PRESS RELEASE
September 25, 2024

Fashion retailers likely to witness range-bound OPM at 13-14% in FY2025 despite a 14-15% revenue expansion: ICRA

- ***Network expansion to support revenue increase in FY2025 despite inflationary headwinds***
- ***Value fashion segment witnessing signs of recovery; demand pressure on the premium range continues***

Rating agency ICRA expects the profit margins of fashion retailers to remain under check in FY2025 owing to a slowdown in discretionary spends and high advertising and promotion (A&P) expenses to spur revenue growth. According to ICRA's recent industry analysis, the operating profit margin (OPM) of its sample set of companies[1] is likely to remain in the range of 13-14% in FY2025. This is despite a robust 14-15% YoY revenue growth estimated for the year, supported by network expansion. ICRA currently has a Stable outlook on the retail industry.

The fashion retail segment has been struggling with a demand slowdown since Q4 FY2023 due to inflationary headwinds. The fashion retailers in ICRA's sample set reported a YoY sales growth of 18% in Q1 FY2025, led by expansion in store network and introduction of new product categories. The premium segment reported a ~3% contraction in average sales per square feet (ASPSF) in Q1 FY2025, though the value fashion segment showed some positive traction and touched its pre-pandemic level of ASPSF for the first time in Q1 FY2025. The OPM of fashion retailers, however, remained flat on a YoY basis, reflecting lower-than-commensurate returns, due to increased A&P expenses, mainly towards new stores and new categories launched. ICRA expects the fashion retailers to report a marginal sequential sales growth in Q2 FY2025, especially with the shifting of the festive season to Q3 this year. The revenue growth is likely to pick up during the festive season, which coupled with regular network expansion, is expected to result in a 14-15% YoY revenue expansion in FY2025.

Commenting on the trends, **Sakshi Suneja, Vice President & Sector Head - Corporate Ratings, ICRA,** said: "The discount levels have remained limited since Q2 FY2024 as players focus on protecting their gross margins. Retailers, however, continue to spend aggressively on advertisement and promotions, especially with the festive season around the corner. Further, retailers continue to invest substantially to ramp up their presence in the new brands and categories, including those in ethnic wear, beauty, and value fashion, among others, which have been acquired/launched recently. Consequently, the OPM of ICRA's sample set of companies is expected to remain range-bound in FY2025 and will trail the pre-pandemic level by around 310 bps, despite moderate revenue growth."

Notwithstanding these challenges, players remain optimistic of the long-term demand prospects of the Indian retail industry, given the low level of penetration of the organised segment. Despite pressure on the profit margins, retailers have been spending aggressively on network expansion. Capital expenditure outlay for ICRA's sample set of companies towards store additions is expected to increase by 20% to Rs.2,200-2,300 crore in FY2025. Most of these stores will be set up in tier-III and tier-IV cities. Online sales also continue to grow, albeit at a much slower pace. Online sales accounted for only ~7% of the overall revenues generated by ICRA's sample set of companies in FY2024 and are likely to increase to 10% in the medium term.

Elaborating further on the retailers' plans to capture the unorganised segment, Suneja said: "There has been a notable increase in competition in the value fashion segment over the last two years, with several large, organised players introducing new value fashion brands at low average selling prices (below Rs. 500). Retailers are also aiming

[1] *ICRA's sample set comprises 10 listed fashion retailers accounting for ~25% of the organised sector revenues*

to increase the share of private labels within their revenue mix and are passing on the benefits of higher gross margins in the form of lower prices to woo customers at the lower end of the pyramid."

Given the sizeable capex plans and range-bound OPM, the credit profile of ICRA's sample set of companies is expected to remain steady in FY2025, with total debt/ OPBDITA[2] at ~2.2 times and interest cover of 3 times.

Click here to access our previous press releases on the sector.

For further information, please contact:

Media Contacts:	
Naznin Prodhani Head – Group Corporate Communications & Media Relations ICRA Ltd Tel: + (91 124) 4545300, Dir - 4545860 Email: naznin.prodhani@icraindia.com	**Shreya Bothra** Manager - Corporate Communications & Media Relations ICRA Ltd Tel: + (91 022) 61693300, Dir - 61693367 Email: shreya.bothra@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

Click on the icon to visit our social media profiles.

[2] *As per Ind AS*