

# ViewCube

January 2021

Organised brick & mortar retail  
recovering from pandemic shock

CRISIL Ratings webinar



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# CRISIL ViewCube on the organised brick & mortar retail sector

ViewCube is a compilation of sector views expressed during CRISIL's webinars.

These include CRISIL's own views, that of stakeholders, and those emanating from a poll done during the webinar.

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## Section 1

# Our view



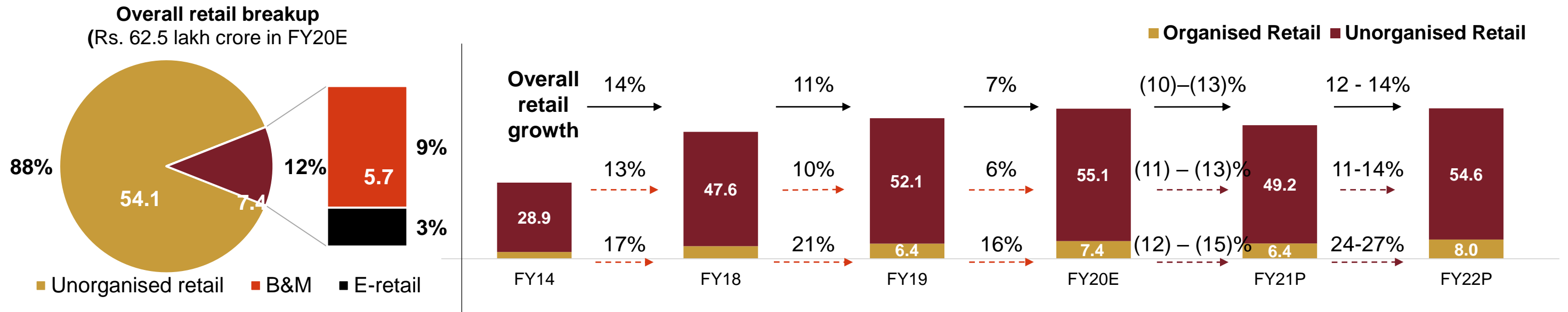
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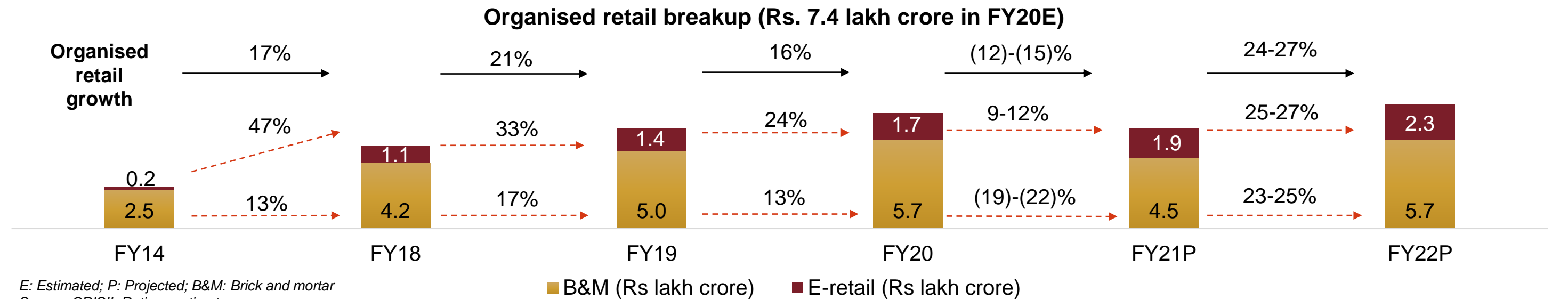
# Key messages

- **Organised retail revenue to rebound next fiscal, rising 24-27% on-year after a decline of 12-15% this fiscal**
  - Brick and mortar (B&M) retail revenue growth to recover to 23-25% in fiscal 2022 after a sharp de-growth of 19-22% estimated for fiscal 2021 owing to pandemic-induced restriction on store operations and low footfalls
  - E-retail revenue growth to recover to 25-27% on-year in fiscal 2022 after a resilient growth of 9-12% estimated in fiscal 2021, arresting overall organised retail de-growth partially. Change in consumer behaviour post pandemic to accelerate share of e-retail
- **Operating profitability of B&M retailers to reclaim pre-pandemic levels next fiscal; cost reduction initiatives to continue**
- **Consolidation and partnerships within organised retail to continue**
- **B&M retailer's credit quality to improve next fiscal after moderation in the current one, with credit ratio at 5-year low**
  - Debt metrics to improve in fiscal 2022, supported by recovery in performance; store expansion to also gather pace
  - Tepid performance to impact cash accruals and debt metrics in fiscal 2021, especially for apparel and consumer durable retailers; capital raise helping avert liquidity squeeze due to moderation in cash accruals

# Strong recovery in both organised B&M retail and e-retail to ensure organised retail segment outpaces overall retail sector next fiscal



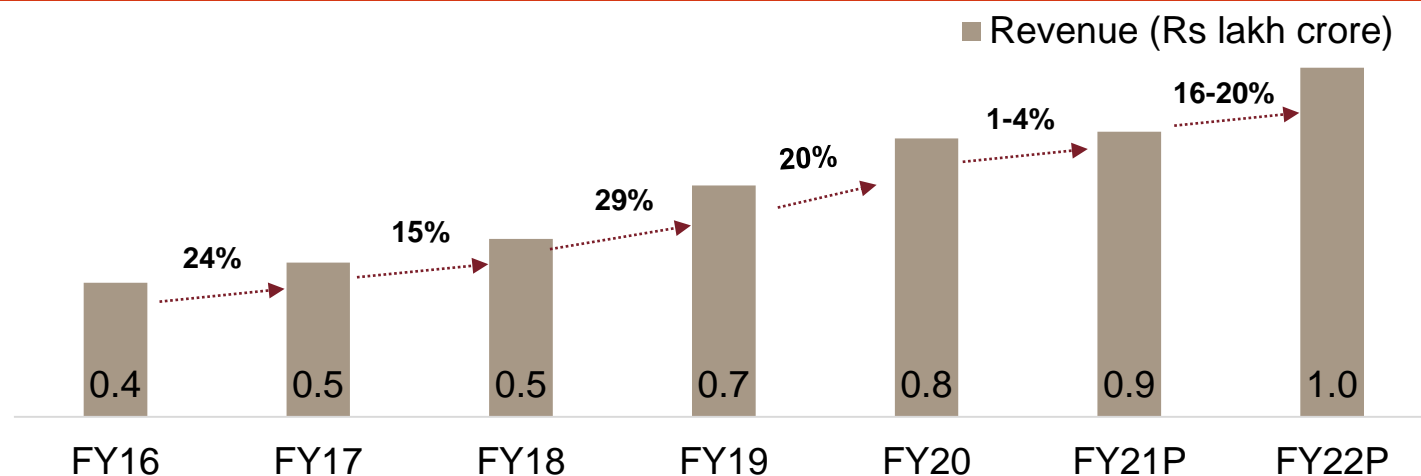
**E-retail demonstrating resilience in current fiscal, driven by shift in consumers' buying preference amidst pandemic**



E: Estimated; P: Projected; B&M: Brick and mortar  
Source: CRISIL Ratings estimates

# F&G retail growth continues to outpace other segments

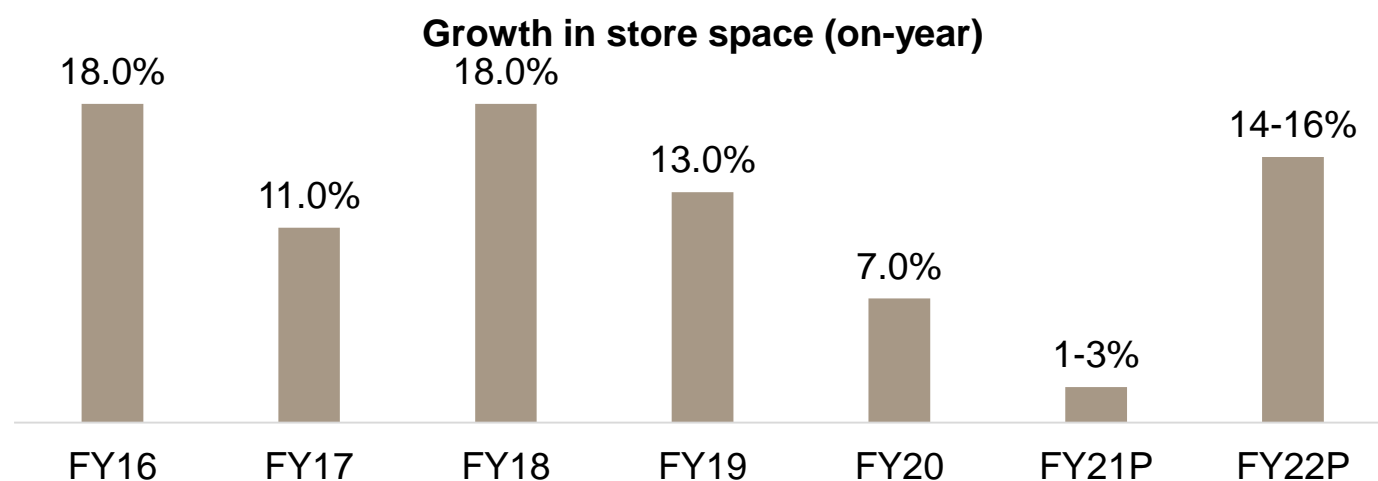
## Faster recovery in footfalls and past store addition to ensure growth



