Retail Industry Update: Outlook 2020

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The Indian retail industry has emerged as one of the most dynamic and fast-growing industries due to the entry of several new players in the recent times along with rising income levels, growing aspirations, favourable demographics and easy credit availability. It contributes about 10% of the country's Gross Domestic Product (GDP) and around 8% of the employment and is valued at **USD 792 billion as of 2018**. Globally, India is fourth-largest global destination in the retail space after US, China and Japan. The industry has witnessed CAGR of over 10% during 2013 - 2018, close to double the growth witnessed during 2008 – 2013 period.

Over the last two decades, the size, scope and complexity of retailing has undergone considerable change. The retail industry can broadly be classified into two categories: Organized and Unorganized.

Organised Retail is characterised by high investment requirements, large premises, trained staff where retailers are licensed and are registered to pay taxes to the government. **Unorganized Retail** refers to the traditional form of retail often situated near residential areas. It is generally characterized by low rentals, low tax payouts with a majority of it being owner-managed and employing personal capital. It includes formidable mix of conventional Kirana shops, general stores, mom-&-pop stores, paan-beedi shops and other small retail outlets.

Currently, the Indian retail market continues to be dominated by the unorganised retail (mom-and-pop stores and traditional kirana stores) accounting for about 88% of the total retail market while organised retail market is valued at about USD 95 billion, only about 12% of the sector. E-tail stands at about USD 24 billion, accounting for about 25% of the organised market or 3% of the total retail market in India. India's organised retail penetration is much lower compared with other countries, such as the United States which has organised retail sector penetration of 85%.

Outlook

With the Private Final Consumption Expenditure expected to grow by about 10-11% y-o-y till 2021 (has grown at about 10-12% historically), GDP expected to go up to ~7.3% by FY21, **CARE expects the retail industry to register a growth rate of about 12-14% over the next 3 years and reach about USD 1,150 billion by 2021**. With factors such as higher demand from consumers with higher incomes, job creations, improved standard of living, brand awareness, higher discretionary spends and higher participation of producers/retailers in the organised retail market, discounted and promotional pricing, increased number of products and more private labels with retailers among others, the industry is expected to register growth going forward.

Overview

The word 'Retail' has been derived from the French word 'retailer' which means 'to cut a piece off' or 'to break bulk'. Retailing can be defined as procurement of varied products in large quantities from various sources/manufacturers and their sale in small lots, for direct consumption to the purchaser. Retailing is one of the biggest sectors in India and has witnessed multi fold growth post liberalization of the Indian Economy. The evolution of retail trade in India can be traced to the times when majority of trade was routed through formats such as Haats, Mandis and Melas. Mostly organised on a periodical basis and limited to a particular locality/village, such formats gained prominence. Almost everything from vegetables, household necessities to cattle's were bought and sold, either through monetary means or the barter system.

Contemporary organised retail industry evolution in India can be broadly classified in four phases;

Chart 1: Evolution of retail in India

1. Initiation (Pre 1990)

- Migration of people from villages to urban areas
- Opening up of small stores for necessity items
- Advantage of acquaintance with the customers thereby resulting in repeat sales
- However, limited customer base within locality
- During the period 1960s to 1980s, domestic textile majors ventured into retailing via company-owned outlets
- Few manufactures opened their own outlets such as Vimal, Bombay Dyeing, Raymond's, etc. Footwear makers such as Bata and Metro also established their own chains of retail stores

2. Conceptualisation (1990-2005)

- With liberalisation and opening up of Indian economy during the early 1990s, many corporates and first generation entrepreneurs entered retail business and investments by international retail firms increased in India
- For e.g. the RPG group launched Spencer's in Bangalore in 1991. During the same year, The Raheja's, launched Shoppers Stop in Mumbai
- In 1998, Tata group entered the retail business with the brand Westside. Brands like McDonalds, Adidas, Reebok, Nike, Levi Strauss, Lee, Wrangler, Louis Philippe, Pepe Jeans, etc. entered Indian retail market.
- Growth in apparel retail format was the most significant during this period

3. Expansion (2005-2010)

- This period was marked by the growing share of organised retail with substantial investments by large Indian corporates
- Pantaloons retail (now Future retail) opened 'Home town' and 'E-zone' in 2006. Reliance entered the retail business with 'Reliance fresh' in 2006
- Besides the above, in the year 2006, government changed the FDI policy by allowing foreign retailers to acquire 51% stake in JV with an Indian firm. This saw several premium brands such as Armani, Versace etc entering the Indian market
- During the period 2008-2009, due to recessionary impact seen in the Indian economy, many over-leveraged retail stores had to shut down

4. Consolidation & growth (2010 onwards)

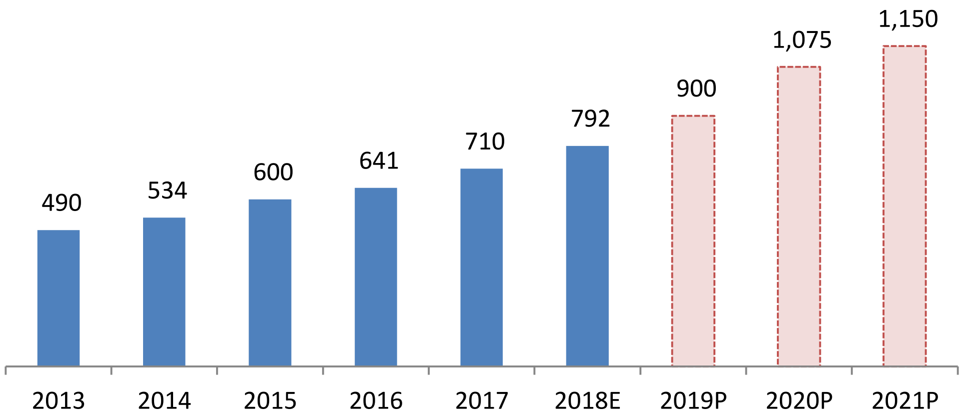
- With intense competition in the urban market, retailer started to setup shops in the smaller cities and rural areas. Also, India witnessed emergence of many online brands such as Flipkart, Myntra, Homeshop18 etc.
- In 2012, GoI made major changes in retail FDI policy by allowing FDI upto 100% in single brand and upto 51% for multi brand.
- E-commerce emerged as one of the major segments
- Cumulative FDI inflows between April 2000 & December 2018 in retail sector reached USD 1.6 billion

Source: IBEF

The year 1980 marked the onset of retail chains in India with the entry of textile majors such as Bombay Dyeing, S Kumar's, Raymond's etc. followed by Titan. However, the emergence of organised retailing as a 'concept' emerged to the fore in the Indian scenario only during the early years of 2000. With the growing number of players in the organized retail sector various new formats such as supermarkets, hypermarkets etc emerged. The concept of 'one-stop shop' further glorified the advantages associated with modern retailing. Over the last two decades, the size, scope and complexity of retailing has undergone a considerable change. One of the significant changes is advancing online retail of various products across the country. The current online retail accounts for about 3% of total retail market in India.

