Metro Brands Ltd (METBRA)

ICICI direct Research

Price Band: ₹ 485-500

UNRATED

December 09, 2021

Pan India footwear player with strong brand portfolio

About the Company: Metro brand has evolved in a one-stop shop for all footwear needs by retailing wide range of branded products for the entire family and for every occasion including casual and formal events.

- Widespread distribution network consisting of 598 stores spread across ~ 7.3 lakh sq. ft. and available in 136 cities.
- Strong operating metrics with one of industry's highest revenue/sq. ft (~₹ 16800/sq. ft. as on FY20) and healthy operating margins (~27% as on FY20). Capital efficient business model with RoE of ~20% as on FY20.

Key triggers/Highlights:

- Company primarily follows COCO model through its own multi branded outlets (MBO) and exclusive outlets (EBO). It operates through 'Metro', 'Mochi' and 'Walkway; branded MBO's and 'Crocs' branded EBO
- Strives to optimise mix of in-house brands (70% of revenue) and third-party brands (30% of revenue) in MBOs to drive customer footfalls, improve sales density and gross margins.
- Company caters to wide range of price points across economy (₹ 500-1000), mid (₹ 1001-3000) and premium (> ₹ 3001). It has the highest realisation per pair of ~₹ 1300 compared to other major footwear players
- Company follows an asset light business model with all the products sourced through outsourcing arrangement without own manufacturing facility. Owing to its scale of operations and strong supplier network, it is able to leverage better margins with its vendors.
- Demand driven lean inventory norms ensures optimum capital employed, minimizes stale stock, thereby reducing discounting of products (~90% full priced sales) and improving gross margins (~55%)

What should investors do? Metro Brands is among the aspirational Indian brand in footwear category which majorly caters to economic to premium category of footwear. It's a play on consumers moving up the price pyramid from mass segment to economy, mid and premium priced segments. At the upper end of the price band, it is valued at 10.6x, 17.0x Mcap/Sales for FY20, FY21, respectively.

- We assign **UNRATED** rating to the IPO

Key risk & concerns

- Inability to renew stores and warehouses leases at competitive terms
- Disruption in Third Party manufacturing facilities
- Significant dependence on third party brands

metro BRANDS

IPO Details

Issue Details	
Issue Opens	December 10, 2021
Issue Closes	December 14, 2021
Issue Size	~ ₹ 1368 crore
Issue Type	Fresh Issue/ Offer for sale
Price Band	₹ 485 - ₹ 500
No of shares	~ 2.74 crore
Market Lot	30 shares
Face Value	5.0
QIB (%)	50.0
Non-Institutional (%)	15.0
Retail (%)	35.0

Shareholding pattern (%)

	Pre-offer	Post-offer
Promoter	84.0	74.3
Public	16.0	25.7
Total	100.0	100.0

Objects of the issue

	₹ crore
Expenditure for opening new stores	225.4
General corporate purposes	-
Fresh issue	**295.0**
Offer for sale	**1,073.0**

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IPO Review

ICICI Securities – Retail Equity Research

Key Financial Summary

₹ crore	FY19	FY20	FY21	H1FY22
Net Sales	1,217.1	1,285.2	800.1	456.0
EBITDA	335.8	352.7	171.5	111.4
PAT	151.2	159.7	65.2	43.1
Diluted EPS	5.6	5.9	2.4	1.6
P/E (x)	89.8	85.0	208.2	
EV/EBITDA (x)	39.8	37.5	76.3	
Mcap/Sales (x)	11.2	10.6	17.0	
RoCE (%)	39.7	31.5	15.5	
RoE (%)	23.3	19.8	7.9	

Source: RHP, ICICI Direct Research

Company Background

Incorporated in 1977, Metro has 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, Company operated 598 Stores (~7.3 lakh sq. ft.) across 136 cities spread across 30 states and union territories in India. With an average ASP of ~₹ 1300 is the highest ASP compared to the two leading players in India. It retails footwear under own brands of Metro, Mochi, Walkway, Da Vinchi and J. Fontini, as well as certain third-party brands such as Crocs, Skechers, Clarks, Florsheim, and Fitflop, which complement its in-house brands. It also offers accessories such as belts, bags, socks, masks and wallets, at the stores.

