

# COVID-19: Impact on retail in India

18 MARCH 2020

# 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<sup>1</sup> 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**

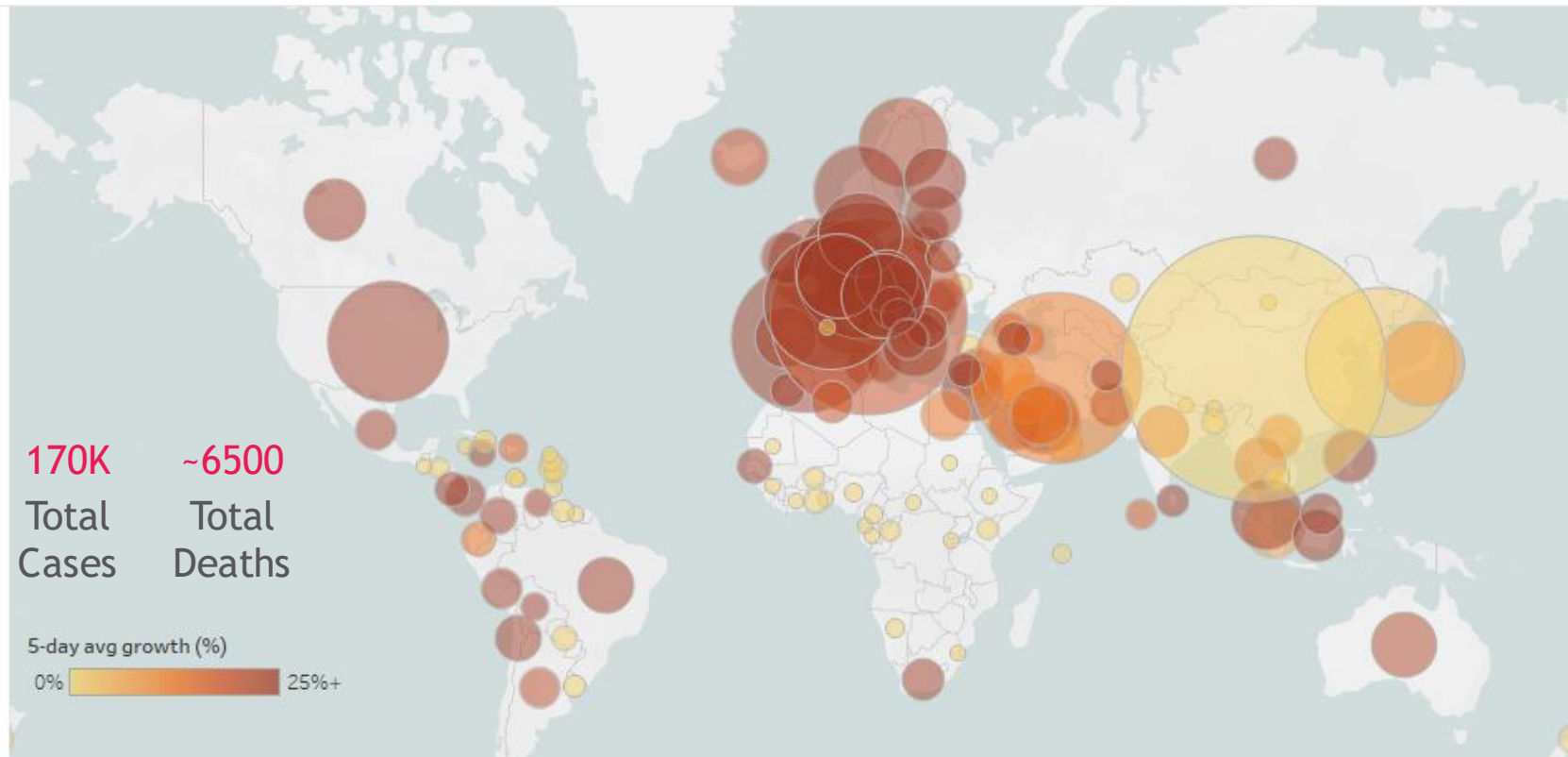
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# Covid-19 Evolution