P: Projected

Source: CRISIL Ratings analysis for 5 rated and unrated F&G retailers

## Significant store expansion in recent years to drive segment's growth



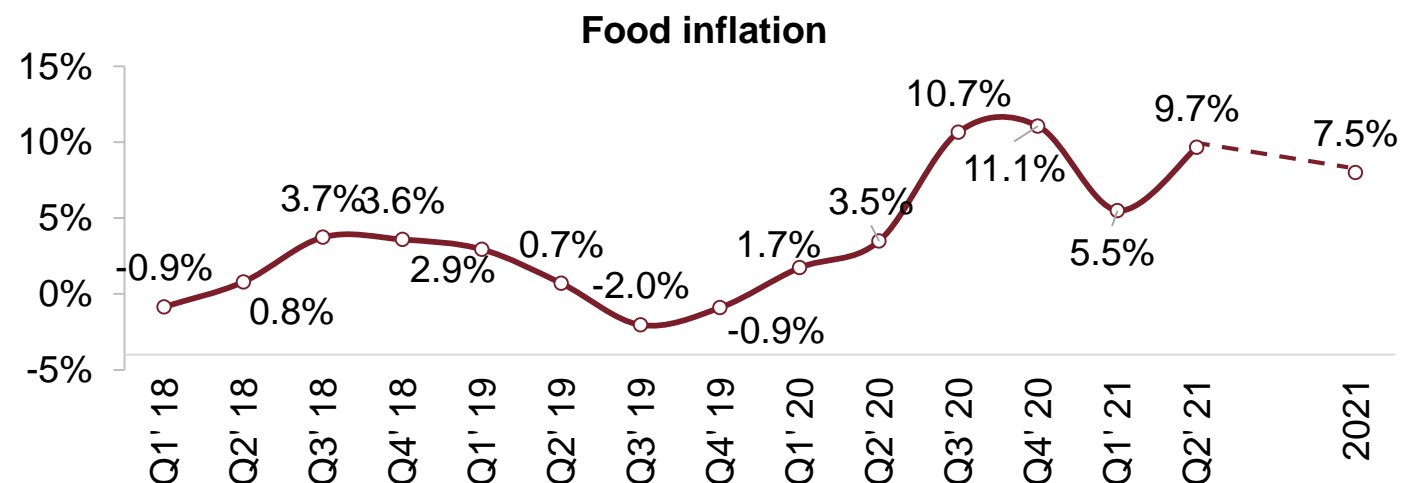
P: Projected

Source: CRISIL Ratings analysis for rated and unrated F&G retailers

## Low organised penetration at 4.7% presents a long term opportunity

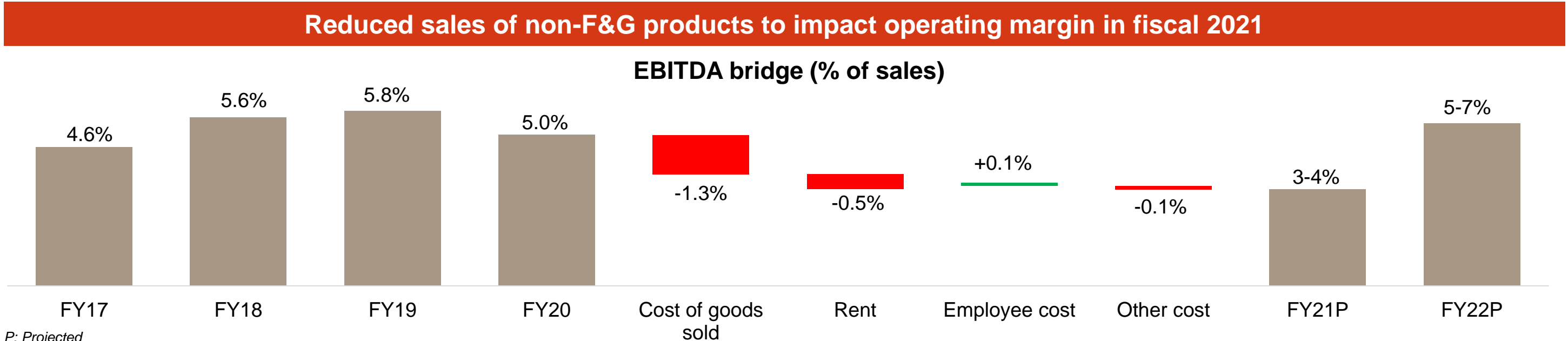
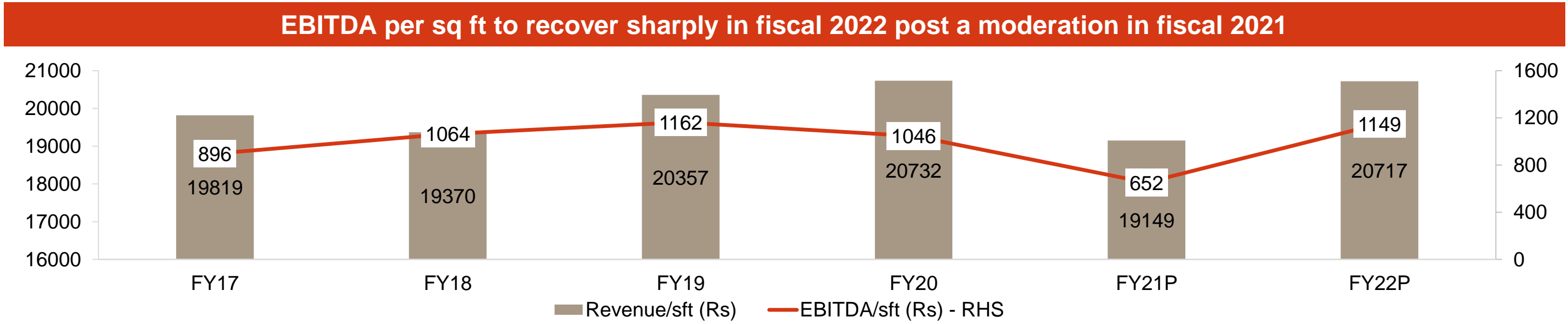
- F&G segment has lowest organised penetration, Store additions in tier II/III cities rising
- Resilient demand owing to non-discretionary nature of products
- Significant uptick in e-commerce channel to affect growth of B&M retailers
- Lower gross margins due to commoditized nature of products and requirement of large investments in back-end infrastructure

## Uptick in inflation to support F&G retail revenue growth



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# F&G retail profitability to contract this fiscal, improve in the next

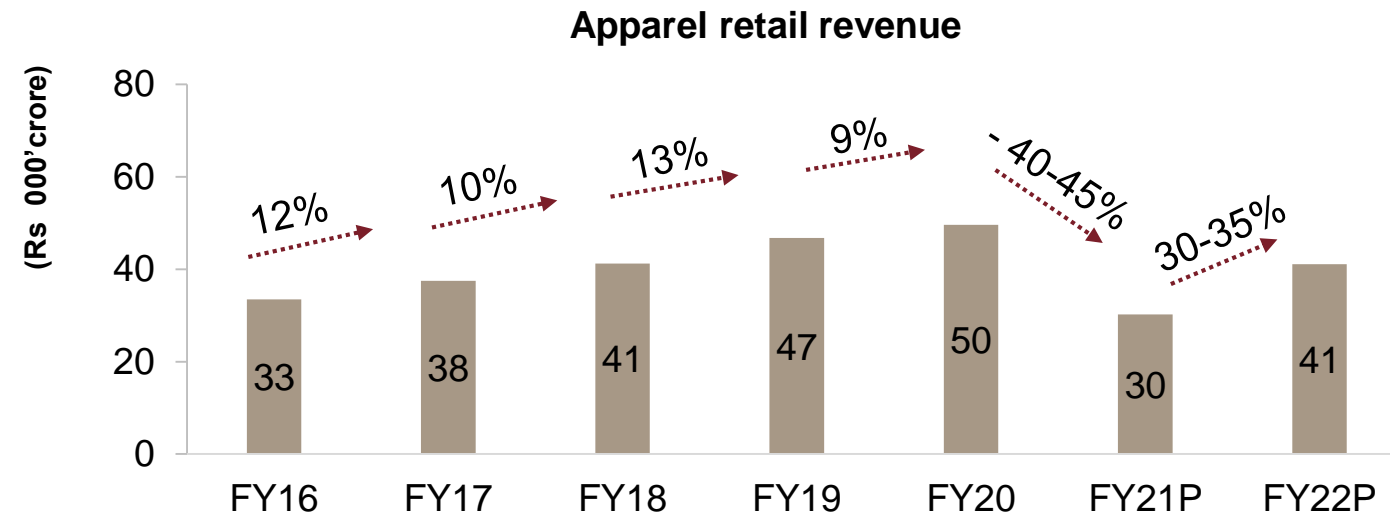


P: Projected  
Note: EBITDA calculation is on comparable basis and not adjusted for IND-AS 116  
Source: CRISIL Ratings analysis for rated and unrated F&G retailers