The retail market size grew from USD 490 billion in 2013 to about USD 792 billion as of 2018, registering a compound annual growth rate (CAGR) of about 10.1% during the period. However, in the last two years, the retail industry has been growing at a higher rate of about 12% on account of favourable demographics, higher income levels, easy credit availability, increased internet penetration, etc

Chart 2: Market size of Retail Industry (USD Bn)



Note: E – Estimated, P – Projected
Source: IMAGES, IBEF, CARE Ratings

Going forward, with the Private Final Consumption Expenditure expected to grow by about 10-11% y-o-y till 2021 (has grown at about 10-12% historically) and GDP by ~7.3%, *CARE expects the retail industry to register a growth rate of about 12-14% over the next 3 years and reach about USD 1,150 billion by 2021.*

Also, with the higher demand from consumers with higher incomes, improved standard of living, higher discretionary spends and higher participation of producers/retailers in the organised retail market, discounted and promotional pricing, increased number of products and more private labels with retailers among others, the industry is expected to register growth going forward.

With expected transition from offline stores (physical stores) to online stores by many players in the retail industry to compete with the local kirana shops, with home delivery, cash on delivery options, the shop sizes would comparatively decrease while the number of stores might go up. Also, with markets being more organised, the shift from unorganised retail market to organised retail market is expected to happen going forward.

Chart 3: Segment-wise contribution in retail industry

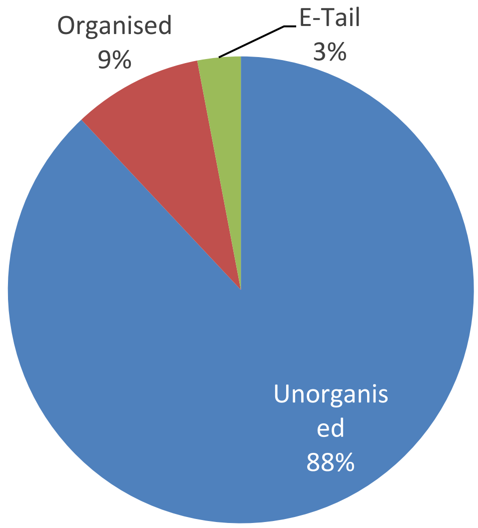
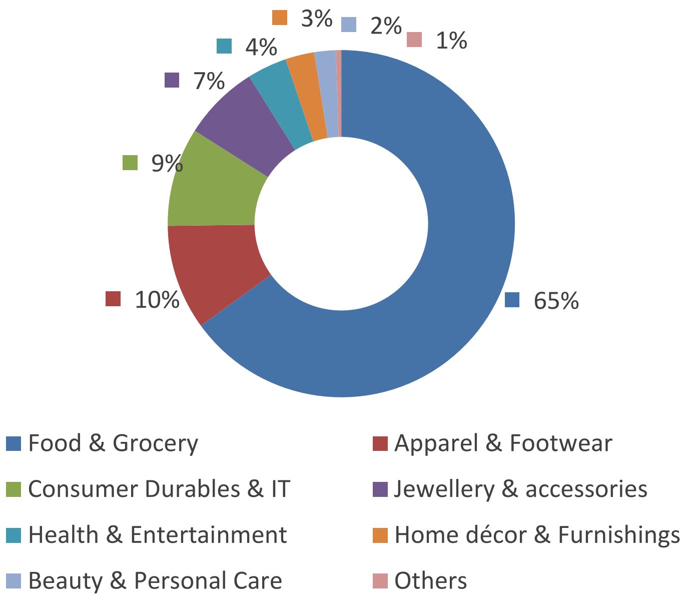


Chart 4: Segment wise contribution in organised retail



Source: Industry, IBEF

The Indian Retail industry has primarily been dominated by the unorganized segment. During 2018, the unorganized retail accounted for about 88% of the total retail revenue. Compared to the unorganized retail contribution of 15-20% to the total retail sales in countries such as U.K., U.S., Taiwan etc, the Indian figure is very high.

Within organized retail, food & beverage holds around 65% of the retail sector, followed by apparel and personal care at 10%. As per World Development Indicators database published by World Bank and International Monetary Fund (IMF) calculations, India is the 3rd largest economy in the world in terms of Purchasing Power Parity (PPP) as of 2018, only behind China and US. Indian GDP growth stood at 6.9% as on June 2019 and it is expected to be around 6.7-6.8% for FY20 *(CARE Ratings estimate)*.

Also, IMF's forecast for India's growth stands at 7% in FY20. This shows India's growth potential in Organized Retail Penetration as well. Improving economy, changing demographic profile, increasing disposable incomes in hands of the middle class, changing tastes and preferences, brand awareness and growing urbanization along with rising discretionary spends are the main growth drivers in the organized retail market in India.

Organised Retail formats in India

Modern retailing in India has entered in form of huge malls and super markets offering shopping, entertainment, leisure to the consumer while the retailers experiment with a variety of formats, such as discount stores, supermarkets, hypermarkets to specialty chains. However, kirana shops still continue to score over modern formats primarily due to the convenience factor. The organized segment typically comprises of a large number of retailers, greater enforcement of taxation mechanisms and better labour law monitoring system. Retailing is no longer only stocking and selling but is about efficient management of supply chain, developing distributor and vendor relationship, customer service quality, efficient merchandising and timely promotional campaigns.

Although largely unorganized, the Indian retail sector witnessed robust growth over the past few years. Food & grocery and clothing & footwear segment are the main revenue drivers in the Indian retailing, together accounting for approximately 75% of the market share in 2018.

Chart 5: Organized retail formats in India

1. Exclusive branded retail stores	Exclusive showrooms either owned or franchised out by the manufacturer	Complete range available for a given brand, certified product quality
2. Multi-branded retail shops	Focus on particular product categories & carry most of the brands available	Customers have more choices as many brands are on display
3. Convergence retail outlets	Display most of convergence as well as consumer/electronic products, including communication & IT group	One-stop shop for customers; many product lines of different brands on display
4. E-retailers	It is an online shopping facility for buying & selling products & services; the facility is widely used for Food & grocery, apparels, electronics, health & wellness	Highly convenient as it provides 24X7 access, saves time & ensures secure transaction

Source: IBEF

Over the past few years, many prominent players in the country like Tata, Reliance Industries, Aditya Birla and many others are investing significantly in the Indian Retail market as a result of which there has been a tremendous growth in the organised segment. Walmart entering India with acquisition of Flipkart in May 2018 was one of the major deals for the Indian retail industry. Many other progressive players stepped into the territory with long term goals to expand their business across verticals, cities, formats and segments.

Table 1: Major players in Organised retail with private labels & brands

Retailer	No. of Stores	Area (Million Sq. Ft.)	Average area per store (sq.ft)	Private Labels & owned/licensed brands
Future Retail	1,511	16.1	10,655	Large & Small stores - Big Bazaar, FBB, Foodhall, Heritage Fresh, Easyday, WH Smith Others - Ezone
Avenue Supermarts Ltd.	176	5.9	33,523	Brands owned by ASL - D Mart, D Mart Minimax, D Mart Premia, D Homes, Dutch Harbour, etc
Trent Ltd	264	NA*	-	Westside, Star Bazaar, Landmark
Vmart	214	1.79	8,364	-
V2 Retail	77	0.91	11,766	God-speed, Herrlich, Glamora, Ebellia, Honey Brats