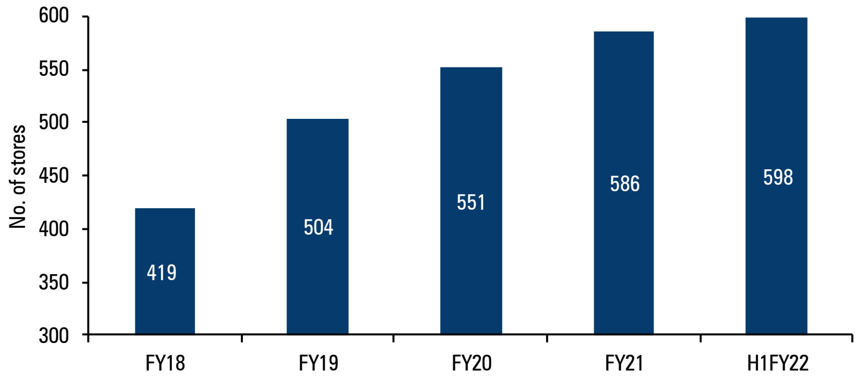
Retail operations are carried out through its stores and distributors as well as through online channels. It primarily follows the "company owned and company operated" ("COCO") model of retailing through its own Multi Brand Outlets ("MBOs") and Exclusive Brand Outlets ("EBOs"), to better manage customer experience at its stores. Company operates Metro, Mochi and Walkway branded MBOs and Crocs™ branded EBOs. The operations are well-spread across metro cities, tier I, II and III cities and towns, and across all four zones of India.

Exhibit 1: Key store formats and brands (as on FY21)

Store Format	Target Customer	Number of stores	Cities	Price Range (₹)	ASP (₹)	Avg store Size	Capex/store (₹ lakh)
Metro MBO	Family	220.0	119.0	1000-1000	1481.9	1600.0	49.0
Mochi MBO	Youth	147.0	77.0	1000-1000	1471.2	1500.0	51.0
Crocs EBO	Premium	159.0	75.0	1500-6000	2047.0	600.0	25.7
Walkway MBO	Value Format	72.0	39.0	350-3500	597.0	1350.0	33.2

