

Metro Brands Ltd

Recommendation	Subscribe for Long Term
Price Band	Rs 485-500
Bidding Date	10-14 December
Book Running Lead Manager	Axis, Ambit, DAM Cap, Equirus, ICICI Sec., Motilal Oswal
Registrar	LinkTime
Sector	Footwear

Minimum Retail Application – Details at Cut off Price		
Number of Shares	30	
Application Money	15000	
Discount to retail	NIL	
Payment Mode	ASBA, UPI	
Consolidated Financials (Rs Cr)	FY20	FY21
Total Income	1,285	800
EBITDA	353	172
PAT	161	65
Valuations*	Lower Band	Upper Band
Market Cap (Rs cr)	13165	13572
EPS	2.4	2.4
BV/share	9	9
P/BV	53.9	55.5
PE	203.7	210.0

*FY21 numbers, diluted equity

Post Issue Shareholding Pattern	
Promoters	74.3%
Public	25.7%

Offer structure for different categories	
QIB (Including Mutual Fund)	50%
Non-Institutional	15%
Retail	35%
Post Issue Equity Capital (Rs cr)	135.7
Issue Size (Rs cr)	1327-1368
Face Value (Rs)	5

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BACKGROUND

Company Overview

Metro Brands Ltd (MBL) is one of the largest Indian footwear specialty retailers, having brands that are among the aspirational Indian brands in the footwear category. As of September 30, 2021, the Company operated 598 Stores across 136 cities spread across 30 states and union territories in India. MBL retail footwear under its own brands of Metro, Mochi, Walkway, Da Vinci and J. Fontini, as well as certain third-party brands such as Crocs, Skechers, Clarks, Florsheim, and Fitflop, which complement its in-house brands. MBL also offer accessories such as belts, bags, socks, masks and wallets, at its stores.

Objects of the Issue

The issue of Rs 1368 cr includes offer for sale of Rs 1073 cr and Rs 295 cr fresh issue which would be utilized for (a) Expansion of 260 stores over 3 years (b) general corporate purposes

Investment Rationale

- One of India's largest pan India footwear retailers with a brand appeal among aspirational consumer segments
- Wide range of brands and products catering to all occasions across age groups and market segments
- Presence across multiple formats and channels
- Asset light business with an efficient operating model leading to sustained profitable growth
- Strong track record of growth, profitability and financial discipline

Valuation and Recommendation

Metro Brand has a legacy of 65+ years behind it and has created a brand for itself. The management has built a winning formula across different formats. The management is looking to open 260 stores in next 3 yrs. MBL has grown at CAGR of 16-17% in last 10 years. MBL has one of the best and consistent EBITDA margins among the listed peers and highest realization per unit. We believe this is owing to its asset light model and focus on the customer nerve by keeping close track of consumer preferences. Due to pandemic, the industry has opened up much more growth opportunities like transition from large unorganized segment to organized players, many acquisition prospects, e-commerce expansion etc. We expect MBL to continue the growth momentum, given above set-up in addition to tying up with third party brands like FitFlops. **We recommend "Subscribe for long term"**.

Financial Snapshot	FY19	FY20	FY21	H2FY22
Revenues	1217	1285	800	456
%growth			-38%	158%
EBITDA	336	353	172	111
% Margins	27.6%	27.4%	21.4%	24.4%
Adj. PAT	153	161	65	43
EV/EBITDA @ Rs 500		38.5	78.6	30.2
PE @ Rs 500		84.5	210.0	78.8
P/BV @ Rs 500		16.3	16.0	15.8

