

INDIAN FASHION RETAIL INDUSTRY

Fashion retailers to report 120 bps contraction in margins despite a 13% revenue growth expected in FY2024 due to higher discounting and ad spends

SEPTEMBER 2023



Fashion retailers are currently facing a demand slowdown due to inflationary pressures. The impact is more pronounced in the value fashion segment, where average sales per sq ft. remains lower than pre-pandemic levels. All eyes are now set on the festive season, which is expected to drive demand recovery in H2 FY2024.



- The fashion retail sector witnessed YoY sales uptick of 16% in Q1 FY2024, led by a pick-up in the revenue run-rate of retail stores added in FY2023. This was also partly bolstered by preponement of end-of-season sales (EOSS) in the month of June 2023 to drive footfalls.



- Operating profit margins (OPMs) in Q1 FY2024, however, remained impacted and trailed their pre-pandemic levels due to higher discounting, increased marketing spends and inflationary pressures, especially in the value fashion segment.



- Retailers significantly increased their advertisement and promotion (A&P) spends, to make up for the lost sales of FY2021 and FY2022. Most large retailers also acquired/launched brands in the ethnic wear segment and have been undertaking substantial investments to ramp up these brands. Retailers, as of now, have not indicated any reduction in ad-spends in the coming quarters.



- Retailers are pinning their hopes of demand recovery on the festive season from Q3 FY2024 onwards. While network expansion shall still aid moderate revenue growth of around 13% in FY2024 for entities in ICRA's sample set, the OPMs expand are set to moderate YoY by around 120 bps, given the expected muted margins in H1 FY2024 (lower by ~200 bps on YoY basis) and continued high spends on A&P. This will trail the pre-pandemic levels by 270 bps.



- Players are recalibrating their channel expansion mix in favour of offline expansion. No major pruning of capex towards store additions has been announced so far. Capex outlay of FY2024 is estimated at Rs. 1,740 crore, reflecting a YoY growth of 18%.



- Debt protection metrics are likely to moderate in FY2024 given the pressure on profit margins and sizeable capex plans, necessitating additional dependence on debt. These shall, however, still remain at satisfactory levels. **ICRA's outlook on the sector therefore remains Stable.**



ICRA

Analytical Contact Details

Name	Designation	Email	Contact Number
Jayanta Roy	Senior Vice-President & Group Head	jayanta@icraindia.com	033-7150 1100
Priyesh Ruparelia	Vice-President & Co-Group Head	priyesh.ruparelia@icraindia.com	022-6169 3328
Sakshi Suneja	Vice-President & Sector Head	sakshi.suneja@icraindia.com	022-6169 3300
Taanisha Sharma	Analyst	taanisha.sharma@icraindia.com	022-6169 3344





ICRA

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693388
Rohit Gupta	Head Business Development - Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development - Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vipin Saboo	Head Business Development – Corporate Sector - West & East	vipin.saboo@icraindia.com	022-61693348
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Media & Communications	communications@icraindia.com	0124-4545860





© Copyright, 2023 ICRA Limited. All Rights Reserved.

All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies, while publishing or otherwise disseminating other reports may have presented data, analyses and/or opinions that may be inconsistent with the data, analyses and/or opinions in this publication. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.



ICRA

Thank You!