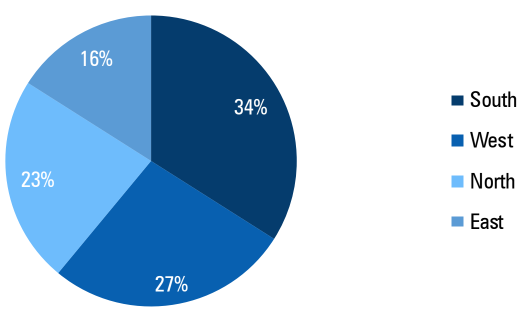
Source: RHP, ICICI Direct Research

Exhibit 2: No of total stores



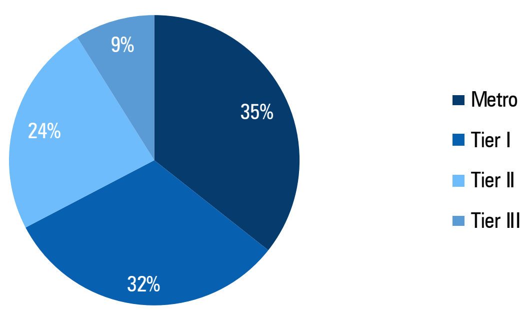
Source: RHP, ICICI Direct Research

Exhibit 3: Region specific revenue breakup



Source: RHP, ICICI Direct Research

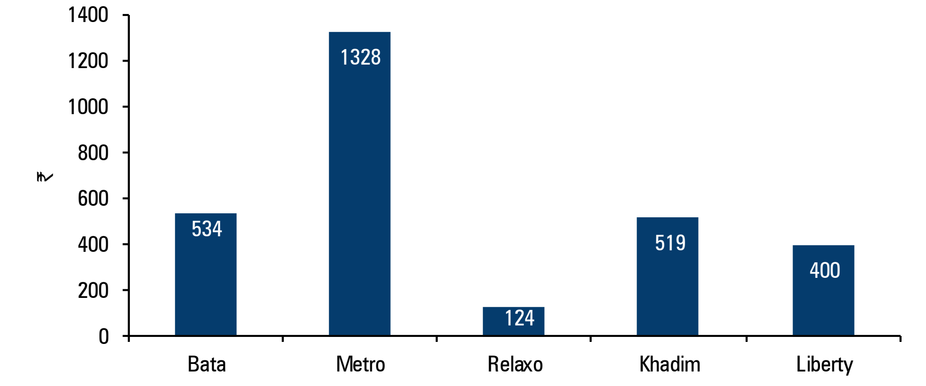
Exhibit 4: Tier wise revenue break-up



Source: RHP, ICICI Direct Research

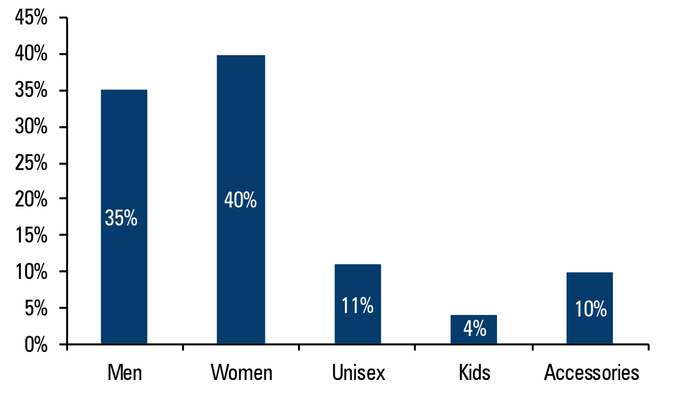
Company strives to optimize its mix of in-house brands and third-party brands in its MBOs to drive customer footfalls, improve sales density and gross margins. Revenue from sale of in-house brands and third-party brands in the company's MBO stores represented 69.2% and 30.7% of the Company's revenue from MBOs in FY21, respectively. Due to its large network of multiple store formats located in key markets, and ability to leverage omni-channel presence in India, Metro has become a partner of choice for third-party brands. As of September 30, 2021, it sold footwear as well as accessories across more than 10 owned brands and more than 25 third-party brands. Its wide range of brands allows Metro to operate across the economy (₹ 501 to ₹ 1000), mid (₹ 1001 to ₹ 3000) and premium (more than ₹3,001) segments. Diversified business model provides synergies by spanning consumer segments, categories and distribution channels.

Exhibit 5: ASP across key players (as on FY21)



