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RETAIL SLUMP AHEAD

If industry players are to be believed, sales in the retail segment which had come down by a whopping 30% in the first half of the year is expected to drop further in the second half as well.

Already, leading firms such as Future group, Aditya Birla Retail, Reliance Retail, Planet Retail and Essar Retail have shut down unprofitable stores and changed their business strategies. Others, like Promart have been tweaking their business models and foraying into the franchising model to explore the growing potential of the industry.

According to Viren Shah, owner of the South Mumbai based multi brand store, Roopam, things are really bad for retail players. "In the first half we saw a significant drop in the sales in most of the retail outlets in the city. But we feel that the worse is yet to come. To sustain in such a sluggish market, retail players are cutting costs and have put all their expansion plans on hold," he says.

Shah explained that the reasons varied from rising inflation and bad economics to negative consumer sentiments. Mall owners, who had earlier refused to compromise on their rentals while dealing with retailers in a booming market a couple years ago, are presently doling out huge incentive to the same retail players now.

While confirming the move, Surjit Rajpurohit, director (Business Strategy) of Neptune Magnet mall, revealed that the volume of sales have come down drastically in the last two quarters.

"To attract more retail players, we are offering a 3 month trail rent free period. We have also relaxed the lock-in period and notice period for our partners. The deposit money that they have to keep with us is also being slashed to a great extent. Some of our partners have been exempted from giving the mandatory minimum sales figures, as was the practice earlier," he explains.

It may be known that earlier retailers sealed leases for seven years, but now

Things are expected to go from bad to worse for the retail industry, which is already bleeding heavily due to the various maladies hurting the economy, reports Mayura Shanbaug after doing a reality check at the ground level of the sector



Continued on pg 14 «

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Continued from pg 13 «

they are looking at a band of six to twelve months.

To increase the footfalls to sales ratio, the company has come out with a number of incentives which range from discounts, free gifts and end of season special schemes, he adds.

According to Rajpurohit, in segments like the apparel and jewellery segment, sales have dropped nearly 30%. "We are banking on the festive season to revive our sale figures now," he points out. However he states that food and entertainment segment was not impacted majorly this year.

Incidentally, a recent report by retail consultancy firm, Cushman & Wakefield points to the huge levels of vacant space in Malls across the country. The report revealed that the average vacancy in the country amounted to around 19.6%. Ahmedabad has topped the list of cities with maximum vacant space in their shopping malls. Between April and June 2012, the overall mall vacancy in Ahmedabad stood at 34%, which is the highest in the country. Ahmedabad is followed by two major retail destinations — National Capital Region and Pune — both of which have vacancies of over 25% in their respective malls. Meanwhile Bangalore witnessed a vacancy level of 12.6%. Mumbai malls fortunately were on a better footing, with vacancies measuring around 10%.

Another reason premium malls are reeling under pressure is because they have kept at least 50% of their rental space vacant in anticipation of single-brand retailers rushing into the country, post the FDI policy allowing single brand retail.

According to the report, Mall owners too are deferring their supply commitments to cut down on their losses. The report revealed that on an average there has been a 30% drop in the supply commitment by mall owners.

NCR in the capital was leading in the deferment with a whopping 80% delay in the mall supply space. Fresh mall supply for H1 2012 stood at 2.27 million sq. ft. (msf) they were to add in the first half of this year (January-June) even as the retail trade took a hit from slowing economic growth. Approximately one million sq.ft of expected mall supply was deferred to second half of the year or next year.

NCR saw only 120,000 sq.ft of mall supply in Q1 and no supply in Q2 2012.

Bangalore witnessed the highest mall supply of 1.5 million sq. ft. (msf) in H1 2012.

Chalking out the reasons for the slow-down in the retail space, Amnish Aggarwal, a Mumbai based retail analyst states that factors like less than average Monsoons would result in higher inflation in the coming quarters, which would adversely affect the consumers sentiments further. "The last nine months were bad for the sector. I think the mall owners and retailers would have to extend the discount season in the coming months as well, if they wish to sustain the bad phase," he says.

"I don't see any major change in the consumer sentiments in the coming days and company results are not expected to be encouraging. We certainly don't foresee any double digit growth in any of the retail segments for a long time now," he adds.

Aggarwal forecasted a 15 to 20% drop in segments like the watch and jewellery segments. "Segments like clothing, electronic and white goods are expected to suffer the most and can slip into negative territory," he adds.

According to the Report, rental values across most mall destinations within these cities remained largely stable, except for certain micro markets in Bengaluru, NCR, Kolkata and Mumbai where mall rentals have seen a growth over the previous quarter in the range of 2-13%. Elgin Road in Kolkata recorded the highest growth in mall rents at 12.4% over last quarter mostly owing to renewals of existing tenants at a higher value.

Mumbai's retail market remained stable with both High Streets and Malls space rentals unchanged over the previous quarter. No new addition to mall space and limited leasing activities on High Street was largely due to unavailability of quality retail space within the city. The only micro market to record an increase in rental values was Vashi (7%) for malls, where a churn in the existing malls led to an upward recalibration of rental values. Going forward the latent retail interest for the city is expected to remain high and retailers will be keen on having both High Street as well as mall presence.

However there seems to be hope and not every body is pessimistic. Says Punit Agarwal, CEO Promart Retail "The Indian economy is facing stagflation, where growth is slow and inflation is high. The purchasing power has gone down considerably, with the slumping rupee. But, the

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Amnish Aggarwal,
Mumbai based Retail Analyst



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Punit Agarwal,
CEO Promart Retail

retail sector in India is estimated to have annual sales of USD 450 billion, with organized retail, or large chains, making up about 10% of the market, but is expanding at 20% a year. The franchisee market has seen an exponential growth and is growing by leaps and bounds presently with the annual growth rate pegged at 35%.

According to him "the market size of this thriving industry is US \$ 7.2 billion US dollars and by experts projections; it is expected to grow to US \$20 billion in this decade." So perhaps this is a short term aberration.