OVERVIEW
OF
THE FURNITURE SECTOR
IN INDIA

April 2007
FURNITURE REPORT

OVERVIEW OF THE FURNITURE MARKET

The furniture industry in India is estimated to be worth Euro 5 Billion. Within this, the wooden furniture accounts for Euro 750 million. Of this the imported furniture market is currently worth Euro 75 million and is growing at 50 - 60% each year. The furniture sector in India only makes a marginal contribution to the GDP, representing about 0.5 per cent of the total GDP. The major part of this industry is in the informal sector that is, about 85%. The remaining 15% is in the formal sector and is made up of manufactures and importers catering to the various segment of the industry.

Some of the major segments in furniture industry are Residential, Office, Contract and Institutional. There are other segments also based on the application (Kitchen, Bathroom, Bedroom, etc.) or on the raw material (wooden, plastic, metal, bamboo, etc). These industry segments includes big payers from the formal sector such as Godrej & Boyce Manufacturing Co. Ltd., BP Ergo, Featherlite, Haworth, Style Spa, Yantra, Renaissance, Millenium Lifestyles, Durian, Kian, Tangent, Furniture Concepts, Furniturewala, Zuari, Truzo, N R Jasani & Company, V3 Engineers, PSL Modular Furniture, etc.

According to one market survey home improvements (38%) and leisure holidays (37%) as the two pursuits Indian consumers are willing to indulge in. Many of the world’s leading home fashion brands are available in India through domestic retail outlets.

Imports of Furniture in India

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Imports of furniture</td>
<td>15.67</td>
<td>24.66</td>
<td>43.44</td>
<td>69.49</td>
<td>114.17</td>
</tr>
</tbody>
</table>

Office furniture:
According to a research report by NASSCOM, the Indian software and services exports sector clocked revenues of Euro 12.88 billion registering a growth of 34.5 percent in the year 2004-05. “The IT and the ITES Segment have shown the real boom, and there is a change in the way the offices are being designed. In the words of an industry expert, even the small businesses are shifting from the traditional cabin and desking arrangement”.

Sector analysis for residential and contract markets

The interiors industry is currently riding on the boom of the real estate industry which is the second largest employer in India after agriculture. As the interior industry is wide and mostly unorganized we can analyze through the performance of the real estate industry. Hence we can look at the overview of real estate industry.
80% of the real estate is into residential and remaining is into commercial such as retail, hospitality, industries, IT & ITeS, Banking, SEZ, etc. The growth in commercial properties is giving thrust to the contract market for their bulk needs.

The GDP of the Indian economy recorded 8.1% with the Manufacturing sector recording 10.2% and the Service sectors growing by 10% in the first half of the financial year 2005-06.

**Real Estate Overview of India**

The growth of real estate and commercial properties is based on the overall growth of economy. The economy of the country since past few years had been bullish and will continue to be the same in the coming years. There has been the round about growth in all the sectors, be it manufacturing or service.

The growth of the service sector which now constitute more than the 50% of the GDP (which is a sort of characteristic of developed nation), is providing tremendous push to the realty sector in India. Constituent of the service sector are IT, ITeS, BPO’s, KPO’s, Hospitality industry, Retail, entertainment, Banking, Financial service providers, etc.

In 2004, the entire commercial space absorbed in India was 16 million sq ft which was predominantly contributed by Bangalore (7.7 million sq ft) followed by NCR (2.9 million sq ft), Mumbai (2.5 million sq ft), Hyderabad (2.2 million sq ft) and Chennai (1.6 million sq ft).

The demand for new office spaces alone has grown from estimated 3.9 million sft in 1988 to over 16 million sft in 2004-5. Cumulative demand for office space in India in 2005-2008 is estimated to be in excess of 85 million sft. This represents an annual growth rate of 14.5 % over the next three years or approx. 20 million sq. ft. per year.

The continuous growth of IT -ITeS industry has also contributed to the Indian economy significantly, not only in terms of foreign exchange and employment but also in development of quality commercial spaces in metros as well as tier II and tier III towns of India.

Other important factor to be taken into account is the rising disposable incomes and increased consumer spending in India; which is again shaping the property markets in India. Average household income in urban areas has grown at a 5% Compounded Annual Growth Rate over the last decade. By 2010 the higher income earning group (>Euro 1500) is expected to constitute 48% of the total earning population.

