COVID-19: Impact on retail in India
COVID-19

What we know thus far

WHO has declared a pandemic as COVID-19 outbreak continues to evolve in several epicenters
- India has 155 cases\(^1\) with 3 casualties thus far and is actively trying to reduce the spread to community
- US has announced ban on non-citizen travel from EU countries and a state of emergency as cases continue to accelerate
- Italy, now the largest epicenter outside China, has expanded lockdown to cover entire country; other European countries such as Germany, France, Spain
- New cases in South Korea have slowed significantly since peak on 23 Feb
- Continued decline in new cases in Greater China over several weeks

Financial markets have priced risks aggressively since virus’ spread outside China, though with variations across asset classes
- Recession risk in major economies is real, though not foregone conclusion

The environment continues to evolve rapidly: there are early signs of a potential rebound in China, whereas other countries are just beginning to see growth in outbreak

For India, we expect significant negative impact (-10% to -25%) for next 9 months in 2020 for non-food retailers (depending on the duration of recovery)

Governments globally have responded by offering a fiscal, monetary stimulus to help businesses manage the crisis

1. As on 18 Mar 2020
Covid-19 Evolution
COVID outbreak continues to accelerate in Europe and US

World-wide COVID-19 Cases as of 15 March (Link to animated map of daily movement)

Greater China cases

Europe cases

Note: No of cases scaled by square root is used as size of the bubble to show extent of spread
Source: National Health Commission China, Johns Hopkins CSSE, BCG Henderson Institute analysis
Most countries following similar path of exponential growth until strong interventions made (as in China and South Korea)

Total cumulative number of confirmed cases (Log scale)

Slope of infection line is nearly identical across most countries in early phase of the outbreak, indicating similar rate of infection - Japan the only exception

Exponential growth trajectory (linear slope on log-scale chart) indicates potential trend line of continued and unmitigated infection spread

Decisive measures (as in China and South Korea) can change trajectory

Note: US numbers are excluding numbers from Diamond Princess cruise ship  
1. Number of days after exceeding 30 confirmed cases  
Source: Johns Hopkins CSSE, BCG Henderson Institute analysis
Countries with weak epidemic detection/response capabilities tend to report fewer detected cases; India in the middle of the spectrum on preparedness

Total number of confirmed cases (log-scale)

Notable correlation between detection capabilities and number of confirmed cases

Possible indication of underestimating COVID-19 spread in countries with lower preparedness (though other factors such as travel propensity may also be at play)

1 Includes lab capability & capacity, real-time surveillance, epidemiology expertise, emergency response preparedness
Source: Global Health Security Index 2019 (developed by Nuclear Threat Initiative, Johns Hopkins CHS and The Economist Intelligence Unit); BCG Henderson Institute analysis
Longer view: Historically, many outbreaks experienced multiple waves - risks remain until vaccine in hand

Example: Spanish Flu

Example: MERS (caused by a coronavirus)

Source: US Centers for Disease Control; World Health Organization; BCG Henderson Institute analysis
Implications for Indian Retail
Retail is a vital part of India's economy
Retail contributes 40% of India's consumption and employs 40-50 Mn people

Retail industry contributing to ~40% of India's consumption in 2019...

<table>
<thead>
<tr>
<th>Consumption ($ Tn)</th>
<th>2019</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Industry Size ($ Tn)</td>
<td>$1.7-1.8 Tn</td>
<td>$3.1-3.2 Tn</td>
</tr>
<tr>
<td>CAGR</td>
<td>9-11%</td>
<td></td>
</tr>
<tr>
<td>Retail Industry Size ($ Tn)</td>
<td>0.7</td>
<td>0.5</td>
</tr>
<tr>
<td>F&amp;G</td>
<td>0.4</td>
<td>0.1</td>
</tr>
<tr>
<td>Apparel &amp; Footwear</td>
<td>0.1</td>
<td>0.6</td>
</tr>
<tr>
<td>Other sub-industries</td>
<td>0.2</td>
<td></td>
</tr>
</tbody>
</table>

...and provides employment to 45-50 Mn people in the country

<table>
<thead>
<tr>
<th>Number of jobs (in Mn) (2018)</th>
<th>Overall employed workforce</th>
<th>Non retail</th>
<th>Food &amp; Grocery retail</th>
<th>Apparel retail</th>
<th>Other Sub-industries1</th>
</tr>
</thead>
<tbody>
<tr>
<td>500</td>
<td>450</td>
<td>45-50 Mn employed in Retail in India</td>
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</table>