# COVID outbreak continues to accelerate in Europe and US

Data as of 15 Mar

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



*Greater China cases*



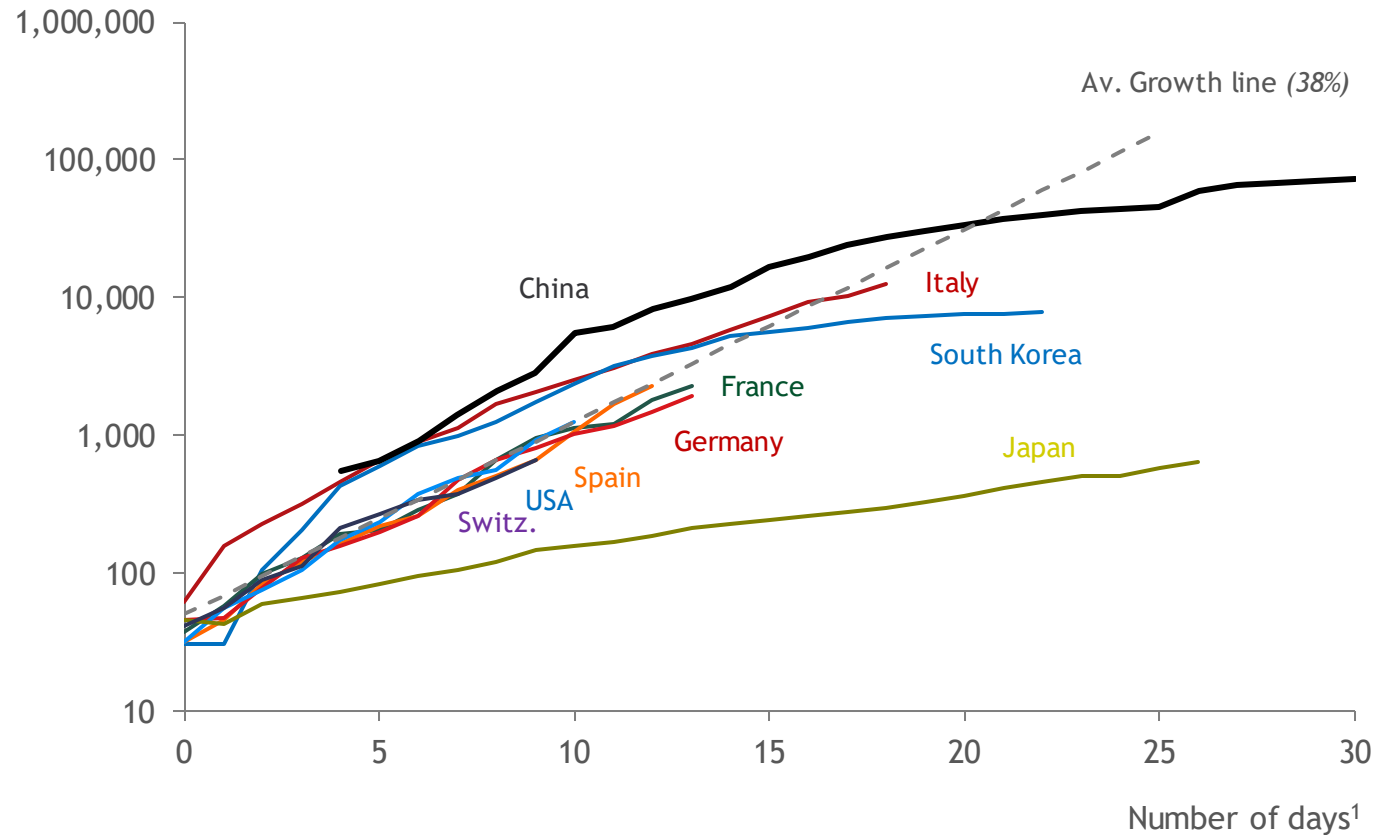
*Europe cases*



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

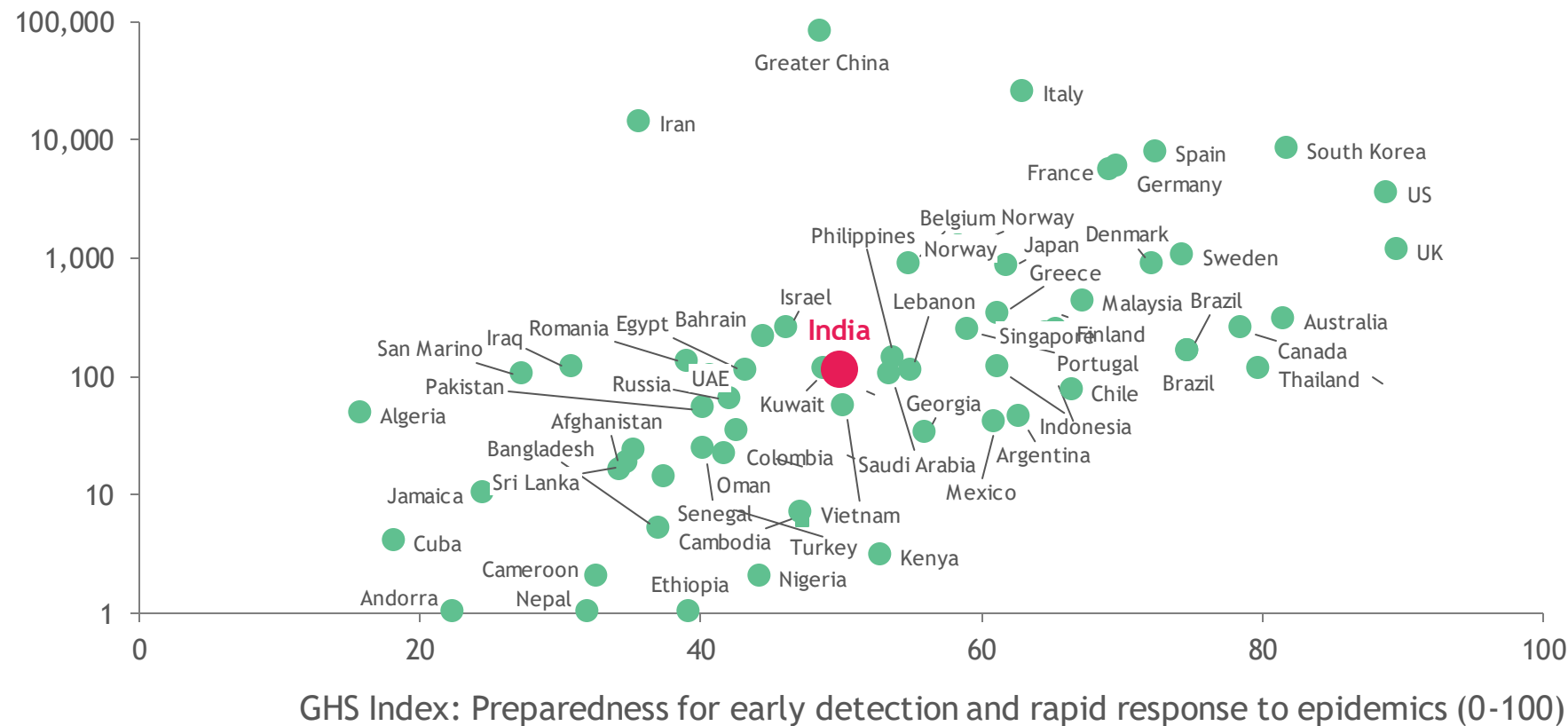
Decisive measures (as in China and South Korea) can change trajectory

