)
Brand Penetration	50% Local | 32% Regional | 15% National 3% International
Product Category Penetration	57% F&B | 32% Others 11% Books, Toys & Music

Source: Knight Frank Research

The railway station is served by the City Railway Station, metro station on the Namma Metro's Purple Line as well as the Kempegowda Bus Station. In 2019, a foot-over-bridge connecting one of the platforms of the Railway Station with the Metro Station was opened which improved access to the Railway Station and vice versa. A lot of organized retail activities have picked up after the Railway Station was revamped and as of now, there are 50% local retailers who dominate the retail trade at this location. Regional, national and international retailers together account for the remaining 50%. F&B is the predominant category present in terms of retail footprint and contributes 63% of the retail revenues of the station. Being the fifth busiest Railway Station in South India, and being centrally located, the footfalls are expected to increase as there are several other physical infrastructure upgrades planned for the Railway Station such as platform extension, upgrade of the signaling system and remodeling of the yard. All these activities will help increase the passenger traffic and improve conversion ratios for retailers to help generate incremental revenue. The initiatives to decongest the Railway Station will allow better movement of passenger traffic and attract more retailers to set up shop.

Future of Retailing at Railway Stations

Unlike airports where product categories such as liquor, accessories, apparel, footwear and electronics already dominate the retail footprint, Indian Railways retail trade has so far been largely a local and regional F&B play. With the redevelopment of 400 railway stations in the offing, new revenue generation models will have to be put in place and leasing out retail space will form a key component of the non-fare revenue stream. With the current annual passenger traffic projected to increase to 18.19 billion by 2030, retailers will find it lucrative to set footprint at the redeveloped railway stations. IRSDC is in talks with several private retail chains and entertainment houses to open their outlets at these busy transportation hubs of the future. While F&B remains a key product category to attract national and international retailers, other product categories also have a huge scope for establishing footprint at railway stations. For example, the upcoming POD Hotels by IRCTC will provide an affordable lodging facility at the Mumbai Central Railway Station and will resemble extremely small and ultra-modern capsules or pods that provide overnight accommodation to passengers.

Based on the commercial potential of the 400 redeveloped Railway Stations, we estimate that the total retail opportunity at these redeveloped railway stations and forecasted passenger flow will present a huge retail opportunity of USD 1.9 billion by 2030.

2. Railways Retail Opportunity in India

Indian Railways have embarked on a mega transformation drive with redevelopment envisaged for 400 stations in Phase I through PPP mode. Based on their commercial potential, we estimate that the total retail opportunity at these redeveloped railway stations and forecasted passenger flow will present a huge retail opportunity of USD 1.9 billion by 2030. This will translate into lease rent opportunity of USD 0.3 billion by 2030 for the operator.

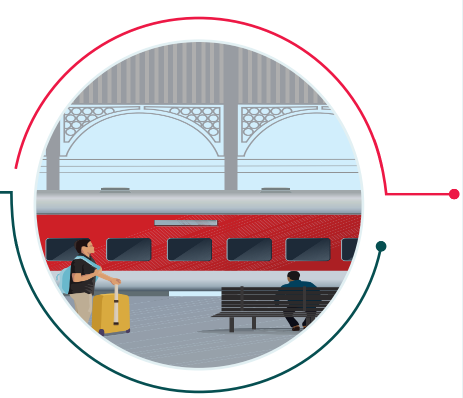
2019

16.1 billion
Annual Passenger Traffic (400 stations)

USD 0.1 billion
Estimated market size

USD 1.0 billion
Current retail opportunity

USD 0.2 billion
Operator (lease rent) opportunity



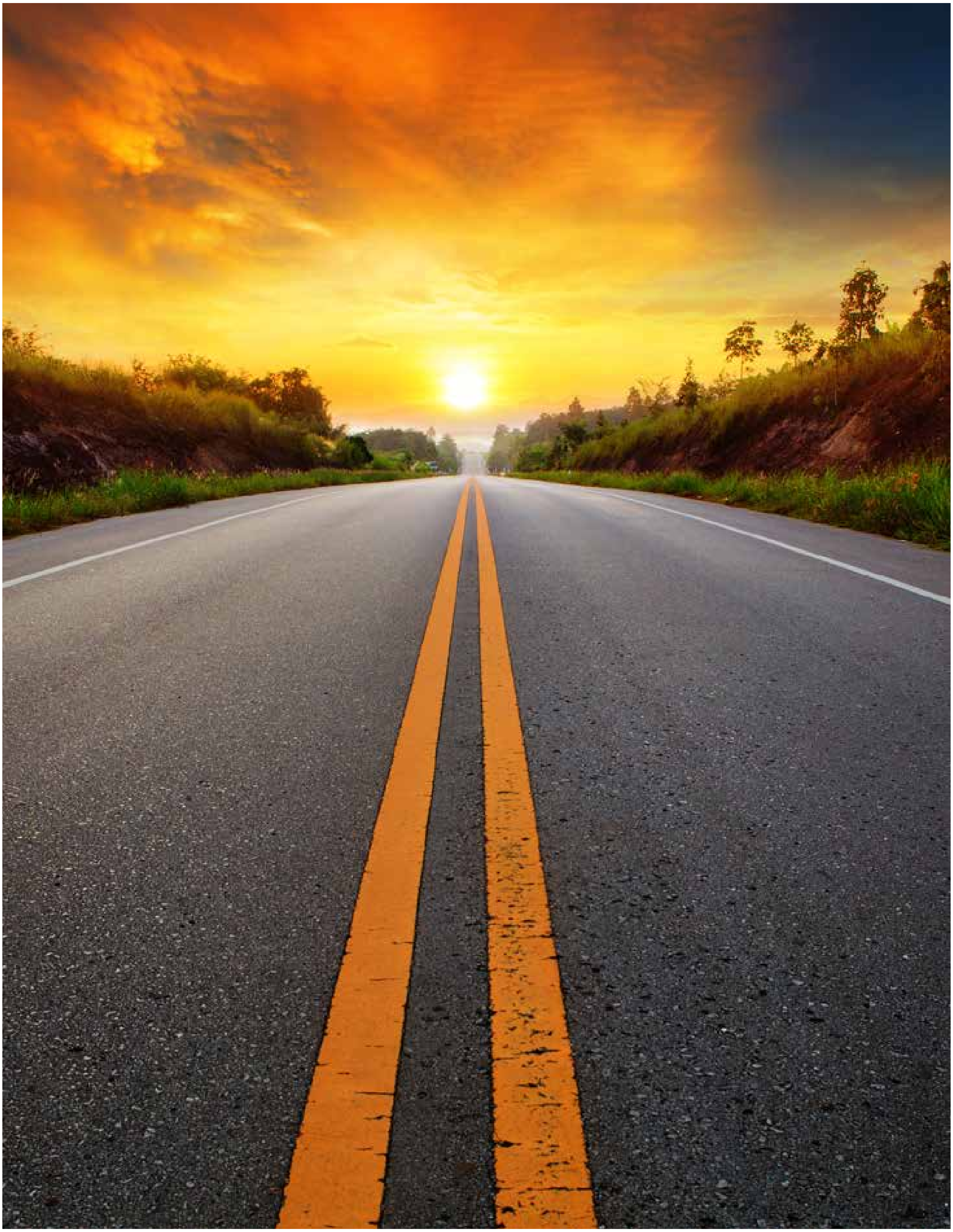
2030

18.2 billion
Annual Passenger Traffic (400 stations)

USD 1.9 billion
Projected retail opportunity

USD 0.3 billion
Projected operator (lease rent) opportunity

Source: Knight Frank Research
Exchange rate: USD 71.6 | Inflation at 5%



ROAD RETAIL:
MODERN RETAIL ON HIGHWAYS AND BUS STATIONS

Road travel is an intrinsic part of Indian journeys, be it intra-state or inter-state; and for the longest time, Indians have undertaken road expeditions. The total road network in India is 5.8 million kms, as of 2017. It is the second largest network in the world, the first being the United States of America at 6.4 million kms. India's road density is equal to that of Germany i.e. 1.80 km/sq km.[1] The existing road infrastructure presents a substantial modern retail potential in India, especially in food & beverage (F&B).

In this chapter, we will be looking at modern retail opportunities on highways and bus stations which will be covered under the umbrella of 'road retail'.

