

Indian Retail Sector - Virus shuttering the shop?

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The Indian Retail Sector

The retail sector contributes about 10% of the country's Gross Domestic Product (GDP) and around 8% of the employment. Globally, India is the fourth-largest global destination in the retail space after USA, China and Japan. 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 accounting for only 12% in FY19. E-tail sales were at about USD 24 billion, accounting for about 25% of the organised market or 3% of the total retail market in India in FY19. India's organised retail penetration is much lower compared with other countries, such as the USA which has organised retail sector penetration of about 85%.

The Covid-19 Challenge

The Covid-19 pandemic is leading the country towards a major slowdown. Consumer spending has taken a backseat owing to the ongoing lockdown which restricts the movement along-with fear gripped amongst the consumer of contracting the virus. The retail sector is one of the most adversely affected sectors due to this outbreak as all the malls which house various retailers and non-essential stores, have been shut following the lockdown imposed by the Government.

Immediately after the announcement of the lockdown, the demand for **Fast Moving Consumer Goods (FMCG)** and other household products saw a significant spurt led by panic buying by the consumers. These goods included groceries, staples, health and hygiene products. However, with the implementation of the lockdown and closure of manufacturing activities, there were major supply chain as well as logistics disruptions which led to lower inventory levels at the retailers. Retail requires considerable manpower which is a challenge in the current circumstances. As compared to other retail segments, food and

grocery would have the least impact as it falls under essential category. Moreover, post the lockdown, this segment is expected to take the centre-stage as the demand for non-essentials shall take a longer time to pick up.

Fashion and lifestyle is the next big category in terms of consumer spending. This segment may suffer the most due to the Covid-19 as all the malls as well as retail stores selling these goods have been shut due to the lockdown and consumer spending on these items takes a back-seat during such times. Even after the lockdown ends, it is likely that the spending on clothing and other accessories would not be much and the retailers would have to offer heavy discounts or extend the sale periods to clear the piled up stock.

The other major retail segment is the **consumer durables and electronics** which will also be adversely affected by the Covid-19 as it is highly dependent on China for imports. India imports majority of its units of consumer durables from China. In addition, India also imports a bulk of its consumer durables components from China. This might result in increase in product prices. However, post the lockdown, the players will focus on clearing their inventories. As the lockdown has been extended till May 03, 2020, the players might face losses in sales of summer season specific categories like air-conditioners, refrigerators etc.

Mitigations

Many of the big retailers in the country have issued force majeure notices to shopping malls and real estate owners for waiver of rental expenses as the retail stores have been shut during the lockdown period. They are also in discussions with them for reduction in rents as the cash-flows would be lower or almost nil for some of the retailers.

The retailers across the country have urged the government to provide them benefits in goods and services tax (GST), removal of minimum electricity charges (which are being imposed even if the store is closed), renegotiations of rentals based on revenue share rather than being on a fixed basis.

Credit Outlook

In view of the lowering of the discretionary spending by the consumers in these times of economic downturn, the outlook for the Indian players in retail sector is 'Negative' in the short to medium term. The impact on demand, which is expected to remain muted at least for the next three or four quarters, will be more in case of players with presence in non-essential items and luxury segments. However, the expected support from the government in terms of financial stimulus packages and wage support subsidy as well as rental waivers from the mall-owners which would help the retailers to bring down their fixed costs, will reduce the impact on their credit profile to an extent. The retailers with presence in essential commodities continue to have some cash flows to support their fixed costs.

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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 are 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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