Shoppers Stop	293	4.25	14,505	**Exclusive Brands** - Haute Curry, STOP, LIFE, Kashish, Desidual, Rocky Star, Vettorio Fratini, Famina Flaunt, Sanaa, Fratini Women, Kendall + Kylie **Other brands -** Bobby Brown, Clinique, MAC, Estee Lauder, etc **Homestop** - Back to Earth, Soulflower, Wonderchef & Bergner, Corelle, Oxo, Ivy, Esprit, Spread , Ddecor, Maisha, Portico, Bombay Dyeing, Spaces, Phillips and Morphy
ABRL	543	NA*	-	More Quality 1st Supermarkets, More Megastore, VOW, Kitchen's Promise, Feasters, Prarthana, More Choice, More Daily, More Life, More Fresh, Bluearth, Karinee, Kruff, Incheels, TRU, Chatter Kids and Yo
ABFRL	2,714	7.50	2,763	**Madura Business Lifestyle Brands** - Louis Phillipe, Van Heusen, Allen Solly, Peter England **Fast Fashion** - Forever 21 and People, POLO Ralph Lauren, Ted Baker, The Collective, Hackett London, American Eagle **Pantaloons** - over 200 licensed and international brands, including 24 exclusive brands - Rangmanch, Ajile, Honey, Chirpie Pie, Annabelle; besides, it also features brands licensed on a long-term basis: Bare, Rig, SF Jeans, Lombard and Candie's New York, etc
Reliance Retail	10,415	22.00	2,112	Reliance Fresh, Reliance Smart, RelianceSMART.in, Reliance Market, Reliance Digital, Reliance Mall, JIO Store, Reliance Trends, Reliance Footprint, Reliance Jewels, AJIO, Project Eve along with 40 international brands
Spencer Retail	156	1.40	8,974	Spencers Smart Choice, Tasty Wonders, Clean Home, Maroon, Island Monks, Island Monks kids, Asankhya, La Bonita, Mark Nicolas, Scorez

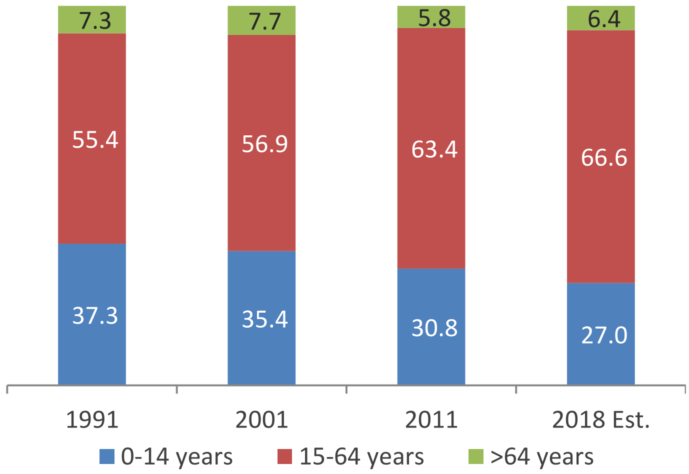
Note: NA - Not available
Source: Company reports & websites

Demand Drivers

1. Demographic advantage

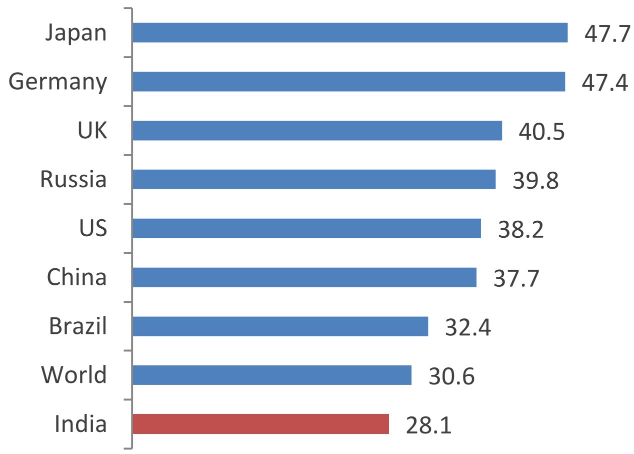
- The growing Indian population has also led to increase in the 'earning population' (age group 15-60) of the country. The proportion of Indian populace in the age group of 15-64 years increased from 55.4% in 1991 to 66.6% in 2018
- Considering the huge size of the Indian population, the lower median age implies a higher number of working people thereby clearly outlining the immense earning as well as spending potential of the Indian populace
- Taking into account the age group below 25 years being one of the highest spending age group, the current age dynamics are expected to boost the retail sales in India. The median age of India is 28.1 years, one of the lowest globally in comparison to 38.2 years in the US, 47.7 years in Japan and 37.7 years in China.

Chart 6: Age distribution of Indian population (%)



Source: CIA – The World Factbook

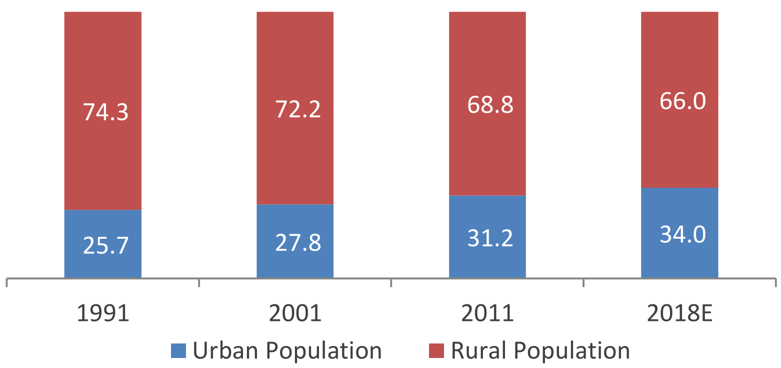
Chart 7: Median age of population – 2018E



2. Rapid urbanization

- A majority of India still lives in the 'villages'. This statement no doubt holds true but the figures suggest that there has been a paradigm shift of the Indian populace in terms of rural–urban divide. The aspirations of higher income, higher standard of living etc. has drawn more and more people from villages to settle in towns and cities

Chart 8: Population Division (%)



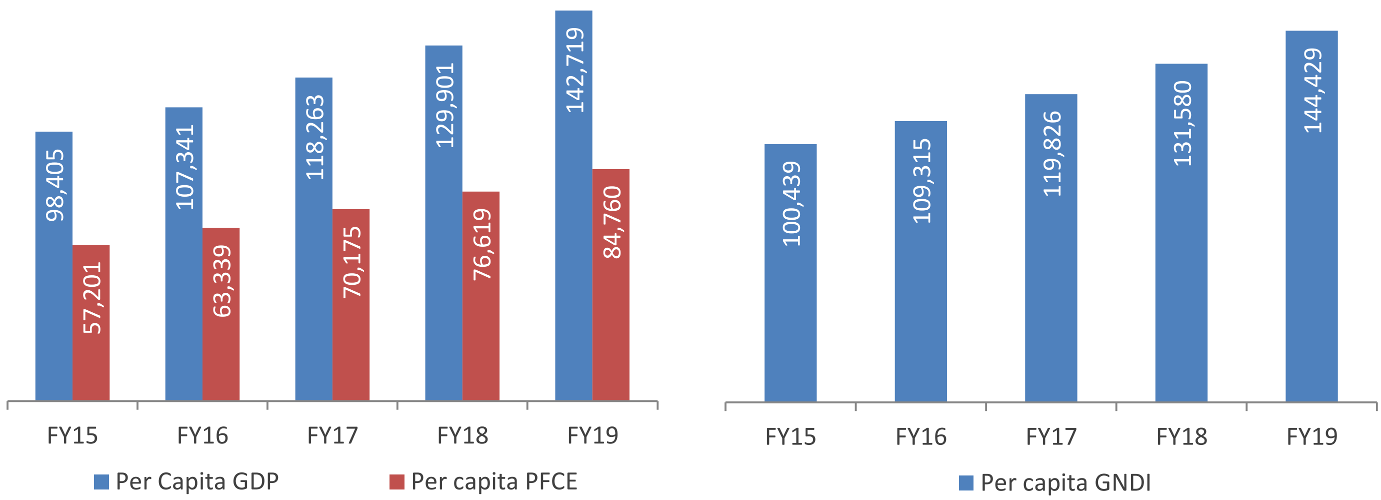
Source: Census, CIA - The World Factbook

- This transition from rural to urban areas has led to an increase in the demand for goods owing to higher income and ever-expanding needs. The retailers, especially in the organised segment are therefore targeting the 'middle class' populace as well as 'tier II and III cities' by ensuring the availability of varied products at various price ranges to match the needs of a 'common man'.