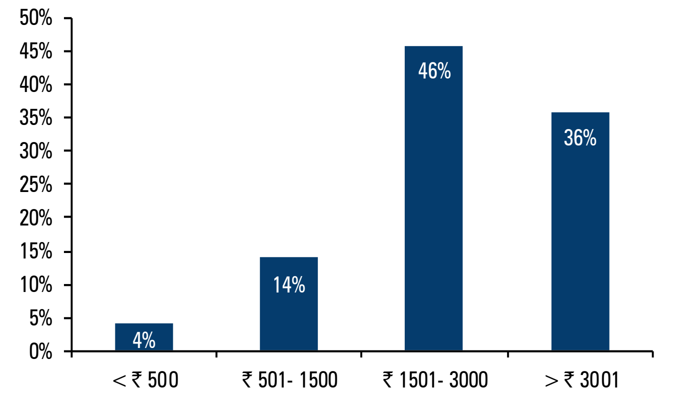
Source: RHP, ICICI Direct Research

Exhibit 6: Revenue breakup by target customer



Source: RHP, ICICI Direct Research

Exhibit 7: Revenue breakup by price range



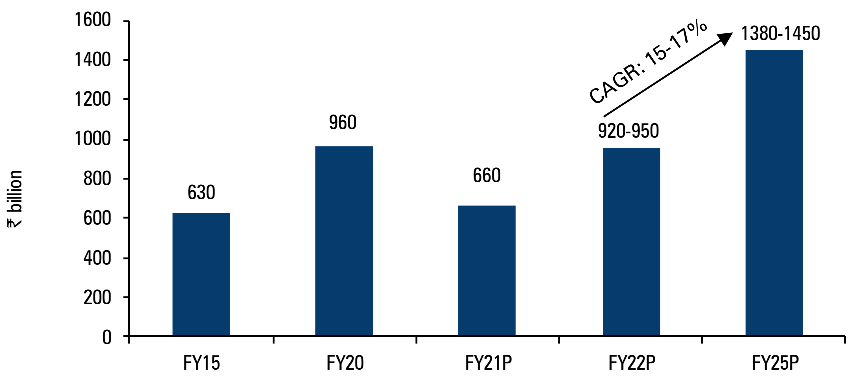
Source: RHP, ICICI Direct Research

Company has long-standing relationships with many of its vendors, and works with them to continuously introduce new designs, which are regularly updated. Company has a large vendor base of 250 suppliers. To efficiently manage the extensive vendor network, supply chain, and inventory for its wide range of products, it follows a pull model for product availability at stores where product placement is led by a demand driven inventory replenishment method. Company endeavours to drive its sales through a strong focus on product assortment – a theory-of-constraints method for its supply chain offering greater predictability of latest products, availability of products in demand and reducing stock-outs. Demand driven lean inventory norms ensures optimum capital employed, minimizes stale stock, thereby reducing discounting of products and improving gross margins. As a result, it liquidates inventory (18 months or older) only twice a year, primarily through its stores, and discounted sales from stores represented ~10% of total sales.

Industry Overview

The Indian footwear market has followed the trend and witnessed healthy growth on account of rise in income levels, increase in awareness of brands and fashion styles, rise in modern retail, heightened discretionary spending and increase in urbanisation. Consequently, the Indian footwear market, in value terms, has grown from ₹ 630 billion in Fiscal 2015 to ₹ 960 billion in FY20 at CAGR of 8.8%. The market size witnessed a decline of approximately 31% YoY in FY21 on account of decreased consumer spending due to the pandemic. Going forward, the Indian footwear consumption in value terms is expected to grow at a CAGR of 15% to 17% between FY22-25E. Rise in income levels, standard of living, footwear as fashion statement, footwear volumes in urban areas with different footwear purchased for different occasions, women workforce participation, and brand awareness will contribute to the growth of footwear market.

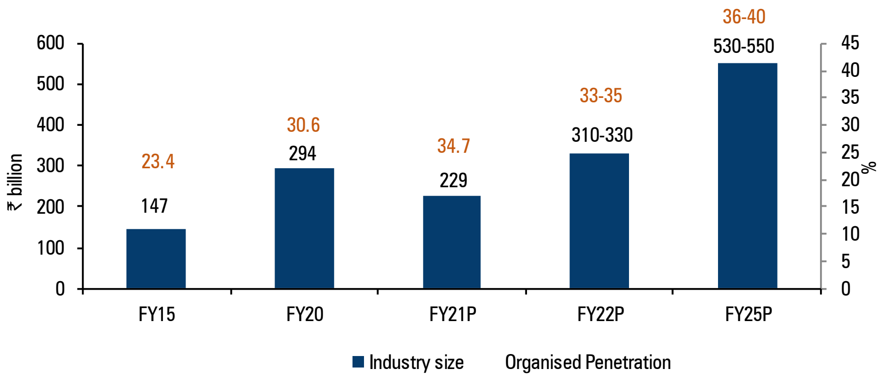
Exhibit 8: Indian footwear industry



Source: RHP, ICICI Direct Research

The organised players' share has grown at CAGR of ~15% in past 5 years, largely on account of rise in urbanisation levels and increasing acceptance of brands and modern retail formats by the Indian consumer. Additionally, initiatives by footwear players such as enhancing the overall customer experience via increased frequency of designs, advertising and promotional activities to raise brand awareness as well as increased geographical reach has also aided growth of the organised segment. Industry interactions also reveal that the Organised players have adjusted better to the COVID-19 pandemic compared to their unorganised counterparts. Due to their stronger balance sheets and more robust supply chains, organised players like Metro Brands, etc. are expected to disproportionately benefit from the organized shift and emerge stronger post COVID-19. The organised industry is expected to grow at CAGR of 20-22% in FY22-25E with organised penetration expected to increase from 31% to ~40%.