[1]Source: MoRTH

Highway Retail: the New Road to Modern Retail

The concept of highway retail is not alien to the Indian populace. Shops, *dhabas* and restaurants - colloquially referred to as hotels by the masses - have been the crown jewels of Indian highways. They form a significant part of the highway infrastructure and are now being increasingly pursued as huge commercial opportunities. Not more than ten years ago, their presence was scarce and the scale much smaller. People setting off on road expeditions would make sure to carry enough food stock and drinking water for the trip, owing to the limited presence of such retail outlets. There would be nothing for about 100-200 kilometres at a stretch, not even a fueling station; it was therefore necessary to be prepared for the “road”. This situation holds true even today for certain stretches of the all-India highway network, albeit comparatively lesser. However, the highway ecosystem has been undergoing rapid and major changes in recent times. What used to be a standalone and isolated retail opportunity existing on a need-basis is now being overhauled into a mass-scale and high business retail opportunity. Modern retail on highways in India is gaining increased interest across quarters, especially from the organised F&B retailers.

◆◆

The share of NHAI and other government agencies that develop and maintain highways in India, in the modern F&B retail opportunity on highways in India is estimated to be at USD 2.7 billion by 2030

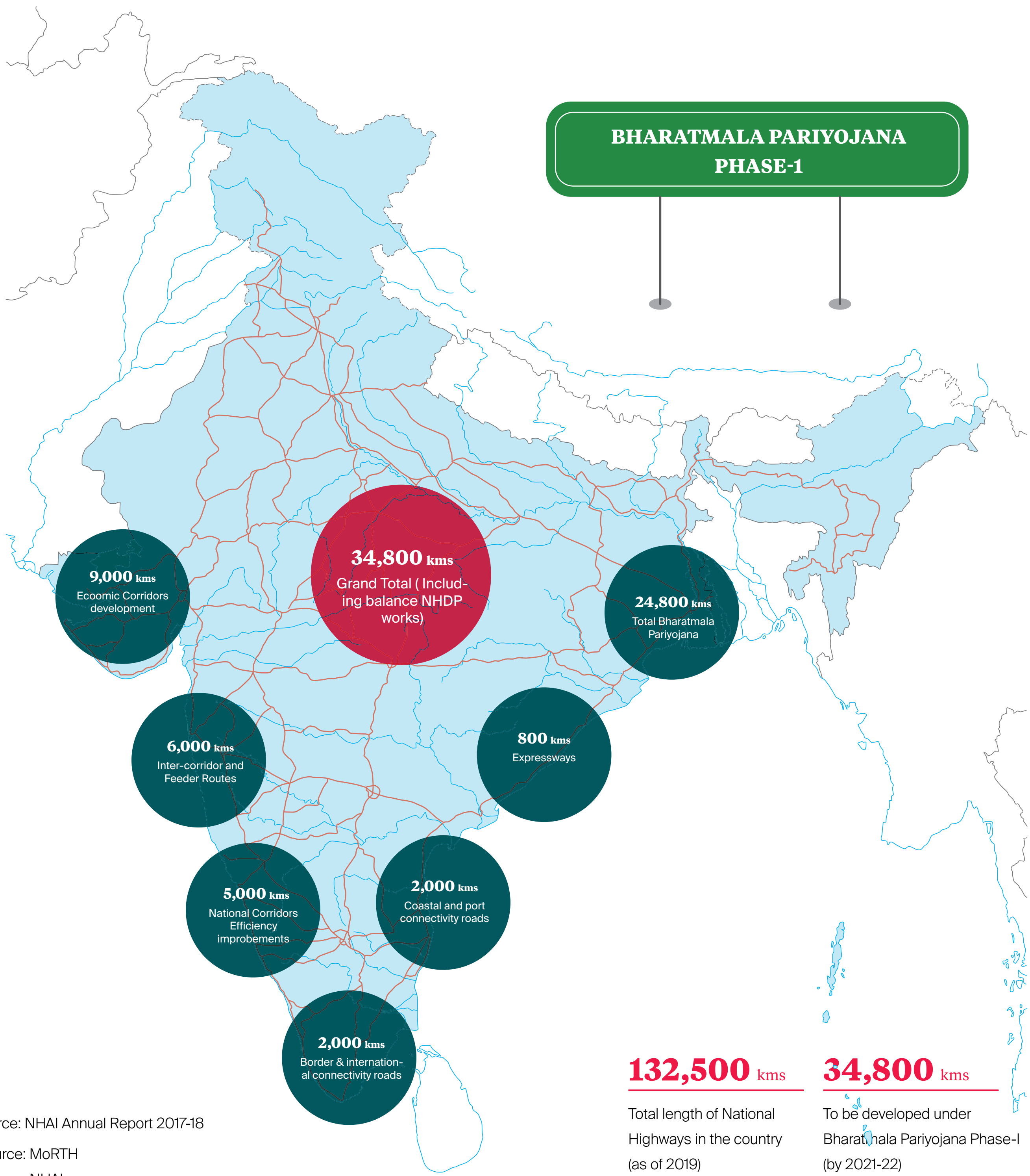
◆◆

A look back in history

Roads, especially highways, have been an important mode of transport since time immemorial. It, in fact, was the only travel option available for inland connectivity for the longest time. Railways and air transport came in much later. Until the 15th century AD, people set out on long, cross-country and sometimes cross-continental road journeys that would take weeks and months together. They traveled in groups, either on foot or using animals such as camels, elephants and so on for both transport and for carrying cargo. On such expeditions, there would be substantial expanses of land with no human habitation or presence of life. Food and shelter would often be a challenge. It was with this backdrop that the 15th century emperor, Sultan Sher Shah Suri, introduced the concept of a *sarai*. The *sarai* was a public rest house where travelers could stop for free food and water, and even to rest for a while before they set off on the next leg of their journey. Sultan Sher Shah Suri ensured that such *sarais* were built at frequent intervals across his famed creation, the Grand Trunk (GT) Road which stretched across the whole of north India. As times changed and commercialisation kicked in, these *sarais* gradually evolved into the present-day motels / hotels and food hubs scattered across highways. And thus, was laid the foundation of the concept of highway retail.

1. Highway Infrastructure in India

India has a widespread network of highways - national as well as state highways - across the country. As of March 31st, 2019, there are 599 national highways in the country with a total length of 132,500 kms.[2] Of this, approximately 1,500 kms fall under expressways i.e. access-controlled highways having six or more lanes. As of March 31st, 2016, the web of state highways covered an expanse of 176,166 kms. Further, the country has embarked on a mission to better its road infrastructure with its ambitious *Bharatmala Pariyojana* project. In the Phase I of *Bharatmala*, which spans from 2017-18 to 2021-22, a total of 34,800 kms of national highways will be developed across India.[3] Following is a detailed break-up of this 34,800 kms of highway development plan:



132,500 kms

Total length of National Highways in the country (as of 2019)

34,800 kms

To be developed under Bharatmala Pariyojana Phase-I (by 2021-22)

Source: NHAI Annual Report 2017-18

[2]Source: MoRTH

[3]Source: NHAI

2. Highway Economics

National Highway vs. Expressway – the land dynamics

The primary difference between national highways and expressways is that of access. While national highways can be accessed from any juncture, expressways have designated entry and exit points for vehicles. Accordingly, the retail opportunity on these two road formats is different. Numerous establishments of any scale can be set up across the national highway stretch, but on the expressways, these establishments have to be aligned with the access points, thus defining the presence and scale of retail opportunities. An advantage of this access-controlled feature of expressways is that passengers are forced to halt at the designated retail hubs for their food and ablution needs as the next such facility could be available only at the next retail hub i.e. at least 60-80 kms ahead. Consequently, the probability of conversion of passengers to customers at these retail destinations increases.

On national highways, the land parcels adjacent to the road are privately-owned and there is open access. Consequently, all such landlords could come up with their own retail establishments and these could be scattered all across the highway. Such a distributed retail presence across the highway stretch means increased choice available to passengers and no fear of not having an option for the next 60 odd kms. This flexibility of halting options inadvertently impacts the market share of retailers which sometimes includes the government (in case of government-owned/operated retail facilities). In contrast, the adjoining land parcels on expressways are controlled by the government/government agency responsible for the development of the expressway. The concerned authority can monetise the land parcel adjoining the access points by bidding it for development into retail hubs. At present, most large-scale retail operations on expressways are established through the petro-retailing model.