3. Rising income levels & growing per capita expenditure

- In the last decade, Indian economy has progressed rapidly. Correspondingly, India's per capita GDP has gone up from Rs 98,405 in FY15 to Rs 142,719 in FY19 at a CAGR of 9.7% fuelling a consumption boom in the country. Correspondingly, the per capita personal disposable income surged from Rs 100,439 in FY15 to Rs 144,429 in FY19 at a CAGR of 9.5%. Similarly, the per capita private final consumption expenditure too rose from Rs 57,201 in FY15 to Rs 84,760 in FY17 at a CAGR of 10.3%. The growth in country's per capita GDP in turn has increased the disposable income of the populace ultimately driving the country's consumption

Chart 9: Per capita indicators (Rs at current prices)

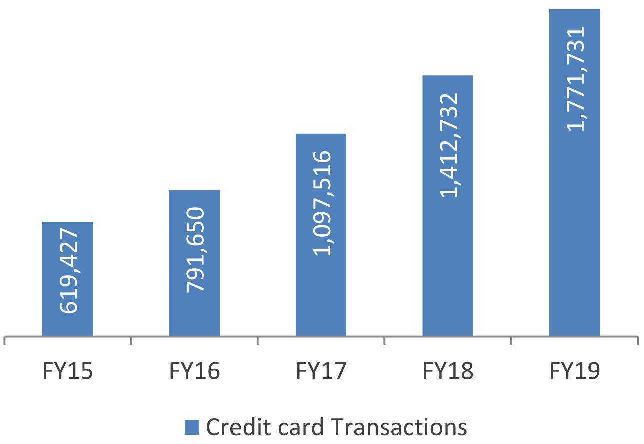


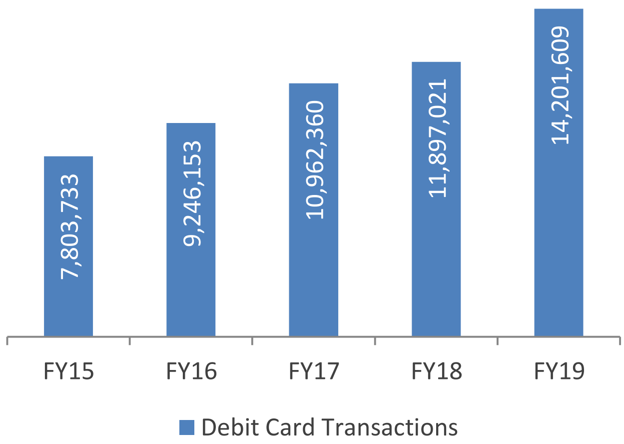
Source: CMIE

4. Growing spread of plastic money & easy availability of credit

- The growing use of 'plastic money' i.e. credit and debit cards has resulted in an increased spending amongst the consumers thereby fuelling the demand in the retail sector. With the acceptance of plastic money by almost all the retailers in the organised retail segment, the number of outstanding plastic cards in the country is on a rise. The incentives such as cash-back offer or discounts on selected sales linked to the plastic money have lured the Indian consumer to experience the pleasure of 'cashless shopping'. Credit card transactions witnessed a CAGR of 30% and Debit card transactions registered a CAGR growth of about over 16% between FY15 and FY19

Chart 10: Debit & Credit card usage trend (000 numbers)

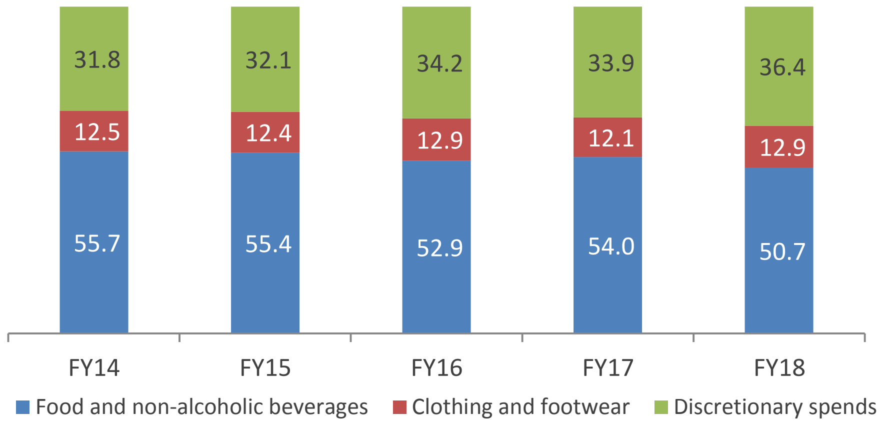




Source: Reserve Bank of India, CMIE

5. **Changing face of Indian consumerism – from necessities to luxury (Brand consciousness)**
   - With rise in income level of Indian populace and increase in acceptance of plastic money, discretionary spending has become important. In the year FY16, Food & grocery and Clothing & footwear spending was recorded at 62% of the country's total spend
   - ing while that of discretionary category was steady at 38%.
   - Even with a declining share 'Food, Grocery and Beverages' segment remained the largest spending head but the growing consumer spending under the 'discretionary heads' such as healthcare, personal care products etc marked a noticeable feature of the shifting consumption pattern.

Chart 11: Changing consumption patterns (%)



Note: Discretionary spends include – Furniture & furnishings, Transport, recreation & culture, etc
Source: MOSPI, CMIE

6. **Rising growth in number of nuclear families**
   - The rapid growth of population, increased urbanisation and the unavailability of large real estate spaces have led to the growth of nuclear families in the country. The average number of person per household has reduced from 5.6 in FY81 to 4.9 in FY11

- The growing number of households has not only pushed the demand for necessities but the combined mix of greater purchasing power and willingness to spend has resulted in the nuclear family's shifting focus towards luxury/semi-luxury products. This has thus led to the emergence of modern retail formats such as specialty retail, luxury retail etc.

