

Metro Brands

KPI normalisation to continue; thesis on track

We recently interacted with Metro Brands' (MBL) CFO Mr Kaushal Parekh. The focus remains on strengthening the value proposition across all brands. This is reflected in MBL's best-in-class growth and capital allocation choices (10-year revenue/EBITDA CAGR of 14/18% with FCF/PAT conversion of ~80%. That said, KPI (sales density, margins) normalization is likely to continue as (1) MBL faces tough comparables vs. base (H1FY23 comprised meaningful pent-up demand and more wedding days) and (2) the share of discounted sales gradually returns to pre-pandemic levels (7-9% from sub 5% in FY23). The store addition guidance remains on track (100 stores in FY24). Our FY25/26 EPS estimates and TP of INR840 remain unchanged as valuation remains stretched.

- H1 demand continues to normalize YoY as MBL faces tough comparables:** Management highlighted that while demand normalization is likely given the tough comparables in the base (H1FY23 comprises meaningful pent-up demand and higher wedding days), sales densities remain higher than pre-pandemic times. On the mix, management remains confident of maintaining the salience of the >INR1,500 products at 80-85% as salience improves for Fila, Fittflops and Crocs. Note: This could provide a GM kicker (potentially countering one of our thesis points, but it is still early to factor this in).
- On margins:** Long-term GM/Pre-IND AS EBITDAM guidance at 55-57/~22% stays (delivered GM/EBITDAM of 58/24% in FY23). However, management highlighted that the share of discounted sales has gradually increased from the sub-5% level in FY23 (factored in) and in 1-2 years, it is likely to move towards pre-pandemic times (8-9%). We argue this is good for the business as extreme conservatism on margins could stifle business opportunities. MBL's focus remains on delivering value to the end consumer and it will be better off normalizing margins downwards to make the offering more penetrable.
- On expansion:** Management highlighted that in terms of real estate choices, there was some froth in rental rates due to elevated sales in FY23, but this is gradually normalizing. However, irrespective of the real estate cycle, MBL remains confident of achieving its guided ~100 stores in FY24 (25-30 stores in Metro and Mochi each, ~20 Crocs stores and a balance between the remaining formats).
- Brand-wise commentary:** Metro and Mochi will continue to grow at a steady pace. On FILA, management highlighted that FY24 will be earmarked for inventory liquidation. FY25 will be focused on brand repositioning wherein fresh stock is introduced and discounts wear off coupled with measured store expansion. FY26 is likely to be the first year of scaling. Unlike Cravatex (in its previous avatar) wherein the price straddled from INR1,500-8,000/pair, resulting in an unclear positioning in consumer minds, MBL intends to sharpen its price positioning (INR4-7k/pair). However, we suspect A&P spending is likely to be elevated for FILA in the medium term, given that it will compete with strong incumbents. Q1 store additions were soft in Crocs, but it is likely a timing issue.
- Valuation and outlook:** MBL certainly is among the more disciplined footwear retailers with an in-sync product-market fit. However, normalizing KPIs are likely to put pressure on margins over FY23-26 (building a 220bps decline in EBITDAM to 22.1%; FY26 RoE/RoCE baked in 21/23%). Hence, at 59x Sep-25 P/E (for a 15% EPS CAGR story over FY23-26), the valuation seems oversized.

SELL

CMP (as on 29 Sep 2023)	INR 1,135
Target Price	INR 840
NIFTY	19,638

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 840	INR 840
	FY25E	FY26E
EPS %	-	-

KEY STOCK DATA

Bloomberg code	METROBRA IN
No. of Shares (mn)	272
MCap (INR bn) / (\$ mn)	308/3,771
6m avg traded value (INR mn)	162
52 Week high / low	INR 1,150/736

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	17.3	44.1	25.3
Relative (%)	14.4	30.5	8.6

SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	74.21	74.20
FIs & Local MFs	5.28	5.73
FPIs	2.80	2.61
Public & Others	17.71	17.46
Pledged Shares	0	0

Source : BSE

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Financial summary (INR mn)

