

# 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 dependance on debt. These shall, however, still remain at satisfactory levels. **ICRA's outlook on the sector therefore remains Stable.**



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