

Robust sales Performance; Accumulate

- Metro posted strong results - reported highest ever quarterly sales. However, EBITDA & PAT missed our estimates as RM and operational expenses were higher than our estimate. The company witnessed 35% revenue growth on an unfavorable base of 26% - was encouraging. Acquisition of CBL also helped company to accelerate sales momentum.
- Our recent channel check suggested that Metro is reporting better performance compared to peers. Considering penetration opportunity and ongoing brand additions, we expect the growth momentum to remain strong. Further, continuous premiumization is expected to keep ASP higher.
- Going ahead, we believe that Metro has scope to expand in higher tiers where the penetration and cost of operation is low. Further, the company has lower penetration in Northern and Eastern markets, which offers high growth opportunity and the company is likely to focus on these geographies.
- The company plans to add 200 stores over next couple of years which would help drive growth. Further, the top-line would be supported by volume growth at the store levels. However, with opening up of markets, EBITDA margins are expected to remain under pressure due to normalization of marketing and other operating expenses.
- We believe that the demand for the company's brands would remain high considering premium brand positioning, higher aspirations, demographic support and low penetration. Valuing the stock at 50x FY25E EPS. TP at Rs 1,032. Considering recent run-up in the stock price, we downgrade to Accumulate. Buy on dips.

Revenues in line; miss on profitability

Revenues grew 35.0% YoY to Rs 5.4bn in Q4FY23 – came in line with our estimate. Revenue growth was driven by increase in per sqft revenue at Rs 5,050. Further, e-commerce sales (inc. omni-channel) were up 32% YoY. GM contracted by 140bps to 55.9%. A 140/90/350bps increase in RM/employee cost/other expenses resp. led to EBITDA margin contraction of 580bps in Q4FY23. EBITDA grew 10.6% YoY to Rs 1.4bn in Q4FY23 – came below our estimate. Net profit de-grew 0.4% YoY to Rs 685mn in Q4FY23 - came below of our estimate of Rs 909mn.

Q4FY23 Result (Rs Mn)

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Revenue	5,441	4,032	35.0	5,987	(9.1)
Total Expense	4,006	2,733	46.6	3,935	1.8
EBITDA	1,436	1,298	10.6	2,052	(30.0)
Depreciation	502	347	44.7	504	(0.4)
EBIT	934	951	(1.9)	1,548	(39.7)
Other Income	187	134	40.3	146	28.1
Interest	175	145	20.5	173	1.4
EBT	946	940	0.7	1,521	(37.8)
Tax	267	250	6.8	394	(32.3)
RPAT	685	688	(0.4)	1,120	(38.8)
APAT	685	688	(0.4)	1,120	(38.8)
			(bps)		(bps)
Gross Margin (%)	55.9	57.3	(143)	59.2	(335)
EBITDA Margin (%)	26.4	32.2	(582)	34.3	(789)
NPM (%)	12.6	17.1	(448)	18.7	(611)
Tax Rate (%)	28.2	26.6	162	25.9	230
EBIT Margin (%)	17.2	23.6	(644)	25.8	(869)

CMP	Rs 930		
Target / Upside	Rs 1,032 / 11%		
NIFTY	18,285		
Scrip Details			
Equity / FV	Rs 1,359mn / Rs 5		
Market Cap	Rs 253bn		
	USD 3.1bn		
52-week High/Low	Rs 981 / 521		
Avg. Volume (no)	174,363		
Bloom Code	METROBRA IN		
Price Performance			
1M	3M	12M	
Absolute (%)	10	15	73
Rel to NIFTY (%)	5	10	59

Shareholding Pattern

	Sep'22	Dec'22	Mar'23
Promoters	74.3	74.2	74.2
MF/Banks/FIs	4.7	4.9	5.3
FIs	3.3	3.2	2.8
Public / Others	17.7	17.6	17.7

Valuation (x)

	FY23P	FY24E	FY25E
P/E	69.9	57.3	45.0
EV/EBITDA	38.3	30.9	25.2
ROE (%)	25.6	25.1	25.3
RoACE (%)	19.1	19.0	20.1

Estimates (Rs bn)

	FY23P	FY24E	FY25E
Revenue	21.3	25.1	29.4
EBITDA	6.8	8.3	10.0
PAT	3.6	4.4	5.6
EPS (Rs.)	13.3	16.2	20.6