Financial Summary	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	13,429	21,271	24,996	29,277	34,183
EBITDA	3,053	5,164	5,643	6,516	7,539
APAT	2,142	3,654	3,800	4,580	5,487
Dil. EPS (Rs/sh)	7.9	13.4	14.0	16.9	20.2
P/E (x)	138.2	81.0	77.9	64.6	54.0
EV/EBITDA (x)	92.9	56.0	50.7	43.4	37.0
ROE (%)	20.5	26.0	21.3	20.7	20.8
RoIC (%)	48.6	53.1	39.9	42.1	45.5
ROCE (%)	23.6	28.8	24.0	23.1	23.0

Source: Company, HSIE Research

Peer Valuation

Company	CMP	M cap (INR bn)	Reco	TP
F&G				
Avenue Supermarts	3,645	2,346	SELL	3,200
Apparel & Innerwear				
ABFRL	202	219	REDUCE	190
Shoppers Stop	806	88	SELL	560
V Mart	2,295	45	ADD	2,400
Trent	1,718	611	SELL	1,320
Jewellery				
Titan Company	2,924	2,596	REDUCE	2,600
Footwear				
Bata India	1,757	226	ADD	1,650
Relaxo Footwears	935	233	SELL	740
Metro Brands	1,075	1	SELL	840
Campus Activewear	289	88	NR	
E-tailers				
Nykaa	147	419	REDUCE	135
Paints & Adhesives				
Asian Paints	3,342	3,206	REDUCE	3,200
Berger Paints	710	690	ADD	675
Kansai Paints	329	266	ADD	330

Source: Company, HSIE Research

Peer Valuation

Company	Revenue (INR bn)				EBITDA (INR bn)				EBITDAM (%)				PAT (INR bn)				EPS (INR)			
	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
F&G																				
Avenue Supermarts	418	502	603	712	34.9	44.3	54.3	64.6	8.3	8.8	9.0	9.1	25.6	29.7	36.9	44.3	39.4	45.9	56.9	68.4
Apparel & Innerwear																				
ABFRL	124	140	159	180	5.3	4.4	7.1	10.6	4.3	3.1	4.4	5.9	(0.6)	(1.3)	1.4	3.7	(0.6)	(1.3)	1.3	3.6
Shoppers Stop	40	43	47	52	2.8	3.1	3.6	4.1	6.9	7.3	7.6	7.9	1.5	1.3	1.4	1.9	13.6	11.7	13.2	17.5
V Mart	25	29	34	39	0.9	1.5	1.9	2.5	3.7	5.0	5.7	6.4	0.5	0.5	0.8	1.2	25.3	26.6	40.3	60.4
Trent	77	90	116	136	11.2	12.7	16.2	19.0	14.5	14.1	14.0	14.0	5.5	5.2	6.3	7.0	15.6	14.5	17.8	19.6
Jewellery																				
Titan Company	406	463	519	582	48.8	53.1	61.9	70.9	12.0	11.5	11.9	12.2	32.7	36.5	43.5	51.1	36.9	41.1	48.9	57.6
Footwear																				
Bata India	35	40	46	52	4.5	5.6	6.8	8.2	13.2	13.9	14.8	15.9	3.2	3.7	4.6	5.8	25.1	28.9	36.0	45.3
Relaxo Footwears	28	32	36	40	2.8	4.8	5.8	6.7	10.2	15.1	16.2	16.5	1.6	3.0	3.7	4.3	6.3	11.9	14.9	17.4
Metro Brands	21.3	25.0	29.3	34.2	5.2	5.6	6.5	7.5	24.3	22.6	22.3	22.1	3.7	3.8	4.6	5.5	13.4	14.0	16.9	20.2
Campus Activewear*	14.8	17.4	21.4	25.0	2.5	3.2	4.1	5.4	17.0	18.6	19.4	21.6	1.2	1.6	2.2	3.1	3.9	5.4	7.3	10.5
E-tailers																				
Nykaa	51.4	65.8	85.3	108.7	2.6	3.9	6.0	8.9	5.0	5.9	7.0	8.2	0.2	1.1	2.3	4.4	0.1	0.4	0.8	1.5
Paints																				
Asian Paints	345	376	422	476	62.6	76.0	87.3	98.9	18.2	20.2	20.7	20.8	40.6	52.3	59.6	68.0	42.3	54.5	62.1	70.9
Berger Paints	106	118	134	152	14.9	20.7	23.4	26.8	14.1	17.6	17.5	17.6	8.6	12.9	15.1	17.9	8.9	13.3	15.5	18.4
Kansai Paints	75	84	95	108	8.2	10.1	11.9	13.6	10.8	12.0	12.5	12.6	4.7	6.1	7.3	8.4	5.8	7.6	9.0	10.4