# Apparel retail expected to rebound next fiscal, riding on a low base and recovery in discretionary spending

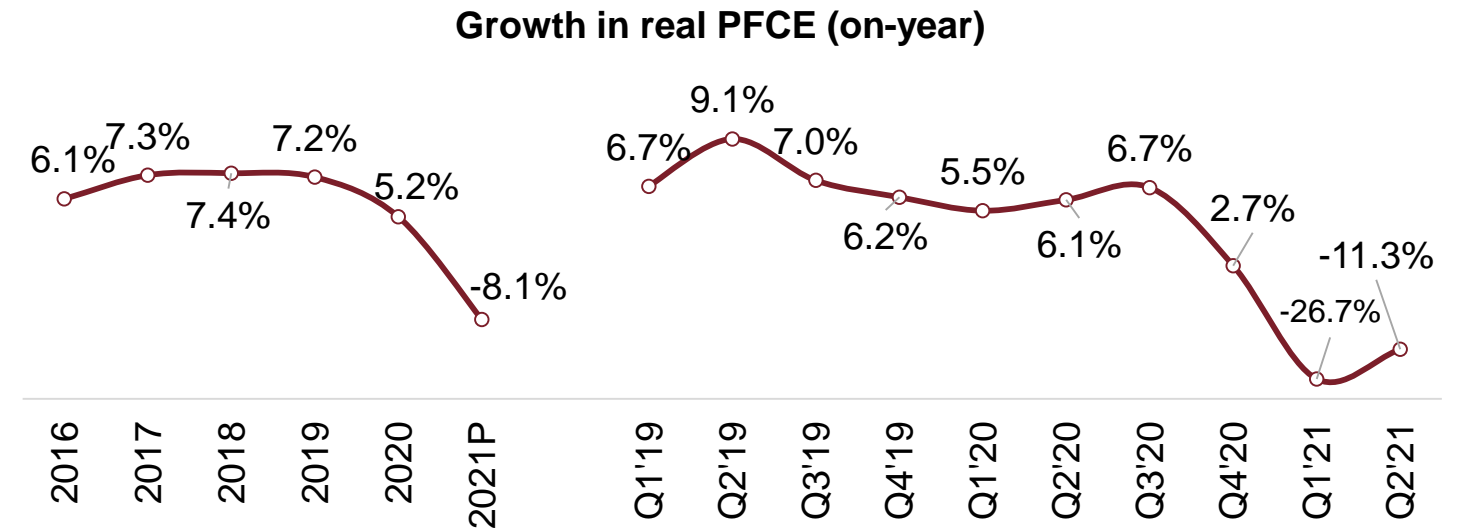
Strong recovery in fiscal 2022 post severe impact in fiscal 2021



P: Projected

Source: CRISIL Ratings analysis of its apparel portfolio represents over 35% of sector revenue

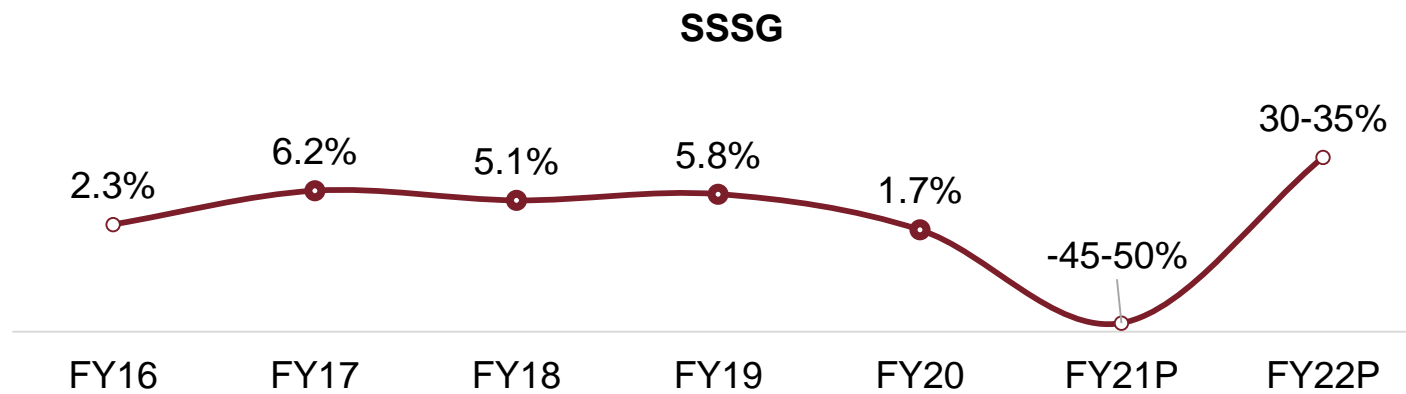
Consumer spending impacted significantly in 2021, to recover in 2022



\*P: Projected; PFCE: Private final consumption expenditure

Source: Press Information Bureau

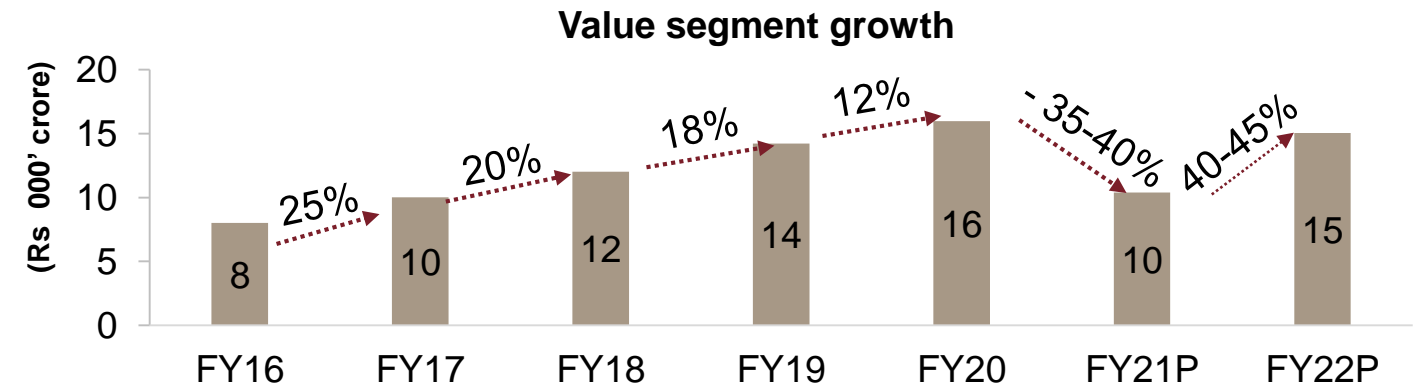
Slowdown in spending had begun in fiscal 2020



P: Projected; SSSG: Same-store sales growth

Source: CRISIL Ratings analysis for seven rated + unrated apparel retailers

Value fashion format to continue to outperform overall apparel retail

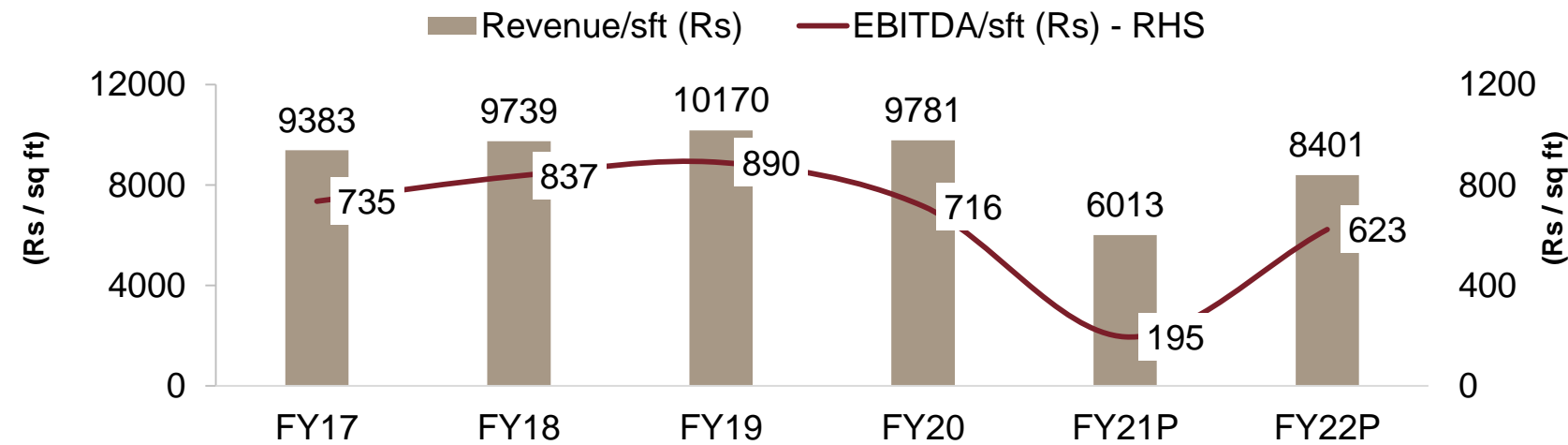


P: Projected

Source: CRISIL Ratings analysis for six value retailers

# Operating profitability of apparel retailers seen recovering next fiscal; cost-reduction initiatives to provide support