Exhibit 9: Organised footwear market and retail penetration



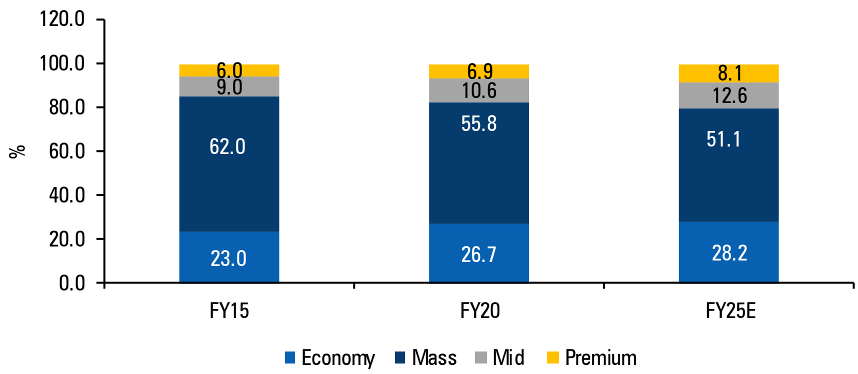
Source: RHP, ICICI Direct Research

Being a price-sensitive market, the Indian footwear industry is dominated by the mass segment which occupies a share of approximately 56% as of Fiscal 2020. This segment is largely catered to by unorganised players, comprising local footwear brands as well as unbranded footwear products. The share of the mass segment has dropped from 62% in Fiscal 2015 to 56% in Fiscal 2020, mainly on account of growth of organised players in the market. This decline in market share has been captured by economy, mid, and premium price-range segments. Typically, these segments are catered to by organised players with national, regional and international brands and their growth in the overall footwear industry has led to an increase in their respective shares. Moreover, factors like higher penetration of modern retail formats, rising income levels, and growing brand awareness have aided the growth of the mid and premium price segments. Going forward, since the economy, mid and premium sections have a higher presence of organised players, the faster growth of these sections is also expected to accelerate growth of the organized segment in the footwear industry. Moreover, higher growth rates in the higher prices segments as compared to the mass segment will aid in overall increase in average selling prices of the organised footwear segment in India.

Exhibit 1: Indian footwear pyramid

Source: RHP, ICICI Direct Research Mass: < ₹ 500, Economy: ₹ 501-1000, Mid segment: ₹ 1001-3000, Premium: >₹ 3001

Exhibit 2: Indian consumers moving up the price market



Source: RHP, ICICI Direct Research

Key Strategies

Expand store network in existing and new Indian Cities

As of September 30, 2021, the Company operated 598 Stores in 136 cities across 30 states and union territories in India with a total Retail Business Area of 734,217 sq. ft. across its various brands. Company proposes to utilise proceeds of fresh issue (₹ 225 crore) to establish 260 new stores by FY25E, under various formats. The table below sets forth the total estimated costs for setting up new stores

Exhibit 3: Proposed utilisation of fresh issue

Store Format	Proposed number of stores	Capex per store (₹ crore)	Inventory cost per store (₹ crore)	Security deposit per store (₹ crore)	Total cost (₹ crore)
Metro	61.0	0.5	0.6	0.1	71.9
Mochi	60.0	0.5	0.5	0.1	70.4
Walkway	45.0	0.3	0.3	0.1	30.1
Crocs	94.0	0.3	0.2	0.1	53.0
	260.0				**225.4**

Source: RHP, ICICI Direct Research

Leverage multi-channel platform to pursue new opportunities

Building on the successful expansion of Crocs™ franchise in India, Metro will continue to leverage its existing multi-channel platform to evaluate similar opportunities in the future. Company has entered into a non-binding term sheet dated July 27, 2021 with international brand Fitflop. It is currently in process of entering into a distribution agreement with Fitflop (exclusive right to distribute Fitflop products in India via all channels including online) which is under negotiation. It will continue to evaluate similar and other arrangements, including licensing arrangements with other national as well as international brands as part of its active brand portfolio management.

Increase contribution of e-commerce as a proportion to sales

Its e-commerce sales have grown at CAGR of 73% in FY19-21 to ₹ 57.1 crore (~12% of overall sales). Metro proposes to make further investments in digital marketing to build an omni-channel engagement experience for its customers. In addition, it intends to invest in content generation to build engagement with a younger audience. It also intends to integrate its omni-channel model as well as apply new technologies to further expand and improve operations to handle individual customer deliveries and enhance customer buying experience with faster dispatches. Through these measures, Metro aims to expand revenue generating channels as well as become a digitally relevant brand for the Indian customer in the footwear and accessories market.

