

Company Overview

Metro Brands Ltd is one of the largest Indian footwear specialty retailers. They opened their first store under the “Metro” brand in Mumbai in 1955 and have since been retailing a wide range of branded products. As of September 30, 2021, Metro operated 598 Stores across 136 cities. They target the economy, mid and premium segments in the footwear market. The company owns the 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 complements their inhouse brands.

They also retail footcare and shoe-care products at their stores through their joint venture, M.V. Shoe Care Private Ltd making them a ‘one-stop-shop’ for all footwear and related accessories to their customers. The retail operations are carried through “company owned and company operated” (COCO) model, retailing through their own Multi Brand Outlets (MBOs) and Exclusive Brand Outlets (EBOs). They operate Metro, Mochi and Walkway branded MBOs and Crocs™ branded EBOs. They also operate as shop-in shops (“SIS”) in major departmental stores across India. Currently, they are transitioning to omni-channel model through their websites, various online marketplaces, as well as, social media platforms (online channel make up about 12% of Sales as on 31st Sept 2021). They recorded the highest “realization per unit” of INR 1381/unit compared to the leading players in India and highest net profit margins of 8.1% as of FY21 among the key players in India.

Objects of the issue

The IPO proceed from the fresh issue will be used towards the following purposes:

- ⇒ Expenditure for opening new stores of the company under the “Metro”, “Mochi”, “Walkaway” and “Crocs” brands (INR 2.25 Bn)
- ⇒ General corporate purposes (Bal INR 0.7 Bn).

Investment Rationale

Asset light business model with efficient operations leading to sustainable profitable growth

Metro Brands is among the few footwear retailers in India that outsources all their product manufacturing, resulting in an asset light model. This is supported by extensive (about 250 vendors) long standing third party vendor relationship, wherein they manage their inventory and supply chain. The company follows a “pull model” for product availability at their stores where product placement is led by a demand driven inventory replenishment method. This ensures optimum capital utilization and minimum stale stock, there by reducing discounting of products and improvement in gross margins. When compared with the peers (like Bata India, Relaxo Footwear) Metro has witnessed highest operating margins and net margins. In FY21, Metro had a gross margin of 54.9%, EBITDA margin of 21.3% and a profit after tax of INR 647 mn. They also have been declaring and paying out dividends consistently since FY 2000. In FY21, their dividend payout was 61.6%.

One of India’s largest footwear retailers with strong brand appeal and consumer loyalty

As per CRISIL the Indian footwear consumption in value terms is expected to reach an estimated INR 1.4 trillion by FY25, growing at a CAGR of approximately 21% between FY21 and FY25. This growth is expected to be driven by the market’s overall shift in preference for premium categories of footwear. Metro is ideally placed to take advantage of this trend of premiumization, as Metro seeks to offer consumers a vast array of products, from stylish and comfortable footwear to accessories such as belts, bags, wallets and shoe care products. This will result in strong customer loyalty and goodwill with their customers. Metro enjoys a high score of customer satisfaction i.e 4.5 to 4.6 (out of 5), as evidenced by Litmus rating. Metro has customer loyalty programmes like Club Metro, My Mochi, and Crocs Club. In FY19, 20 and 21 and in the 6 months ended September 30, 2021, repeat sales by members of their loyalty programs represented 45.08%, 49.69%, 55.71% and 54.31% of their Total Store Product Sales (excluding sales at their Walkway stores).

Valuation and Outlook

Metro Brand is a consumer-centric business led by a strong and experienced promoter (Rafique A Malik) with a proven track record of over 50 years. Despite the pandemic, the company’s total store count has grown from 504 stores across 116 cities as of FY19 to 598 Stores across 136 cities as of September 30, 2021. Metro plans to establish 260 new stores, which means higher Capex and increased revenues in the longer run. The company enjoys superior financial performance when compared to its peers. However, at the upper price band, the stock is valued at a Price/Sales of 16.9x based on FY21 sales (on post-issue equity), which we believe is fully priced. Considering the above factors, we give this issue a “SUBSCRIBE” rating only for “listing gains”.

Issue Details	
Offer Period	10 th Dec - 14 th Dec 2021
Price Band	INR.485 to INR.500
Bid Lot	30
Listing	BSE&NSE
Issue Size (no. of shares in mn)	27.35
Issue Size (INR. in bn)	13.68
Face Value	INR. 5

Issue Structure	
QIB	50 %
NIB	15 %
Retail	35 %
BRLM	Ambit Pvt Ltd, DAM Capital, Equirus Capital, ICICI Securities, Motilal Oswal Investments
Registrar	Link Intime India Pvt Ltd.

