MOTILAL OSWAL FINANCIAL SERVICES

TOP PICK 2025

31 December 2024

Update | Sector: Retail

Metro Brands

BSE SENSEX	S&P CNX
78,248	23,645

metro BRANDS

Stock Info

Bloomberg	METROBRA IN
Equity Shares (m)	272
M.Cap.(INRb)/(USDb)	331.1 / 3.9
52-Week Range (INR)	1430 / 990
1, 6, 12 Rel. Per (%)	1/1/-13
12M Avg Val (INR M)	237

Financials & Valuations (INR b)

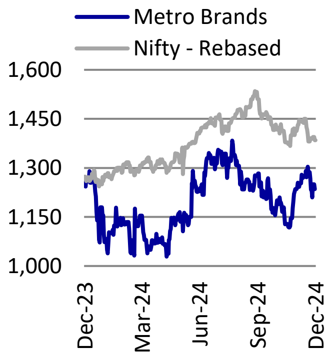
Y/E March	FY24	FY25E	FY26E
Sales	23.6	25.3	29.8
EBITDA	7.0	7.5	9.3
Adj. PAT	4.1	3.7	4.8
EBITDA Margin (%)	29.7	29.4	31.2
Adj. EPS (INR)	12.7	13.8	17.5
EPS Gr. (%)	(5.2)	8.5	26.9
BV/Sh. (INR)	70.2	81.8	96.6
Ratios			
Net D:E	0.1	(0.0)	(0.1)
RoE (%)	20.3	18.6	20.1
RoCE (%)	17.7	14.1	15.5
Payout (%)	14.8	17.7	17.6
Valuations			
P/E (x)	95.0	87.5	69.0
EV/EBITDA (x)	48.4	45.2	35.9
EV/Sales (X)	14.4	13.3	11.2
Div. Yield (%)	0.2	0.2	0.3

Shareholding Pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	72.0	74.2	74.2
DII	7.0	5.6	6.1
FII	3.4	3.1	2.3
Others	17.7	17.2	17.4

FII includes depository receipts

Stock Performance (1-year)



CMP: INR1,217 TP: INR1,460 (+20%) Buy

Long runway for growth

Metro Brands' (MBL) stock performance has been flattish in CY24 and has underperformed benchmark indices due to both internal and external factors. Internal factors included: a) the liquidation of old FILA inventory, which impacted gross margins, and b) a decline in revenue per sq. ft., driven by a lower share of Crocs in the incremental store rollouts. External factors included: a) challenges arising from the BIS implementation, which led to delays in the FILA expansion, and b) overall demand weakness in the footwear category. However, we believe these are short-term bumps and remain optimistic about the long-term outlook for MBL, given its: a) strong runway for growth, funded through internal accruals, and b) superior execution and store economics, as reflected by its healthy RoIC of 30%+. We reiterate our BUY rating with a TP of INR1,460 (based on 70x Dec'26E P/E).

FILA and Foot Locker ramp-up delayed, but remains the key growth driver

- Sports and Athleisure (S&A), the fastest-growing footwear category, was a key whitespace in MBL's portfolio. MBL addressed this by acquiring licenses for FILA and Foot Locker (Sneakers and Nike).
- MBL planned to relaunch FILA in FY25, but due to challenges arising from the BIS implementation, it has deferred the opening of FILA EBOs to 2HFY26.
- MBL opened its first Foot Locker store in 3QFY25, but the ramp-up is likely to be gradual, with only three leases signed so far.
- We view the delays as short-term bumps and believe that FILA and Foot Locker will continue to be key growth drivers for MBL in the long term.
- Given the long runway for growth in S&A, MBL can potentially open ~300 FILA EBOs, similar to the top sportswear brands in India, and generate ~INR6-9b sales over the medium term.
- Similarly, Foot Locker offers a premium play in sneakers for MBL and has the potential to generate ~INR2.5-6b in sales from tier 1 cities over the medium term.
- We believe that FILA and Foot Locker together could generate ~INR9-15b in sales (38-63% of MBL's FY24 revenue) at margins similar to MBL's existing margin profile over the medium term.

Superior store economics and cost controls to drive outperformance

- Weak discretionary spending over the past few quarters, along with BIS-related challenges, have weighed on MBL's performance as well, resulting in modest revenue growth of ~2% in 1HFY25.
- Despite weak revenue growth and the impact of FILA liquidation, strong cost controls have helped MBL maintain its gross, EBITDA, and PAT margins at 57%, 28%, and 14%, respectively, all of which remained within the guided range in 1HFY25.
- In our view, MBL's superior store economics (~INR20k SPSF, ~2 years store payback), combined with its strong cost controls, has enabled it to continue its outperformance over other footwear peers.
- With the liquidation of FILA inventory largely behind and a higher number of wedding days, we expect both SSSG and margins to improve from 2HFY25.

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Long runway for growth funded by internal accruals

- MBL has a presence of 873 stores across its formats in <200 cities compared to 400+ cities for Titan and ~600+ cities for Raymond, offering a long runway for growth.
- MBL can expand its presence to 300 cities for its Metro and Mochi formats, while also deepening its presence in existing cities over the medium term.
- The company is focused on refining the store economics for its value format, Walkway, which we believe could expand its presence in tier 3+ cities.
- Further, the ramp-up of recent additions to MBL's portfolio, such as FILA and Foot Locker, provides a long runway for growth.
- With a strong net cash balance sheet and healthy OCF generation of ~INR13.5b over FY24-27, MBL can potentially double its store count (average capex of INR10-12m per store) over the next three years through internal accruals.
- Conservatively, we assume ~100-110 store additions on average annually over FY24-27 (vs. an average of 380 annually based on MBL's OCF generation).