Store productivity to improve in fiscal 2022 due to improved operating leverage



P: Projected

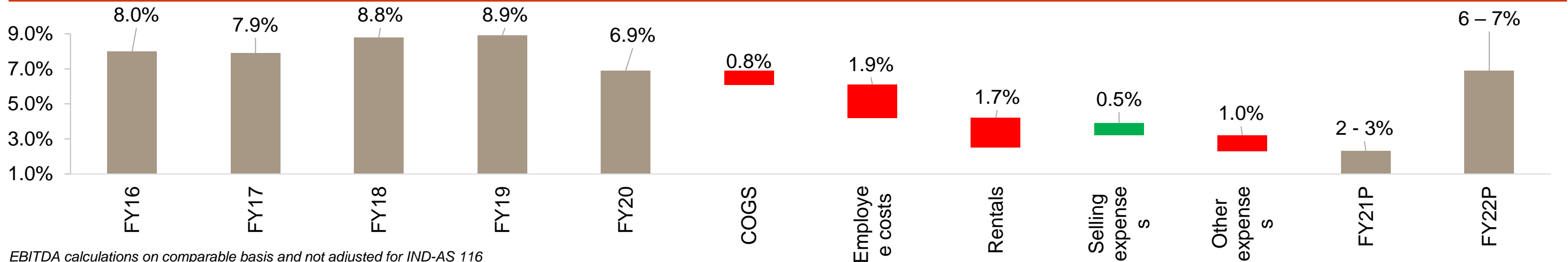
Source: CRISIL Ratings **analysis** for 7 rated and unrated apparel retailers

Cost structure: Part impact seen in fiscal 2020 itself

As % of sales	FY19	FY20	FY21	FY22
Revenue	100	100	100	100
COGS	59.3	59.6	60.4	59.7
Employee costs	8.5	8.8	10.7	8.9
Rentals	7.7	8.0	9.7	8.0
Selling expenses	6.1	6.6	5.9	6.5
Other expenses	9.5	10.1	11.0	10.0
EBITDA	8.9	6.9	2 – 3%	6-7%

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EBITDA bridge: Rental and employee cost main contributors to lower margin in fiscal 2021, lower ad cost main cost saving



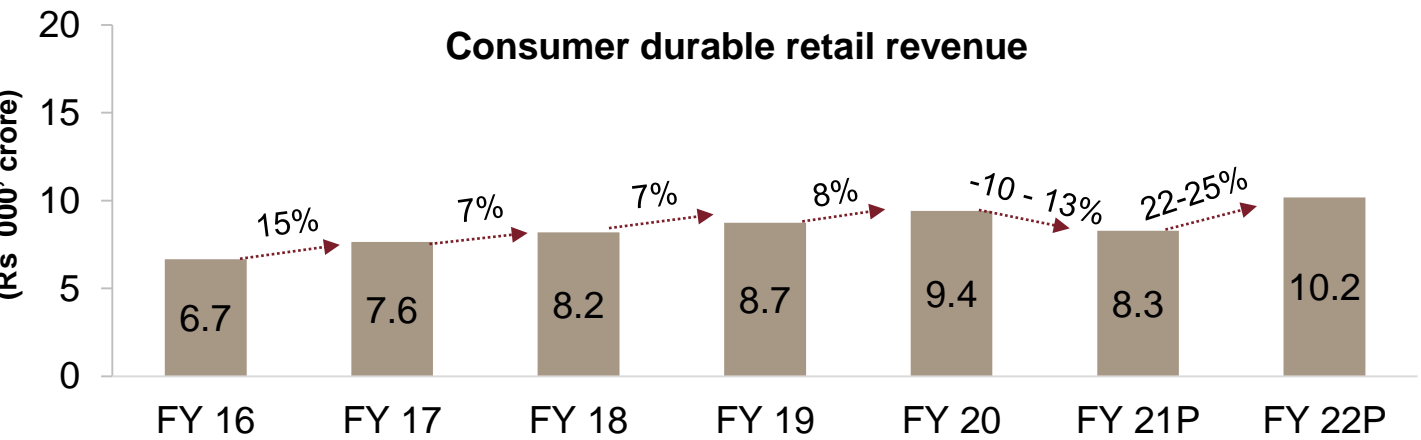
EBITDA calculations on comparable basis and not adjusted for IND-AS 116

Source: CRISIL Ratings **analysis** for its rated apparel retailers **portfolio**



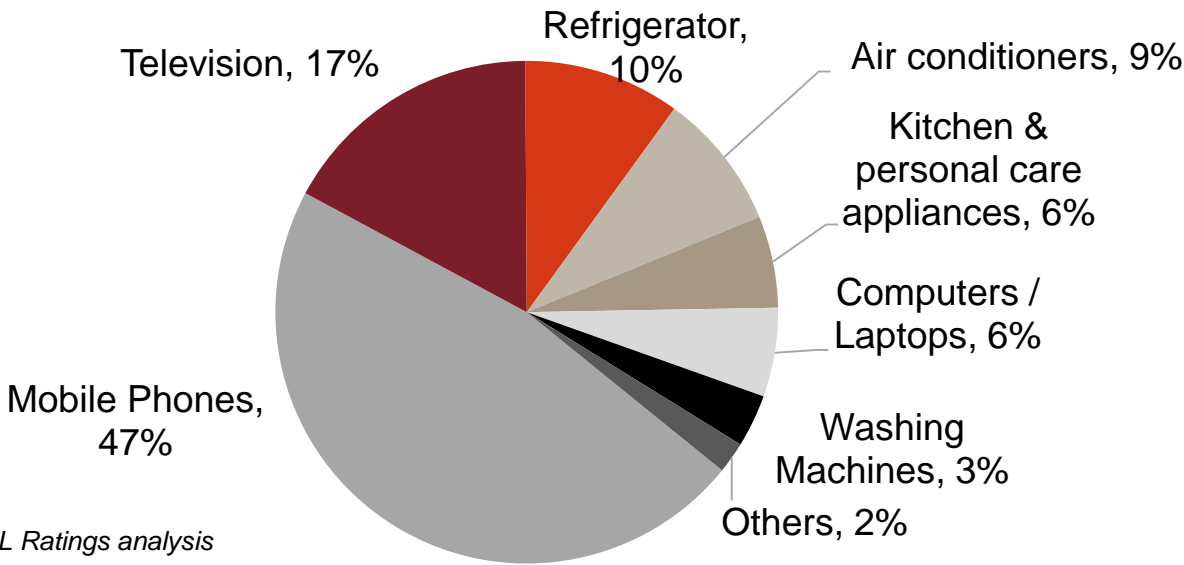
# Increased demand due to stay-at-home cushioned blow for consumer durables retailers this fiscal; healthy growth seen in the next

## Higher demand for utility and WFH products ensured quick recovery



P: Projected; WFH: Work from home  
Source: CRISIL Ratings analysis of its portfolio representing over 15% of sector revenue

## Segment-wise distribution of consumer durables industry

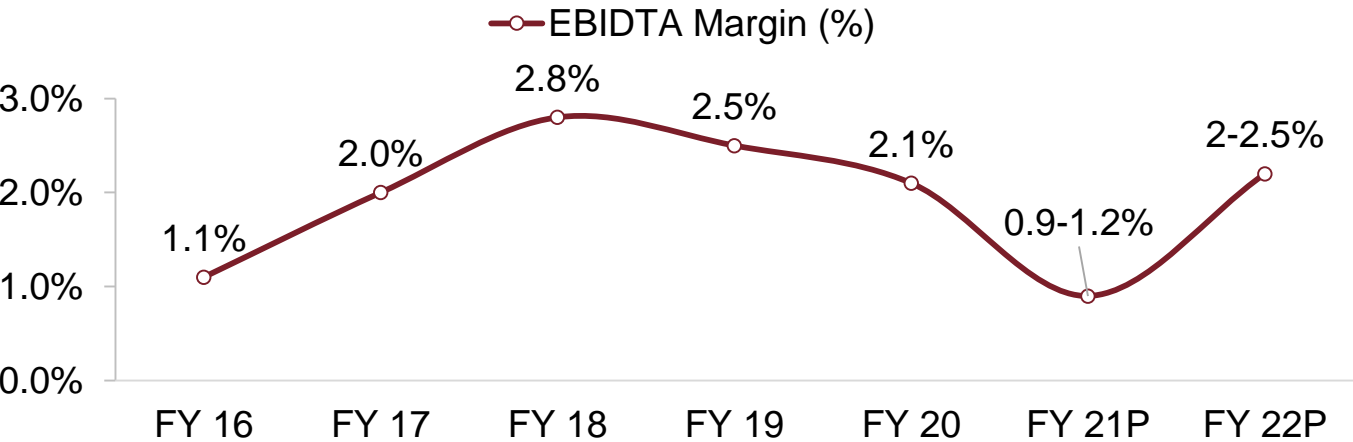


Source: CRISIL Ratings analysis

## Key drivers

- Work from home accelerates demand for electronic appliances
- Demand for home appliances increased as substitute for domestic help
- Increasing shift towards e-retail from B&M format
- Operating margin to moderate in 2021 due to suboptimal cover of fixed costs and gross margin impact due to adverse product mix (higher contribution of IT products)

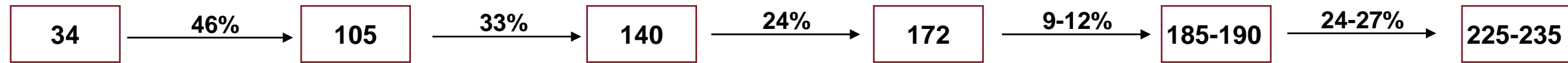
## Profitability under pressure in fiscal 2021