What is petro-retailing?

Petro-retailing is a business model that offers petroleum products/services to consumers directly. Earlier, petro-retail outlets were simply used for fueling. Gradually, they started offering retail opportunities for providing basic goods and services to passengers, especially on the highways. In United States of America, petro-retailing gradually evolved into highway retailing as over time, petro-retailers grew to accommodate convenience stores (24*7 shops) making passenger travel on highways more comfortable. A parallel can be drawn with India's highway retail scenario and the role of petro-retailing in it. At present, fueling stations (or petrol pumps) on expressways, usually provide for F&B retail opportunities along with other basic amenities such as toilets, Automated Teller Machines (ATMs) and so on. However, these petro-retail services have the potential to be developed into larger, modern retail hubs that offer not just F&B but also other retail categories such as apparel, and entertainment facilities such as movie theatres.

3. Potential of Modern Retail on Highways in India

Enormous retail opportunities are present on highways with business potential for modern retail equivalent to other forms of retail such as shopping centres and malls. National highways and expressways have a 4-6 lane fold and a concrete built i.e. good quality road infrastructure. Consequently, this is where most of the highway retail can be developed and is at present concentrated. In India, currently, this potential remains largely untapped. At present, only a few of the numerous and scattered retail establishments across the current highway network would qualify as large-scale, organised and modern highway retail. Most of the other highway businesses have a smaller presence and lack the motivation or vision to grow despite the wherewithal. Further, just as location and catchment play an important role in the success of a retail venture, so is the case with national highways. Organised retail hubs that are thriving in India at present, are concentrated on national highway stretches with high passenger traffic, especially those with a heavy flow of private cars; for instance, the Mumbai-Pune Yashwantrao Chavan Expressway and the National Highway 44 between Delhi and Zirakpur. It is, therefore, necessary to properly identify such lucrative stretches on national highways.

One way to do so is to categorise the pan-India network of national highways into Categories A, B and C based on the volume of passenger traffic. The determinant of volume of passenger traffic would certainly vary from highway to highway and state to state, as numerous factors influence this parameter. Category A national highways would include the expressways as well as the high passenger traffic national highway stretches; Category B would be the medium volume stretches where private cars are comparatively limited and passenger traffic is mostly carried by buses; Category C highways would be the ones where freight dominates and passenger traffic in any mode of transport is significantly low. As is evident, it is only the Category A highways that are at present suitable for capitalising the highway retail opportunity on a large scale.

Accordingly, expressways and high-volume national highways together form the scope of modern retail on highways in India. As mentioned earlier, expressways mostly operate through the petro-retailing model. Entry and exit access on expressways are controlled and food courts/ food retail hubs are usually facilitated by the fueling stations at such access points. The government is an important participant in this model. As far as the national highways with high passenger traffic are concerned, a cluster-based model appears to be apt here. When one or two particular retail establishments evolve as an anchor (point of identification of a particular location because of popular demand for a specific product/service), it inadvertently results in the establishment of ancillaries (retail businesses established around the anchor to capitalise on the market share created by the anchor) at that same location. Take for instance, Murthal. Located about 45-50 kms from Delhi on the present-day NH 44 or Grand Trunk Road, Murthal is a village in the Sonipat district of Haryana state. The place is famous for its numerous *dhabas* that serve paranthas (a special Indian bread) for INR 100. Back in the 1980s, there were just two to three *dhabas* here, which had the quintessential, temporary *patra* structure and primarily catered to truck drivers. Over the years, as passenger traffic between Delhi-Chandigarh and Delhi-Punjab increased, these *dhabas* underwent a complete overhaul to cater to its changing clientele. These have been revamped into fancy, fully vegetarian, family restaurants having a '*dhaba*' feel. They are now housed in permanent, brick and mortar structures that spread across 15,000-50,000 sq ft area with in-house facilities for family entertainment, serving a continental menu besides the paranthas. Further, there now exist about 50 such fancy *dhabas* at Murthal, and new ones continue to be set up even today.

An important factor to consider while categorizing national highways is their location. When the national highway stretch connects two mega cities or metro cities and the distance between them is 300 kms or less, the probability of car passenger traffic on the highway is higher. Also, the propensity to spend of these city-based car passengers would be significantly high compared to other urban centres in the country which means that they would not mind stopping for a quick coffee worth INR 150 or grab a quick bite worth INR 250 or more at one of the Quick Service Restaurants (QSR) or diners. Going by this rationale - the Ahmedabad-Vadodara Expressway, the Delhi-Jaipur stretch on NH 8, the Delhi-Meerut Expressway on NH 9, the Mumbai-Nashik Expressway and the Mumbai-Goa-Bengaluru stretch on NH 4 are Category A national highways.

At present, the 34,800 kms covered under Bharatmala Pariyojana Phase – I, which includes 9000 kms of economic corridors and 800 kms of expressways, is apt for consideration as Category A. Further, high passenger volume can also be found on prominent state highways and this modern retail opportunity is over and above the Category A national highways. Additionally, Category B and C national highways have their own modern retail potential, although limited. Hence, significant modern retail potential can be reaped from the existing infrastructure itself. The government's future greenfield endeavours will further enhance this potential.

I. Product Category and Brand Mix

At present, 99% of the organisd, highway retail opportunity in India is concentrated in the F&B retail product category and within that the Quick Service Restaurants (QSR) dominate. However, shopping for apparel on the highways isn't completely unheard of. The NH 1 Factory stores and the Jaggi City Centre in Ambala on the Delhi-Zirakpur stretch of NH 44 are grand shopping destinations with a range of global bridge-to-luxury brands, international sportswear outlets and other renowned apparel and cosmetic brands. While these places cater to the high-income car passenger traffic plying on this route – mostly those heading to the Delhi International Airport to board international flights – they also enjoy a significant popularity in the local catchments such as Ambala for whom these are destination malls. However, this retail category has a niche base at present but is certain to grow in the future. As far as the brand mix on organised, highway retail hubs is concerned, both domestic-grown and foreign brands have carved their market share, as is evident from the F&B product category. Both the domestic-grown brands such as Amrik Sukhdev and Haveli on the NH 44 and the global players such as McDonalds and Kentucky Fried Chicken (KFC) across food hubs on both expressways and highways, enjoy a wide consumer base.

II. Highway Amenities Scheme

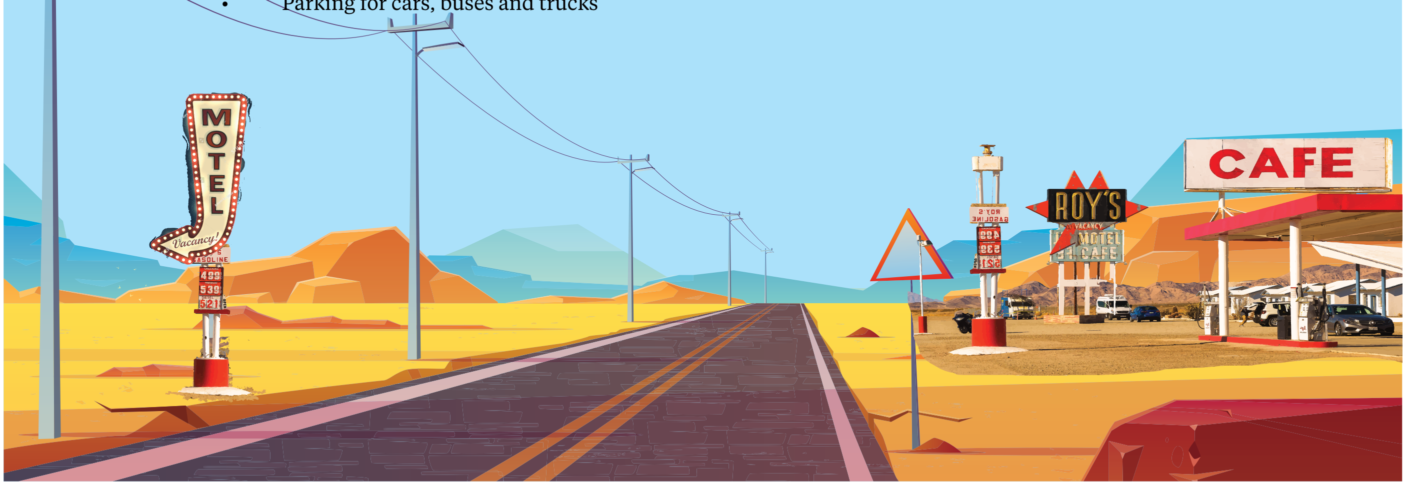
The road network in India, including national highways, comes under the jurisdiction of the Ministry of Road, Transport and Highways (MoRTH). The National Highways Authority of India (NHAI) is the planning, developing and maintaining authority. The NHAI makes use of different partnership models for development of highways such as the build-operate-transfer (BOT) model. Despite this, the expenditure incurred by NHAI on highway development and maintenance is significantly high. It is on this backdrop that MoRTH is considering monetising India's huge potential of modern retail on highways. There are plans in the offing to build highway villages, townships and wayside amenities so that returns from these would help partially fund maintenance of existing national highways as well as construction of future highway projects. The government has announced the Highway Amenities Scheme (HAS) [4] with plans to build 150 mega highway villages across the country with myriad facilities ranging from motels and food courts to trucker dormitories and *dhabas*.