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

Data as of 15 Mar

Total number of confirmed cases (log-scale)



Notable correlation between detection capabilities and number of confirmed cases

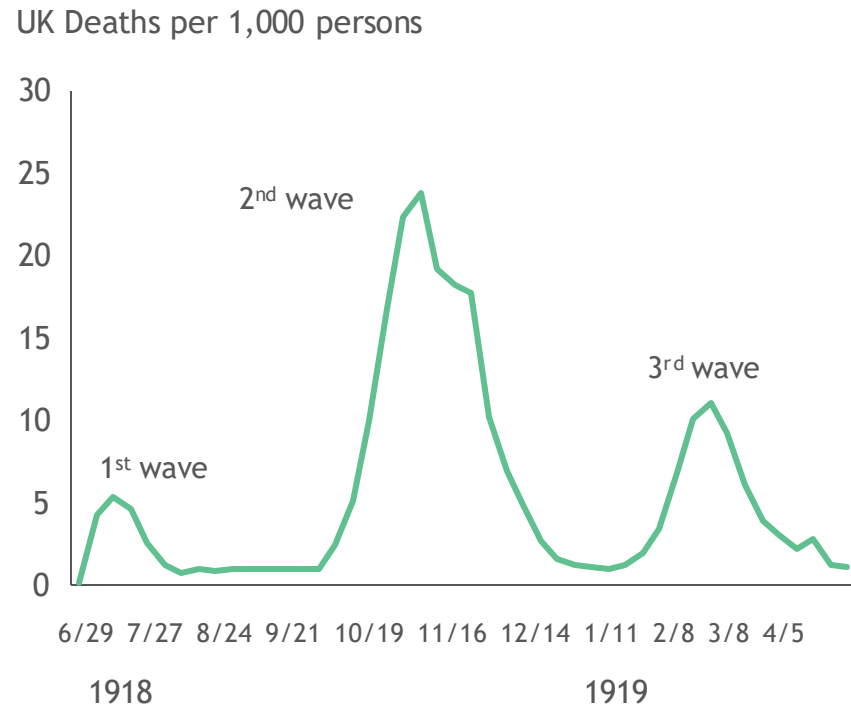
Possible indication of underestimating COVID-19 spread in countries with lower preparedness (though other factors such as travel propensity may also be at play)

1 Includes lab capability & capacity, real-time surveillance, epidemiology expertise, emergency response preparedness

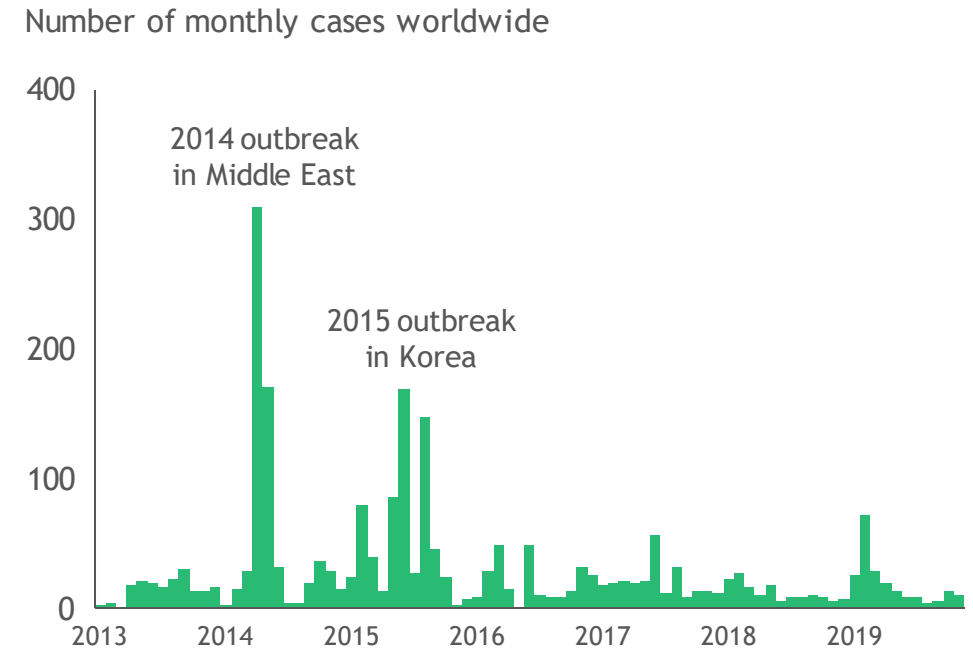
Source: Global Health Security Index 2019 (developed by Nuclear Threat Initiative, Johns Hopkins CHS and The Economist Intelligence Unit); BCG Henderson Institute analysis