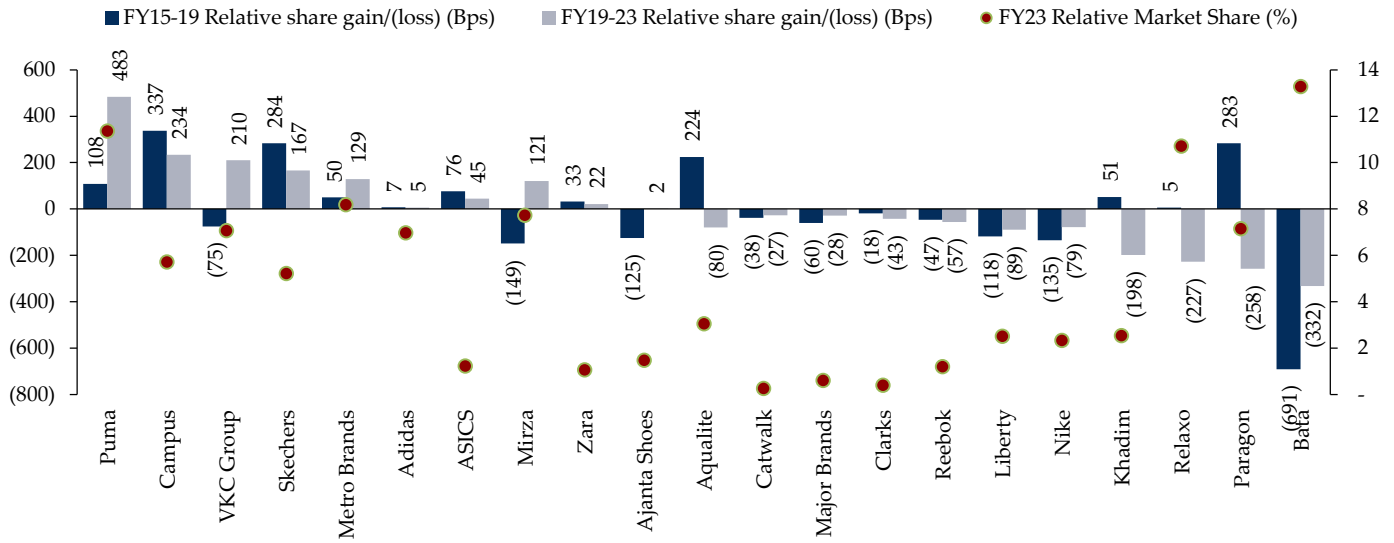
Source: Company, HSIE Research, Note: *For Campus Activewear, consensus estimates used

Company	P/E (x)				EV/EBITDA (x)				RoE(%)				RoCE(%)			
	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
F&G																
Avenue Supermarts	92	79	64	53	67	53	43	36	16.8	16.5	17.3	17.9	16.3	16.1	16.9	17.5
Apparel & Innerwear																
ABFRL	(290)	(164)	147	42	41	48	30	20	(2.2)	(3.2)	3.1	7.9	3.0	3.0	7.3	10.3
Shoppers Stop	58	68	60	46	32	27	24	21	19.9	14.7	14.4	16.4	6.1	4.7	7.9	20.5
V Mart	91	86	57	38	51	32	24	18	5.5	5.3	7.5	10.4	5.8	4.9	7.0	9.6
Trent	154	166	135	123	57	50	39	34	19.1	15.4	16.4	16.0	11.6	9.6	9.8	9.5
Jewellery																
Titan Company	79	71	60	51	55	50	43	37	31.0	27.6	26.8	26.0	16.9	15.9	16.5	16.4
Footwear																
Bata India	70	61	49	39	49	39	32	26	17.9	21.3	23.5	25.4	16.3	19.6	23.5	25.5
Relaxo Footwears	147	78	63	54	81	47	39	34	8.7	15.0	16.8	17.7	8.1	13.8	15.6	16.5
Metro Brands	80	77	64	53	55	50	43	37	26.0	21.3	20.7	20.8	28.8	24.0	23.1	23.0
Campus Activewear	75	54	40	28	35	27	22	16	23.9	24.7	25.5	29.4				
E-tailers																
Nykaa	1,451	340	153	83	163	107	69	47	1.8	7.4	14.7	22.5	3.2	6.8	9.8	13.0
Paints & Adhesives																
Asian Paints	74	61	54	47	51	42	37	32	29.1	30.1	29.1	27.9	25.1	26.2	25.8	25.2
Berger Paints	80	53	46	39	47	33	29	25	20.4	25.9	24.7	23.8	17.1	21.5	21.1	21.0
Kansai Paints	57	44	37	32	33	26	22	19	10.8	12.1	12.6	13.7	10.6	11.8	12.4	13.4