Chart 12: Trends in family size

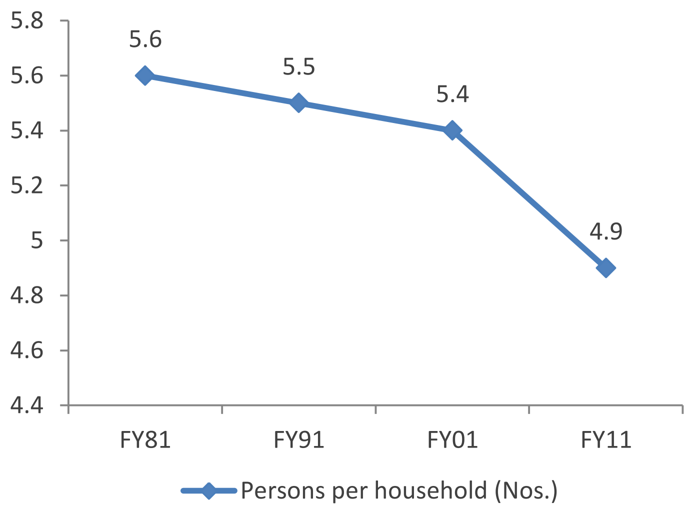
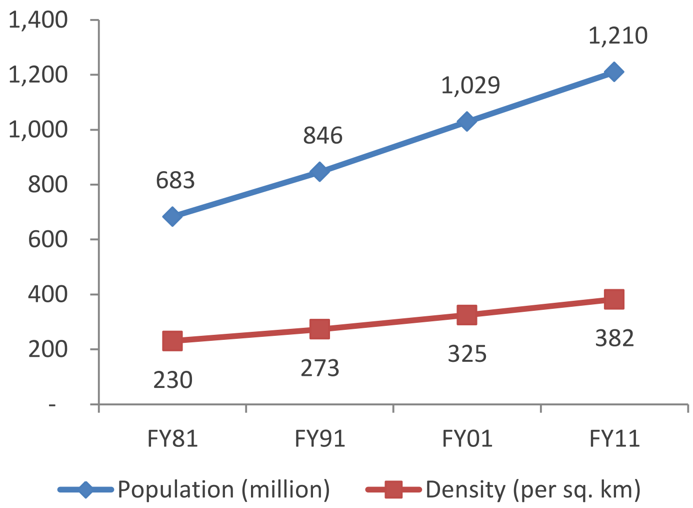


Chart 13: Growth in population and density



Source: Census of India

7. Growing female working population

- On the backdrop of growing Indian economy during the recent years, the participation of female workforce in the country's economic activities has increased considerably. The proportion of the female workforce which accounted for 26% of the country's workforce in FY71 has scaled to 31% during FY11. Notably, the percentage of working women involved in the organised industrial activities too has increased from 27% in FY81 to 47% in FY11
- The higher purchasing power in the hands of 'working-women class' compared to the housewives enhances the ability of the former to spend much more comparatively
- Further the 'time constraint' factor also needs to be accounted for by the working women while making purchases of various day-to-day requirements. Capitalizing on the same, the organised retailers have increasingly emphasized on the 'one-stop shop' concept wherein all the household requirements ranging from food & grocery to apparel could be met under a single roof.

Chart 14: Share in total working population (%)

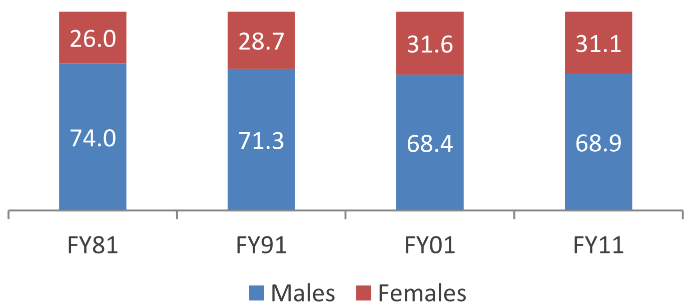
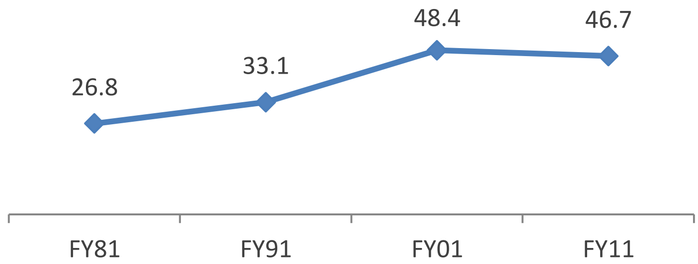


Chart 15: Proportion of females working in organised industrial activities (%)



Source: Census of India, Socio-Economic Statistics – 2011, CMIE

E-tail in India

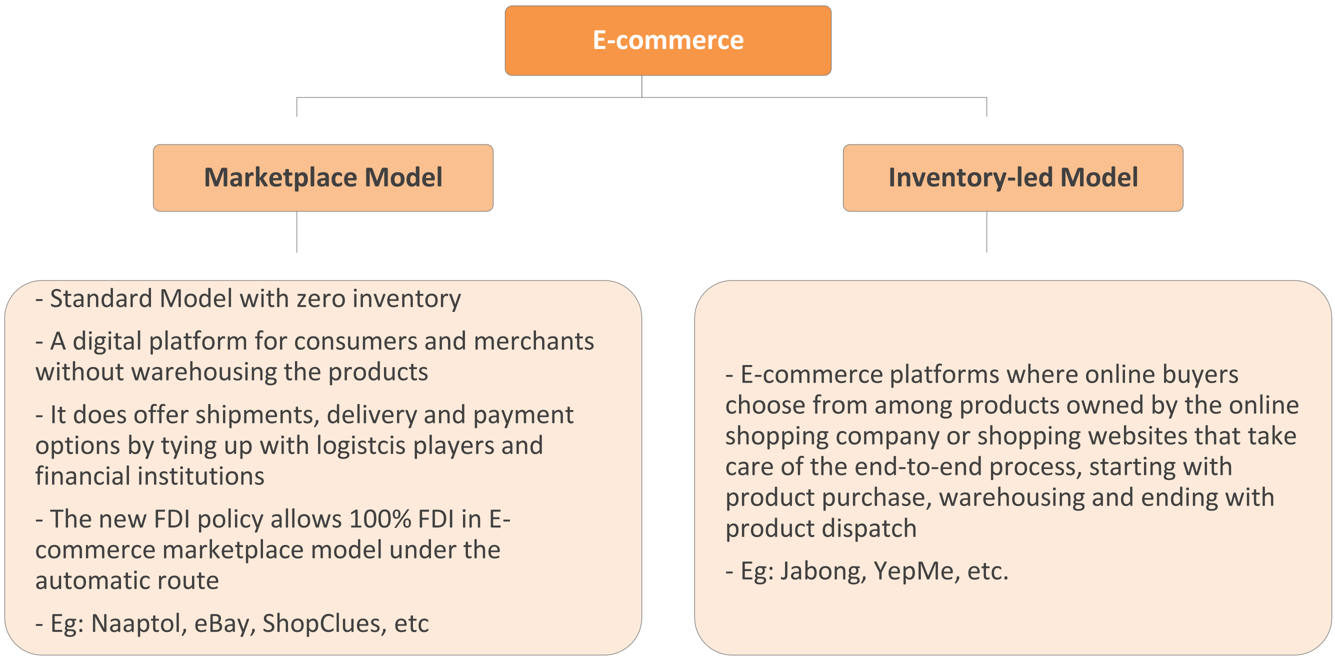
E-commerce is expanding steadily in the country. With advancements in quality of internet access, payments and computing on mobility platforms, changed consumer behavior with a large active internet user base, customers have the ever increasing choice of products at the lowest rates by various retailers. E-commerce is probably creating the biggest revolution in the retail industry, and this trend would continue in the years to come. Currently India's internet penetration stands at around 35-40%.