*Annualised

Metro Brands Ltd

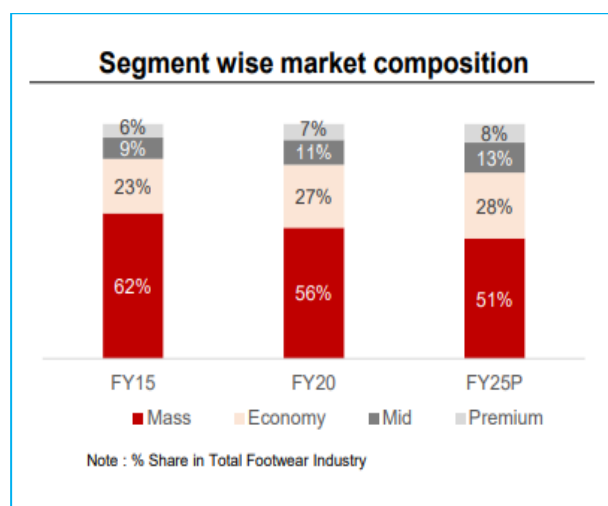
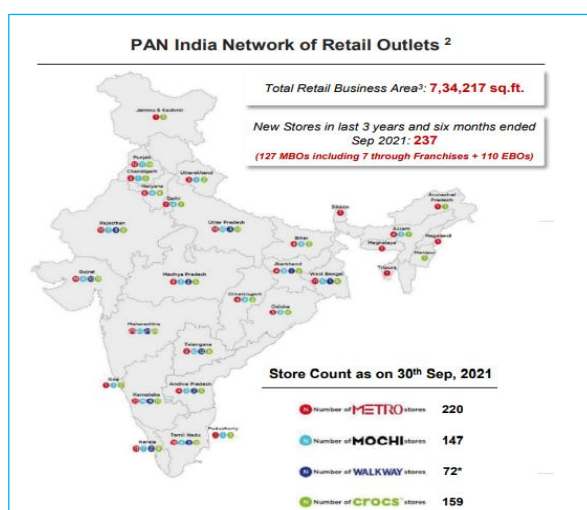
Company Overview

Metro Brands Ltd (MBL) is one of the largest Indian footwear specialty retailers, having brands that among the aspirational Indian brands in the footwear category. The brand opened its first store under the Metro brand in Mumbai in 1955, and has since evolved into a one-stop shop for all footwear needs, by retailing a wide range of branded products for the entire family including men, women, unisex and kids, and for every occasion including casual and formal events.

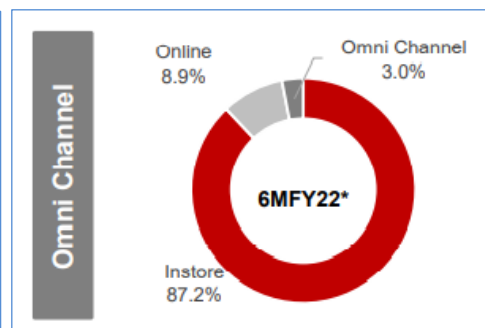
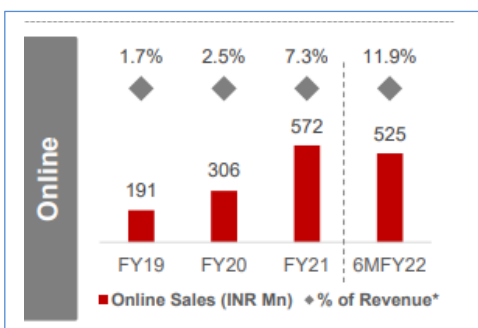
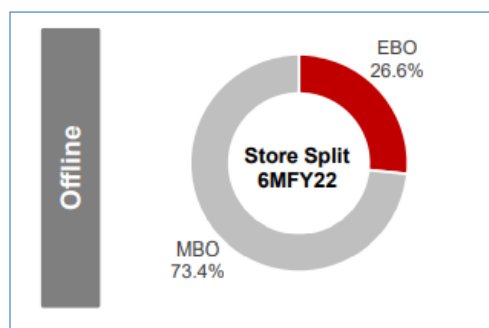
As of September 30, 2021, the Company operated 598 Stores across 136 cities spread across 30 states and union territories in India. It targets the economy, mid and premium segments in the footwear market.

MBL retail footwear under its own brands of Metro, Mochi, Walkway, Da Vinci and J. Fontini, as well as certain third-party brands such as Crocs, Skechers, Clarks, Florsheim, and Fitflop, which complement its in-house brands.

MBL also offer accessories such as belts, bags, socks, masks and wallets, at its stores. The company also retail footcare and shoe-care products at its stores through its joint venture, M.V. Shoe Care Private Limited, making it a 'one-stop-shop' for all footwear and related accessories to the customers.