Source: Company, HSIE Research, Note: *For Campus Activewear, consensus estimates used

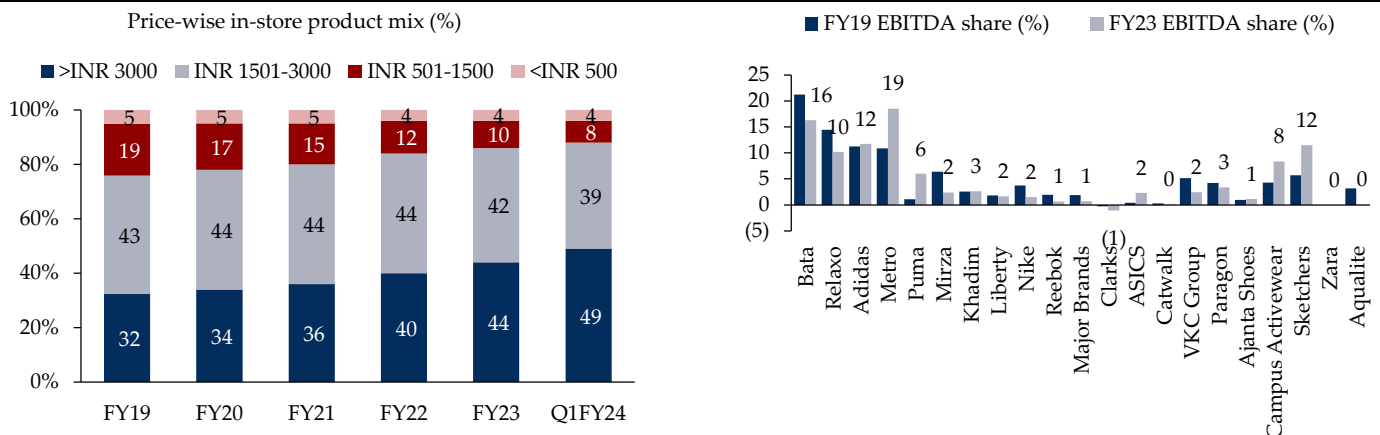
Focus Charts

Metro Brands has been amongst the few consistent market share gainers over nearly a decade as its pricing, assortment positioning and distribution strategies seem most coherent within peer group



Source: Company, HSIE Research, Note: bases used for computation of relative market share are different for Retail-heavy and distribution-heavy models