Expand portfolio of accessories and grow other allied businesses

Metro will continue to look at new opportunities to increase its in-house range of belts, wallets, socks and handbags (~9% of sales) by leveraging on its understanding of the Indian consumer market. It intends to introduce a wider range of products under existing brands of accessories based on consumer preferences and demand, and asses international and local fashion trends and evolving market preferences in order to evaluate the feasibility of new types of product introductions. It also intends to leverage its existing vendor arrangements, distribution, and retail network through MBOs, in order to effectively launch and distribute new products.

Key Risk

Inability to renew stores and warehouses leases at competitive terms

The Company's stores are operated on properties that are either leased or obtained on a leave and license basis and the company is exposed to the market conditions of the retail rental market. Further, both the warehouses are also held on a leave-and-license basis. The Company generally enters into lease agreements with initial terms of three to 10 years, and certain of these agreements have lock-in periods preventing the Company and/or the lessors from terminating the agreement within a stipulated period, without forfeiting the security deposit provided. Most of the company's lease agreements contain an early termination clause that permits it to terminate the lease agreement early for the reasons specified therein. However, if the company fails to renew these leases on competitive terms or if the company is unable to manage the lease rental costs, the company's results of operations would be materially and adversely affected.

Disruption in Third Party manufacturing facilities

The Company engages third party service providers and vendors for the procurement of all its products, including footwear under the brands Metro, Mochi and Walkway. The Company has engaged with over 250 vendors with majority of them being located in India. It is dependent on third-parties for the manufacturing of all the products it sells. Any disruptions at such third-party manufacturing facilities, or failure of such third-parties to adhere to the relevant quality standards may have a negative effect on the company's reputation, business and financial condition. Any unscheduled, unplanned or prolonged disruption of operations at the vendors' manufacturing facilities could affect the company's vendors' ability to meet its requirements, and could consequently affect the operations.

Significant dependence on third party brands

In FY21 and the six months ended September 30, 2021, revenue from sale of third-party branded products at the company's MBOs constituted 30.8% and 28.9% respectively of the Company's revenue from operations at the company's MBOs. The company's business partly depends on the continued success and reputation of the third-party brand. Any negative impact on these brands, or a failure by the company or owners of these brands to protect them, as well as loss of one or more such brands, or a reduction in demand for their products could adversely affect the company's business, results of operations, financial condition.

Any material changes in agreement with Crocs

The company operates MBOs of its own brands as well as EBOs for Crocs™ in India. The company operates Crocs EBOs based on a non-exclusive retail license agreement entered into with Crocs in 2015. Under the Crocs Agreement, the Company is required to seek the prior approval of Crocs for opening of new stores. Also, the operation of Crocs EBOs depends on the material agreements with Crocs, which imposes certain restrictions, limitations and other obligations on the company's operations that could adversely affect the business, results of operations and financial condition of the company

Outstanding litigation against the promoters

There are outstanding litigation proceedings against the company directors and promoters.

Financial summary

Exhibit 4: Profit and loss statement ₹ crore

(Year-end March)	FY19	FY20	FY21	H1FY22
Net Sales	1,217.1	1,285.2	800.1	456.0
Growth (%)		5.6		
Total Raw Material Cost	548.7	570.7	360.5	196.0
Gross Margins (%)	54.91	55.60	54.94	57.0
Employee Expenses	112.1	126.8	102.6	52.7
% to sales	9.2	9.9	12.8	11.5
Other Expenses	220.4	235.1	165.5	95.9
% to sales	18.1	18.3	20.7	21.0
Total Operating Expenditure	881.3	932.5	628.5	344.6
EBITDA	335.8	352.7	171.5	111.4
EBITDA Margin	27.6	27.4	21.4	24.4
Interest	33.9	39.5	43.7	23.6
Depreciation	93.6	120.6	121.8	65.1
Other Income	19.8	25.9	78.5	33.3
Exceptional Expense	-		-	-
PBT	228.1	218.4	84.5	56.0
Total Tax	76.9	58.7	19.3	12.9
Profit After Tax	151.2	159.7	65.2	43.10
Share of Profit loss in Joint Ve	1.53	0.85	0.60	(0.03)
Profit After Tax	152.73	160.58	65.82	43.07