Metro Brands primarily follow the “company owned and company operated” (“COCO”) model of retailing through its own Multi Brand Outlets (“MBOs”) and Exclusive Brand Outlets (“EBOs”). The Company and its Subsidiary Metmill also operate shop-in-shops (“SIS”) in major departmental stores across India. It also distributes products of third-party brands through MetMill and retail products through franchisees. In addition to the physical Stores, it provides an omni-channel experience to customers through its websites, various online marketplaces, as well as, social media platforms.



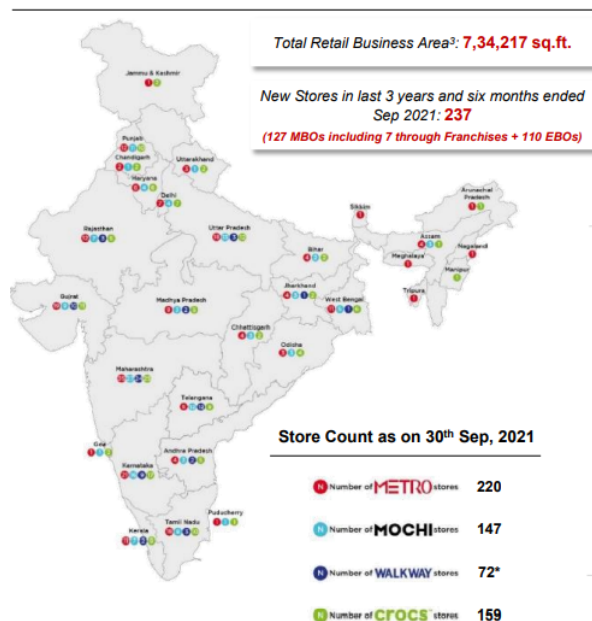
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Investment Rationale

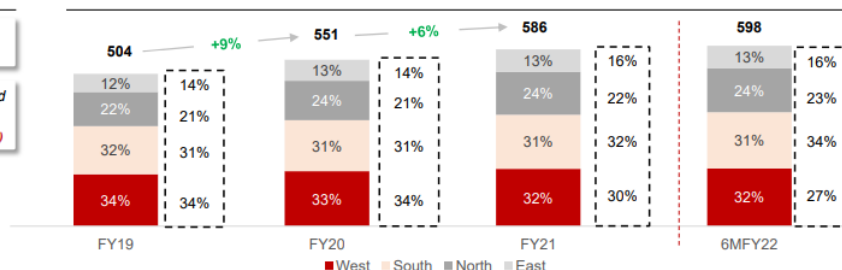
One of India's largest pan India footwear retailers with a brand appeal among aspirational consumer segments

Metro Brands is one of the largest Indian footwear specialty retailers, and has brands that are among the aspirational Indian brands in the footwear category. The company has the third highest number of exclusive retail outlets in India in FY21. As of September 30, 2021, it had a pan-India presence through 598 Stores (across Metro, Mochi and Walkway branded MBOs, Crocs™ branded EBOs, and Walkway franchisees and SIS) located in 136 cities spread across 30 states and union territories in India, operated by the Company. The operations are well-spread across metro cities, tier I, II and III cities and towns, and across all four zones of India.

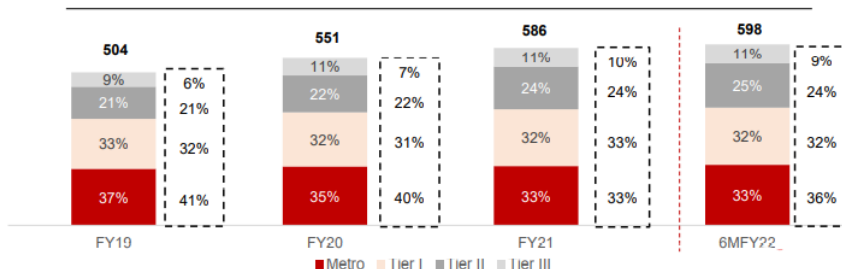
PAN India Network of Retail Outlets²



...with diversified presence across regions²



Increasing presence in Tier II and Tier III cities²



Metro Brands Ltd

Wide range of brands and products catering to all occasions across age groups and market segments

Across its various brands, MBL has become a one-stop-shop family retailer catering to the footwear needs of men, women and children for different occasions including casual and formal events. Metro has built a reputation for style, quality, comfort, innovation and affordability. The wide range of brands allows the company to operate across the economy, mid and premium segments.

