

Retail Industry Update – February 2021

February 23, 2021 | Industry Research

Covid-19 Impact

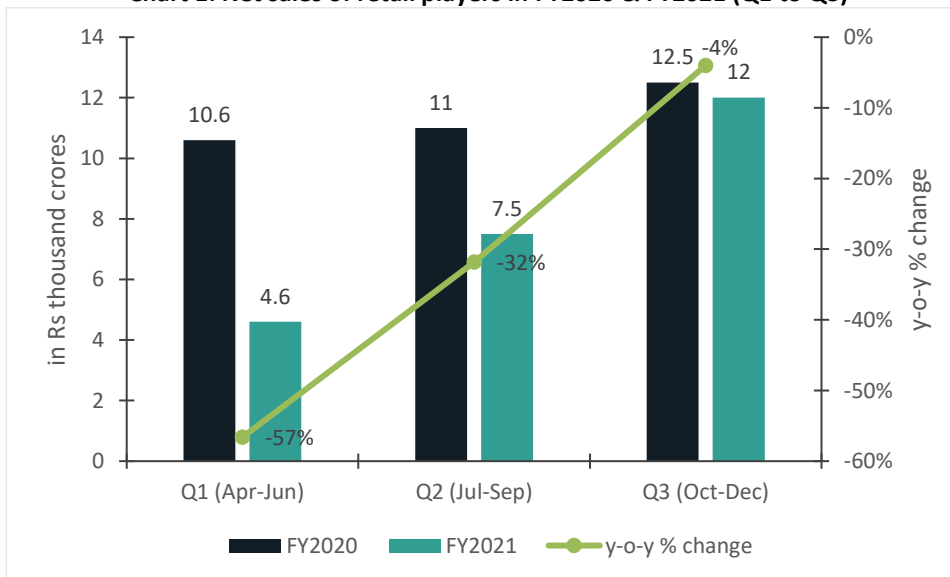
The retail industry was impacted by the outbreak of Covid-19 followed by the nation-wide lockdown in the last week of March, 2020. The closure of retail stores and shopping malls across the country led to a sharp decline in consumer demand. While stores selling essential items like food and groceries, medicines were allowed to function, stores selling non-essential items like apparels, consumer durables etc were completely shut.

As the lockdown was eased in a phased manner, the industry initially grappled with both supply and demand side issues. When the shopping complexes and malls were allowed to open from June, 2020, footfalls were low as people were cautious of stepping out due to the virus and on the supply side, retail players faced logistic challenges and some FMCG players partnered with online delivery players to supply products to end consumers.

Financials

The outbreak of Covid-19 adversely affected the net sales of retail players as can be seen from chart 1 below. Net Sales fell sharply by 57% in Q1 FY21 to Rs 4.6 thousand crores from Rs 10.6 thousand crores in the same period last year. However, as the lockdown was lifted in a phased manner, net sales improved in Q2FY21 to Rs 7.5 thousand crores but still remained low as compared to same period last year which had reported sales of Rs 11 thousand crores, a decline of 32%. Net Sales in Q3FY21 fared better than Q1 and Q2 and reported sales of Rs 12 thousand crores, short of just 4% in comparison with the same period last year. Therefore, sales have started gathering momentum on a month on month basis and are expected to continue to improve on the back of pent up demand and wedding season.

Chart 1: Net sales of retail players in FY2020 & FY2021 (Q1 to Q3)

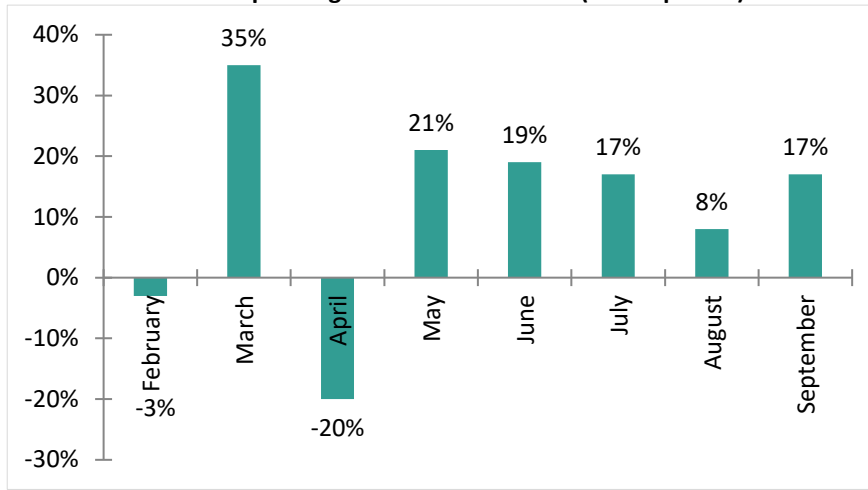


Source: Industry, CARE Ratings
Note: Based on financials of 10 companies

Boom in e-commerce sales

The spread of the virus led to an acceleration in online sales of consumer products as consumer behaviour changed during the lockdown as people avoided physical store visits due to fears of virus contraction. Shopping through online channels not only enabled customers to shop from the comfort and safety of their homes but it also allowed retail players to operate and survive despite restrictions during the period of lockdown and subsequent stages of unlock. Online sales have gone up from -3% in the month of February 2020 to 17% in the month of September, 2020 as shown in chart 2 below.