Going forward, in addition to retail across categories, motels too have the potential to thrive on highways. It happened gradually and organically in the US highway retail model, and it has been similarly envisaged in the Highway Amenities Scheme of the government. All in all, the opportunity of modern retail on highways in India is exponential.

Highway Amenities Scheme

Under the Highway Amenities Scheme, the NHAI will be constructing mega highway villages along highways across the country. These facilities will have something for all categories of highway travelers. So far, 150 sites pan-India have been identified and work on finalizing the first cluster of projects is underway. The following facilities will be available at these proposed highway villages:

- Motels, restaurants and food courts
- Village *haats* or markets, shopping malls
- Electric charging stations, fuel stations
- Parking for cars, buses and trucks
- *Dhabas* for truckers
- Repair shops
- Dormitories for drivers

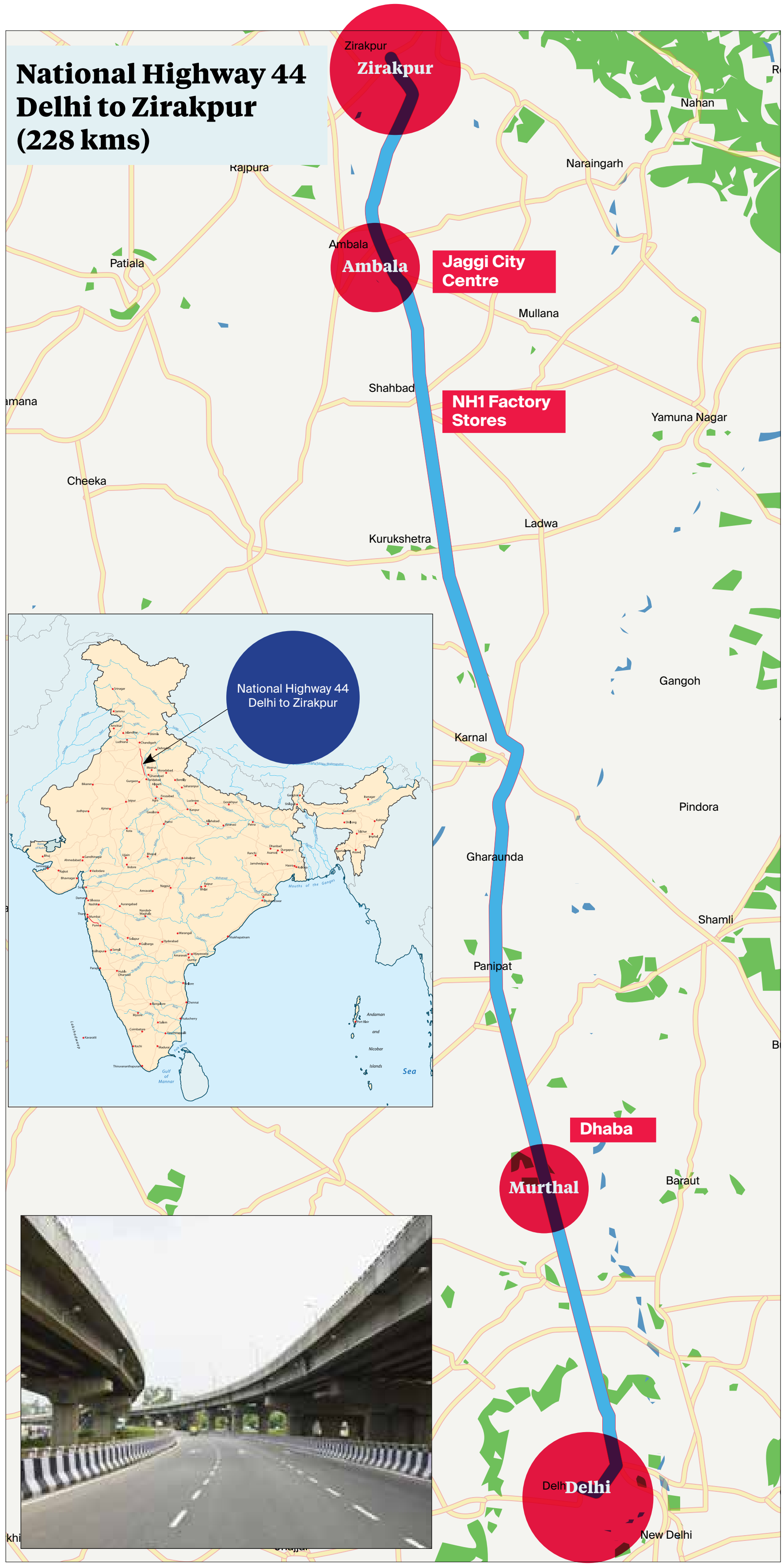


[4]Source: Govinfo.me/highway-amenities-scheme/

National Highway 44, Delhi to Zirakpur stretch

National Highway (NH) 44 is the longest-running, north-south national highway of India, connecting Srinagar with Kanyakumari. For the purpose of this report, only the 228 kms long Delhi to Zirakpur stretch has been considered. It is popularly referred to as the Grand Trunk (GT) Road or the Old NH 1. This route is Delhi's gateway to North India, in the sense that to travel anywhere in the North, this is the only route by road from Delhi. This is also North India's access route to the Delhi International Airport, especially from Chandigarh, Haryana and Punjab. Consequently, the passenger traffic on the Delhi-Zirakpur stretch is pre-dominantly high-income class, with a high propensity to spend. In 2019, the total passenger count across all vehicle types on this stretch of NH 44 was 218,683.[5] Two important organisd retail nodes have evolved on this route: the first is at Murthal – a village in Haryana, and the second is at Ambala. While Murthal is a complete F&B retail hub, the NH 1 Factory Stores and Jaggi City Centre near Ambala are mix category, modern retail hubs. NH 1 Factory Stores is a high street format with enclosed retail area catering to the apparel retail category whereas Jaggi City Centre is a destination mall with its wide array of retail and entertainment avenues. Murthal's clientele includes the highway passenger traffic as well as locals from Delhi and Ambala who venture out on weekends to grab breakfast or dinner here. They in fact time their travel from Delhi or Ambala/Punjab/Chandigarh according to their preferred mealtime at Murthal. The place is home to domestic-grown, organised F&B retail brands like Amrik Sukhdev, Garam Dharam and Haveli and all of these, along with other *dhabas*, offer Paranthas (a special Indian bread) for INR 100. On the other hand, NH 1 Factory Stores and Jaggi City Centre are unique to this particular highway stretch in India. As mentioned earlier, these places are an agglomeration of global brand factory outlets and bridge-to-luxury brand stores. Their catchment includes highway passenger traffic as well as the locals of Ambala and Delhi. They particularly service the international travelers coming from Chandigarh or Punjab, who are heading to the Delhi International Airport. The brand mix at these centres is heavily skewed towards foreign origin or global brands in the apparel retail category. With its high-income class passengers, this stretch on NH 44 is one of the most high-spend highways in India.