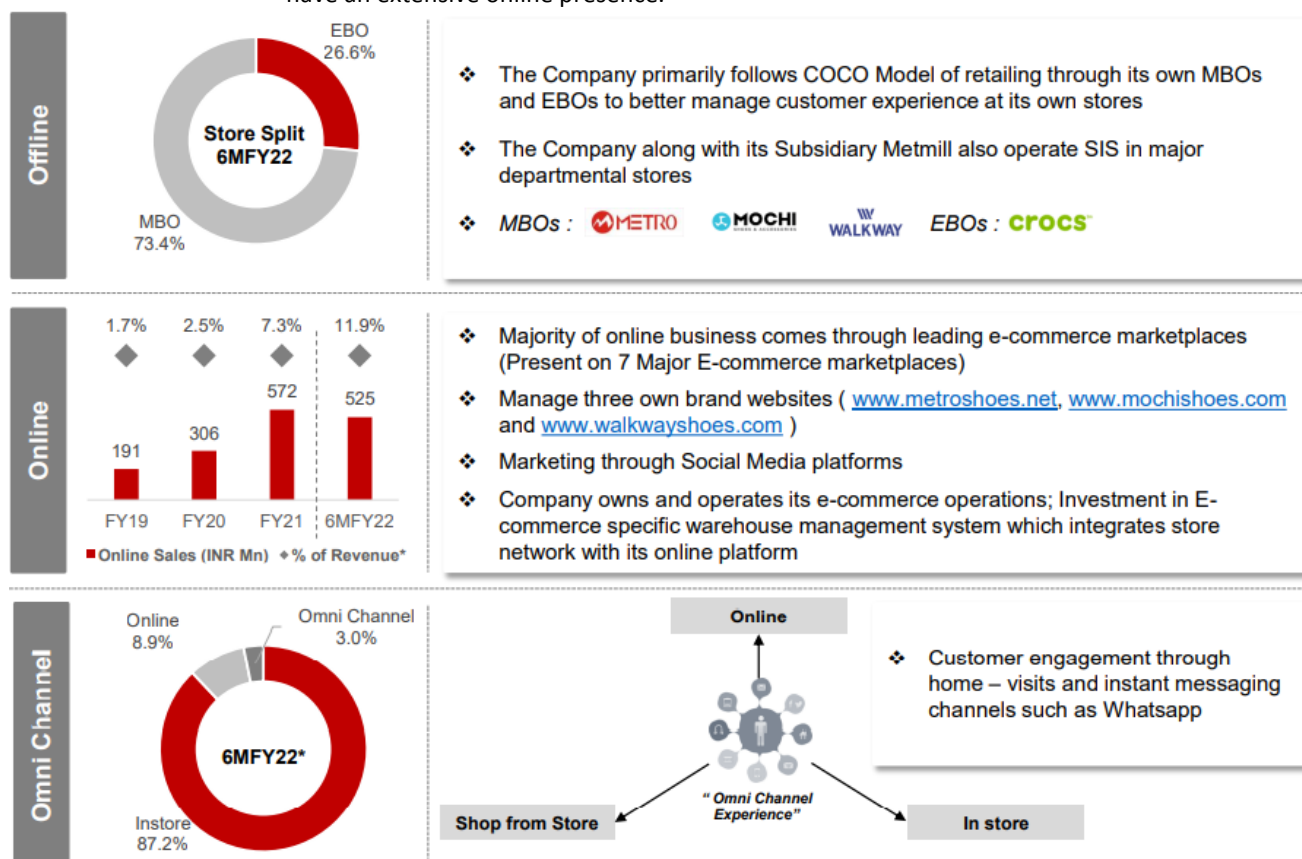
	Fiscal						Six Months ended September 30,			
	2019		2020		2021		2020		2021	
	Amount (₹ million)	% of Total Store Product Sales	Amount (₹ million)	% of Total Store Product Sales	Amount (₹ million)	% of Total Store Product Sales	Amount (₹ million)	% of Total Store Product Sales	Amount (₹ million)	% of Total Store Product Sales
By Target Customer										
Men	4,616.99	40.98%	4,498.54	38.46%	2,800.54	38.17%	570.85	36.25%	1,396.15	35.14%
Women	4,499.96	39.94%	4,785.83	40.91%	2,827.62	38.54%	586.26	37.22%	1,592.86	40.09%
Unisex	633.88	5.63%	785.87	6.72%	675.34	9.20%	207.58	13.18%	433.87	10.92%
Kids	461.96	4.10%	552.47	4.72%	356.61	4.86%	75.87	4.82%	164.13	4.13%
Accessories	1,054.01	9.35%	1,074.56	9.19%	677.24	9.23%	134.33	8.53%	386.11	9.72%
Total Store Product Sales *	11,266.80	100.00%	11,697.27	100.00%	7,337.35	100.00%	1,574.89	100.00%	3,973.12	100.00%
By Price Range ⁽¹⁾										
Below ₹ 500	589.40	5.23%	566.05	4.85%	377.56	5.14%	82.69	5.25%	175.30	4.41%
From ₹ 501 to ₹ 1,500	2,165.27	19.22%	2,009.86	17.18%	1,096.04	14.94%	251.68	15.98%	568.89	14.32%
From ₹ 1,501 to ₹ 3,000	4,857.43	43.11%	5,168.34	44.18%	3,193.03	43.52%	694.72	44.11%	1,782.57	44.87%
Above ₹ 3,001	3,654.70	32.44%	3,953.02	33.79%	2,670.72	36.40%	545.80	34.66%	1,446.36	36.40%
Total Store Product Sales *	11,266.80	100.00%	11,697.27	100.00%	7,337.35	100.00%	1,574.89	100.00%	3,973.12	100.00%