Longer view: Historically, many outbreaks experienced multiple waves - risks remain until vaccine in hand

### Example: Spanish Flu



### Example: MERS (caused by a coronavirus)



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# Implications for Indian Retail

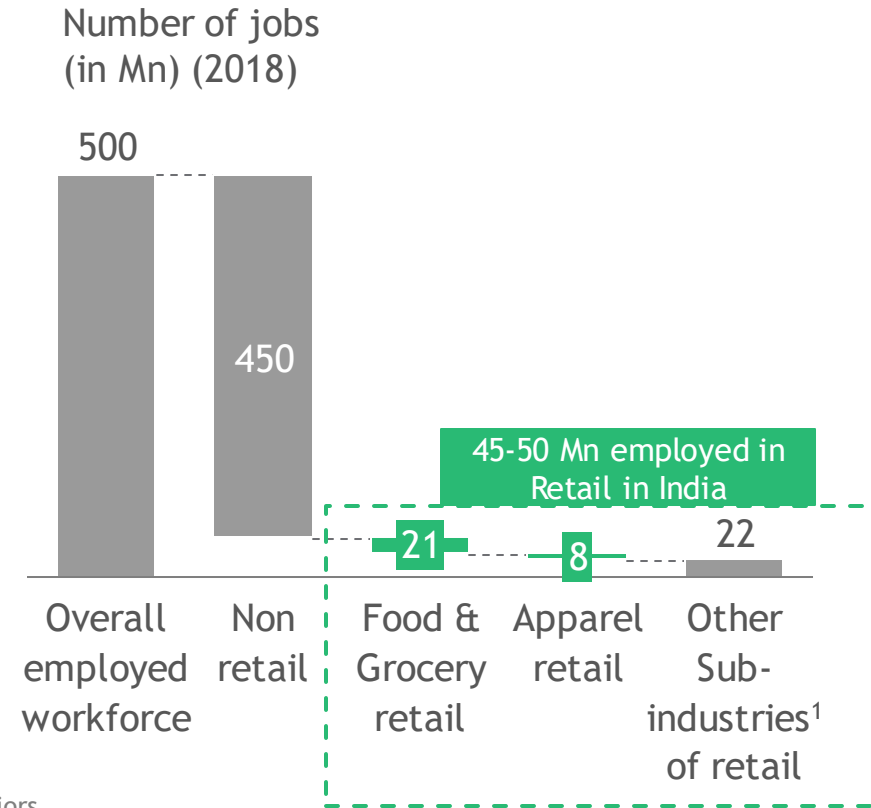
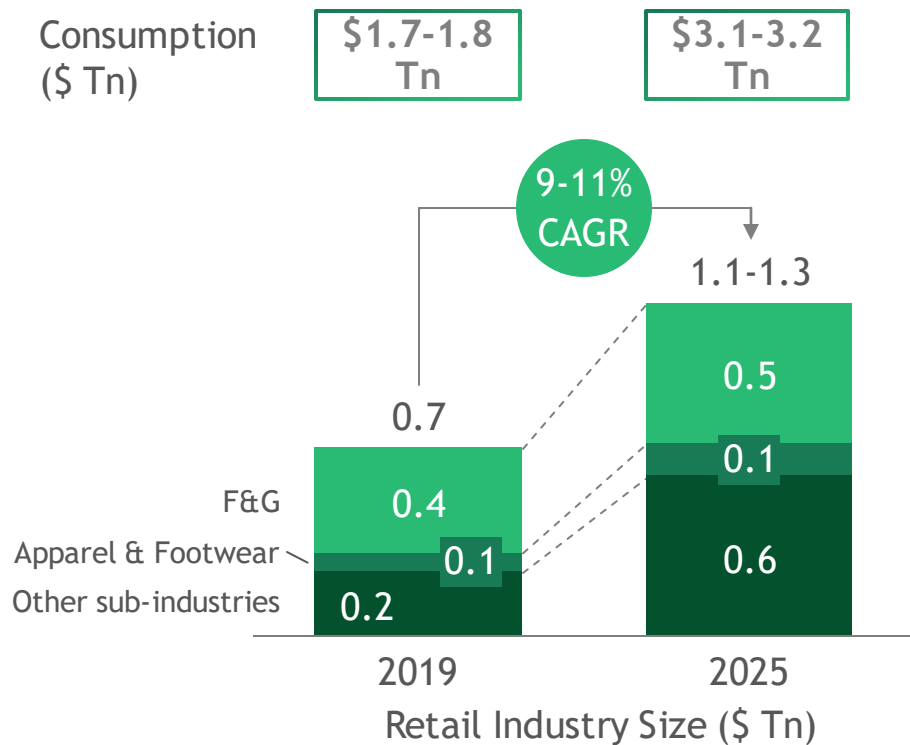