[5] Source: Knight Frank Research



Shri Radheshyam Mopalwar
Vice Chairman and Managing Director
Maharashtra State Road Development Corporation (MSRDC)

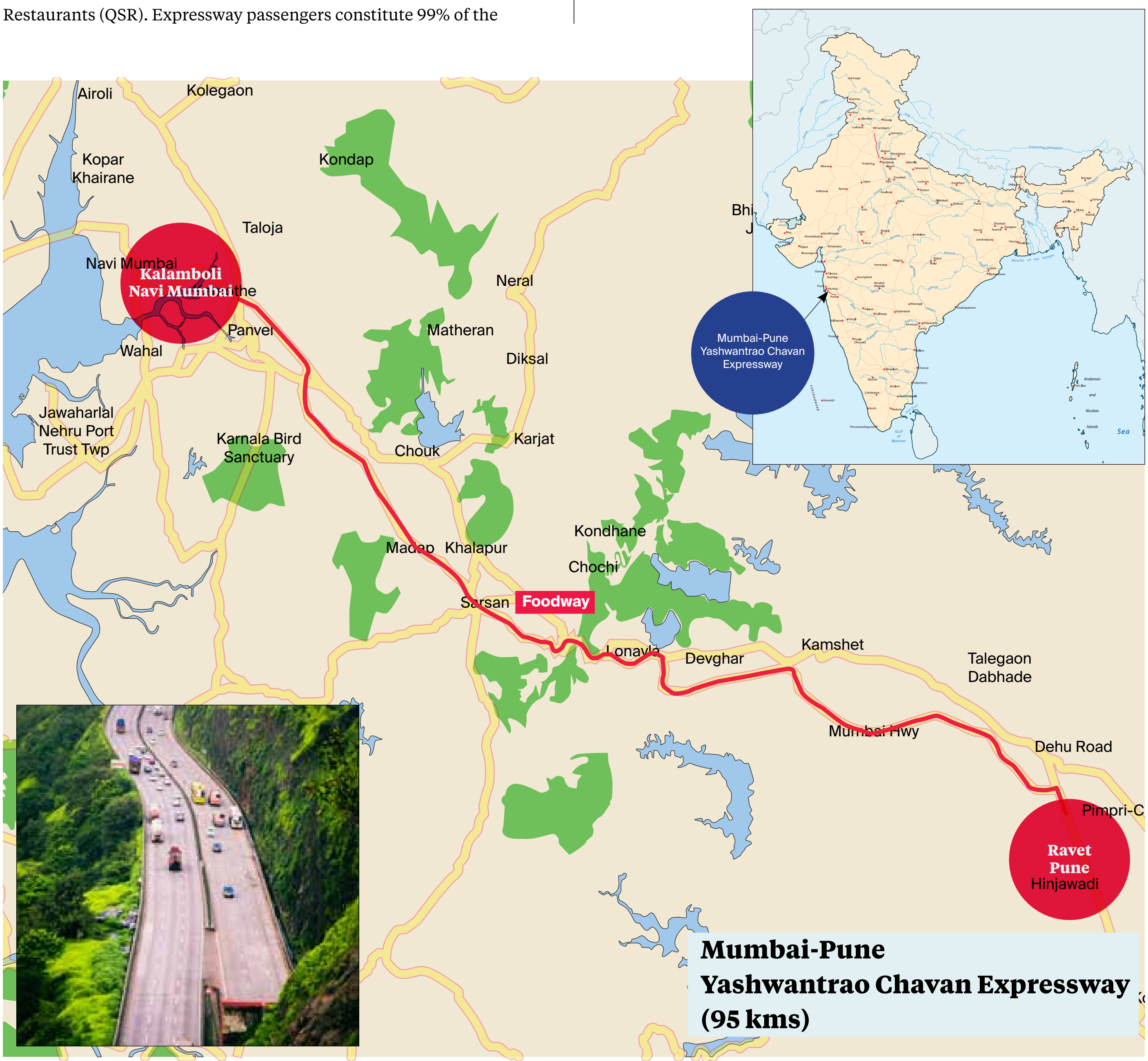
Development of Highways started on a large scale with launch of Golden Quadrilateral in 2001. We have come a long way since then. It's difficult to think that before the year 2001 even Delhi-Mumbai, Delhi-Kolkatta, Mumbai-Bangalore/Chennai and Chennai-Kolkatta were not connected by four-lane divided carriage-way from end to end. Now when we think of a highway, the default scenario that appears is a four-lane divided carriage way facility. Some expressways also have been constructed, though it's still a long way to go for India to see a national grid of Access Controlled Expressways.

Even if the entire transportation network is far from ideal as compared to the international standards whatever development we've seen of transportation network, it has thrown up tremendous opportunities for modern retail and F&B along the highways. Highway tourism is a new opportunity. If we look at the growth of hotels, food-malls, wayside amenities it's still in infancy and has great potential to grow. The IRC SP-099 has for the first time published standards and framework for development of Wayside amenities in 2013. Hospitality and retailing have great potential to generate employment.

Wayside showrooms, retailing facilities like factory outlets, Wallmart, Amazon, Tesco PLC et all will spring up along the transportation network in years to come. Domestic as well as global brands in food chains like Subway, CCD, Starbucks, Barista, McDonalds are springing up along the highways. Local food outlets are also thriving. In my view the transportation networks will create large employment in organised retail and F&B sectors and will also contribute to growth in GDP in years to come.

Mumbai-Pune Yashwantrao Chavan Expressway

This is India's first concrete, six-lane and access-controlled expressway. It began full operations in 2002 connecting the two large metros of Mumbai and Pune. It is among the busiest roads in India and the expressway's total daily passenger count for all vehicle types was 557,785 as of September 2018.[6] There are eight large petro-retail outlets combined with food plazas on the expressway on both sides of the road. The only retail category present here is F&B especially Quick Service Restaurants (QSR). Expressway passengers constitute 99% of the clientele of these F&B retail hubs and global players such as McDonalds and Starbucks constitute 15% of the entire brand mix. Domestic-grown brands such as Café Coffee Day (CCD) and Kailash Parbat also have a presence on the expressway. With its heavy traffic, the Mumbai-Pune Expressway is one of the most lucrative organised, highway retail stories in the country.



[6]Source: IRB

Neerav Sejpal
Chief Development Officer
Pizza Hut India (Sub-continent)

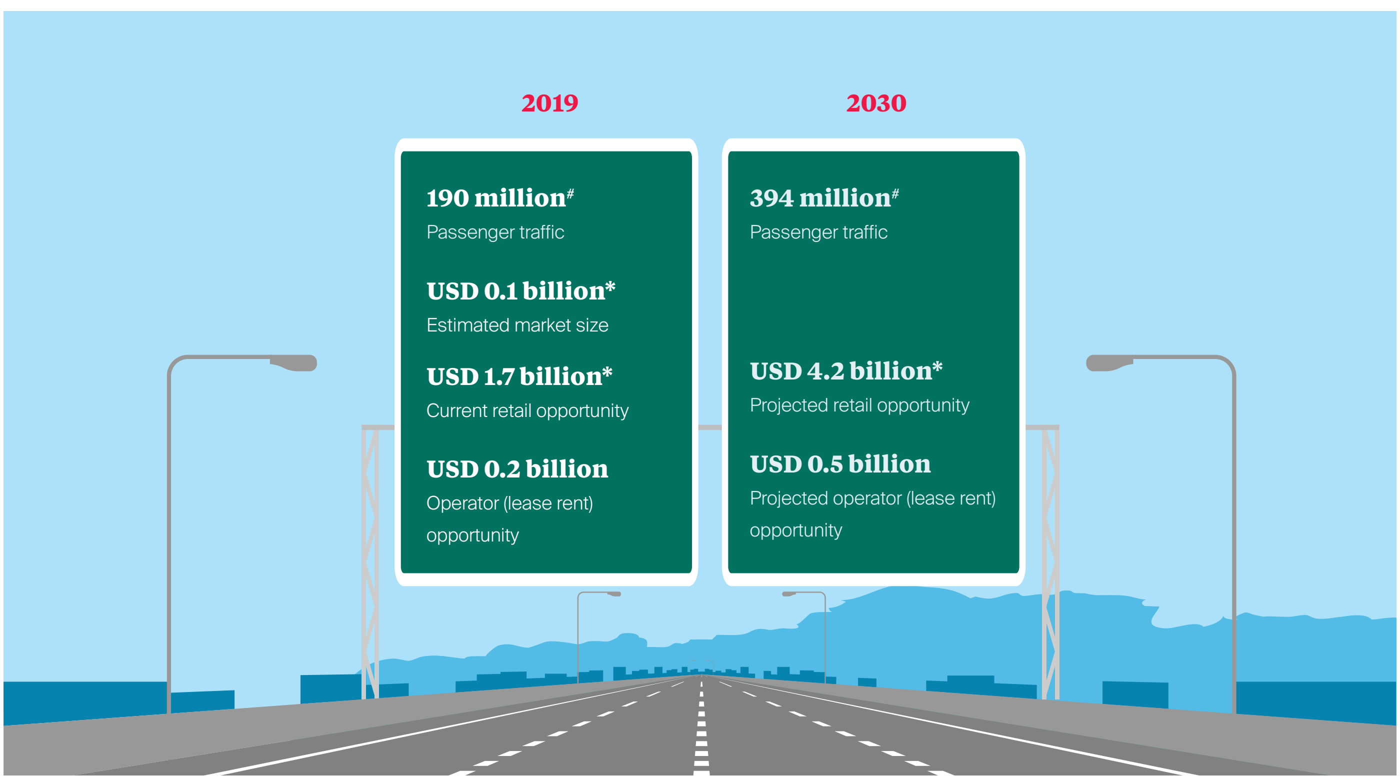
Food retail along transportation hubs is fast growing in India. For a brand like us, though transit retail is not a major contributor to our overall business,we see the upgradation of transport infrastructure as a good opportunity to expand our business in formats such as airports and expressways. Airports provide for a ready catchment of urban population with high disposable incomes that indulge in their wait times. However, not all airports provide for this ideal catchment and so the airports in metros or sub-metros are most preferred locations for us. Between highways and expressways, expressways is another format that we are keenly experimenting on, especially the access controlled formats where the food courts see for a guaranteed daily passenger traffic with almost 70—80% conversion rate, which makes such locations profitable.