Particulars	Pre Issue %	Post Issue %
Promoter	84 %	74 %
Public	16 %	26 %
Total	100%	100%

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Income Statement (In mn)

Particulars	FY19	FY20	FY21	H1FY22
Revenue				
Revenue from Operations	12,171	12,852	8,001	4,560
Total Revenue	12,171	12,852	8,001	4,560
Expenses				
Purchases of Stock-in-Trade	6,339	5,822	2,741	2,449
Changes in Inventory of Stock-in-Trade	(852)	(115)	864	(489)
Employee Benefit Expenses	1,121	1,268	1,026	527
Other Expenses	2,204	2,351	1,655	959
Total Operating Expenses	8,813	9,325	6,285	3,446
EBITDA	3,358	3,527	1,715	1,114
Depreciation and Amortization Expense	936	1,206	1,218	651
Other Income	198	259	785	333
EBIT	2,620	2,580	1,282	796
Finance Costs	339	395	437	236
PBT	2,281	2,184	845	560
Current Tax	770	571	235	152
Deferred Tax Charge	(1)	16	(43)	(23)
Total Tax	769	587	193	129
Restated Profit for the period before share of profit of Joint Venture	1,512	1,597	652	431
Share of Profit/(Loss) of the Joint Venture	15	8	(6)	-
Restated PAT	1,527	1,606	646	431
Diluted EPS	5.8	6.1	2.4	1.6

Source: RHP, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY19	FY20	FY21	H1FY22
Cash flow from operating activities	1,957	2,731	2,653	263
Cash flow from investing activities	(673)	(1,626)	(1,224)	412
Cash flow from financing activities	(1,320)	(1,115)	(1,271)	(745)
Net increase/(decrease) in cash and cash equivalents	(37)	(10)	158	(69)
Cash and cash equivalents at the beginning of the period	152	115	105	263
Cash and cash equivalents at the end of the period	115	105	263	194

Source: RHP, BP Equities Research



Balance Sheet (In mn)

Particulars	FY19	FY20	FY21	H1FY22
Liabilities				
Share Capital	1,328	1,328	1,328	1,328
Other Equity	5,171	6,745	6,948	7,073
Non-Controlling Interest	195	235	199	214
Net worth	6,694	8,308	8,474	8,614
Lease Liabilities	3,477	4,580	4,886	5,158
Other Financial Liabilities	-	-	-	15
Long-Term Provisions	6	6	6	7
Total Non Current Liabilities	3,483	4,586	4,893	5,179
Borrowings	99	115	14	9
Trade Payables	1,939	2,015	2,047	2,355
Lease Liabilities	669	795	769	855
Other Financial Liabilities	133	187	145	142
Other Current Liabilities	156	144	201	231
Provisions	25	25	8	10
Current Tax Liabilities (net)	18	-	43	-
Total Current Liabilities	3,039	3,281	3,226	3,602
Total Liabilities	13,215	16,174	16,593	17,396
Assets				
Property, Plant & Equipment	2,178	2,206	2,200	2,184
Capital Work In Progress	30	129	42	104
Right of Use Asset	3,702	4,825	4,996	5,263
Intangible Assets	50	50	40	34
Intangible Assets Under Development	10	1	3	4
Investments in Joint Venture	71	79	73	73
Other Financial Assets	360	392	433	464
Deferred Tax Assets (Net)	141	124	167	190
Non-Current Tax Assets	1	24	31	109
Other Non-Current Assets	20	28	29	33
Total Non Current Assets	6,564	7,857	8,014	8,456
Inventories	3,646	3,761	2,898	3,386
Investments	2,028	3,405	3,924	3,280
Trade Receivables	519	701	506	696
Cash and Cash Equivalents	115	105	263	194
Bank Balances	6	4	616	772
Loans	14	19	19	17
Other Financial Assets	21	71	131	163
Other Current Assets	303	251	223	432
Total Current Assets	6,652	8,317	8,579	8,940
Net Current Assets	3,613	5,036	5,353	5,337
Total Assets	13,215	16,174	16,593	17,396

Source: RHP, BP Equities Research

Key Risks

- ⇒ The current and continuing impact of Covid-19 pandemic on their business and operations has been significant, including its effect on the ability or desire of the customers to visit the stores. This may have an adverse impact the business prospects, strategies, business operations and the future financial performance.
- ⇒ The inability of Metro to identify customer demand accurately and maintain an optimal level of inventory in their stores may impact the business operations.
- ⇒ The inability of Metro to effectively manage or expand retail network and operations or pursue growth strategy. Their new stores may not achieve their expected level of profitability which may adversely affect their business operations, financial condition and various prospects.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001
BP Wealth Management Pvt. Ltd.
CIN No: U67190MH2005PTC154591
BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392