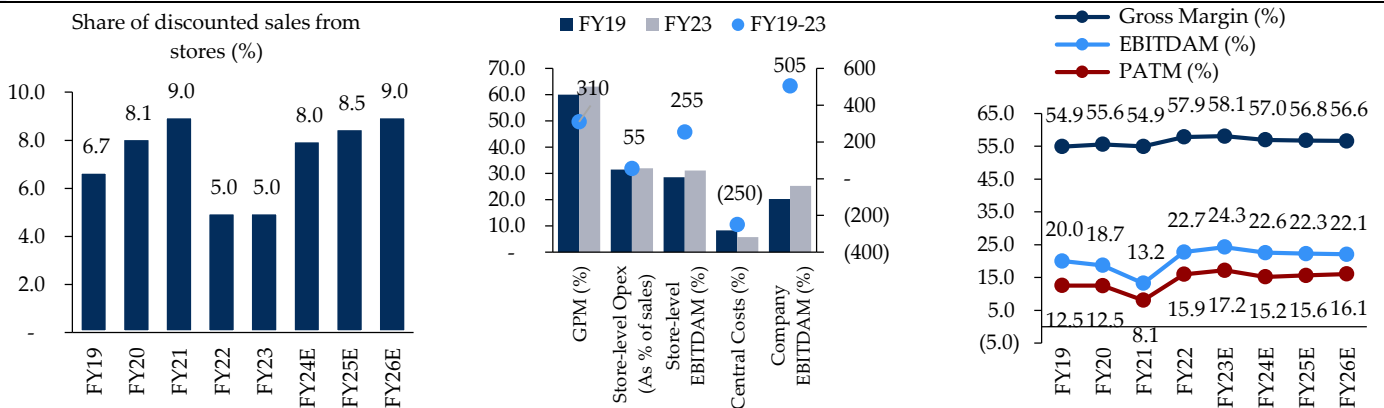
Premiumisation – sole reason for gains in GM/EBITDAM over FY19-23...MBL now sports the highest EBITDA share



Source: Company, HSIE Research

Source: Company, HSIE Research

Normalizing share of discounted sales & store-level cost of retailing + little juice in central costs = mean reversion in profitability



Source: Company, HSIE Research, Note: Company EBITDAM used here is an estimate on in-store sales

Financials

Income Statement

Year End (March)	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Net Revenues	12,171	12,852	8,001	13,429	21,271	24,996	29,277	34,183
Growth (%)	13.2	5.6	(37.7)	67.9	58.4	17.5	17.1	16.8
Material Expenses	5,487	5,707	3,605	5,659	8,920	10,757	12,657	14,830
Employee Expense	1,121	1,268	1,026	1,212	1,844	2,250	2,620	3,042
A&P Expense	437	480	161	336	596	750	908	1,094
Other selling and distribution Expense	568	541	387	606	926	1,088	1,274	1,477
Other Expenses	1,198	1,330	1,095	1,524	2,199	2,602	3,068	3,599
EBITDA	3,358	3,527	1,727	4,092	6,788	7,550	8,750	10,141
EBITDA Growth (%)	48.6	5.0	(51.0)	136.9	65.9	11.2	15.9	15.9
EBITDA Margin (%)	27.6	27.4	21.6	30.5	31.9	30.2	29.9	29.7
Pre-IND AS 116 EBITDA	2,438.2	2,402.8	1,057.5	3,053.4	5,164.3	5,642.9	6,515.6	7,539.0
Pre-IND AS 116 EBITDA Margin (%)	20.0	18.7	13.2	22.7	24.3	22.6	22.3	22.1
Depreciation	936	1,206	1,218	1,342	1,810	2,366	2,659	2,989
EBIT	2,422	2,321	508	2,749	4,977	5,184	6,090	7,152
Other Income (Including EO Items)	198	259	785	586	544	605	819	1,056
Interest	339	395	448	504	631	757	836	923
PBT	2,281	2,184	845	2,831	4,891	5,031	6,074	7,285
Total Tax	769	587	193	702	1,257	1,266	1,529	1,834
PAT before share of associate earnings	1,512	1,597	652	2,130	3,634	3,765	4,545	5,451
Share of associate earnings	15	8	(6)	12	20	35	35	35
RPAT	1,527	1,606	646	2,142	3,654	3,800	4,580	5,487
Exceptional Gain/(loss)	-	-	-	-	-	-	-	-
Adjusted PAT	1,527	1,606	646	2,142	3,654	3,800	4,580	5,487
APAT Growth (%)	7.3	5.1	(59.8)	231.5	70.6	4.0	20.5	19.8
Adjusted EPS (Rs)	5.6	5.9	2.4	7.9	13.4	14.0	16.9	20.2
EPS Growth (%)	7.3	5.1	(59.8)	231.5	70.6	4.0	20.5	19.8

