

INDIAN FASHION RETAIL INDUSTRY

Healthy sales trajectory continues;
however, increased adspend and
promotion expenses restrict
improvement in profit margins

MARCH 2023



Fashion retailers are witnessing healthy sales growth in FY2023 led by a pick-up in economic activity and improved discretionary spends.

Revenue improvement is skewed in favour of premium products, as the value segment is adversely impacted by inflationary pressures.



- The fashion retail sector is witnessing a healthy sales uptick in FY2023 led by a pick-up in discretionary spending amid normalisation of store operations post the pandemic and increased economic activities. **ICRA expects its sample of 10 major organised retailers to record healthy YoY revenue growth of around 45% in FY2023.**



- Segment-wise, the lifestyle or the premium segment has remained resilient to inflationary pressures. The value segment, on the other hand, has been reeling under pressure with negative same store sales growth (SSGs, vis-à-vis pre-Covid period). Likewise, stores in metros and Tier-I cities are performing better than those in Tier- II and III cities.



- Fashion retailers ~~significantly~~ increased their advertisement spends in the current fiscal, after having curtailed these during the pandemic period. This in turn, has constrained improvement in profit margins, despite robust revenue growth.



- Capex towards store additions picked up in FY2023. Capex outlay to remain 58-60% YoY higher than FY2022 levels. Going forward, ICRA expects players in the value fashion segment to taper their capex spends, till demand pressures ease.



- Online sales continue to grow, though the pace has slowed with improving footfalls in brick-and-mortar stores.



- Debt protection metrics are likely to remain comfortable despite new capex, supported by steady earnings from operations. **Given the expectation of steady earnings, ICRA's outlook on the sector remains Stable in the near to medium term.**



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