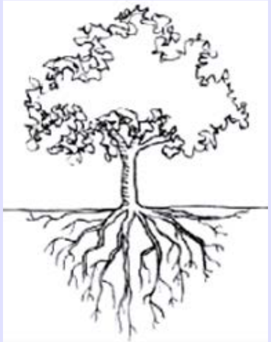
24 October 2017

Sector: Consumer

Ground Reality



Festive season brings no cheer

We visited some mall-based and standalone retail outlets in western India to understand the demand trend during the recently concluded festive season. Though the sample size was small (and thus, may not be reflective of nation-wide sentiment), we did not observe any signs of a strong festive season-led demand recovery.

- **(i) GST-related price increases (in categories like apparel, accessories and electronics), (ii) far lower cash in the system compared to previous year's festive season, (iii) continued competition from online retailing and new malls, (iv) heavy rainfall, and (v) travel inconvenience caused by infrastructure works, among other reasons, were blamed for the decline in footfall and moderate YoY sales growth during the festive season (beginning in Navratri and ending after Diwali). This is after adjusting for the fact that the festive season began 11 days earlier this year compared to last year.**
- **In apparel, unlike the last festive season, there was no distinct trend in favour of value retailing. Private label names like 'Westside' and 'Max' did not report uniformly better sales compared to players like 'Shoppers Stop' and 'Lifestyle' that have far lower proportion of private label sales.**
- **'Jockey' was the exception among apparel or accessories, and performed very well.**
- **Response from QSR players was mixed – even the relatively better performing ones reportedly witnessed sales lower than their internal expectations.**
- **Sales of electronics and accessories like bags/footwear were also tepid.**

Tepid growth for apparel and accessories players; Jockey – an exception

- Factors such as a sharp footfall decline in malls, continued competition from online channels, and higher GST on apparel/accessories (which, in turn, led to higher prices) resulted in moderate sales growth (much lower than festive season expectations). Some stores stated that festive season sales were as much as 30% below expectations. Notably, the disappointment comes despite tepid sales growth in the base period as well (**as highlighted in our note**) following festive season last year.
- Apparel sales came in muted despite (a) large-scale grant of limited-period vouchers on purchases over a certain amount (usually INR5,000), (b) additional cash provision in pay wallets by retailers, (c) 'No questions asked' exchange policy in a few stores, and (d) discounts on purchase of second and subsequent items in a few stores.
- Earlier, excess cash was used for festive season purchases. This trend seems to be fading now with far lower excess cash in the system, thereby affecting sales. Notably, cash payment in the festive season has come down from 50-60% earlier to 30-40% now.
- There was also no marked difference in trend between premium brands and economy brand sales in apparel.
- Women's ethnic wear category has done very well across stores.
- 'Jockey' continues to report strong sales growth. Improvement is being witnessed in the number of bills, the average bill size and also in terms of the product mix for EBOs. Cross-selling of sportswear products is also increasing, leading to a higher bill size. Sales of 'Speedo', the much smaller brand for Page Industries (2% of sales), however, remain moderate or have even declined YoY in a few cases. There has been an increase in the GST rate for Speedo – unlike 'Jockey,' which is in the below INR1,000 classification.
- There has been a significant impact on sales of standalone footwear brands and bag brands due to weak demand and higher prices on account of GST.
- Conversion rates are usually low (hovered at 22-25% for most stores) in the festive season, with more families walking into malls.

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Other categories also reported lower-than-anticipated growth

- Domino's, albeit doing better than the burger players, witnessed lower-than-expected demand in the festive season. Customer feedback on the 'improved' Domino's products has been mixed.
- Offline electronics chains have witnessed weak volumes in both mobiles and LED TVs, which put together form ~70% of sales. Both categories witnessed higher GST rates compared to the previous indirect tax rate regime. The consequent price increases have led to growth in sales, but lower volumes. Competition from online players continues unabated.
- Sales of unorganized jewelry players have been weak during the Navratri period because of PMLA. The same was the case for organized players. Organized stores in jewelry refused to provide details during the Diwali period. Sales of players like Swarovski are down sharply.

N O T E S

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