4. Future of Modern Retail on Highways in India

Ambitious projects such as the Bharatmala Pariyojana include plans to build around 35,000 kms of national highway network in its first phase alone by 2021-22. The road infrastructure in the country is therefore set to undergo a major overhaul in the near future. Passenger traffic on the highways too has seen a steady increase over the last decade. Nearly 5 million new vehicles hit the road every year and this growth trend is expected to continue on the back of a growing population and an aspirational middle class. Further, the existing expressways and national highways with their wide lanes and quality roads offer a smooth and speedy travel experience which is encouraging private car owners to take their set of wheels out more often. As more and more expressways and highways get constructed/developed, more and more people will make increasing use of them and accordingly the modern retail opportunity on highways in India will grow exponentially.

While basic infrastructure in the form of roads is already available, their revamping into global standard highways and expressways is wanting. Further, an institutionalised approach set by a government framework/ policy is essential to monetise the highway retail opportunity in India. While infrastructure redevelopment is already being addressed under the Bharatmala Pariyojana project, action on the policy front needs to be undertaken. A food retail hub on the highway is a business opportunity for the government, the operators and the retailers alike. For the retailers, it translates to more footprint, more revenues and more brand recall. For the operators, it is the promising rent revenues. For the government, it is capitalising on existing assets which could help partially fund maintenance expenditure as well as construction of new projects. NHAI's recent expression of interest in developing entertainment hubs, townships and other wayside amenities along existing and upcoming highways to fund the highway projects is a positive on this front. So is the Highway Amenities Scheme that plans to build 150 mega highway villages across India.

Going by the dominance of the F&B retail category in organised, highway retail in India at present and also by the current demand trends being concentrated in the same category, it can be concluded that the modern retail opportunity on highways in India is at present synonymous to the F&B retail opportunity on the highways. Accordingly, we estimate the present market size of F&B highway retail in India at USD 0.13 billion and the current F&B retail opportunity for highway retail in India at USD 1.66 billion. With adequate initiative and support from the government, and with increasing passenger momentum, we estimate the total F&B retail opportunity for highway retail in India to be at USD 4.15 billion by 2030. This will also lead to operator opportunity (in the form of lease rental) increasing to USD 0.45 billion by 2030 from the current opportunity of USD 0.18 billion.



Source: Knight Frank Research
Exchange rate: USD 71.6 | Inflation at 3%
* F&B only
# Growth in annual passenger traffic

Bus Station Retail: Hop-on to the shopping wagon

Bus Station Retail: Let's not miss the bus

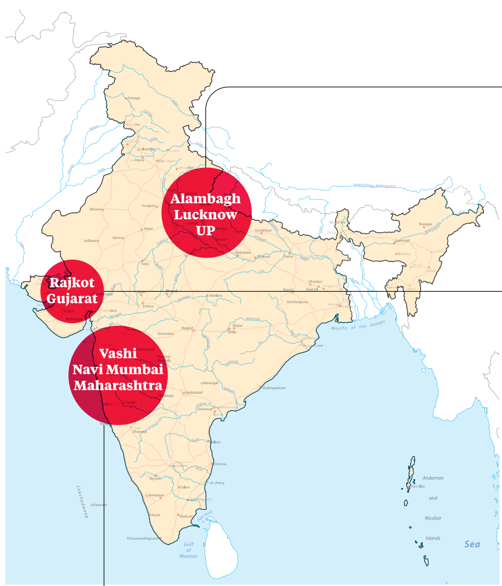
1. Bus Station Infrastructure in India

India has a population of 1.3 billion[7] and about 65% of Indians live in rural areas. Most of this rural population and more than 50% of the urban population use State Transport (ST) buses to travel within the city or from one city to another or from one state to another. Buses are the most affordable and widely connected mode of travel in India. Consequently, all cities/towns and most Urban Agglomerations (UAs) have an inter-state bus terminal (ISBT) or a central bus depot. The scale of the ISBT varies from city to city and town to town based on the population. The passenger traffic and number of buses accordingly vary with the size of the city/town/UA. Based on the Census definition of cities, there can be three categories of ISBTs in India – Category A would be metros (having a population of more than 10 lacs), Category B would be cities (population between 1-10 lacs), and Category C would be towns (population below 1 lac). Of the total 7935 cities/towns in India,[8] a significant 7470 fall in Category C having ISBTs with a smaller scale of operation. The balance 465 cities, distributed between Category A (53) and B (412), having an equivalent number of ISBTs and is where the scale of operations is high enough for organised, modern retail to develop, at present. For instance, the Maharana Pratap Inter State Bus Terminus located in Delhi is a Category A bus station with high potential for organised retail. Popularly known as the Kashmere Gate ISBT, this is the oldest bus station in India and handles more than 1800 buses a day. Going by the similar rationale of city population and scale of bus travel, the Rajkot bus stand is a category B bus station with moderate to high potential for organised retail at the bus station.

[7]Source: United Nations

[8]Source: Census 2011

2. Examples of Modern Retail and Mixed-Use Development at Bus Stations in India



Alambagh Bus Terminal, Lucknow, Uttar Pradesh

Alambagh bus terminal is the ISBT in Lucknow and has the highest passenger traffic and maximum number of buses as compared to other major bus stands in the city. This bus station is an example of the monetisation of the adjacent land parcel model. While the bus stand is spread across 57,000 sq ft, the adjacent 60,000 sq ft have been used to build a grand mall+entertainment hub+hotel facility. Commercial retail spaces exist at the bus terminal as well. The bus station handles 800 buses and around 5000 passengers daily. Further, the bus stand is connected to the Alambagh Metro Station directly, and this multi-modal feature increases its accessibility as well as that of the mall. The bus stand and the adjacent entertainment hub therefore stand to benefit from bus passengers, metro riders and locals.

Vashi Bus Terminal, Navi Mumbai, Maharashtra

The Navi Mumbai Municipal Transport (NMMT) bus depot, located in Vashi, Navi Mumbai is a first-of-its-kind mixed-use bus station development project in India. An Integrated Bus Terminus cum Commercial Complex will be developed on this 111,618 sq ft erstwhile bus stand. In the proposed development mix, 59% of the land has been reserved for the bus terminus and the remaining 41% will be used for commercial space development. The 44660 sq ft of commercial development land will be developed into a ground+21 floor building where the ground and first floor will be dedicated retail spaces and the remaining floors will be dedicated office spaces.