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Exhibit 1: Actual V/S DART Estimates

Particulars (Rs mn)	Actual	Estimates	Variance (%)	Comments
Revenue	5,441	5,505	(1.2)	
EBITDA	1,436	1,794	(20.0)	RM and other operating expenses were significantly ahead of our estimates
EBITDA margin %	26.4	32.6	(620bps)	
APAT	685	909	(24.7)	Cascading effect of low EBITDA

Source: DART

Exhibit 2: Change in estimates

Particulars (Rs mn)	FY24E			FY25E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	25,101	24,528	2.3	29,359	27,941	5.1
EBITDA	8,279	8,444	(2.0)	9,969	9,866	1.0
EBITDA margin (%)	33.0	34.4	(140bps)	34.0	35.3	(140bps)
PAT	4,407	4,742	(7.1)	5,610	5,722	(2.0)
EPS (Rs)	16.2	17.5	(7.2)	20.6	21.1	(2.0)

Source: DART, Company

We have increased our revenue estimates for FY24/25E to factor in increased store addition guidance to 200 stores over next couple of years. However, we have lowered our margin estimates for FY24/25E as we believe that marketing expenses and other travel related cost would normalize. In line with the revision in EBITDA, we have revised our APAT estimates.

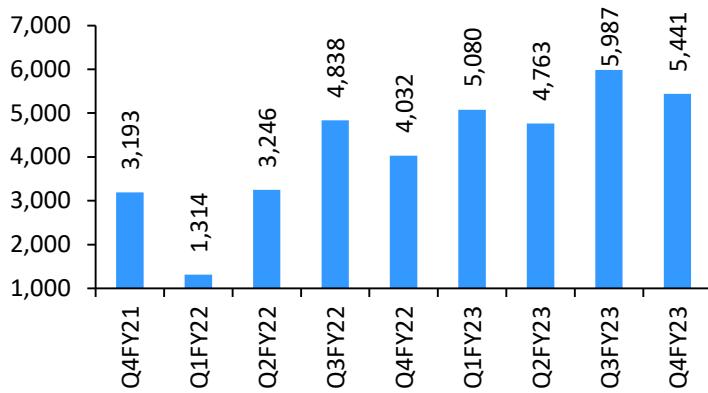
Earnings Call KTA

- During FY23, sales grew by 59% YoY supported by ASP growth of ~3% in footwear and accessories (7-8% in footwear). Further, during Q4FY23, MBL's revenue grew by 35% and store growth stood at 18%. Going ahead, MBL is expected to continue its growth trajectory (3-yr CAGR ~18%), in addition shift from unorganized to organized remains an operational trigger.
- During the quarter, 28 new stores were opened, 9 stores were closed and 3 were relocated taking net store addition to 19 stores during Q4. Further, during FY23 115 (net) new stores were added - going ahead, over next two years 200 stores are expected to be added. MBL has added 10 new cities in Q4, taking total count to 174 cities and has identified 300 new cities for further expansion.
- During Q4, GM contracted by 140bps to 55.9% as a result of clearance sales/discounts. Further, higher A&P spends (3-3.5% of revenue) and other operating cost led to EBITDA margin contraction of 580bps in Q4FY23. Going ahead, the higher A&P spends incurred during H2FY23 would drive overall sales. We believe, GM/EBITDA margin would be maintained at ~55-57/31-33% respectively for FY24E.
- During Q4, CBL posted revenue of Rs 220mn, however loss on PAT was at Rs 140mn - consolidated numbers includes loss towards CBL acquisition. MBL is in the process of rationalizing Fila's business which is expected to be completed by 1HYFY24. We believe, through acquisition of CBL the company would be able to fill whitespace in its product portfolio in the sports and athleisure (S&A) segment. It is optimistic on the business in the long term, considering S&A has a huge market size and the segment is expected to grow fastest in the footwear space.
- During the quarter, e-commerce sales (incl. omni channel) grew 32%. Moreover, despite opening up of brick and mortar stores post lockdowns, e-com grew by 48% on a YoY during FY23.
- Metro has front loaded inventory for H1FY24 as BIS is expected to be implemented by 1st July'23, which may lead to certain supply chain disruptions in the initial period. We believe, implementation of BIS for footwear would further aid shift from unorganized to organized sector.