Balance Sheet

Year End (March)	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
SOURCES OF FUNDS								
Share Capital - Equity	1,328	1,328	1,328	1,358	1,359	1,359	1,359	1,359
Reserves	5,541	6,745	6,948	11,289	14,119	18,821	22,770	27,330
Total Shareholders Funds	6,869	8,073	8,276	12,647	15,477	20,179	24,129	28,689
Long Term Debt	0	0	-	-	-	-	-	-
Short Term Debt	99	115	14	-	15	15	15	15
Total Debt	99	115	14	-	15	15	15	15
Minority Interest	195	235	199	224	264	299	335	370
Net Deferred Taxes	58	-	-	-	-	-	-	-
Other Non-current Liabilities & Provns	133	0	-	-	34	34	34	34
TOTAL SOURCES OF FUNDS	7,354	8,423	8,488	12,871	15,791	20,528	24,513	29,109
APPLICATION OF FUNDS								
Net Block	2,228	2,257	2,243	2,388	4,243	4,458	4,688	4,952
CWIP	41	129	42	56	171	171	171	171
Other Non-current Assets	480	568	660	837	1,126	1,126	1,126	1,126
Total Non-current Assets	2,748	2,954	2,945	3,281	5,540	5,755	5,985	6,248
Inventories	3,646	3,761	2,898	4,242	6,458	7,383	8,487	9,816
Debtors	519	701	506	577	1,261	1,370	1,564	1,779
Other Current Assets	328	341	373	971	875	705	826	965
Cash & Equivalents	2,219	3,592	4,876	7,975	6,763	10,109	13,266	16,856
Total Current Assets	6,712	8,396	8,652	13,765	15,356	19,567	24,143	29,416
Creditors	1,928	2,015	2,046	2,344	2,813	3,424	4,011	4,683
Other Current Liabilities & Provns	178	1,156	404	1,005	1,254	1,370	1,604	1,873
Total Current Liabilities	2,106	3,171	2,450	3,348	4,067	4,794	5,615	6,556
Net Current Assets	4,606	5,225	6,202	10,417	11,289	14,773	18,528	22,860
TOTAL APPLICATION OF FUNDS	7,354	8,423	8,488	12,871	15,791	20,528	24,513	29,109

Source: Company, HSIE Research

Cash Flow Statement

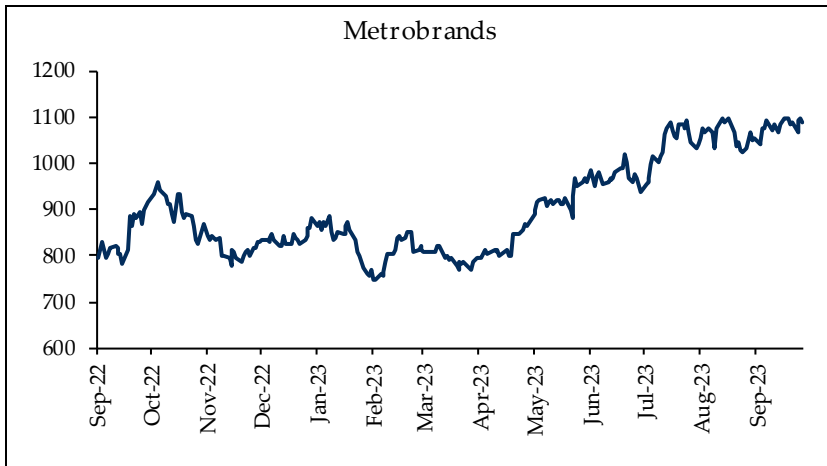
Year ending March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Reported PBT	2,384	2,184	845	2,831	4,890	5,779	6,801	7,989
Non-operating & EO Items	(153)	184	(723)	(490)	244	(569)	(784)	(1,021)
Interest Expenses	6	8	430	489	1	17	17	18
Depreciation	226	1,206	1,218	1,342	1,810	453	516	588
Working Capital Change	(617)	(243)	1,086	(1,261)	(1,726)	(138)	(598)	(741)
Tax Paid	(803)	(608)	(204)	(715)	(1,412)	(1,266)	(1,529)	(1,834)
OPERATING CASH FLOW (a)	1,043	2,731	2,653	2,197	3,807	4,274	4,424	4,999
Capex	(584)	(440)	(247)	(474)	(1,874)	(668)	(746)	(852)
Free Cash Flow (FCF)	459	2,291	2,405	1,723	1,933	3,606	3,678	4,148
Investments	(140)	-	(329)	538	(620)	-	-	-
Non-operating Income	51	(1,186)	(648)	(3,073)	1,979	605	819	1,056
INVESTING CASH FLOW (b)	(673)	(1,626)	(1,224)	(3,009)	(516)	(63)	73	205
Debt Issuance/(Repaid)	33	9	(107)	(15)	(1,024)	(17)	(17)	(18)
FCFE	402	1,114	1,322	(828)	2,267	4,194	4,480	5,186
Share Capital Issuance	-	-	-	2,924	28	35	35	35
Dividend	42	46	5	-	1	-	-	-
Others	(3)	(1,245)	(672)	(3,141)	1,766	-	-	-
FINANCING CASH FLOW (c)	72	(1,190)	(774)	(232)	772	19	18	17
NET CASH FLOW (a+b+c)	442	(85)	655	(1,044)	4,063	4,229	4,515	5,221
EO Items, Others	-	-	-	-	-	-	-	-
Closing Cash & Equivalents	121	109	879	4,350	1,986	5,333	8,489	12,080