1. Other sub-industries include Jewelry & Watches, Electronics & Appliances, Health & Beauty, Home interiors
Source: RBI, EIU, IMF, Oxford Economics, Euromonitor, CCI proprietary consumption model, BCG analysis
Non-food retail could see significant impact over next 9 months

Two potential Scenarios basis duration of impact (between 3-6 months)
Actual impact could be higher/ lower

Scenario 1 (recovery post 3m)
Significant impact (-40% LFL) for 1 quarter, followed by recovery in Jul-Aug

Scenario 2 (recovery post 6m)
Significant impact (-40% LFL) for 2 quarters, followed by recovery around Diwali

1. LFL projected basis Q1-Q3 FY 20 data for publicly listed fashion, footwear players
2. Actual impact may be higher or lower, above are scenarios basis duration of impact
Note: Analyzing empirical data of past pandemics, plausible impact to be V shaped (i.e. dip followed by recovery to earlier growth levels)
Looking back, overall retail impact from SARS on China lasted for three months with a 5 ppt dip in retail year-on-year growth.
Decline in sales due to COVID will have a debilitating impact on retailer profitability...

**Illustration - Apparel retailer**

All # in INR Cr

<table>
<thead>
<tr>
<th></th>
<th>Base retailer P&amp;L</th>
<th>Scenario with 40% lower sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>1,000</td>
<td>600</td>
</tr>
<tr>
<td>COGS</td>
<td>500</td>
<td>300</td>
</tr>
<tr>
<td>Fixed sellex</td>
<td>150</td>
<td>135</td>
</tr>
<tr>
<td>Variable sellex</td>
<td>100</td>
<td>60</td>
</tr>
<tr>
<td>Store contribution</td>
<td>250</td>
<td>105</td>
</tr>
<tr>
<td>A&amp;M and HO costs</td>
<td>150</td>
<td>115</td>
</tr>
<tr>
<td>EBITDA</td>
<td>100</td>
<td>-10</td>
</tr>
</tbody>
</table>

**Typical profitability (EBITDA) of listed apparel retailers:** 8%-11%

Impact on profitability significant with declining LFL sales

1. Fixed sellex includes store opex (~40% share). Assumed stores would remain shut 1 out of 7 days (so 15% drop in cost)
2. Of A&M and HO costs, assumed A&M costs (~50% share) would drop by ~30% and HO costs drop by ~20%

Source: Annual reports of listed apparel retailers
... accompanied by significant adverse balance sheet & cash flow implications

1. **Ballooning of inventory**
   - Average inventory for a retailer likely to go up due to:
     - current season (Spring Summer) inventory lying in the stores + warehouse
     - next season (Autumn/ Festive) inventory ordered in advance, especially longer lead times

2. **Higher discounting due to excess inventory**
   - Retailers would need to run deep discounts/ additional promos to liquidate current season inventory through mid/end season sales - diluting margins
   - Old season non-moving inventory may need to be sold in stock lot/ written off

3. **Cash crunch, due to slower stock liquidation coupled with stretch on receivables and payables**
   - Slower inventory liquidation would increase cash pressure
   - This could further worsen with additional stretch on receivables (from key accounts) and payables

Also, smaller suppliers can potentially go bust in case of cancelling of orders/ payment correction, due to massive WC exposure
Most countries getting economic packages out <2 weeks after 100th case

Cases by day since 100th case plus first major economic support announcements
(Not including healthcare spending announcements)

Note: UK package #2 announced today is massive: >15% GDP
2009-10 GFC stimulus was 1.5% GDP

Source: Johns Hopkins CSSE; Ourworldindata.org.