The core consumers are attracted to the aspirational brand image, fashion-forward designs and affordable product range. Many of the core styles are also targeted at the premium segment of the customer base.

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Presence across multiple formats and channels

MBL owns and operates stores of both MBO and EBO formats. It operates a broad retail distribution set-up that is complemented by scalable e-commerce capabilities including through tie-ups with select commercial partners. Further, it also engages distributors and has SIS in major departmental stores. The company operates websites for its various brands and have an extensive online presence.

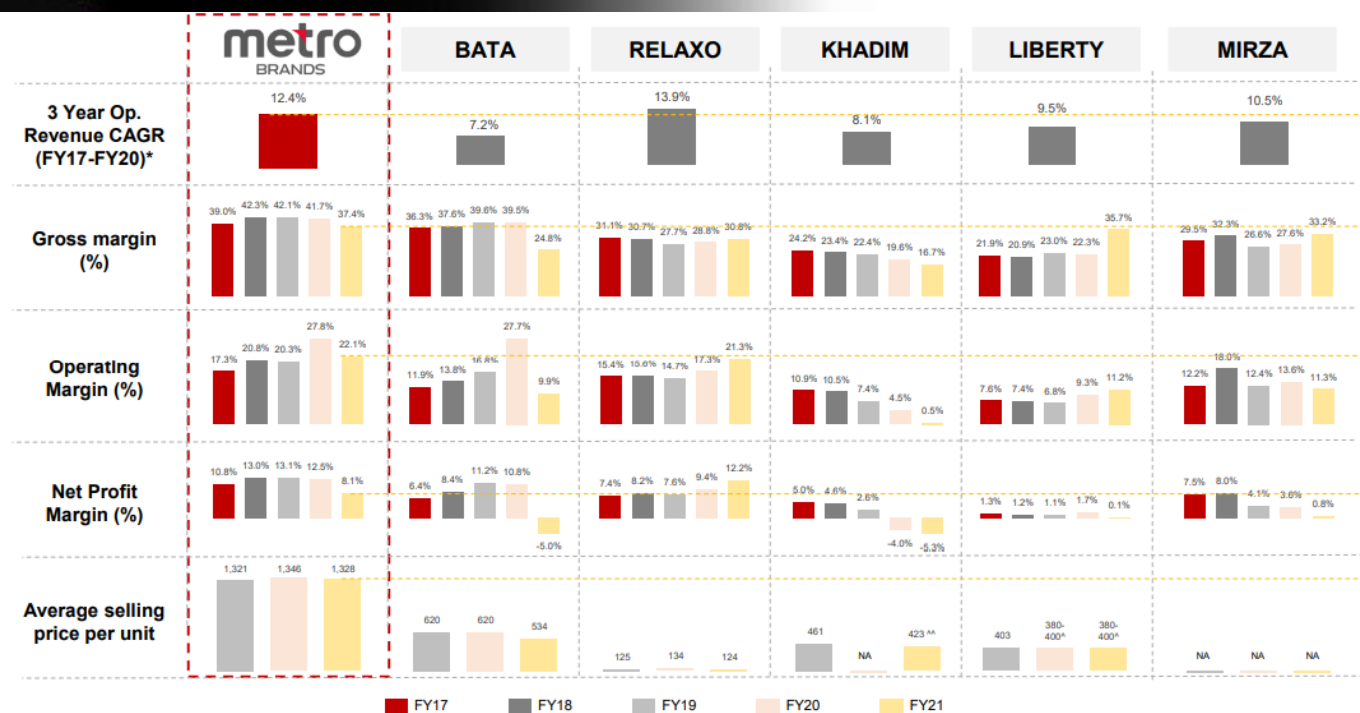


Asset light business with an efficient operating model leading to sustained profitable growth

The asset light model is based on third-party manufacturing by long-standing vendor relationships, and supported by active brand portfolio management, optimum store size and layout, and long-term lease arrangements. Owing to the scale of operations and strong supplier network, it is able to leverage better margins with vendors and enter into arrangements with third-party brands on terms favorable to them. For instance, under most of the arrangements for third-party brands, it is required to pay for products only once these products are sold; and under certain arrangements, it can also entitle to return ageing inventory to the brand owner, thereby limiting the inventory risk.