Key Ratios

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
PROFITABILITY (%)								
GPM	54.9	55.6	54.9	57.9	58.1	57.0	56.8	56.6
EBITDA Margin	27.6	27.4	21.6	30.5	31.9	30.2	29.9	29.7
Pre-IND AS 116 EBITDA Margin								
EBIT Margin	19.9	18.1	6.4	20.5	23.4	20.7	20.8	20.9
APAT Margin	12.5	12.5	8.1	15.9	17.2	15.2	15.6	16.1
RoE	24.2	21.5	7.9	20.5	26.0	21.3	20.7	20.8
RoIC (or Core RoCE)	34.7	34.1	9.3	48.6	53.1	39.9	42.1	45.5
RoCE	26.0	24.0	11.7	23.6	28.8	24.0	23.1	23.0
EFFICIENCY								
Tax Rate (%)	33.7	26.9	22.8	24.8	25.7	25.2	25.2	25.2
Fixed Asset Turnover (x)	4.0	3.9	2.3	3.6	4.5	4.7	4.8	4.9
Inventory (days)	109.3	106.8	132.2	115.3	110.8	107.8	105.8	104.8
Debtors (days)	15.6	19.9	23.1	15.7	21.6	20.0	19.5	19.0
Other Current Assets (days)	9.8	9.7	17.0	26.4	15.0	10.3	10.3	10.3
Payables (days)	57.8	57.2	93.4	63.7	48.3	50.0	50.0	50.0
Other Current Liab & Provns (days)	5.3	32.8	18.4	27.3	21.5	20.0	20.0	20.0
Cash Conversion Cycle (days)	71.6	46.4	60.5	66.4	77.7	68.1	65.6	64.1
Net D/E (x)	(0.3)	(0.4)	(0.6)	(0.6)	(0.4)	(0.5)	(0.5)	(0.6)
Interest Coverage (x)	7.2	5.9	1.1	5.5	7.9	6.8	7.3	7.7
PER SHARE DATA (Rs)								
EPS	5.6	5.9	2.4	7.9	13.4	14.0	16.9	20.2
CEPS	14.7	14.6	4.3	18.2	32.2	33.5	39.8	47.1
Dividend								
Book Value	25.9	30.4	31.2	47.6	58.3	76.0	90.9	108.0
VALUATION								
P/E (x)	193.9	184.4	458.2	138.2	81.0	77.9	64.6	54.0
P/BV (x)	42.1	35.8	35.0	22.9	18.7	14.3	12.0	10.1
EV/EBITDA (x)	117.8	119.0	269.0	92.9	56.0	50.7	43.4	37.0
EV/Revenues (x)	23.6	22.2	35.6	21.1	13.6	11.4	9.7	8.2
OCF/EV (%)	0.4	1.0	0.9	0.8	1.3	1.5	1.6	1.8
FCF/EV (%)	0.2	0.8	0.8	0.6	0.7	1.3	1.3	1.5
FCFE/Mkt Cap (%)	0.1	0.4	0.5	(0.3)	0.8	1.4	1.5	1.8

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

Disclosure:

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