About 80% of real estate developed is residential space and the other includes office, hotels, malls and entertainment avenues. Industry sources estimates the demand for approximately 80-85 million sq.ft. of IT space over the next five years.

The urban infrastructure in the cities has been unable to keep pace with the growth of the property markets. It has been estimated by the industry sources that an investment
of Euro 26 billion is required for roads development, Euro 41 billion for installing new telecom networks, and Euro 6 billion for ports modernizations over the next 8-12 years.

Property prices in top 10 cities including four metros rose by 24.2 per cent, with Hyderabad recording the highest 45.5 per cent increase.

Bangalore, Mumbai and New Delhi have emerged as the top three investors’ choice for real estate investment.

The real estate sector, saw a robust 30 per cent growth in 2005. The year started with the government in February allowing 100 per cent FDI under the ‘automatic route’ in the construction and development sector, in order to spur investment in the vital infrastructure sector.

**Distribution Channels in India**

There is a very high consumption in the western and the northern markets of India, viz, Mumbai and New Delhi, New Delhi being the leader.

**Market Structure of Furniture Industry**

```
MARKET STRUCTURE

Organized sector

WHOLESALERS

IMPORTERS

RETAILERS

EXCLUSIVE DEALERS

Unorganized sector

MANUFACTURERS

FRANCHISEES
```
Factors influencing the buying Trends

While upwardly mobile Indians are increasingly buying differently styled foreign furniture, they need to guard against poor stuff. Interior design for homes is no longer the preserve of the rich and wealthy. The concept of good living is catching up with the middle class Indians. They do not mind spending an extra buck in decorating their new homes. This has resulted in a boom in the décor market. Imported and designer seem to be the key words when it comes to buying furniture at home. It's hardly surprising, considering that more and more foreign furniture manufacturers and traders have been finding their way into the country of late.

- While decorating a NEW residence:
  Buying Decision is left to a Builder/Architect/Interior Decorator or the owner.

- While RENOVATING a Residence:
  Buying Decision is made by an Interior Designer or by the owner.

- While furnishing a commercial complex:
  Buying Decision is made by the Builder/Architect/Interior Designer.

The major reason that has propelled the growth of the imported furniture market is the exposure that the Indian people have received thanks to globalization. The media too has played a very vital role in exposing the people to good living.

Exposure coupled with easy availability of funds have made more and more urban middle class couples to look for interior decorators while doing up their houses.

In conclusion, it is important to target:
- Architects
- Builders
- Interior Designers
- Participation in Furniture / Interiors Trade Fairs for good exposure

Tariffs and Import Policy

In recognition of the significance of the continued supply of imported logs to its wood-processing industry and following court-ordered restrictions on domestic logging in 1994-95, the Government of India began liberalizing wood product imports in 1995.

Since then, there has been a gradual decrease in import duties on wood and wood products. For example, until 1995, logs were the only wood product item freely-importable to India with a duty of 15%. Imports of other wood products were only against advanced licenses or special import licenses. Since 1996, import licensing requirements (quantitative restrictions) have been progressively removed on round
wood, sawn lumber and several value-added products. By April 2000, there were no quantitative restrictions on any import tariff line in the entire forestry sector, with the sole exception of newsprint.

Today, the situation is that logs are subject to a duty of around 5%, while the ad valorem duty payable on lumber is 20% and the duty on veneer and wood-based panels is 40%. The duties were reduced in February/March 2004 and further cuts are planned, as part of an on-going commitment to WTO. However, market commentators suggest that the duties on lumber and veneer will never be dropped completely and may even rest at around 15% for the long-term.

For furniture the Indian government continues to reduce tariff rates from a peak rate of 300 percent in 1991 down to 36 - 40 percent on stated value of goods, in March 06.

<table>
<thead>
<tr>
<th>Item</th>
<th>Import Duty</th>
<th>Additional Duty</th>
<th>Educational Cess</th>
<th>Total Duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture</td>
<td>15%</td>
<td>16%</td>
<td>2%</td>
<td>36%</td>
</tr>
</tbody>
</table>

The duties are calculated as per the following methodology in India:
Assumed cost of bed 100 Euro CIF Mumbai
Basic Customs duties 15% =15 Euro
Total cost 115 Euro
Addl Duty 16% = 18.40 Euro
Total 133.40 Euro
Add Edu Cess 2% = 2.67 Euro
TOTAL LANDING COST 136.00 Euro