E-tail in India can be broadly categorized as:

A. Based on location

- **Domestic** – sale within India (Amazon, eBay, Flipkart, Snapdeal, Shoppers-Stop, Reliance, Croma, etc)
- **Cross-Border** – sale in India from outside India. (The U.S. is one of the top ten countries for cross-border shopping for Indian buyers. Baby supplies, toys, clothing, footwear, automotive, wearables and accessories, jewelry, watches, personal care and health products and digital entertainment and educational services are some of the leading categories for cross-border B2C ecommerce. Challenges restricting the growth of cross-border ecommerce include high shipping costs, import duties and complexities in returns and exchanges)
- **B2C** – sale between etailer and consumer (Flipkart, Myntra, Jabong, Amazon, Snapdeal, eBay, PayTM, Shopclues, Pepperfry, Zomato, BigBasket)

B. Based on Model followed



Source: IBEF

- In December 2018, the government announced several restrictive changes to the FDI policy on online retailers aiming to check deep discounting and predatory pricing.
- According to the new policy, online retailers have been barred from entering into exclusive deals with brands to sell products on their platforms

- The GoI has also amended the FDI policy on e-commerce in March 2016 and permitted 100% FDI under the automatic route in the marketplace model of e-commerce (e-commerce marketplace entities). *FDI is not allowed in the inventory-based model of e-commerce.*
- Also, the government has enforced a 25% cap on the inventory that an e-commerce company can buy from a single vendor. These changes have become applicable with effect from February 1, 2019
- A new draft policy on e-commerce has been worked on by the GoI and is likely to be released soon

C. Based on Number of brands

- **Single brand and multi brand** –
  - **a.** Single brand retail refers to a business that sells goods to individual customers and not other businesses and such goods are all sold under the same brand. eg. – Sony, Nike, Adidas, etc
  - **b.** Stores or and E-commerce players or any other form of outlet that sell goods of more than one brand. eg: - Shoppers Stop, Big Bazaar, etc

Online retail business is the next generation format which has high potential for growth in the near future. After conquering physical stores, retailers are now foraying into the domain of e-retailing to leverage the digital retail channels (e-commerce), which would enable them to spend less money on real estate while reaching out to more customers in Tier II and Tier III cities.

It has been found that India's e-commerce is one of the fastest growing channels for commercial transactions. E-commerce in India is growing at an annual rate of 51%, the highest in the world, and is expected to jump from USD 24 billion in 2018 to USD 200 billion in 2026 according to ASSOCHAM-Forrester study paper as well Retail Association of India (RAI). The retail sector is also showing a promising trend of over 10% CAGR and CARE Ratings expects retail industry to cross the USD 1 trillion mark by 2020. The Indian Retail Industry stands at USD 792 billion as of 2018 – of which organised retail accounts for only about 12%, (in China, organised retail accounts for 20%) i.e., USD 95 billion, while the unorganised retail market holds the rest.

The online retail growth has followed a disruptive course across markets. In relatively mature markets, like US, where the organised retail penetration is high, multi-channel retail chains lead to online markets. While in newer markets like India (with about 12% organised retail of which about 25% share held by e-tail) and China (with 20% organised retail), web-only players are dominating the market given the low organised retail penetration.

In India, the category-wise spilt of E-commerce is as under:

Category	Approx share (%)
Electronics & Accessories	40-45
Apparel & Lifestyle	25-30
Home & Living	5-7
Food & Grocery	2-3
Others	20-30

Note: Lifestyle includes footwear, bags, belts, watches, wallets, etc
Source: Industry

Key Growth drivers of E-tail in India

1. *Favourable demographics*

2. *Promotional prices by online retailers*

3. *Cash-on-delivery options, manufacturer's warranty*
    - Cash-on-delivery is the most preferred payment option with about 45% of buyers opting for it in India

4. *Improved supply side*
    - Discounts, promotions, product details, hassle free returns, cash on delivery options, etc

5. *Growing internet penetration*
    - *India's internet penetrations currently stands at about 35-40%, internet subscribers increased from about 51 million in 2010 to about 637 million as of March 2019* *(Source: Department of Telecommunications)*

6. *Rising number of online shoppers*

7. *Increase in usage of smartphones*

8. *Government initiatives*
    - Government initiatives such as Digital India, skill India, startup India and Make in India are also contributing to the growth of the ecommerce industry. The GoI has also amended the FDI policy on e-commerce in March 2016 and permitted 100% FDI under the automatic route in the marketplace model of e-commerce (e-commerce marketplace entities). *However, FDI is not allowed in the inventory-based model of e-commerce.*
    - The GoI has further amended the consolidated policy in relation to FDI in e-commerce entities which has become applicable to all e-commerce marketplace entities having FDI with effect from February 1, 2019 to provide clarity and strengthen the regulatory framework governing FDI in e-commerce marketplace entities in India and to provide a level playing field among online and offline traders

Financial performance

A. Annual performance

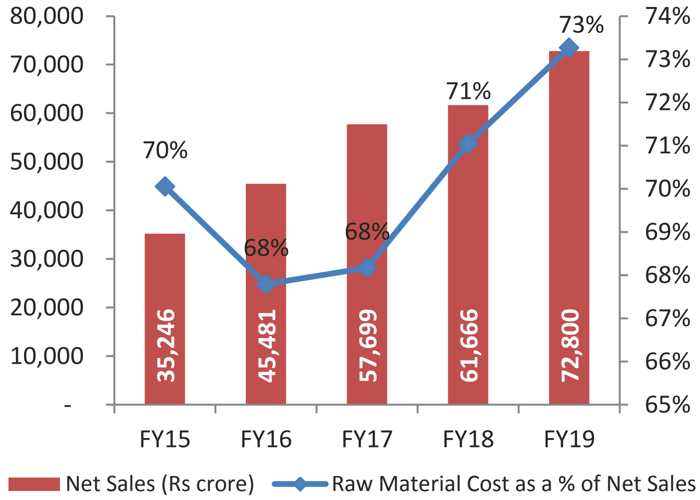
CARE Ratings has analyzed the basic cost structure of the organised retail industry in India. According to the findings of the study, the operating costs could be categorized under the following:

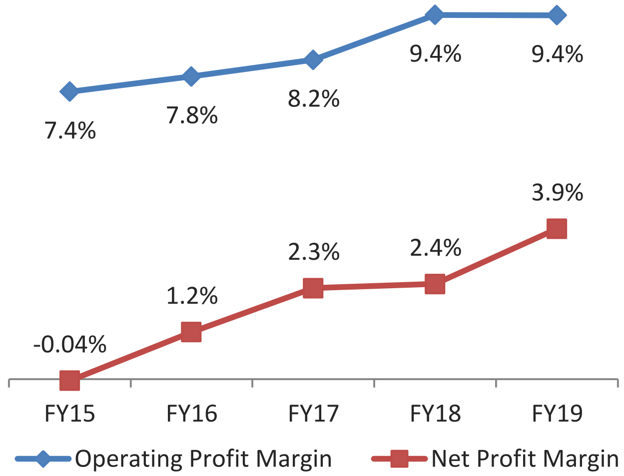
1. Raw material costs (main component - Stock-in-trade – retail merchandise) (70-75%)
2. Employee costs (4-6%)
3. General and Admin costs (8-10%)
4. Selling & Distribution expense (3-6%)