# Retail is a vital part of India's economy

Retail contributes 40% of India's consumption and employs 40-50 Mn people

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

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



1. Other sub-industries include Jewelry & Watches, Electronics & Appliances, Health & Beauty, Home interiors  
 Note: Numbers for overall retail industry in India  
 Source: RBI, EIU, IMF, Oxford Economics, Euromonitor, CCI proprietary consumption model, BCG analysis

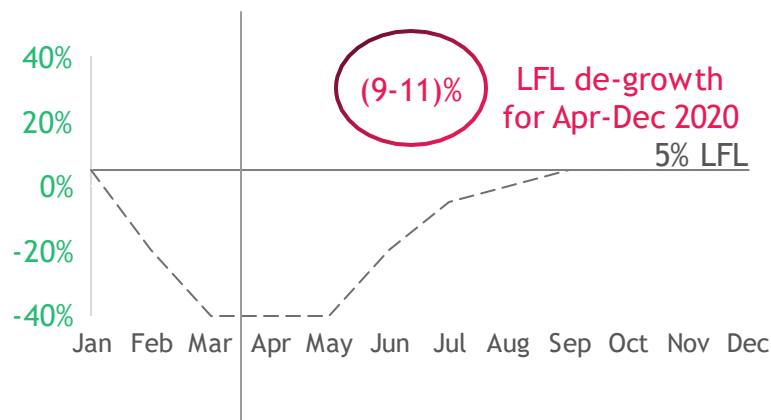
### Two potential Scenarios basis duration of impact (between 3-6 months)

Actual impact could be higher/ lower

Non-food retail could see significant impact over next 9 months

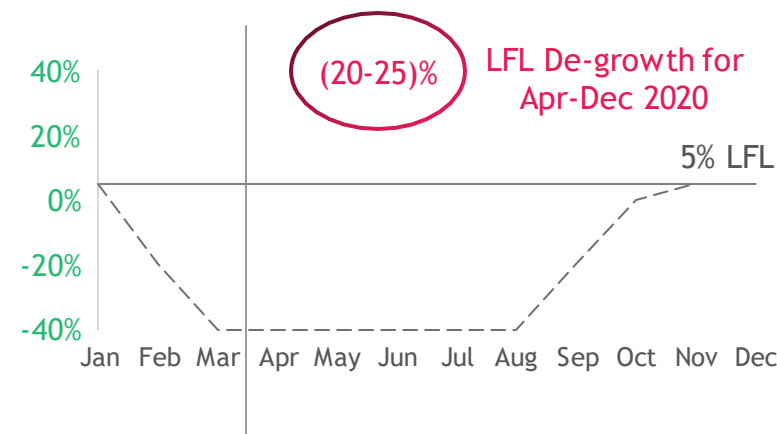
#### Scenario 1 (recovery post 3m)

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

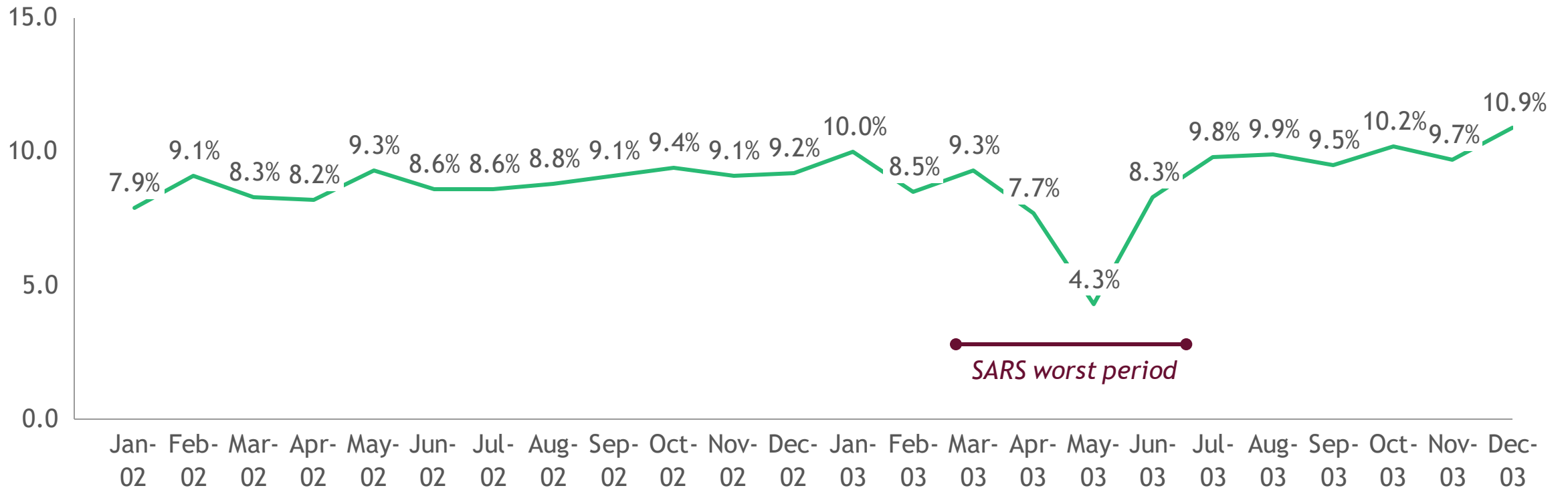


1. LFL projected basis Q1-Q3 FY 20 data for publicly listed fashion, footwear players  
2. Actual impact may be higher or lower, above are scenarios basis duration of impact

