



INDIAN FASHION RETAIL INDUSTRY

Underperforming value segment to decelerate fashion retailers' revenue growth to 10% and affect profit margins by ~100 bps in FY2024

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Fashion retailers, especially with presence in the value fashion segment, have been witnessing a demand slowdown post the end of the festive season due to inflationary pressures. This pain is likely to be short-lived with the demand expected to revive from the H2 FY2024 onwards, post the onset of the festive season.



- The fashion retail sector witnessed a healthy sales uptick in FY2023 led by pick-up in the revenue run-rate of retail stores added in FY2021-FY2023 and YoY improvement in discretionary spending. **ICRA's sample set of 11 major organised retailers reported a healthy YoY revenue growth of around 51% in FY2023 and 41% vis-à-vis pre-pandemic period of FY2020.**



- Operating profit margins in FY2023, however, trailed their pre-pandemic levels by 100 bps due to slowdown in demand, especially in the value fashion segment, on account of inflationary pressures. The premium segment has also been witnessing demand pressures in terms of QoQ growth post the festive season, though is faring better than pre-pandemic levels.



- Retailers significantly increased their advertisement and promotion 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 expect this pain to be short-lived and demand conditions to improve from Q3 FY2024 onwards following the onset of the festive season. Given the expected muted performance in H1 FY2024, ICRA expects the slowdown in revenue growth to 10% in FY2024, with the OPMs moderating by a further 100 bps.



- Players are recalibrating their channel expansion mix in favour of offline expansion, with online sales being viewed as a secondary and supplemental channel. No major pruning of capex towards store additions has been announced so far. Capex outlay of FY2024 is estimated at Rs. 1,600 crore, reflecting a YoY growth of 10%.



- Debt protection metrics are likely to moderate in FY2024 given the decline in earnings, though they shall remain satisfactory. **ICRA's outlook on the sector remains Stable.**



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