These put together account for approximately 85-90% of the total operating costs as percentage of total operating income (sales/revenue) of the retailers in India. The 'general and admin costs' include the rentals costs, office expenses, etc

Chart 16: Cost analysis

Chart 17: Margins of players



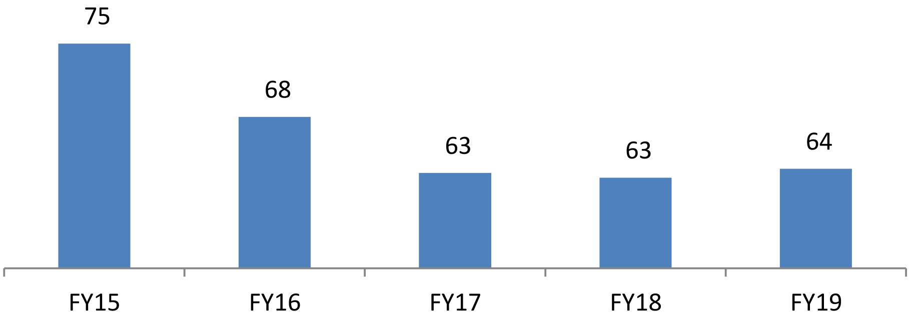


Note: *The industry margins are based on the financial results of 13 listed retail companies*
Source: AceEquity

During FY19, the retailers managed to control the inventory in the 63-64 days cycle owing to the following reasons:

- Fewer stores in the vicinity to the particular store thereby resulting in improved competition scenario amongst the retailers
- Higher store conversion rate
- Store-level SKUs in accordance to the customer's requirements and preferences

Chart 18: Inventory days



Source: AceEquity

To keep the inventory days minimum, the retailers adopted various measures such as store re-sizing, adopting just-in-time technique and improvement in supply chain operations together with warehousing and storage facilities. In addition, the discounted sales offerings by the retailers improved their sales volume on one hand while lowering the turnover time for inventories on the other. The inventory turnover days of the retailers of 13 listed retailers declined from 75 days during FY15 to 64 days in FY19. Players now are being cautious by limiting the number of new store roll-outs and shutting down the non-profitable ones amidst increasing e-tail demand.

B. Quarterly performance

Chart 19: Net Sales

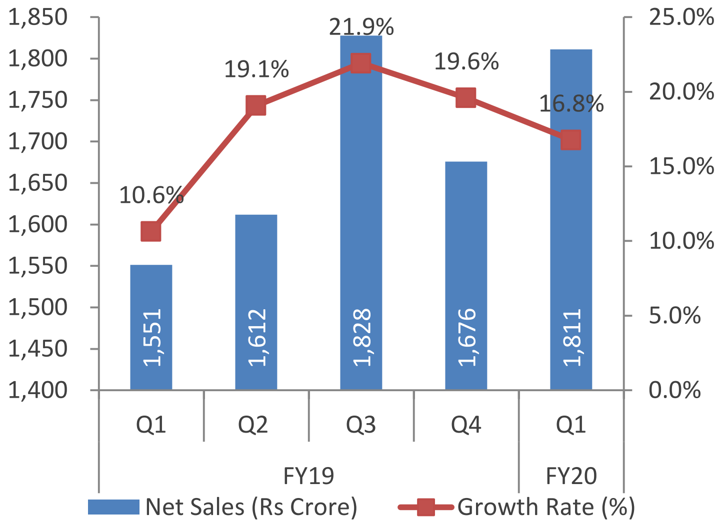
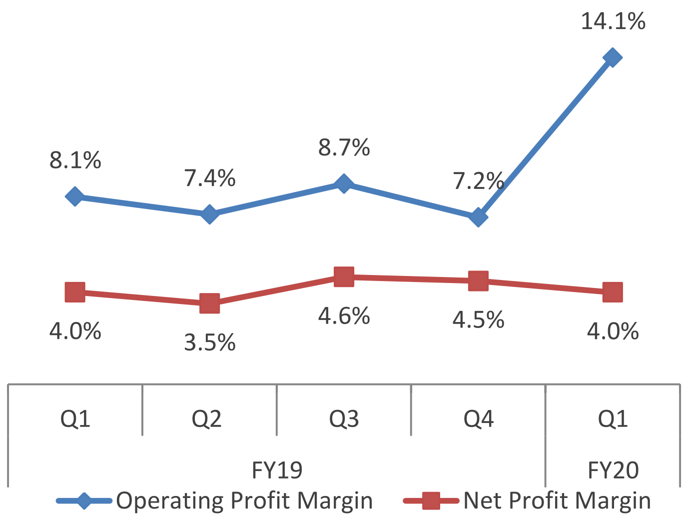


Chart 20: Margins of players



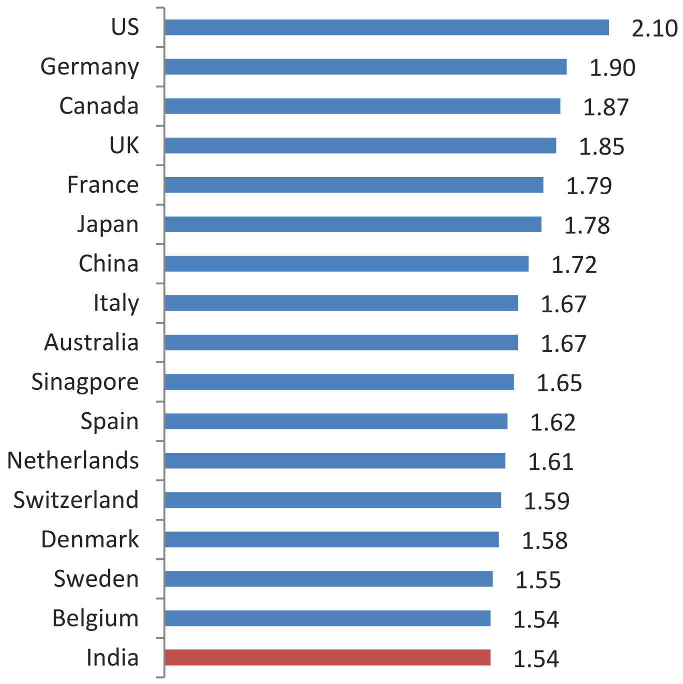
Note: *The industry margins are based on the financial results of 12 listed retail companies*
Source: AceEquity

During Q1 FY20, net sales of 12 listed companies witnessed a growth of about 17% on a y-o-y basis vis-à-vis a growth of about 10.6% witnessed during Q1 FY19. Growth in net sales has been declining since Q3 FY19 dragged down by the liquidity crunch and weak agricultural performance. The overall consumer sentiment continues to remain weak and is expected to recover only during Q3-Q4 FY20 period on back of festival demand. **The retailers' margins are expected to remain under pressure in FY20, with performance in H2 FY20 expected to be marginally better than H1 FY20 on back of pickup in demand. Also, in terms of net sales, we do not expect any significant growth during the year**.