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

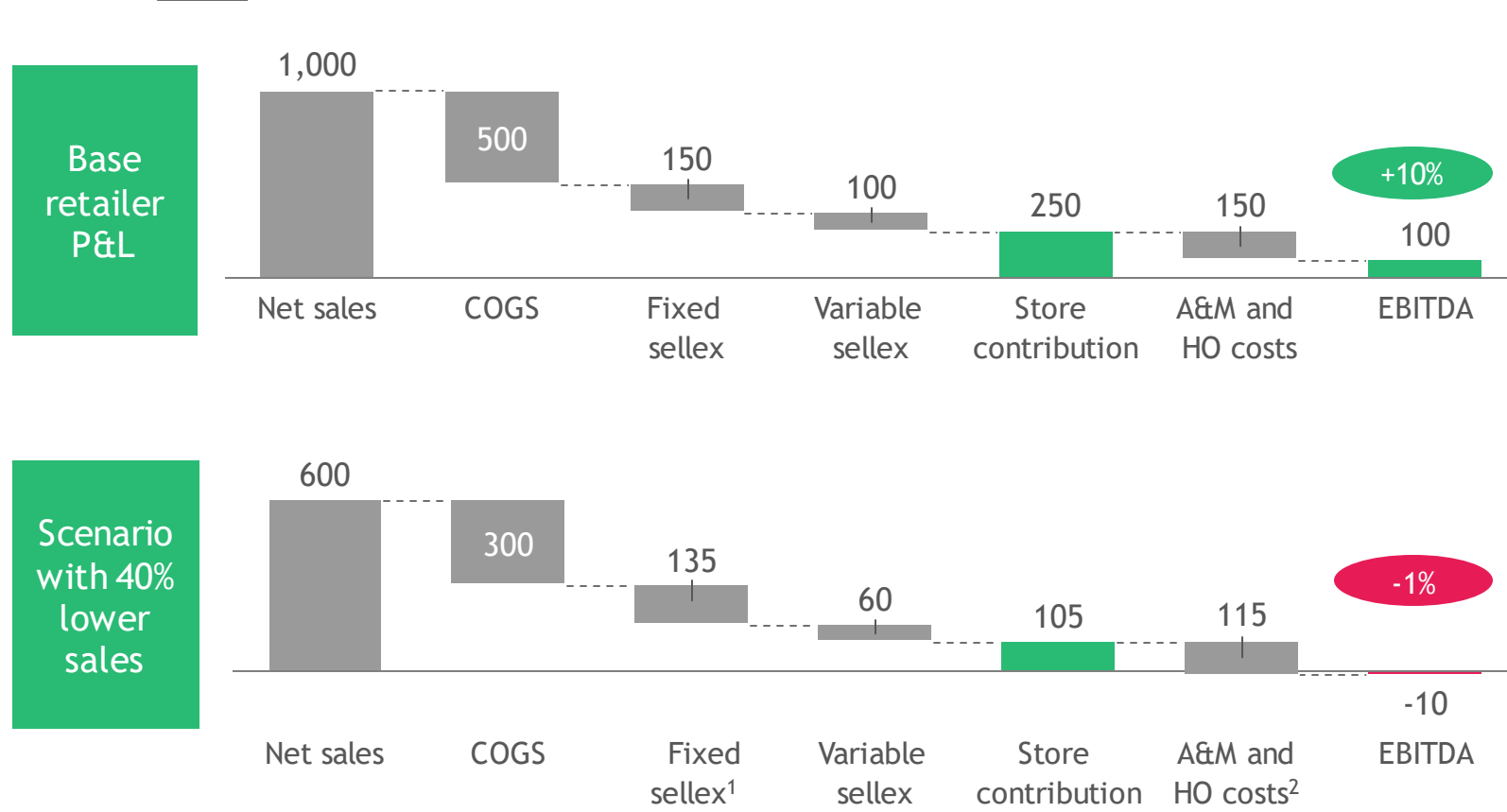
China retail sales month-on-month growth, 2002-2003



