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APRIL 01, 2014

RP national news

Long term retail outlook positive

March 31, 2014

While the organised retail sector in India is going through a difficult phase, the long-term outlook for the sector remains positive. According to a report by CARE Ratings, this is on the back of rising incomes, favourable demographics, entry of foreign players and increasing urbanisation.

The current scenario includes high real estate costs, faltering domestic consumption, and limited infrastructural capabilities which curtail the potential for profitable growth, the report said.

"The sector experienced overall single-digit revenue growth in FY13, and the near-term performance is expected to be on similar lines," D. R. Dogra, Managing Director, CARE Ratings, said. "The Same Store Sales (SSS) have been declining indicating a slower growth in revenue from existing stores".

The operating margins of retail companies are expected to remain under pressure in the short-to-intermediate term on account of increasing rentals, higher manpower costs and slower growth in SSS. Further, the report said, on account of slower inventory turnover and the pressure on operating margin, the capital structure of most retail companies was expected to remain stressed.

On the positive long-term drivers for the industry, the report said there was likely to be a steady increase in organised retail penetration with the mall culture fast catching up in Tier-II and Tier-III cities.

The government announced foreign direct investment (FDI) policy on multi-brand retail in September 2012. Mr. Dogra said this was likely to strengthen the retail capabilities by attracting foreign investments.

Indian retailers had launched several in-house brands spanning a presence across categories such as food, apparels, home care and beauty & personal care and the emphasis on private labels would boost profit margins, the report said.

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