Investments

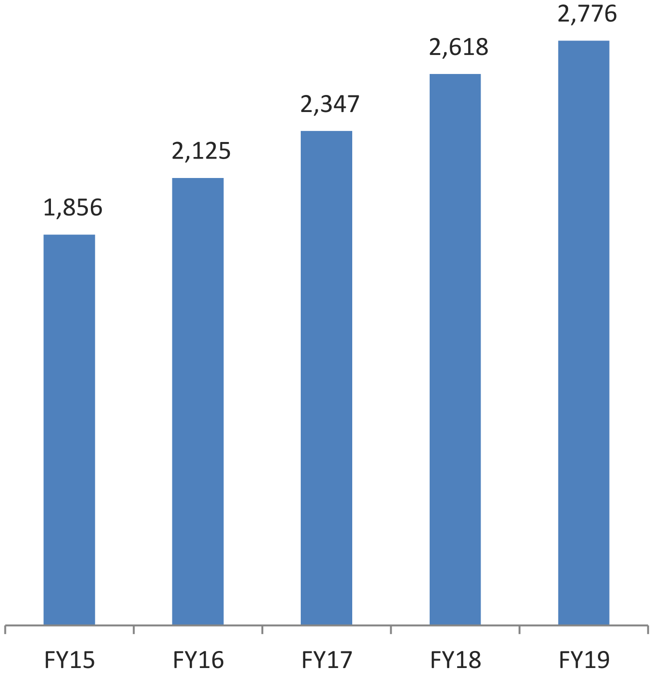
The Indian retail has received Foreign Direct Investment (FDI) equity inflows totalling US$ 1.7 billion during April 2000–March 2019. In FDI Confidence Index, India ranks 15th after United States, Germany, Canada, UK, France, Japan, China, Italy, Australia, Singapore, Spain, Netherlands, Switzerland, Denmark and Sweden. Overall, given its high growth potential, India compares favourably with global peers among foreign investors.

Chart 21: FDI Confidence Index 2018



Source: IBEF

Chart 22: Deployment of Gross Bank Credit – Retail



Source: RBI

In India, currently 51% FDI is allowed in multi-brand retail while 100% FDI has been allowed in the single brand retail. With the rising need for consumer goods in different sectors including consumer electronics and home appliances, many companies have invested in the Indian retail space in the past few months.

The deployment of gross bank credit by the Reserve Bank of India (RBI) shows a CAGR growth of over 10.6% during FY15 and FY19 to the Retail trade (services sector) and stood at Rs 2,776 billion showing an improvement in the investments in the retailing industry in the country. However, growth has been slower in FY19 with gross bank credit to Retail trade registering a growth of only about 6% on a y-o-y basis.

Table 2: Recent deals in Indian Retail industry

Acquirer name	Target name	Year	Deal type
Aditya Birla Fashion and Retail Ltd (ABFRL)	Jaypore and TG Apparel & Decor Pvt Ltd	Jun-19	Acquisition
Reliance Industries Ltd (RIL)	Hamleys	May-19	Acquisition
Future Enterprises Ltd	LivQuik Technology (India) Pvt. Ltd	Oct-18	Acquisition (55%)
Amazon and Samara Capital	More	Sep-18	Acquisition
Reliance Retail Ventures Ltd (RRVL)	Genesis Colors Ltd (GCL), GLF Lifestyle Brands, Genesis La Mode, Genesis Luxury Fashion Pvt Ltd, GML India Fashion and GLB Body Care	Sep-18	Acquisition
Walmart	Flipkart	May-18	Acquisition
Future Group	HyperCity	Oct-17	Acquisition
Berger Paints	Chugoku Marine	Apr-17	Collaboration

Myntra	InLogg	Apr-17	Acquisition
Flipkart owned Myntra	HRX	Aug-16	Acquisition
Myntra	MotoGP	Aug-16	Collaboration
Aditya Birla Fashion and Retail	Forever 21 (India Business)	May-16	Acquisition
Idein Ventures	Infurnia	Jan-16	Joint Venture
Paytm	Near.in	Dec-15	Acquisition
Morgan Stanley	Flipkart	Jun-15	Private Equity
InnoVen Capital	Sportsbiz Private Limited	Jul-15	Private Equity

Source: IBEF

Road ahead:

- With the Private Final Consumption Expenditure expected to grow by about 10-11% y-o-y till 2021 (has grown at about 10-12% historically), GDP expected to go up to ~7.3%, **CARE expects the retail industry to register a growth rate of about 12-14% over the next 3 years and reach about USD 1,150 billion by 2021**. With factors such as higher demand from consumers with higher incomes, job creations, improved standard of living, brand awareness, increased internet penetration, higher discretionary spends and higher participation of producers/retailers in the organised retail market, discounted and promotional pricing, increased number of products and more private labels with retailers among others, the industry is expected to register growth going forward.

- The traditional retailers are expected to continue dominating the largest market share in the Indian Retail industry. However, with the expansion in the e-tail segment on the back of growing internet users, changing lifestyles, various delivery options, their share is projected to shrink going forward. In order to safeguard their shares and face the intensifying competition from online retailers, the traditional retailers are making huge investments for building their IT infrastructure.
- E-commerce is steadily expanding in the country where consumers have the ever increasing choice of products at the lowest rates. E-commerce is probably creating the biggest revolution in the retail industry, and this trend is expected to continue in the years to come. Retailers could leverage the digital retail channels (e-commerce), which would enable them to spend less money on real estate while reaching out to more customers in tier II and tier III cities.

- Although the share of modern retail penetration in the country is not pleasing, there is still a lot to cheer as consumer spending patterns and increasing disposable income levels continue to evolve at a fast pace. With a number of international brands entering the market, there is ample opportunity and dynamism for the industry. Also, the existing players are working towards reinventing ways to keep up with the pace of growth in the sector. Nevertheless, there is a huge untapped potential for the growth of modern retail in the top six retail markets (Delhi, Tamil Nadu, Gujarat, Haryana, Maharashtra and Kerala) in India as per the Retail Potential Index of National Council of Applied Economic Research (NCAER).
- Nonetheless, the long-term outlook for the industry remains positive, supported by rising incomes, favourable demographics, steady farm incomes, entry of foreign players, growing urbanization and rising discretionary spends.
- With expected transition from offline stores (physical stores) to online stores by many players in the retail industry to compete with the local kirana shops, with home delivery, cash on delivery options, the shop sizes would

comparatively decrease while the number of smaller stores might go up. Also, with markets being more organised, the shift from unorganised retail market to organised retail market is expected to happen at a faster pace.

- Also, to promote its Make in India campaign with job creation at its core, the government is considering allowing 100% foreign direct investment (FDI) in the multi-brand retail – as long as the products are made in India. However, the final decision is yet to be taken. If the government allows 100% FDI in multi-brand retail, the domestic industry is expected to get a further boost.
- Post GST implementation from July 2017 in the country, the prevailing revenue neutral rate for apparel industry continues to be at ~12% for branded apparels. Also, for footwear upto Rs 1,000, a rate of 5% has been fixed and for footwear costing over Rs 1,000, 18% tax slab has been finalized. Nonetheless, with processes being formalized and removal of excise duty on products is expected to improve cash flows, lower input costs and improve profitability of retailers. It has also reduced competition from the unorganised sector and has provided a level playing field to the organised branded players in the induistry.
- Also, with the current tax regime, retailers have been paying service tax on many of their operating costs (for eg:- rentals paid - which constitute about 10-15% of the total operating cost of a retailer, attracted a service tax) and had no input credit for the same. However, with GST, the retailer will be able to set-off the service tax paid on the rent as input tax credit against the taxes to be paid on the final revenue.
- With the GST being consumption based tax regime, retail industry would now come under focus of the Indian states. Overall, on a broader level, various government initiatives including GST is expected to have a positive impact on the retail industry in India.

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