Rajkot Bus Terminal, Rajkot, Gujarat

Spread across 100,000 sq ft, the newly developed Rajkot bus station is another example of mixed-use bus station development but of a different kind. Besides being a transport hub, the newly built bus station building will house commercial retail space, a banquet hall, movie theatres and F&B outlets. Rajkot is therefore an example of a mix of bus station with shopping centre, event venue and entertainment hub i.e. different kind of mixed-use development. This busy bus station handles about 1500 buses and 50,000 passengers daily. Therefore, this mixed-use development would be catering to the heavy passenger traffic along with the local catchment from the old part of the city where a full-fledged mall is yet to develop.

3. Future of Modern Retail and Mixed-Use Developments at Bus Stations in India

Bus station retail is at a very nascent stage in India. While large scale infrastructural redevelopment of bus stations has been underway across the country, the approach has primarily been of Transit-Oriented Development (TOD) or of developing multi-modal transit hubs. An exclusive retail-based outlook is largely missing and, in that light, mixed use development at bus stations in India is more probable in the near future. Mixed use developments refer to development of bus station infrastructure for multiple purposes besides being transport hubs. These range from offering office spaces, hotels/motels, entertainment hubs or a mix of them. The central bus stations are usually located in city centres and therefore offer enough catchment to cater to, besides the in-house passenger traffic, for any of the above development. Further, more footfalls in the bus station premises could also increase the number of bus travelers. Bus station mixed-use developments thus offer immense business potential to government, operators and retailers alike. Monetisation of the land parcels adjacent to bus stations is another approach to bus station mixed use development.

Globally, development of bus stations as multi-purpose hubs is not a new phenomenon. The Port Authority Bus Terminal in New York and the Poole Bus Station in UK set international benchmarks for bus station infrastructure development suited for retail or mixed-use. However, is such a concept relevant to India? Remarkably, India has already started to make in-roads in this area. Under the Smart Cities Mission and other such urban planning initiatives, infrastructural revamp of bus stations is already underway across India. The Vadodara Central Bus Station in Gujarat is considered as the most modern bus station in India at present. Designed on the theme of a banyan tree, this state-of-the-art bus station resembles an airport terminal and has a huge, dedicated space for retail. Spread across an area of 37 acres, the Chennai Mofussil Bus Stand is the largest in the country. Equipped with all modern amenities, supermarkets as well as local retail establishments are also housed in here. The newly built Rajkot Bus Terminal in Rajkot, Gujarat and the upcoming Vashi Bus Depot in Vashi, Navi Mumbai are examples of bus station mixed-use development models. The Alambagh Bus Terminal in Lucknow, UP presents a case for monetisation of bus station-adjacent land parcels.

Bus travel is probably the only mode of transport for a significantly large Indian population. Some estimates have pegged the number of total bus passenger traffic per day at 68 million as of 2016.[9] And this passenger traffic has been growing substantially. However, more than 50% of this passenger traffic comes from low income groups of the society and therefore have a limited propensity to spend. This is one of the few major challenges for India in scaling the bus station retail format. Accordingly, along with the bus passenger traffic, bus station development will have to be done keeping in mind the local catchment as well. Accordingly, the scope of such bus stand development gets limited to Category A and B ISBTs where the purchasing power of the catchment considered is above average. The second challenge to bus station retail in India is the rudimentary state of infrastructure at most bus stands. The large-scale infrastructural redevelopment of bus stations being undertaken by the government is therefore a step in the right direction. Bus station retail does present a huge opportunity but in India, at present, it is at the formulation stage. To give a perspective, less than 5 such bus station retail and mixed-use bus station development experiments are presently underway in the country. We estimate the present F&B retail opportunity for bus station retail in India at USD 0.2 billion.

Going by the present dominance of the F&B retail category in organised, modern retail at bus stations, we conclude the retail opportunity at bus stations to be synonymous with F&B retail at these places. Accordingly, we estimate the present market size of F&B retail at bus stations at USD 0.01 billion and the current retail opportunity for the same at USD 0.2 billion. With the infrastructure redevelopment and adequate policy support, we estimate this retail potential to be at USD 0.9 billion by 2030. This will also lead to operator opportunity (in the form of lease rental) increasing to USD 0.1 billion by 2030 from the current opportunity of USD 0.03 billion. Two factors will significantly drive this number up – the pace at which bus infrastructure is revamped and the amount of business potential that operators and retailers see in this format.

Source: Knight Frank Research
Exchange rate: USD 71.6 | Inflation at 5% * F&B only,
[9]Source: UITP India

EMERGING RETAIL TRENDS

1. Marina Developments

Man-made marinas and waterfront destinations are coveted assets globally and have evolved as a tourism mecca over the years with a distinct identity of their own. Often synonymous with indulgence and grandeur, these attractive waterfront developments are dotted with residential, mixed-use, hospitality and retail real estate. Gourmet and casual dining restaurants offering scenic views, designer boutiques, microbreweries, apparel, souvenir shops, QSR outlets along the boardwalk and other retail shops offering essential services for the local community draw consistent consumer traffic from locals and tourists and benefit retailers all year long. Retailers are carefully curated to provide a suitable brand mix across categories which will bring in footfalls and boost revenues.

Due to its high-density location and few alternate options, Dubai Marina, a man-made marina along the Persian Gulf coastline has identified QSR outlets, casual dining concepts and destination entertainment and lifestyle activities as part of its retail requirements to cater to the latent demand from residents and tourists alike. Unique demographic characteristics, including majority of residents between 25-44 years of age, a high percentage of expatriates with strong purchasing power as well as aspirational shoppers, high tourist footfall due to presence of hotels nearby, along with European and regional travelers have been crucial factors behind a huge F&B footprint on the Marina which only keeps increasing. Marina Del Rey in Los Angeles is another example of a man-made marina development which is regarded as the nerve centre of the community and is equally popular with tourists.

In India, marina development as a concept hasn't taken off. If the real estate assets of different port trusts are developed and managed professionally, they can generate revenues and contribute towards the financial viability of these infrastructure projects. As an infrastructure project, the commercial potential of a well-planned marina project hasn't found much favour amongst stakeholders, though there have been talks about various such developments in the past in cities such as Goa, Mumbai and Chennai. The Kochi International Marina is the only marina in India, which is developed as per international standards and is professionally managed by a marina development and management company. While the marina provides berthing facilities for 34 yachts and is situated only 11 nautical miles from the international maritime route, retail trade is yet to take off. With a proposed hospitality project to accommodate sailors and facilities for yacht repairs, health club, golf course etc. on offer, retail is set to dovetail soon. With Kochi's emergence as a sea-based adventure tourism destination, developing tourism centered retail in the form of various dining formats, entertainment zones and retail plazas is sure to attract attention from both tourists and the local population.

A request for proposal (RFP) has been floated to invite developers for the Amravati marina development under a PPP model parallelly with the construction of Amravati, the capital city. The Amravati marina development is envisaged to meet the demands of tourists visiting the city as the tourism infrastructure in the nearby Vijaywada and Guntur is limited to temples. There are also reports about a marina development coming up at Belapur by Maharashtra Maritime Board (MMB), again on a PPP basis. The Mumbai Port Trust (MbPT) is also preparing a master plan to revamp and develop the land along the eastern waterfront of Mumbai. MbPT is Mumbai's biggest land owner and controls the docklands stretch from Colaba to Wadala. The eastern waterfront development plan aims to boost tourism and infrastructure but it's a pie in the sky as of now. As similar development planned for the Gateway of India was opposed due to a potential threat to security, the real estate around the Queen's Necklace too couldn't develop as a prime waterfront development.

With India's coastline of 7,500 kms and growth in yacht ownership, courtesy the millionaire club, marine leisure as an industry is set to take off. It is only a matter of time before the requisite infrastructure and real estate developments follow. Retail formats will be integrated in the master plan for these developments to adapt to the new demands of the tourism market. Hence, developing retail in tandem with tourism and marina infrastructure will only help generate incremental revenues to make these developments financially viable.

2. Cruise Retail

According to Cruise Liners International Association, nearly 28 million passengers set sail in 2018. The cruise industry is growing rapidly around the world and so is the onboard cruise retail market. In 2019, just about every major cruise line had wide public and commercial spaces dedicated for retail shops in every new ship. The biggest companies operating in cruise retail sector are Starboard Cruise Services, Harding Retail, and Dufry Ltd. Cruise retail has shifted from the ports - where there is a short time to decide and aggressive promotions, to onboard shopping where shoppers have a much greater chance to immerse in the brand experience. Jewellery and luxury watches remain the top categories for cruise retailing and luxury brands are focusing on the experiential element of retailing as part of the store model.