# Decline in sales due to COVID will have a debilitating impact on retailer profitability...

## Illustration - Apparel retailer

All # in INR Cr



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

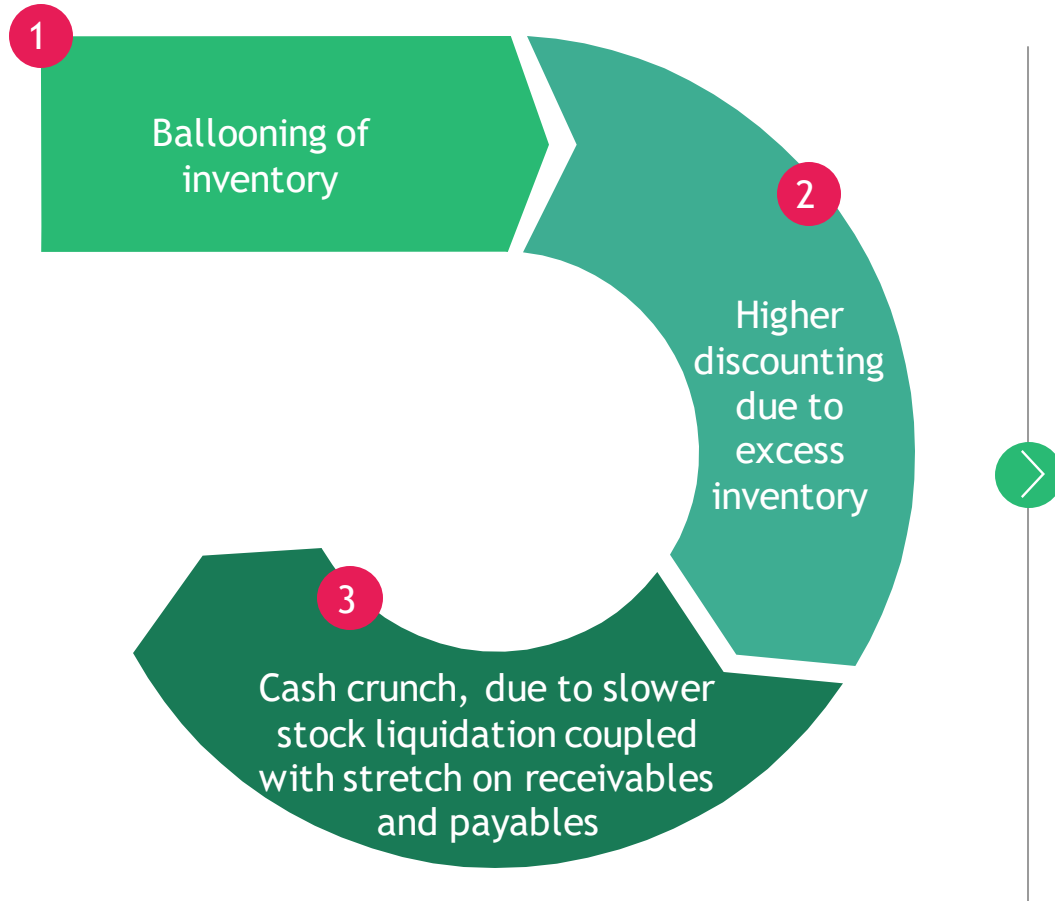
Impact on profitability significant with declining LFL sales