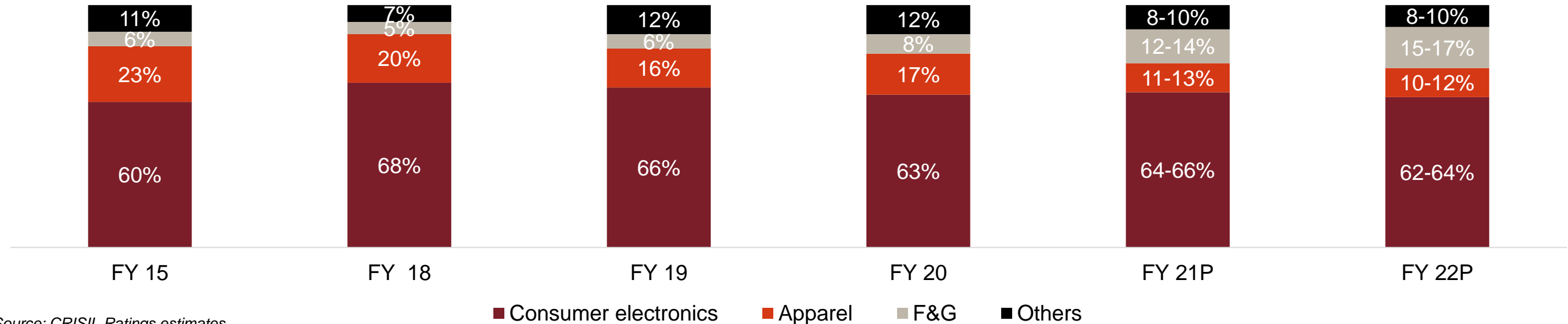
P: Projected  
Source: CRISIL Ratings analysis of its portfolio representing over 15% of sector revenue  
Note: EBITDA calculations on comparable basis and not adjusted for Ind AS 116

# E-retail well-placed amid pandemic; grocery key driver this fiscal

Rs '000 crore



Segmental contribution to Indian e-retail gross merchandise values

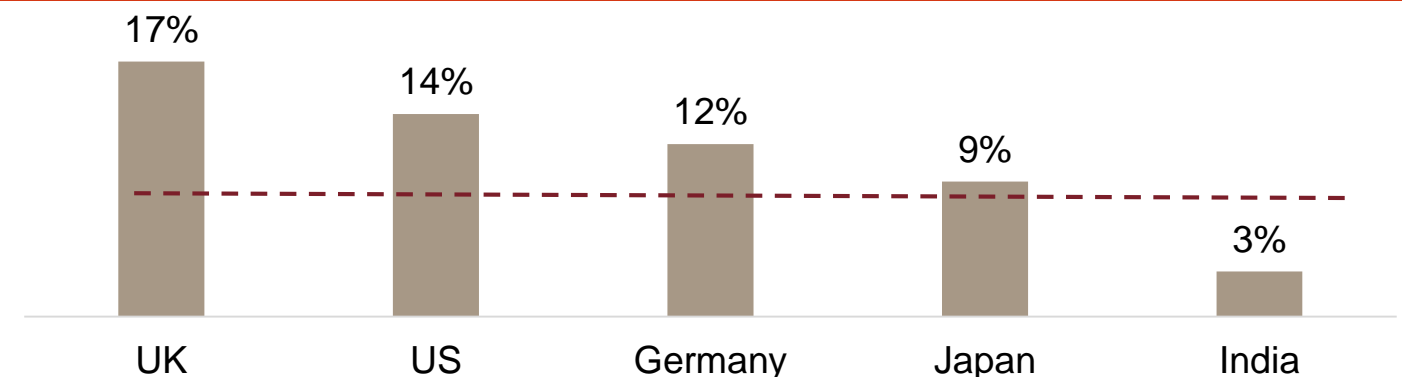


Source: CRISIL Ratings estimates

■ Consumer electronics ■ Apparel ■ F&G ■ Others

- Moderation in growth on back of increasing base, regulatory constraints and reducing discounts
- Increased stay-at-home, work-from-home and convenience of shopping amidst pandemic accelerated adoption of e-retail

## E-retail penetration in India still low compared with other countries



Source: Euromonitor, Others

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# Healthy long-term growth prospects and need for capital driving equity investments and acquisitions

Acquisition/partnerships to increase market reach/capabilities			
Date	PE fund/acquirer name	Target company	Type
Aug 2020	Reliance Retail Ventures Ltd	Future Retail Ltd	Asset Purchase
Aug 2020	Reliance Retail Ventures Ltd	Future Lifestyle and Fashions Ltd	Asset Purchase
Jul 2020	Flipkart	Walmart India's wholesale business	Acquisition
Apr 2020	Reliance Retail & WhatsApp for JioMart		Partnership
Mar 2020	Reliance Retail Ventures Ltd	Shri Kannan Departmental Stores	Acquisition

O2O (online to offline and offline to online) partnership/acquisitions			
Oct 2020	Flipkart	Aditya Birla Fashion & Retail Ltd	Stake
Jul 2020	Flipkart	Arvind Fashions Ltd	Stake
May 2019	Amazon	More Retail Ltd	Stake

Fund raising through equity			
Date	Investors	Target company	Type
Oct 2020	Existing investors	Shoppers Stop Ltd	Rights issue
Aug 2020	Existing investors	Spencer's Retail Ltd	Rights issue
Sept-Nov 2020	Multiple PE Funds	Reliance Retail Ventures Ltd	Stake Sale
Jul 2020	Existing investors	Aditya Birla Fashion & Retail Ltd	Rights issue
June 2020	Existing investors	Arvind Fashions Ltd	Rights issue
Feb 2020	Multiple investors	Avenue Supermarts Ltd	QIP

## Rationale for B&M retailers

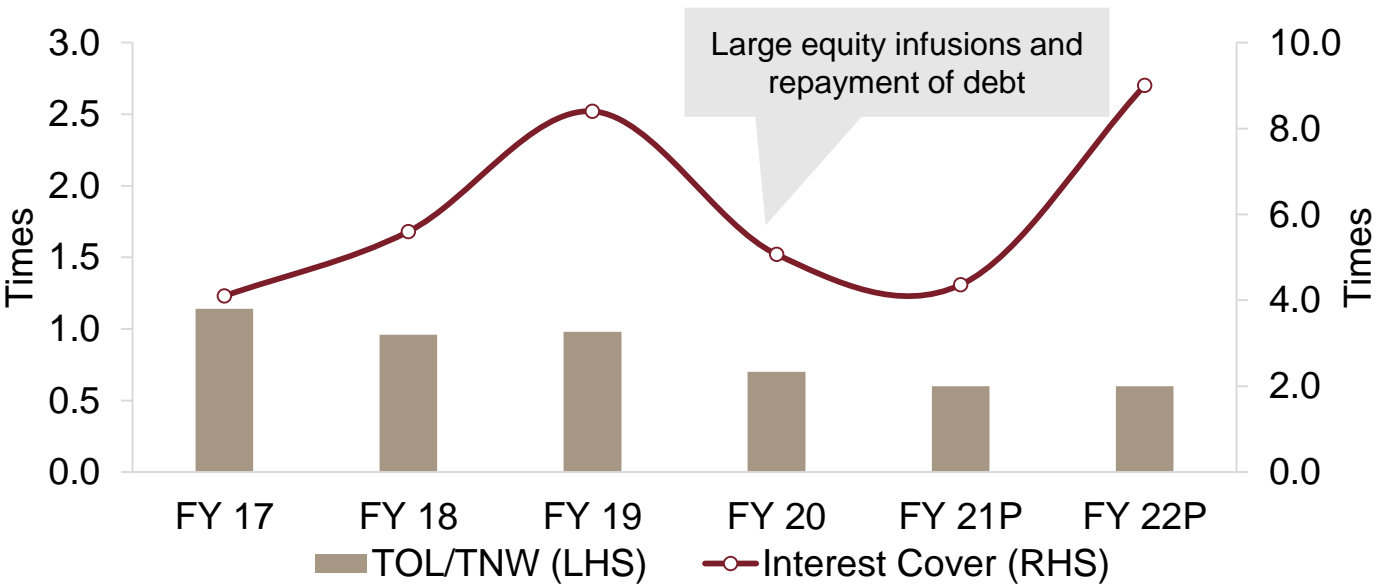
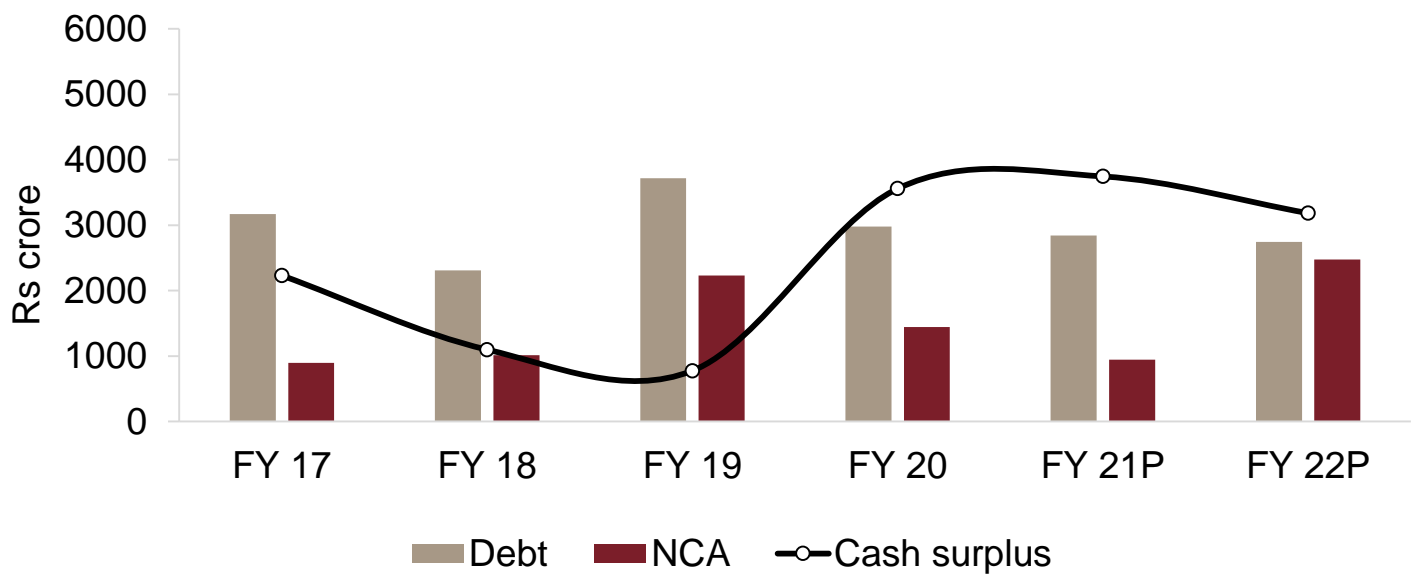
- Weakened financial profile entails need for capital raise
- Never seen before need for omni-channel capabilities