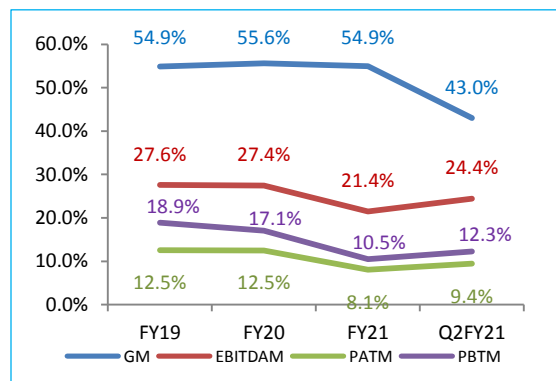
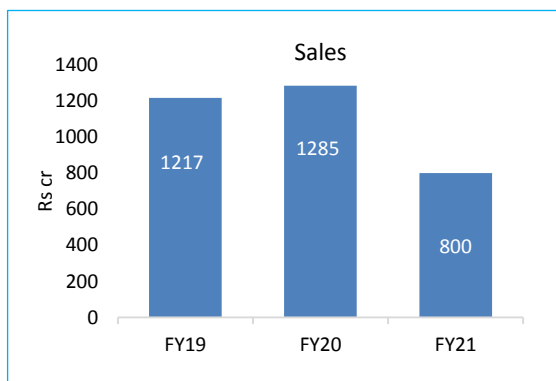
The company operates the stores based on variable cost structures in terms of lease rentals and employee expenses. The compensation of the store managers includes a significant variable pay for performance component to incentivize them by following an entrepreneurial model of operations at an individual store-level. The variable component of the store-level employee remuneration is pegged to store-level sales to contain volatility of store-level margins. We believe MBL's asset light model, relatively low capital expenditure and optimized operating expenses, has enabled it to sustain profitable growth.

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Strong track record of growth, profitability and financial discipline

Due to asset light model and tight control on the fixed costs, the company has proven track record of healthy profitability. The company has end of season sales twice in a year to off-load its slow moving inventory. Despite this, the discounted sales accounts for mere 9% of overall sales. The business has high cash flows due to which it's a debt free company. It has net working cycle of ~60 days (FY21) as MBL has strong relationships with vendors and enjoys high payables days.