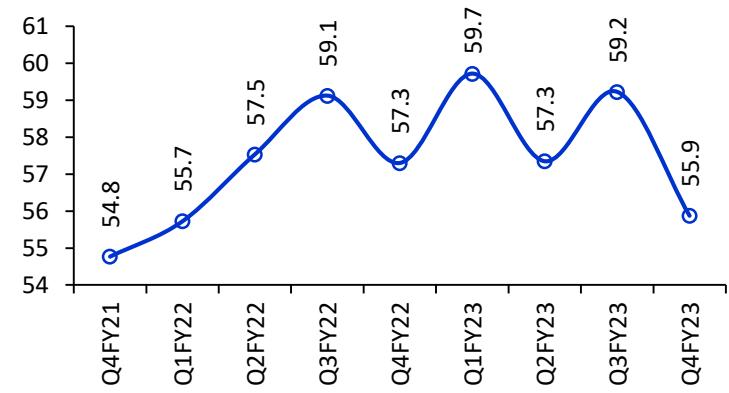
Exhibit 3: Year wise store addition

Year wise store addition	FY19	FY20	FY21	FY22	FY23
Metro	209	218	219	231	278
Mochi	136	145	145	162	199
Walkway	63	70	73	53	63
Crocs	96	118	149	178	195
Fitflop	-	-	-	-	4
Total Stores	504	551	586	624	739

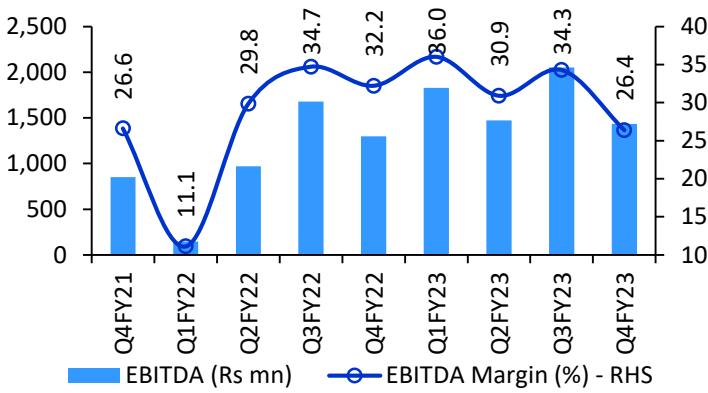
Source: Company, DART

Exhibit 4: Revenue Trend


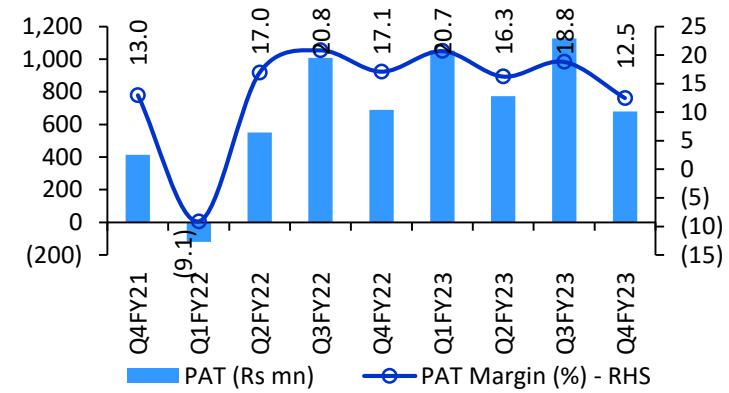
Source: Company, DART

Exhibit 5: Gross margin Trend (%)


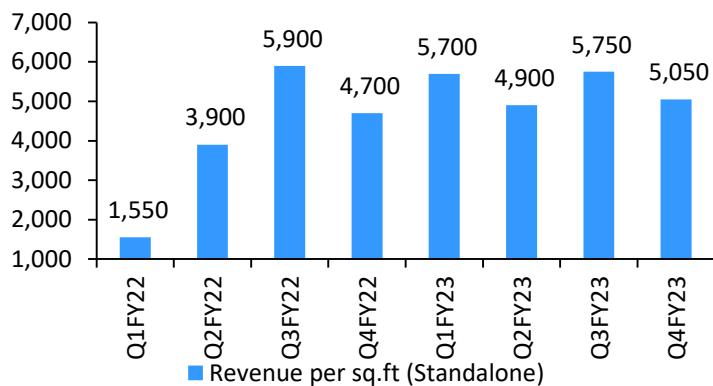
Source: Company, DART

Exhibit 6: EBITDA Trend (%)