## Large & global retailers go aggressive to capture market

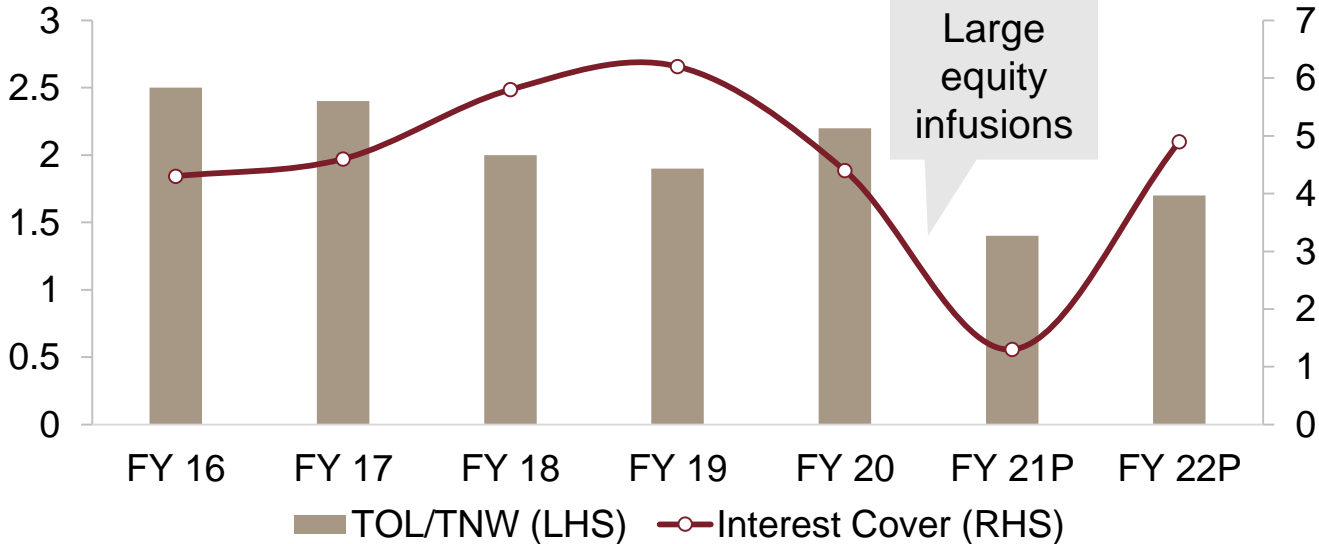
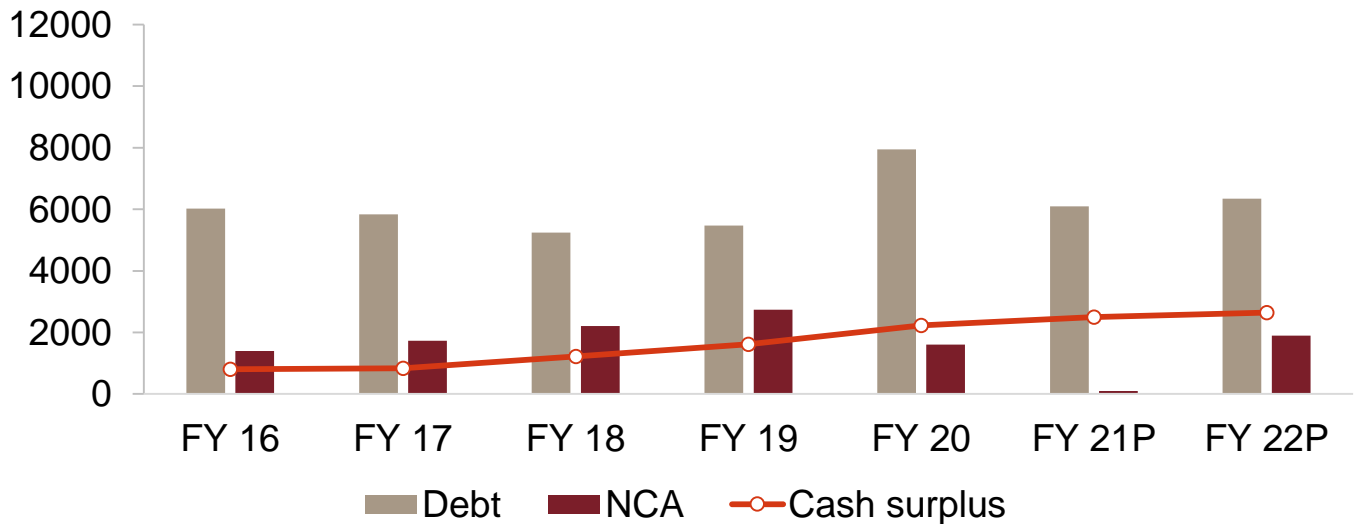
- Creating offline presence for distribution/reach
- Increasing market presence in one of the fastest growing markets

# Credit quality to recover next fiscal given recovery in cash accruals

## F&G retail: limited impact on cash accrual to keep debt metrics stable



## Apparel retail: sharp fall in profitability to result in deterioration in debt metrics in fiscal 2021; credit profiles supported by equity infusion





# Summary: Organised retail to rebound next fiscal after pandemic blow

- Within B&M retail, F&G and consumer durables to recover quickly, while apparel retail recovery likely to be more gradual. E-retail to offset B&M erosion partially in fiscal 2021
- Operating profitability to recover to pre-covid level next fiscal after sharp impact seen this fiscal
- Consolidation and partnerships to continue, considering huge potential for organised retail amid fierce competition
- Cash accrual to recover next fiscal and help restore debt metrics, especially for apparel and consumer durables retailers

## Section 2

# Their view



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# Excerpts from the panel discussion held at the webinar (1/4)

## Eminent panellists



**Amit Agarwal**  
Group CFO, Raymond Ltd



**Rahul Desai**  
SVP & Head - M&A, IR & Treasury  
Aditya Birla Fashion and Retail Ltd



**Tanmay Kumar**  
Chief Financial Officer  
Spencer's Retail Ltd and Natures Basket



**Kewalchand Jain**  
Chairman and Managing Director  
Kewal Kiran Clothing Ltd



**Pramod Gupta**  
CFO and Head of Logistics & IT  
Arvind Fashions Ltd

## Recovery through the pandemic

- Waning of the pandemic, availability of vaccine, recovery in economy activities and government stimulus leading to the sector revival

## What happens to the segments

### Apparel retail

- Festive seasons gone by has brought the revenues to 70-80% at pre-pandemic level; pre-covid levels should be touched in first half of next fiscal.
- The segment can get back to fiscal 2020 numbers next fiscal. Pent up demand in apparel is yet to come, it may emerge in fiscal 2022.