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Risks and Concerns

- Higher competition from online players:** The growth of online retailers may create pricing pressures, increase competition, and adversely affect the business, results of operations and financial condition. For instance, e-tailers that exclusively have only an online presence and no physical presence, may be able to price their products lower by leveraging on their asset light model, while introducing newer products and maintaining quality control.
- Uncertainty pertaining to third wave:** There is an overall uncertainty related to third wave of covid which might led to temporary or permanent stores closure, reduced footfalls. This would impact the sales growth as well as profitability, as it was seen in FY21.

Valuation and Recommendation

The Indian footwear industry has witnessed increase in activity over the last few years, with the changing consumer attitude towards footwear. Shoes, initially positioned as a value purchase, are now transcending into a lifestyle purchase. The Indian footwear consumption in value terms is expected to grow at a CAGR of 15% to 17% between FY22-25. Growth is estimated to be driven by value, with ASP of footwear expected to increase by a CAGR of around 5% to 7% between same period, driven by an overall shift in preference for premium categories of footwear. This is also expected to drive growth of the market share of organized players by a CAGR of approximately 20% to 22% in the same period. Organized retail penetration (ORP) is likely to reach approximately 16% in FY25 from 12% in FY20 owing to urban consumers moving up the economic ladder, increasing preference for branded products, and the youth becoming more aspirational. Further, GST is also likely to drive market share gains for organized players, as tax arbitrage which used to help unorganized has been reduced. On the supply side, store expansions by existing players and entry of new players would support growth.

The company has opened 237 stores in last 3.5 yrs whereas closed 58 due to pandemic. Here onwards, the management is looking to open 260 stores in next 3 yrs spread across its 4 formats. The company has tied up with third party brands like Crocs and recently with FitFlop, which has augured well for the overall growth of the company. MBL has grown at CAGR of 16-17% in last 10 years. Q2FY22 growth looks high due to low base. MBL has one of the best and consistent EBITDA margins among the listed peers and highest realization per unit. We believe this is owing to its asset light model and focus on the customer nerve by keeping close track of consumer preferences.

	Metro		Bata		Relaxo		Khadim	
	FY20	FY21	FY20	FY21	FY20	FY21	FY20	FY21
Revenue - Rs cr	1285	800	3056	1708	2410	2359	772	626
Growth	6%	-38%	4%	-44%	5%	-2%	-3%	-19%
EBITDA margins	27.4%	21.4%	27.2%	9.5%	17.0%	21.0%	3.9%	0.5%
PBT Margins	17.1%	10.5%	15.9%	-6.6%	12.1%	16.6%	-4.4%	-6.9%
PAT Margins	12.5%	8.1%	10.8%	-5.2%	9.4%	12.4%	-4.1%	-5.3%
ROE	19.3%	7.6%	17.4%	-5.1%	17.8%	18.5%	-13.4%	-16.4%
PE	85	210	77	-285	142	111	-15	-14
EV/Sales	10.5	16.9	8.3	14.9	13.4	13.7	0.8	1.0
EV/EBITDA	38.4	79.0	30.6	156.8	79.0	65.2	19.6	176.7

Metro Brand has a legacy of 65+ years behind it and has created a brand for itself. The management has built a winning formula across different formats. The company has also evolved through times and adapted well to the changing world. Due to pandemic, the industry has opened up much more growth opportunities like transition from large unorganized segment to organized players, many acquisition prospects, e-commerce expansion etc. We expect MBL to continue the growth momentum, given above set-up in addition to tying up with third party brands like FitFlops. We recommend **"Subscribe for Long Term"**.

