Business Standard

The Loot rejigs biz to scrape through fund crunch

Raghavendra Kamath / Mumbai December 15, 2011, 0:37 IST

An acute fund cruch has led the Loot to restructure its operations, as the deep discount chain is seeking ways to survive a drop in sales and rise in operating costs.

The shortage of funds has forced the entity to delay salaries to its staff by two months. What's more, at least a fifth of its front-end staff has quit the company in the last couple of months, according to two insiders who are aware of development. One of them said the seven-year-old chain was looking to raise funds from private equity players and sell stakes in the business, but that has "not happened yet".

The Loot, which did a business of Rs 117 crore and a profit after tax of nearly three per cent on sales in FY 2011, was looking at a sales of Rs 150 crore in FY 2012. Now, Jay Gupta, the chains' young founder and managing director, says the chain is likely to see a 20-25 per cent drop in its FY 2012 sales. Will it make losses then? "I would not be able to comment. If Decemeber and January goes well, then you can see a turnaround also."

Gupta admits that the Loot was going through a "rough patch" — like most of other retailers. "The salaries are delayed, but only by a month," he claims. "We are fighting it out. It is a matter of time before we comes out of it."

Further, the the 35-year-old boss claims that the chain had suppliers' dues of only Rs 3 crore to Rs 4 crore and a debt of only Rs 30-odd crore, making it one of the "better discount chains" in the country. "We may have sacrificed growth, but we have lower liabilities," Gupta adds. He also denies that so many of the staff had left the chain. Gupta says overall sales were down 25 to 30 per cent down. "The April-to-June period was very bad. Diwali was not good. Sales have dropped after that," he notes. "We are doing various things to cut down costs and survive the market."

The chain, which runs 100-odd stores, has closed some eight of them in the last six months. For, they were not making money. Prior to that, it had closed 15 stores in the last one year to stop losses in those stores. Gupta, who wanted to open 30 new stores by December 2011, does not now think he will open so many. The chain is going slow on expansion to save money.

He says the chain is closing the one odd store in cities; instead is focusing on Mumbai, Pune and Bangalore that have a chunk of its stores. This is for better efficiencies in logistics and inventory management and opting for franchisees in others.

The chain is also focusing on stores with 1,000 to 1,500 sq ft, rather than smaller stores of 200-500 sq ft for better communication, where shoppers themselves can move around and pick up merchandise themselves. " Earlier," recalls Gupta, "we used to have 7 to 8 staff, now we have 4 to 5 staff which help in cutting manpower costs."

The company has cut down on orders by 50 per cent to keep the inventory levels low. "An increase in excise duties and costs has pushed up the prices. But customers do not want to spend money now," he notes. "They want heavy discounts and even want goods free. We can not give them that. So, we buy to the extent of lowest of our requirement."

The company has also set up a warehouse in Worli here to cater to its 30-0dd stores in the metro, so that it can deliver goods whenever stores need that.

The chain has also opted for hanging its merchandise in its stores rather than stacking them on the shelves. By doing so, it is doing a saving of 50 per cent. Earlier, when it was, stacking them, the Loot used to stock 7,000 to 8,000 pieces of apparel, but now it has brought it down to around 4,000 pieces. "It also helps in better communication to customers," Gupta adds.

The big picture in the segment isn't, anyway, rosy. Discount retailer Koutons is laden with a debt of Rs 600 crore, and is undergoing a corporate debt restructuring process. Cantabil, another Delhi-based discount retailer, shut over 100 loss-making stores over the past year to stem losses.

The ways out seem tough. Shop4Solutions says discount retailing is a difficult model to follow. "Brands put more inventory than you can handle -- and pressurise you to clear it," notes Jai Subramaniam, co-founder and director of the retail advisory firm. "When inventory piles up, debt also piles up."

Adds Susil Dungarwal, founder of Beyond Squarefeet, a mall management firm: "True, there is nothing wrong with the model, but they could not manage the growth well. (The Loot's) Gupta should have delegated authority to others and brought in professionals to manage the business.