Chart 2: Spending on online commerce (Feb-Sep 2020)



Source: IBEF

Further, the presence of online retail in India is expected to grow from USD 32.7 billion in 2018 to USD 72 billion in 2022F as per IBEF. This growth will be driven by the change in consumer behaviour, growing internet penetration and low data rates among other factors.

Scope for expansion

The share of organised retail and e-commerce is projected to increase to 18% (earlier 9%) and 7% (earlier 3%) respectively in 2021F as shown in chart 3 and 4 below.

Chart 3: Segment wise breakup of Indian retail industry in 2019

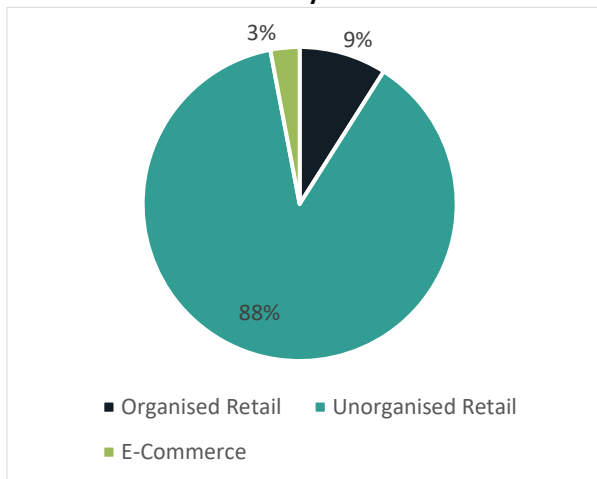
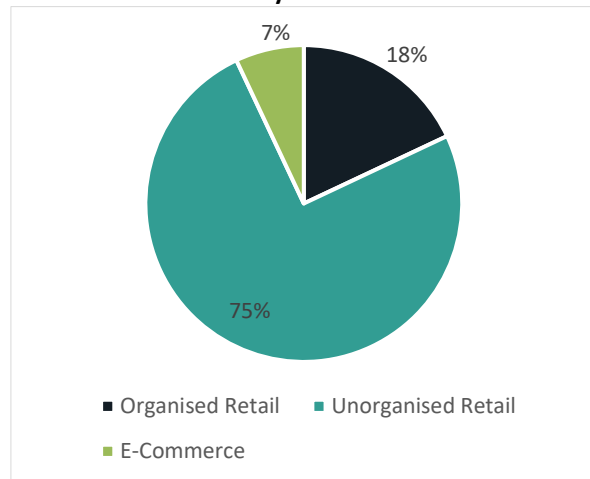


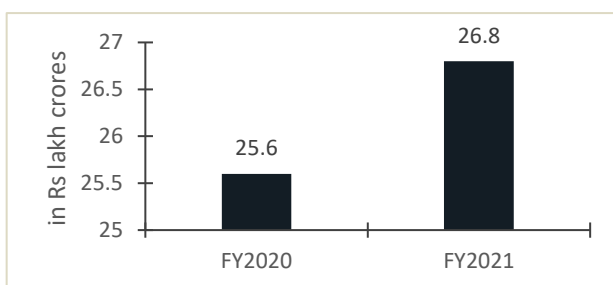
Chart 4: Segment wise breakup of Indian retail industry in 2021F



Source: IBEF

Outstanding credit

Chart 5: Outstanding credit for retail trade (April-December)



According to the data released by RBI, the sectoral deployment of gross bank credit to retail trade during FY21 (April-December) amounted to Rs 26.8 lakh crore, a rise of 4.7% from Rs 25.6 lakh crore in the same period last year.

Source: RBI

Outlook for CY2021 & Concluding Remarks:

The lockdown that started from March onwards continued for almost 2 months with rules and regulations for retail stores differing as per the respective state governments and municipalities. This constrained the activities of retail stores at various locations. Retail stores had to undertake various cost cutting measures and renegotiate lease payment terms with store owners to tide over the covid-19 induced business challenges.

As restrictions were eased in a phased manner, it is to be noted that online sales of essential and non-essential items spiked as customers avoided physical visits to stores. With malls being allowed to reopen from June, 2020 onwards, initially demand was muted due to apprehensions surrounding the spread of virus but gradually footfalls started to increase, especially during the festive season.

Although sales at standalone stores and malls is rising on an m-o-m basis, they have not reached pre-covid levels yet and are expected to be impacted on account of restriction in movement, social distancing, reduced operating store hours and reduction in purchasing power of consumers. Further spike in Covid cases in certain states during Jan-Feb 2021 could impact demand in Q4FY21.

In addition to the above, after the control of the spread of the coronavirus and post the lock-down period, the spending as well as shopping patterns of the consumers is expected to change significantly. The consumers are likely to curtail their discretionary spending with reduced income in their hands as well as tendency to preserve cash.

Also, more preference is likely towards online channels in order to avoid crowded spaces. In such times, the retailers with presence across the retail segments (grocery, apparel, appliances, accessories) as well as who have an omni-channel strategy with presence in both offline and online channels are expected to have a quicker recovery.

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