### Food & grocery retail

- Initial part of fiscal 2021 saw people moving to unorganised retailers; however, the segment was quick to recover
- The first quarter of the next fiscal will see base effect; same-store sales growth should start from the second quarter

### Consumer durables & electronics retail

- The segment saw recovery in the second quarter of the current fiscal; momentum continues
- Some categories such as dishwashers have seen structural change



# Excerpts from the panel discussion held at the webinar (2/4)



## Impact on profitability

- The pandemic prompted fresh look on every line item of the costs
- Cost rationalisation under some of the heads such as advertisement & promotion will continue over a period of time. However, employee costs and lease rentals will come back
- Inventory write offs too have happened to a limited extent; there is a possibility of these being written back in the next fiscal once normalcy returns
- Next fiscal's profitability can be as good as pre-pandemic levels or even better
- The pandemic will result in structural changes in lease rental models; rentals may be partially linked to revenue



## Recovery in new store expansions

- Review of store revenue and profitability and closure of underperforming stores is an ongoing activity; however, retailers have been more aggressive in shutting stores.
- The pandemic has also presented opportunities due to availability of more vacant places for store openings
- Capex growth in food & grocery will be higher than in apparel; capex has started in second half of fiscal 2021 and should sustain.
- Growth resumption to be the key theme next fiscal. Profitable growth will be a key criteria for capex
- Tier 3 & Tier 4 cities will drive the store additions, however Tier 1 & Tier 2 cities also have scope to grow given the under-penetration of organised retail.



# Excerpts from a panel discussion held at the webinar (3/4)



## Need for omni-channel presence

- Providing online option to consumers always helps increase sales; retailers' need to have omni-channel presence just got a fillip with the lockdown
- Growth rates for online channel should be higher in future than that of brick & mortar; so share of online in business mix will gradually increase
- For certain segments, such as apparel, consumers may continue to prefer the brick & mortar model as touching and feeling are central to purchase decisions
- Omni-channel will also help increase the reach and hence, it does provide a large opportunity
- The steep increase in omni-channel revenue in the current year may sustain in future



## Value retailing

- Value retail has recovered faster in the current fiscal as stores opened, compared with the premium segment
- Lower and middle strata of population became conscious about the savings during the pandemic
- Ultimately as growth returns, economy grows and income levels improve, the secular theme will be premiumisation
- Value retail will attract transition from unbranded unorganised segments; however, some transition from value to premium segments will also happen
- The target market size for the value segment remains larger than premium; so, value retail should continue to grow at a higher rate even after normalcy returns





# Excerpts from a panel discussion held at the webinar (4/4)



## Competition from E-retail

- E-retailers have different costing models; a few of the costs, such as lease rents, employee costs etc., are lesser for the sector
- The pandemic has resulted in a structural change in a few segments in e-retail, such as food & grocery. Food & grocery should remain a key growth driver for e-retailers in longer term
- Customer acquisition cost for e-retailers is high; so, those with deep pockets can continue to burn cash
- However, in the longer term, brick & mortar retailers can come up with a better model than cash burn and use technology for consumer experience enhancing tool and grow their out-of-store initiatives



## Consolidation theme

- Consolidation is on cards both in online & offline sectors. Companies are getting into new segments and acquiring other retailers; Tie-ups between brands and e-retailers are also seen.
- E-retailers also are acknowledging that store infrastructure can be leveraged and hence a hybrid model may be a more stable model
- There are struggling retailers and brands which are available and stronger players can leverage
- Large global and domestic retailers may acquire controlling or non-controlling stake in such entities



## Section 1

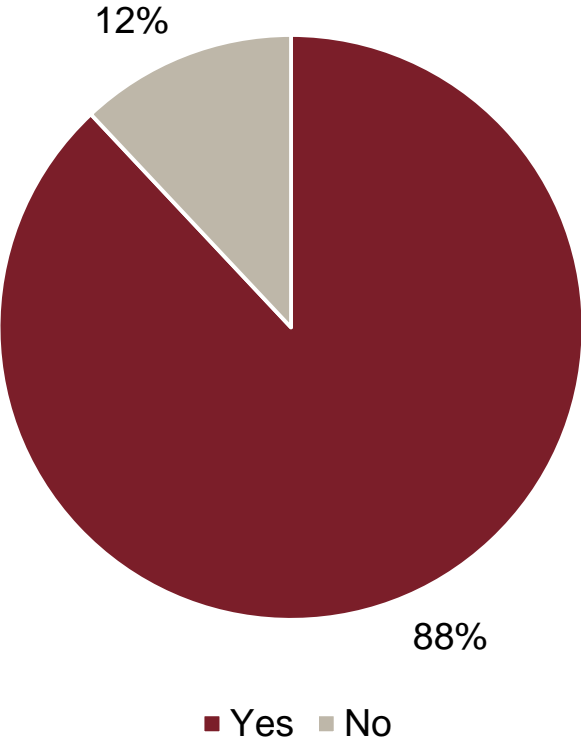
# Poll view



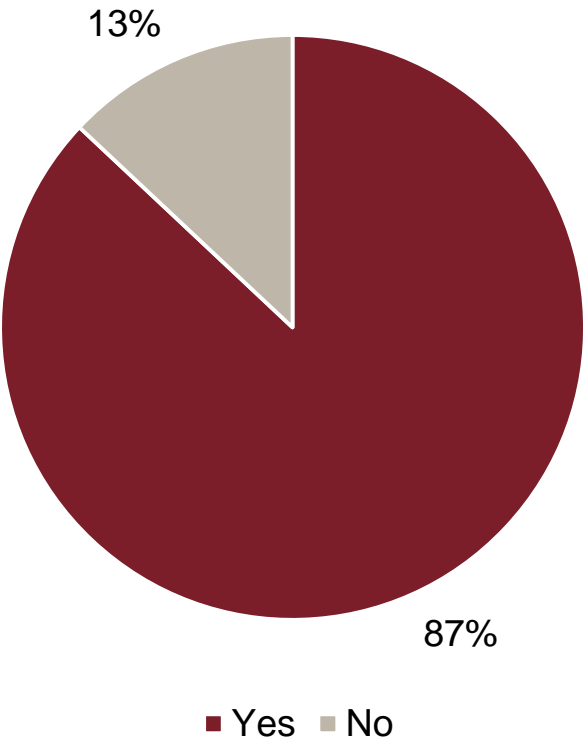
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# Results of survey conducted during the webinar\*

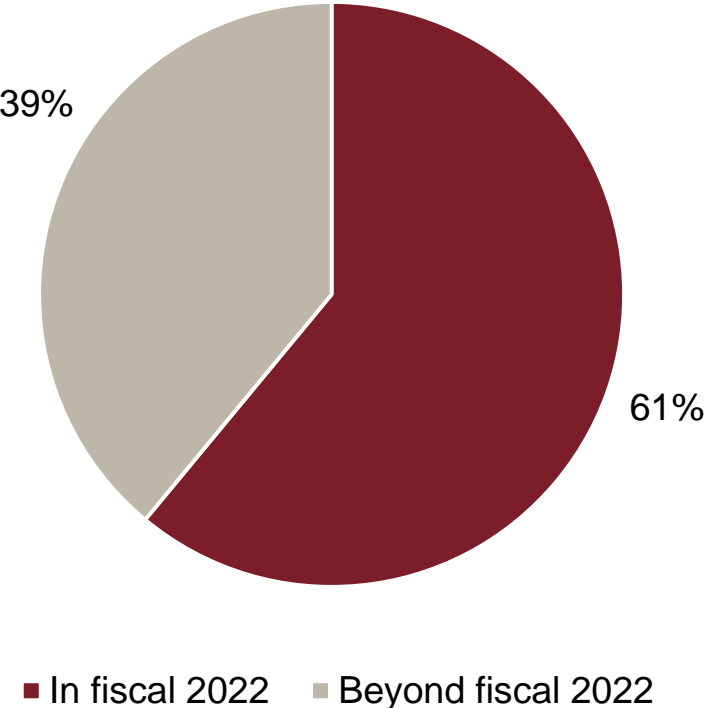
Q1. Do you expect organised brick & mortar retail sector's growth to rebound substantially in fiscal 2022?



Q2. As seen during the pandemic, do you believe e-retail's growth will continue to outpace that of brick and mortar over next 2-3 years?



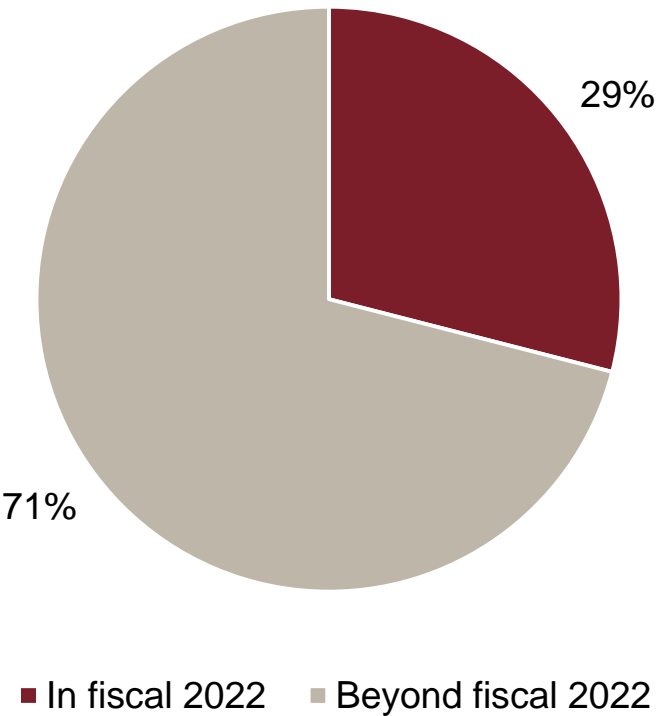
Q3. Given the higher impact seen on discretionary products during the pandemic, by when do you expect apparel retailers' sales normalising?