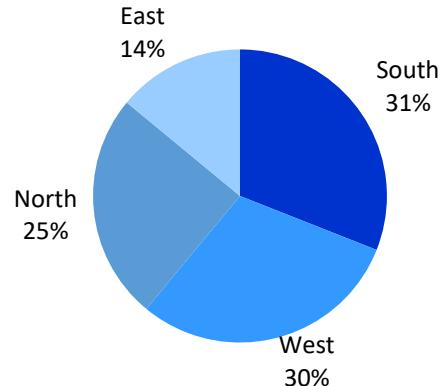
Source: Company, DART

Exhibit 7: Net profit trend (%)


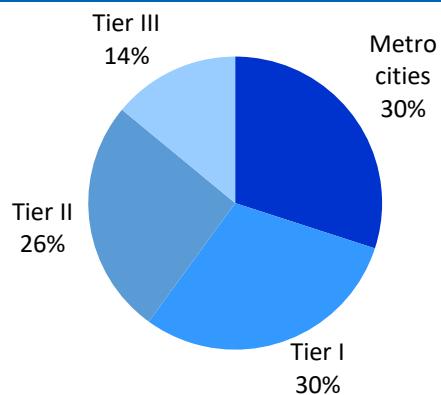
Source: Company, DART

Exhibit 8: Revenue per sq.ft


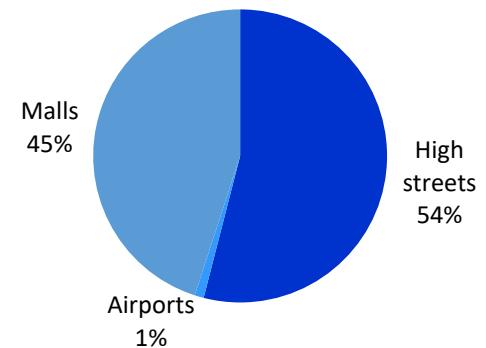
Source: Company, DART

Exhibit 9: Zone wise breakup – Mar'23


Source: Company, DART

Exhibit 10: Tier wise break up – Mar'23


Source: Company, DART

Exhibit 11: Location wise breakup – Mar'23


Source: Company, DART

Financial Performance

Profit and Loss Account

(Rs Mn)	FY22A	FY23P	FY24E	FY25E
Revenue	13,429	21,271	25,101	29,359
Total Expense	9,338	14,484	16,822	19,390
COGS	5,659	8,920	10,378	11,977
Employees Cost	1,212	1,844	2,068	2,296
Other expenses	2,466	3,720	4,376	5,117
EBIDTA	4,092	6,787	8,279	9,969
Depreciation	1,342	1,810	2,207	2,374
EBIT	2,749	4,977	6,072	7,595
Interest	504	631	719	729
Other Income	586	544	631	730
Exc. / E.O. items	4	(19)	0	0
EBT	2,835	4,871	5,984	7,596
Tax	702	1,257	1,559	1,970
RPAT	2,120	3,595	4,407	5,610
Minority Interest	14	19	18	17
Profit/Loss share of associates	0	0	0	0
APAT	2,116	3,614	4,407	5,610

Balance Sheet

(Rs Mn)	FY22A	FY23P	FY24E	FY25E
Sources of Funds				
Equity Capital	1,358	1,359	1,359	1,359
Minority Interest	224	264	303	343
Reserves & Surplus	11,289	14,119	18,254	23,456
Net Worth	12,647	15,477	19,612	24,815
Total Debt	6,922	9,430	9,185	8,990
Net Deferred Tax Liability	(223)	(49)	(49)	(49)
Total Capital Employed	19,571	25,122	29,052	34,098

