New debt rules hurt sales, says retailer

By Colleen Goko

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Clothing retailer The Foschini Group (TFG) has slammed portions of the National Credit Regulator's new affordability regulations, saying they have already severely affected its credit turnover.

Doug Murray, CEO of Foschini.

Picture: Financial Mail

CEO Doug Murray also said on Thursday that parts of the new affordability regulations "add no value" and could have unintended consequences for consumers.

The retailer said the regulations, which ask consumers to provide credit providers with three months' worth of payslips or bank statements, have severely affected the group's credit turnover.

In the six months to end September, TFG reported credit turnover growth of only 1.4%. The estimated cost for the period was about R310m.

"The requirement for proof of income is unnecessary," said Murray.

"All the tests we have done have shown us that it adds no value. We have always been responsible in extending credit.

"What the new regulations mean is that consumers who can't get from us are forced to find credit from other less responsible lenders," he said.

TFG, along with Truworths and Mr Price Group, have initiated legal action against the regulator and Department of Trade and Industry. The retailers are seeking an order from the court to set aside and declare "unlawful and constitutionally invalid" parts of the affordability assessment regulations.

TFG said the group would be heavily dependent on Christmas trading, which would largely determine the company's performance for the full year.

It could be a less than jolly festive season.

According to financial services company Credit Guarantee, tighter lending standards and households' waning appetite for credit implied a decline in the contribution of credit to Christmas sales.

IG market analyst Shaun Murison said conditions in the apparel retail sector remained challenging. Consumers were balancing high levels of debt against what had been a rising interest rate environment.

"It should also be noted that new international retailers having arrived in the country are adding to what is an already competitive landscape," said Murison.

Murray said while he could not say what the group's forecasts for the holiday season were, TFG was geared up.

Forecasting was "like looking into a crystal ball. We can't do that. We've been pretty consistent in sales in the past seasons. But that is all dependent on what we get from government, consumer confidence, ratings agencies.... But as a business we are ready," Murray said.

In the period under review, TFG reported headline earnings per share of 496.8c, up 5.7% from a year earlier. Group turnover rose 16.9% to R11.4bn, while operating profit increased 8.2% to R1.7bn. TFG declared an interim dividend of 320c per share, an increase of 4.6% compared with the prior year.

Turnover from TFG Africa (all its African operations) grew 9.5%, with comparable sales growth of 2.1%. The international division, which comprises UK chains Whistles and Phase Eight, reported earnings growth of 48% in pounds for the period.

Source: Business Day