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

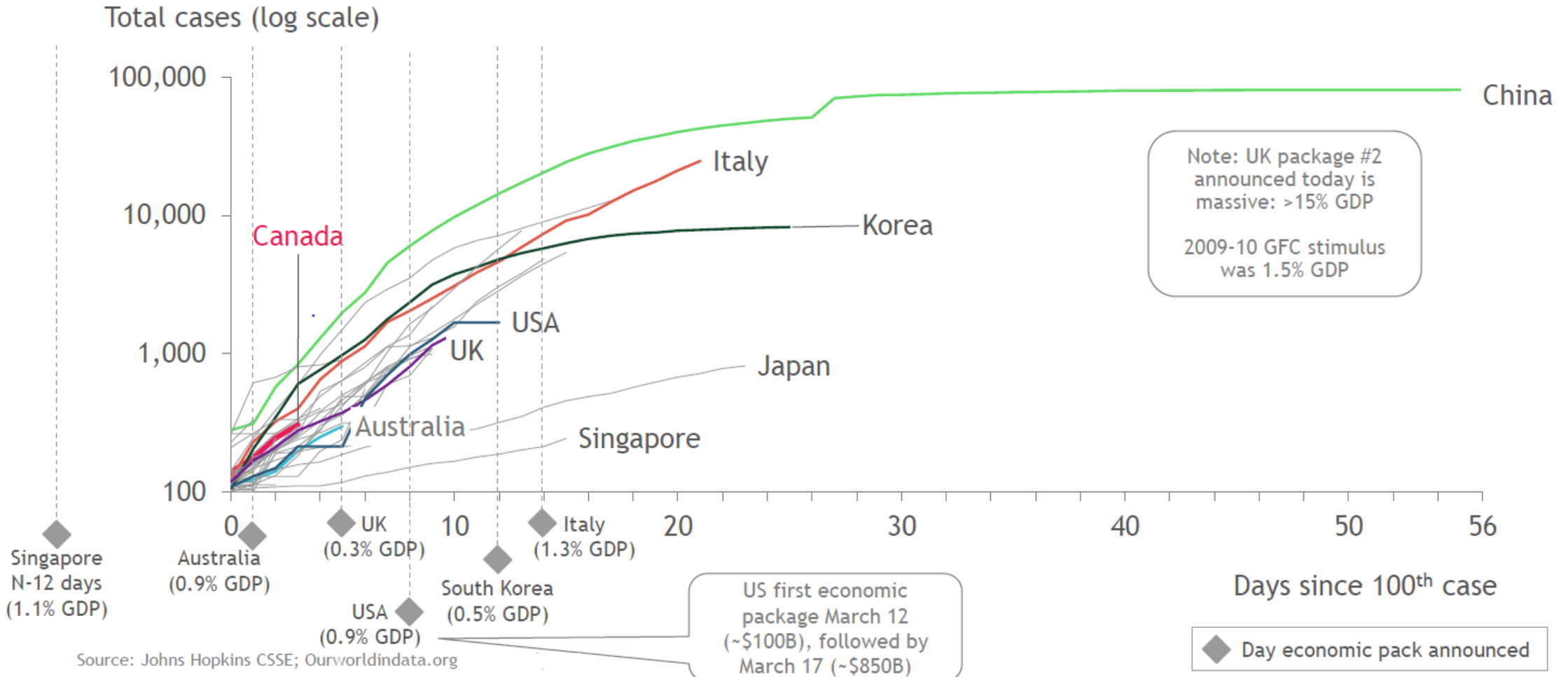


- 1 Ballooning of inventory**
  - Average inventory for a retailer likely to go up due to:
    - current season (Spring Summer) inventory lying in the stores + warehouse
    - next season (Autumn/ Festive) inventory ordered in advance, especially longer lead times
- 2 Higher discounting due to excess 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 100<sup>th</sup> case

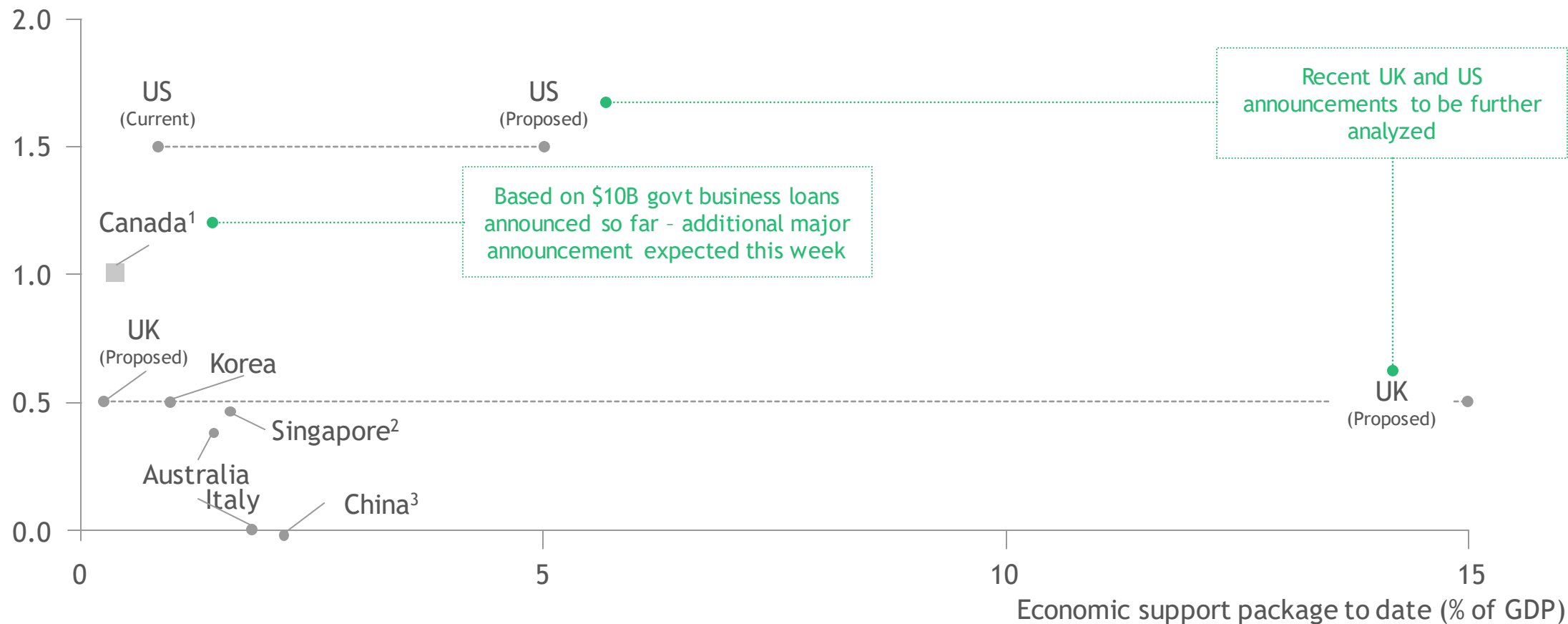
Cases by day since 100<sup>th</sup> case plus first major economic support announcements  
(Not including healthcare spending announcements)



Source: Johns Hopkins CSSE; Ourworldindata.org

# Governments globally have proposed economic programs ranging widely in size and fiscal/monetary mix

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


















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



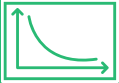



Below is a list of currently announced plans, could change over next few days

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

1. <https://www.investopedia.com/government-stimulus-efforts-to-fight-the-covid-19-crisis-4799723>. 2. <https://www.wsj.com/articles/chinas-stimulus-strategy-faces-new-test-in-coronavirus-11581616693>. 3. <https://www.investopedia.com/government-stimulus-efforts-to-fight-the-covid-19-crisis-4799723>. 4. <https://www.investopedia.com/government-stimulus-efforts-to-fight-the-covid-19-crisis-4799723>. 5. <https://www.straitstimes.com/singapore/singapore-budget-2020-4-billion-package-to-help-workers-and-businesses-cope-with>.



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

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