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FINANCIALS

P&L (Rs. Cr)	FY19	FY20	FY21	Q2FY22	Q2FY21	Balance Sheet (Rs. Cr)	FY19	FY20	FY21	Q2FY22	Q2FY21
Net Revenue	1,217	1,285	800	456	177	Share Capital	133	133	133	133	133
% Growth		6%	-38%	158%		Reserve & Surplus	517	675	695	707	597
COGS	549	571	360	196	88	Non Controlling Int	20	23	20	21	20
GM %	54.9%	55.6%	54.9%	57.0%	49.9%	Networth	669	831	847	861	750
Employee Cost	112	127	103	53	48	Total Loans	10	12	1	1	7
% of Revenues	9.2%	9.9%	12.8%	11.5%	27.4%	Lease Liabilities	415	538	565	601	512
Other expenses	220	235	165	96	52	Trade payable	194	201	205	236	171
% of Revenues	18.1%	18.3%	20.7%	21.0%	29.4%	Other Current Liab	31	33	39	39	29
EBITDA	336	353	172	111	(12)	Total provisions	3	3	1	2	3
EBITDA Margin	27.6%	27.4%	21.4%	24.4%	-6.6%	Total Current Liab.	228	238	245	276	202
					-	Total Equity & Liab.	1,322	1,617	1,659	1,740	1,471
Depreciation	94	121	122	65	62	Fixed Assets & CWIP	227	239	229	233	228
Other Income	20	26	78	33	52	Right of use assets	370	482	500	526	450
Interest	34	40	44	24	22	Invsts in JV	7	8	7	7	6
Share of JV	2	1	(1)	(0)	(2)	Investments	203	340	392	328	294
Exceptional gain	-	-	-	-	-	Other non Curr. assets	52	57	66	80	57
PBT	230	219	84	56	(46)	Cash	12	10	26	19	10
Tax	77	59	19	13	(3)	Bank Balance	1	0	62	77	15
Tax rate	33%	27%	23%	23%	6%	Inventories	365	376	290	339	311
PAT	153	161	65	43	(43)	Debtors	52	70	51	70	70
% Growth						Other Current assets	34	34	99	138	44
EPS (Post Issue)	5.6	5.9	2.4	1.6	(1.6)	Total Assets	1,322	1,617	1,659	1,740	1,471
Performance Ratios	FY19	FY20	FY21	Q2FY22	Q2FY21	Cash Flow (Rs. Cr)	FY19	FY20	FY21	Q2FY22	Q2FY21
EBITDA Margin (%)	27.6%	27.4%	21.4%	24.4%	-6.6%	EBITDA	336	353	172	111	(12)
PAT Margin (%)	12.5%	12.5%	8.1%	9.4%	-24.4%	Provisions & Others	4	6	6	2	2
ROE (%)	22.8%	19.3%	7.6%	20.0%	-23.0%	Op. profit before WC	339	358	177	113	(10)
ROCE (%)	38.8%	30.7%	15.0%	36.9%	-12.5%	Change in WC	(63)	(24)	109	(61)	42
Net D/E (x)	0.0	0.0	0.0	0.0	0.0	Less: Tax	(80)	(61)	(20)	(26)	(0)
Turnover Ratios	FY19	FY20	FY21	Q2FY22	Q2FY21	CF from operations	196	273	265	26	32
Debtors Days	15	20	23	14	36	Addition to assets	(58)	(44)	(25)	(19)	(11)
Inventory Days	108	105	130	67	158	(Purchase)/Sale of invst.	(14)	(124)	(100)	57	43
Creditor Days	57	56	92	46	87	Div/Int Received	5	6	2	2	2
Asset Turnover (x)	1.8	1.5	0.9	2.1	0.9	CF from Investing	(67)	(163)	(122)	41	34
Valuation Ratios	FY19	FY20	FY21	Q2FY22	Q2FY21	Loans	(87)	(111)	(77)	(45)	(26)
Price/Earnings (x)		84.5	210.0	78.8	-78.7	Dividend Paid	(45)	-	(50)	(30)	(40)
EV/EBITDA (x)		38.5	79.0	30.4	-290.6	Interest paid	(1)	(1)	(1)	(0)	(0)
Price/BV (x)		16.3	16.0	15.8	18.1	Equity	1	(0)	-	(0)	-
Mkt cap/Sales (x)		10.6	17.0	7.4	19.2	CF from Financing	(132)	(112)	(127)	(74)	(66)
EV/Sales (x)		10.6	16.9	7.4	19.2	Net Change in cash	(4)	(1)	16	(7)	(1)
Source: Company Data, NBRR						Cash at beginning	15	12	10	26	10
						Exchange difference					

Metro Brands Ltd

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