3. Cruise Port/Terminal Retail

Barcelona Cruise Port which recently reopened after a total revamp and upgraded retail stores in two terminals, witnessed its retail revenues almost tripled in May 2019, and expect the sales-per-passenger at levels like the Frankfurt Airport. These two terminals alone handled 1.3 million of the total 3 million passengers that used the port in 2018. A total transformation of its duty-free area coupled with heavy footfalls, has led the operator to work on a few projects to enhance the cruise guest experience and grow the ancillary revenue in terminals and surrounding areas.

In India, Mumbai has a new cruise terminal planned which is expected to be developed on similar lines as Miami with floating restaurants and marina, offering facilities that are available for passengers at airports. The new coastal project of India's financial capital is expected to have nearly 38,500 sq m (415,000 sq ft) space and will be constructed at an estimated cost of USD 42 million. Once operational, it is expected to attract local citizens and tourists as there will be several retail outlets and F&B formats. When this new cruise terminal becomes operational, Mumbai is expected to become a port city handling 80 percent of the country's cruise passengers, capable of increasing both domestic and international tourists visiting India. Developing retail formats will only contribute to the financial viability of the project while retailers will get a ready set of consumers to capitalize on.

Marina developments, cruise terminal retail or cruise retail are all futuristic concepts and it will be a long wait before citizens of the country and tourists can experience these on Indian soil. Lack of planning and development capabilities, high capital costs and no proof of concept in the Indian context have largely kept such developments only at the drawing board stage. With the Indian consumer who is well traveled but also tech-savvy, retail formats at such developments will only keep them interested to explore and experience these new themes which have a premium and international feel to it.

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GLOSSARY

Back-end Infrastructure:
Back-end infrastructure includes investment made towards processing, manufacturing, distribution, design improvement, quality control, packaging, logistics, storage, warehouse, agriculture market produce infrastructure etc. Expenditure on land cost and rentals, if any, will not be counted for purposes of back-end infrastructure.

Captive Audience:
Captive audience refers to those consumers who are present in an enclosed space for a designated time period such as a mall and or an airport.

Duty Free Shops:
Duty free shops mean shops set up in a custom bonded area at an International Airport/International Seaport and Land Custom Station, where there is transit of international passengers.

E-Commerce:
E-commerce means buying and selling of goods and services including digital products over a digital & electronic network.

Fluid Audience:
Fluid audience are those moving passengers or consumers who have limited time and hence a limited attention span.

Joint Venture (JV) Airports:
Joint venture (JV) airports are joint ventures between the Airport Authority of India and a private organization/operator.

Lease Rent Opportunity:
Lease rent opportunity is the rent that the operator gets from retail concessions.

Modern Retail: Stores are considered modern retail stores based on the following characteristics:

- The store is a recognized foreign/national brand, or has air conditioning
- The store provides a purchase invoice

Omni Channel Retail:
This is a business model in which the retailer uses all existing retailing channels to reach out to maximum customers, thus proving a seamless shopping experience to the consumer.

Single Brand Retail Trading:
FDI in single brand product retail trading would be subject to the following conditions: (a) Products to be sold should be of a single brand only; (b) Products should be sold under the same brand internationally i.e. products should be sold under the same brand in one or more countries other than India; (c) Single brand product retail trading would cover only products which are branded during manufacturing.

Total Retail Opportunity:
Total retail opportunity is the overall retail spending at the airport/metro/highway.

VGF:
Viability Gap Funding or grant means a grant, one-time or deferred, provided under this Scheme with the objective of making a project commercially viable.

Wholesale Retail Trading:
Cash & Carry wholesale trading/wholesale trading, would mean sale of goods/merchandise to retailers, industrial, commercial, institutional or other professional business users, or to other wholesalers and related subsidiary service providers. Wholesale trading would, accordingly, imply sales for trade, business and profession, as opposed to sales for the purpose of personal consumption.

Average Trading Density or Sales Density:
This is used as a performance measure in retail and is calculated by the revenue/sales generated by an area of sales.

Congestion Pricing:
Congestion pricing or congestion charges is a system of surcharging users of public goods that are subject to congestion through excess demand, such as higher peak charges for use of bus services, electricity, metros, railways, telephones, and road pricing to reduce traffic congestion.

Fare Box Revenue:
This includes the fare or the fee paid by the passenger for use of a public transport system such as the metro.

Mass Transit Railway:
Mass Transit Railway is a major public transport network serving Hong Kong.

Non-fare Box Revenue:
Non-farebox revenue is the income of metros and railways from sources excluding passenger and freight receipts. It comprises revenue from sources such as retail, advertising, infrastructure, leasing of space, telecom assets, income from real estate portfolios etc.

Public Private Partnership:
A public private partnership is a cooperative arrangement between two or more public and private sectors, typically of a long-term nature. It involves an arrangement between a government unit and a business unit that results in better services or improves the city's capacity to operate effectively.

Transit-oriented Development:
Transit-oriented development is a type of urban development that maximizes the potential for residential, business and leisure space within walking distance of public transport. It promotes a symbiotic relationship between dense, compact urban spaces and public transport use.

Virtual Store:
A virtual store is an online store that displays merchandise and an order form.

Modern Retail:
Modern Retail refers to retail stores and outlets that provide a purchase invoice and that have a basic brick & mortar structure. It is alternatively referred to as organised retail.

National Highway – National highways are A grade roads with two, four or more lanes connecting major cities and state capitals.

Expressway – A highway, especially one that is planned for high-speed traffic, usually having few, if any, intersections and limited points of access or exit, with a divider between lanes for traffic moving in opposite directions. These are access-controlled with six to eight lanes.

Bus Station – A bus station is a structure where city or intercity buses stop to pick up and drop off passengers. It is also the point of origin and/or culmination of a bus route. Bus stations can alternatively be referred to as bus terminals/bus depots. A bus station is larger than a bus stop, which is usually simply a place on the roadside, where buses can stop for a few minutes to let passengers board or alight from the bus.

Inter State Bus Terminal (ISBT) – An Inter State Bus Terminal or Inter State Bus Terminus (ISBT) is a bus terminus that provides bus service to destinations located in other states. An ISBT may also provide bus services to destinations in the same state. It is also referred to as the Central Bus Stand (CBS).

Food & Beverage (F&B) Retail – This is the sale and purchase of food & beverage. It includes food served at restaurants, fast food served at food courts as well as quick service restaurants, besides packaged food items sold at shops or bakeries.

Quick Service Restaurant (QSR) – Quick service restaurants are fast food outlets where the food is prepared, purchased, and generally consumed quickly. They are run with convenience and time as main factors. Branded outlets such as McDonalds and Burger King are QSRs.

Urban Agglomeration (UA) – An urban agglomeration is a continuous urban spread constituting a town and its adjoining outgrowths (OGs), or two or more physically contiguous towns together with or without outgrowths of such towns. It is a human settlement with high population density and infrastructure of built environment.

Product Category Key

	Product category	Description
1	Apparel	Fashion and apparels & footwear
2	Jewellery and Accessories	Accessories, leather bags, fashion, sunglasses
3	Electronics	Electronics and white goods (consumer durables)
4	Personal Care	Personal care (salon, spa, cosmetics, perfume store)
5	Books, Gifts, Toys & Music	Books, gifts, souvenirs
6	Food & Beverage	Food & beverage (restaurants, coffee shops, lounges, pubs) F&B Quick serve restaurants F&B Food Court F&B Packed Foods F&B Restaurants and Bars
7	Department Stores	Department stores and convenience stores (mainly metros and petrol pumps)
8	Wine and Spirits	Wine & spirits and tobacco
9	Home & Lifestyle	Home & lifestyle (home décor)

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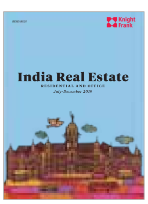
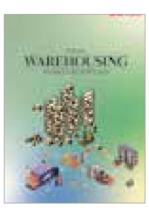
India Real Estate



India Urban Infrastructure

Think India.
Think Connected Retail

India Warehousing



We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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