Applications of Funds

Net Block	8,478	13,021	12,264	11,340
CWIP	62	178	178	178
Investments	3,625	4,776	4,976	5,176
Current Assets, Loans & Advances	10,754	11,248	15,968	22,243
Inventories	4,242	6,458	6,845	8,123
Receivables	577	1,261	1,169	1,467
Cash and Bank Balances	4,350	1,985	6,224	10,864
Loans and Advances	937	875	1,061	1,119
Other Current Assets	648	669	669	669
Less: Current Liabilities & Provisions	3,348	4,102	4,334	4,839
Payables	2,344	2,813	2,999	3,350
Other Current Liabilities	1,005	1,288	1,336	1,489
<i>sub total</i>				
Net Current Assets	7,406	7,146	11,633	17,404
Total Assets	19,571	25,122	29,052	34,098

E – Estimates

Important Ratios

Particulars	FY22A	FY23P	FY24E	FY25E
(A) Margins (%)				
Gross Profit Margin	57.9	58.1	58.7	59.2
EBIDTA Margin	30.5	31.9	33.0	34.0
EBIT Margin	20.5	23.4	24.2	25.9
Tax rate	24.8	25.8	26.1	25.9
Net Profit Margin	15.8	16.9	17.6	19.1
(B) As Percentage of Net Sales (%)				
COGS	42.1	41.9	41.3	40.8
Employee	9.0	8.7	8.2	7.8
Other	18.4	17.5	17.4	17.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.5	0.6	0.5	0.4
Interest Coverage	5.5	7.9	8.4	10.4
Inventory days	115	111	100	101
Debtors days	16	22	17	18
Average Cost of Debt	8.0	7.7	7.7	8.0
Payable days	64	48	44	42
Working Capital days	201	123	169	216
FA T/O	1.6	1.6	2.0	2.6
(D) Measures of Investment				
AEPS (Rs)	7.8	13.3	16.2	20.6
CEPS (Rs)	12.7	20.0	24.3	29.4
DPS (Rs)	2.6	3.2	1.0	1.5
Dividend Payout (%)	33.4	24.4	6.2	7.3
BVPS (Rs)	46.5	57.0	72.2	91.3
RoANW (%)	20.3	25.6	25.1	25.3
RoACE (%)	15.7	19.1	19.0	20.1
RoAIC (%)	19.4	26.0	26.4	33.0
(E) Valuation Ratios				
CMP (Rs)	930	930	930	930
P/E	119.4	69.9	57.3	45.0
Mcap (Rs Mn)	252,610	252,610	252,610	252,610
MCap/ Sales	18.8	11.9	10.1	8.6
EV	255,182	260,054	255,571	250,735
EV/Sales	19.0	12.2	10.2	8.5
EV/EBITDA	62.4	38.3	30.9	25.2
P/BV	20.0	16.3	12.9	10.2
Dividend Yield (%)	0.3	0.3	0.1	0.2
(F) Growth Rate (%)				
Revenue	67.9	58.4	18.0	17.0
EBITDA	137.0	65.9	22.0	20.4
EBIT	440.9	81.0	22.0	25.1
PBT	228.4	71.8	22.8	26.9
APAT	210.3	70.8	21.9	27.3
EPS	210.3	70.8	21.9	27.3

E – Estimates

Cash Flow

Particulars	FY22A	FY23P	FY24E	FY25E
Profit before tax	2,831	4,891	5,984	7,596
Depreciation & w.o.	1,342	1,810	2,207	2,374
Net Interest Exp	0	0	0	0
Direct taxes paid	(715)	(1,412)	(1,559)	(1,970)
Change in Working Capital	(1,261)	(1,726)	(248)	(1,130)
Non Cash	(1)	(791)	21	22
(A) CF from Operating Activities	2,197	2,771	6,405	6,893
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(474)	(915)	(1,450)	(1,450)
Free Cash Flow	1,723	1,856	4,955	5,443
(Inc.)/ Dec. in Investments	538	(607)	(200)	(200)
Other	0	0	0	0
(B) CF from Investing Activities	64	(1,522)	(1,650)	(1,650)
Issue of Equity/ Preference	30	1	0	0
Inc./ (Dec.) in Debt	(1,052)	(2,732)	(244)	(195)
Interest exp net	0	0	0	0
Dividend Paid (Incl. Tax)	(706)	(883)	(272)	(408)
Other	2,938	0	0	0
(C) CF from Financing	1,210	(3,614)	(516)	(603)
Net Change in Cash	3,470	(2,365)	4,239	4,640
Opening Cash balances	879	4,350	1,985	6,224
Closing Cash balances	4,350	1,985	6,224	10,864

E – Estimates

Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



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