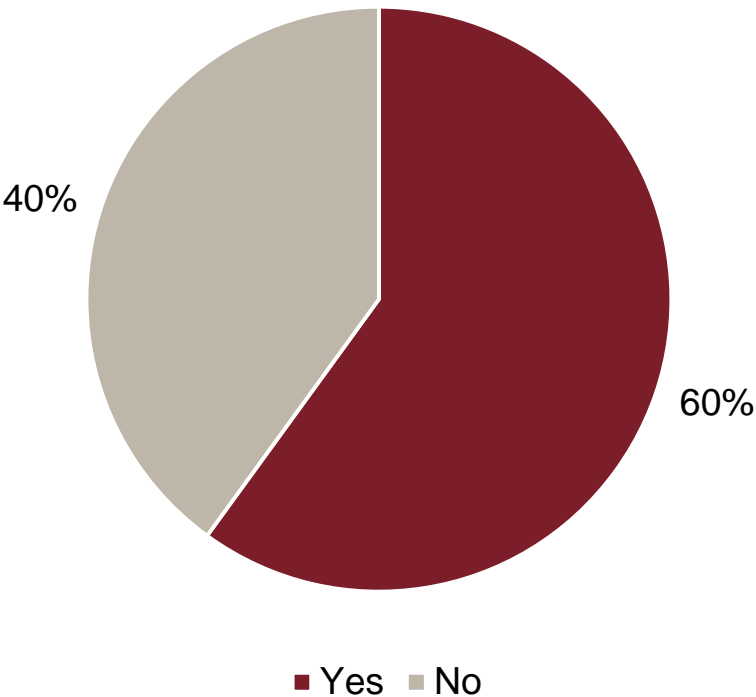
\*Attended by over 260 people

# Results of survey conducted during the webinar\*

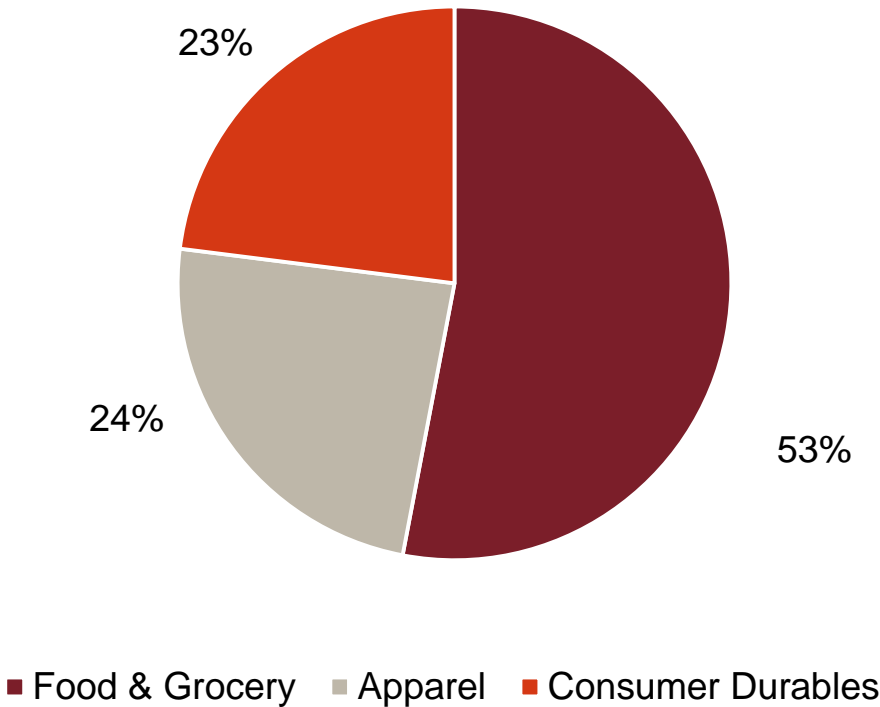
**Q4. By when do you expect store addition intensity to recover to healthy levels seen during fiscal 2018-2020?**



**Q5. Do you believe operating profitability of brick and mortar retailers' will bounce back to pre-pandemic levels by fiscal 2022?**



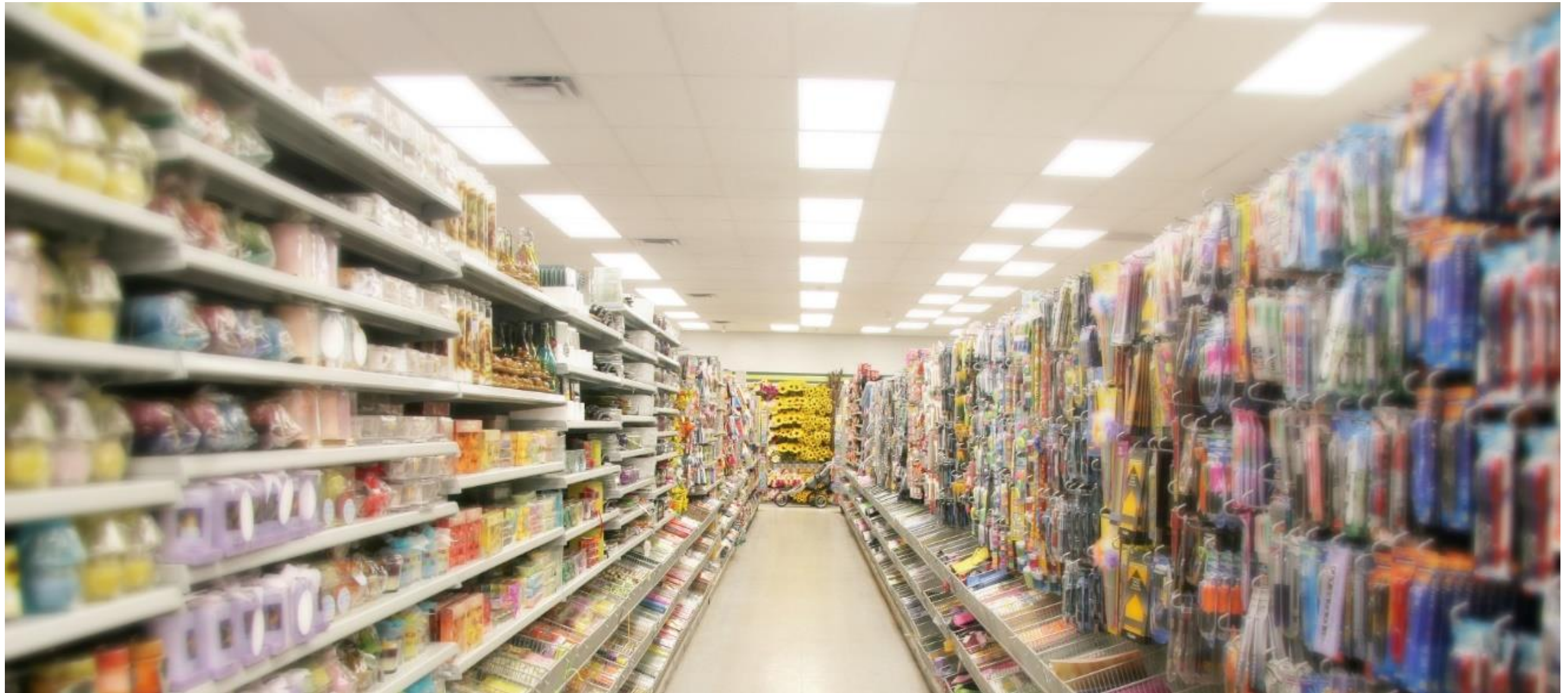
**Q6. Considering the opportunity size, which segment is likely to see faster store addition over the medium term?**



\*Attended by over 900 people



# CRISIL-rated retailers



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# List of CRISIL-rated retailers

Aditya Birla Fashion and Retail Ltd	Avenue Supermarts Ltd	Baazar Retail Ltd	Baazar Style Retail Pvt Ltd
Benetton India Private Limited	Chandana Brothers Shopping Mall Pvt Ltd	Enes Textile Mills	J.C. Brothers Retail Pvt Ltd
Kewal Kiran Clothing Limited	Lifestyle International Pvt Ltd	Malabar Watches Pvt Ltd	Metro Cash and Carry India Pvt Ltd
Metro Retail Private Limited	Namdhari Agro Fresh Pvt Ltd	Osia Hyper Retail Ltd	Pepe Jeans India Ltd
R S Brothers Retail India Private Limited	R.S.Brothers Jewellers Pvt Ltd	Ratnadeep Retail Pvt Ltd	Raymond Apparel Ltd
Reliance Retail Limited	Reliance Retail Ventures Ltd	Rmkv Fabrics Pvt Ltd	Rmkv Fashion Garment Pvt Ltd
Rmkv Silks Private Limited	Shoppers Stop Ltd	TCNS Clothing Co. Ltd	Vedant Fashions Pvt Ltd
Wow Momo Foods Private Limited	Infiniti Retail Ltd	Sargam India Electronics Pvt Ltd	Balaji Cellphone Pvt Ltd
Girias Investment Pvt Ltd	Vasanth and co	Karuna Management Services Ltd	Spectra & Star Convergence Ltd
BSB Marketing Pvt Ltd	Cavitak Marketing Pvt Ltd		

*The list includes companies rated in 'BBB' category or higher. CRISIL Rates around 145 companies in organised brick & mortar retail sector in total.*

# Thank you

**CRISIL Ratings desk**

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