US first economic package March 12 (~$100B), followed by March 17 (~$850B)
Governments globally have proposed economic programs ranging widely in size and fiscal/monetary mix

Reduction in policy interest rate since Jan 1 2020 (%)

- **US (Current)**
- **US (Proposed)**
- **Canada**
- **UK (Proposed)**
- **Korea**
- **Singapore**
- **Australia**
- **Italy**
- **China**

**Recent UK and US announcements to be further analyzed**

- **Based on $10B govt business loans announced so far - additional major announcement expected this week**

Economic support package to date (% of GDP)

1. Based on $10B loan package proposed so far
2. Singapore monetary policy targets FX not interest rate; change in 1 month SIBOR shown here
3. China monetary stimulus of $342 Bn liquidity injection considered for this analysis

Source: Investopedia, Reuters, The Guardian, NYT, The Local, CBC, CNBC
Programs differ in shape and scope - UK and US stand out in magnitude
Below is a list of currently announced plans, could change over next few days

<table>
<thead>
<tr>
<th>Country</th>
<th>Size (% GDP)</th>
<th>Direct demand support</th>
<th>Direct SME / business support</th>
<th>Focus on speed</th>
<th>Focus on Cash</th>
<th>Level of Red Tape</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>0.9%</td>
<td>AS$750 to ~ 6.5M people (25% of pop'n) who are already on assistance</td>
<td>AS$25K per SME to cover employee wages (based on tax withheld)</td>
<td>✔️</td>
<td>✔️ &gt;50% “out by WV June”</td>
<td>❌</td>
</tr>
<tr>
<td>Italy</td>
<td>1.3%</td>
<td>Mortgage holidays by application. 600E for self employed/seasonal. 600E for babysitting</td>
<td>State guarantees upto 5M euros for S/AEs. state underwriting (or portion of company rental costs)</td>
<td>✔️</td>
<td>✔️ Demand support immediate</td>
<td>❌</td>
</tr>
<tr>
<td>Mainland China</td>
<td>2%</td>
<td>Rental waivers $324Bn liquidity injection 0.1% cut in prime interest rates Increased tenures for business loans</td>
<td>Rental waivers, focus on extending loans, avoiding defaults</td>
<td>✔️</td>
<td>✔️ Rental waivers, focus on extending loans, avoiding defaults</td>
<td>❌</td>
</tr>
<tr>
<td>Korea</td>
<td>0.6%</td>
<td>`1 /3 of package for SMEs. %IF but vehicle unclear</td>
<td></td>
<td></td>
<td></td>
<td>❌</td>
</tr>
<tr>
<td>Singapore</td>
<td>1.1%</td>
<td>Cash payments of 100-300 /person</td>
<td>Offsetting 8% (3.6K cap) of 0 wages for 3 months + various tax rebate</td>
<td>✔️</td>
<td>✔️ Immediate cash and wage support</td>
<td>❌</td>
</tr>
<tr>
<td>UK</td>
<td>15.3%</td>
<td>3-month mortgage holidays to those in difficulty</td>
<td>SMEs able to access cash grants of up to f25K</td>
<td>✔️</td>
<td>✔️ Demand and SME support</td>
<td>❌</td>
</tr>
<tr>
<td>USA</td>
<td>7.7%</td>
<td>Potential $1000/person starting over next 2 weeks</td>
<td></td>
<td></td>
<td>✔️ Near team cash payments likely</td>
<td>TBD</td>
</tr>
</tbody>
</table>

While headlines focus on $B announcements, policy design choices critical in how impactful programs are with companies

<table>
<thead>
<tr>
<th>Magnitude?</th>
<th>.6% GDP in Korea</th>
<th>Vs</th>
<th>&gt;15% in UK’s latest package</th>
</tr>
</thead>
<tbody>
<tr>
<td>Speed?</td>
<td>Australia ‘front-loaded’ A$11B to be ‘out the door’ by June</td>
<td>Vs</td>
<td>ECB TLTRO SME loan program takes time to flow through banks</td>
</tr>
<tr>
<td>Demand Support?</td>
<td>‘Helicopter money’: Australia $750 payment to 25% of population</td>
<td>Vs</td>
<td>Traditional fiscal channels, infrastructure projects, etc.</td>
</tr>
<tr>
<td>Cash vs tax</td>
<td>Singapore 8% cash wage subsidies</td>
<td>Vs</td>
<td>Loans for creditworthy firms, reduced or deferred tax payments</td>
</tr>
<tr>
<td>holidays vs loans?</td>
<td>Australia &amp; Singapore case wage subsidies flow automatically through corporate tax systems</td>
<td>Vs</td>
<td>Firms and workers need to apply to government program</td>
</tr>
<tr>
<td>Red tape delays?</td>
<td>Italy suspending mortgage payments for staff facing Covid layoffs</td>
<td>Vs</td>
<td>UK sick pay subsidies to firms, business property tax holiday</td>
</tr>
<tr>
<td>Firms or workers?</td>
<td></td>
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