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement ₹ crore

(Year-end March)	FY19	FY20	FY21	H1FY22
Profit Before Tax	228.1	218.4	84.5	56.0
Add: Depreciation	93.6	120.6	121.8	65.1
Add: Finance Cost	33.9	39.5	43.7	23.6
Others	-16.2	-20.4	144.2	-31.4
Net (Increase)/decrease in WC	-63.4	-24.3	-108.6	-61.3
Tax paid	-80.3	-60.8	-20.4	-25.7
CF from operating activities	**195.6**	**273.1**	**265.3**	**26.3**
(Inc)/dec in Fixed Assets	-58.8	-44.2	-25.1	-18.9
Others	-8.6	-118.4	-97.3	60.1
CF from investing activities	**-67.4**	**-162.6**	**-122.4**	**41.2**
Inc / (Dec) in Equity/prefrence share	0.1	0.0	0.0	0.0
Inc / (Dec) in Loan	3.9	0.0	0.0	0.0
Others	-135.9	-111.5	-127.1	-74.5
CF from financing activities	**-132.0**	**-111.5**	**-127.1**	**-74.5**
Net Cash flow	-3.7	-1.03	15.8	-6.9
Opening Cash	15.2	11.5	10.5	26.3
Closing Cash	**11.5**	**10.5**	**26.3**	**19.4**

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet ₹ crore

(Year-end March)	FY19	FY20	FY21	H1FY22
Equity Capital	132.8	132.8	132.8	132.8
Reserve and Surplus	517.1	674.5	694.8	707.3
Total Shareholders funds	649.9	807.3	827.6	840.0
Non Controlling interests	19.5	23.5	19.9	21.4
Total Debt	9.9	11.5	1.4	2.4
Non Current Liabilities	348.3	458.6	489.3	516.5
Source of Funds	**1,027.51**	**1,300.87**	**1,338.12**	**1,380.28**
Net Fixed Assets	217.8	220.6	220.0	218.4
Capital WIP	3.0	12.9	4.2	10.4
Intangible assets	6.0	5.1	4.3	3.8
Right of use assets	370.2	482.5	499.6	526.3
Investments & bank balance	210.4	348.7	461.3	412.5
Inventory	364.6	376.1	289.8	338.6
Cash	11.5	10.5	26.3	19.4
Debtors	51.9	70.1	50.6	69.6
Loans & Advances & Other CA	33.8	34.1	37.3	61.2
Total Current Assets	461.8	490.8	403.9	488.8
Creditors	193.9	201.5	204.7	235.5
Provisions & Other CL	100.1	115.1	116.6	123.8
Total Current Liabilities	294.0	316.6	321.2	359.3
Net Current Assets	167.8	174.3	82.7	129.4
LT L& A, Other Assets	52.2	56.8	66.0	79.5
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	**1,027.51**	**1,300.87**	**1,338.12**	**1,380.28**

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios ₹ crore

(Year-end March)	FY19	FY20	FY21	H1FY22
Per share data (₹)				
Diluted EPS	5.6	5.9	2.4	1.6
Cash EPS	9.0	10.3	6.9	4.0
BV	23.9	29.7	30.5	30.9
Cash Per Share	8.2	13.2	18.0	15.9
Operating Ratios (%)				
EBITDA margins	27.6	27.4	21.4	24.4
PBT margins	18.7	17.0	10.6	12.3
Net Profit margins	12.4	12.4	8.2	9.5
Inventory days	109.3	106.8	132.2	
Debtor days	15.6	19.9	23.1	
Creditor days	58.2	57.2	93.4	
Return Ratios (%)	.			
RoE	23.3	19.8	7.9	
RoCE	39.7	31.5	15.5	
Valuation Ratios (x)				
P/E	89.8	85.0	208.2	
EV / EBITDA	39.8	37.5	76.3	
EV / Sales	11.0	10.3	16.4	
Market Cap / Revenues	11.2	10.6	17.0	
Price to Book Value	20.9	16.8	16.4	
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	
Debt/EBITDA	0.0	0.0	0.0	
Current Ratio	1.6	1.6	1.3	
Quick Ratio	0.3	0.4	0.4	

Source: Company, ICICI Direct Research

RATING RATIONALE

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Subscribe only for long term: Apply for the IPO only from a long term investment perspective (>two years)

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