Valuation and view

- MBL trades at a rich valuation, with a P/E of ~70x on FY26 EPS, driven by: a) superior store economics, with industry-leading store productivity and strong cost controls, and b) a long runway for growth, largely funded through internal accruals, given its strong balance sheet and healthy RoIC of ~30%+.
- Although the ramp-up of FILA and Foot Locker has been delayed due to challenges posed by BIS implementation, we continue to view FILA and Foot Locker as key growth drivers for MBL in the medium term.
- Our earnings estimates remain largely unchanged. We factor in 14% revenue CAGR over FY24-27, driven by ~12% footprint CAGR and ~17%/20% EBITDA/PAT CAGR over FY24-27, supported by continued strong cost controls.
- We value MBL at 70x Dec'26 PE to arrive at a valuation of INR1,460 per share. We have not factored any significant contribution from FILA and Foot Locker in our estimates till FY27, and a faster ramp-up could provide further upside potential.
- Our TP implies ~12%/13% revenue/EBITDA CAGR over FY25-50E, driven by a) ~7% CAGR in store additions, b) ~4% annual increase in store sales throughput, c) discount rate of 10.5%, d) a terminal growth rate of 6.5% and e) FCF to pre IND-AS 116 EBITDA improving from ~41% in FY24 to ~70% by FY2035.

MBL: Leading footwear retailer in India

Superlative store economics

- **Focus on building an asset-light model:** MBL operates in the premium footwear space through its own retail network (COCO model) via leased stores. The company aims to make each store profitable within its first year. The management believes that if a retail store incurs losses in its first year, it becomes challenging to turn it around as costs tend to rise each subsequent year.
- **Superlative store economics:** MBL's success lies in maintaining superlative store economics while continuing to roll out stores at a robust pace.
- The company's focus on full-price sales while driving premiumization has led to category-leading store productivity of over INR20,000/sq. ft. (including omni-channel sales).
- Further, MBL's cost controls and incentive structure for store-level employees have contributed to an efficient retail network, with a robust store-level EBITDA margin of ~23% and a superior store payback period of around two years.
- MBL's focus on maintaining superlative store-level economics has allowed the company to replicate its success across multiple formats (Metro, Mochi, Crocs etc), driving its store expansion and contributing to overall growth.

Exhibit 1: MBL's superior store productivity and cost controls have led to superlative store economics, with a payback period of ~2 years

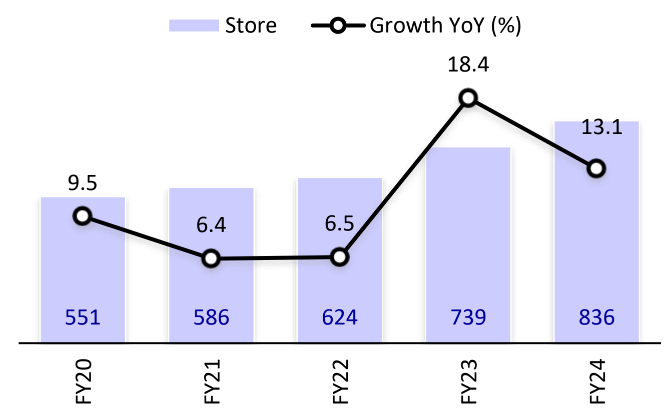
Store economics	INR m/month	INR m	INR/sq. ft
Revenue	**2.49**	**29.9**	**22,612**
COGS	1.05	12.5	9,475
Gross margin	**1.45**	**17.4**	**13,137**
Employee cost	0.24	2.9	2,187
Other expenses	0.32	3.8	2,882
Rentals	0.32	3.8	2,907
Cost of retailing	0.88	10.6	7,976
pre-IND AS 116 EBITDA	**0.57**	**6.8**	**5,161**
Margin		**23**	
Depreciation	0.06	0.7	554
EBIT	**0.51**	**6.1**	**4,607**
Less: Taxes	0.13	1.5	1,160
PAT	**0.38**	**4.6**	**3,447**
Margin		15	
OCF	**0.44**	**5.3**	**4,001**
Capex		**11**	**8,311**
Store		5	3,778
Inventory		5	3,778
Deposits		1	756
Store RoIC		**41%**	
Store payback (years)		**2**	

Source: MOFSL, Company

Premiumization and strong cost controls led strong operating performance:

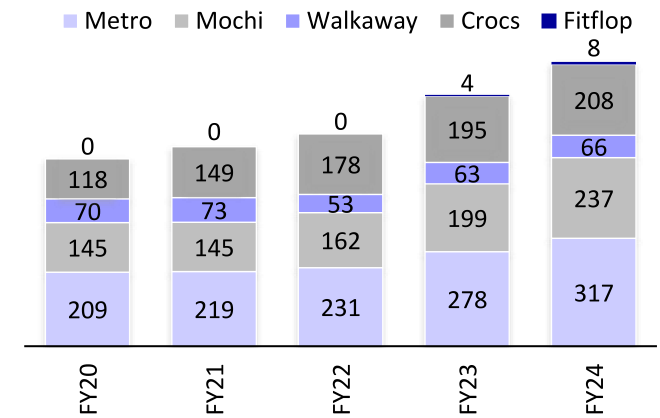
- Despite the impact of COVID-19, MBL posted a robust ~11% store additions CAGR over FY20-24. Combined with mid-to-high single-digit SSSG, this enabled the company to clock ~16% revenue CAGR over FY20-24.
- MBL's focus on premiumization (share of INR3k/pair rising to 50%+) and full-price sales has helped it expand gross margins by ~250bp over FY20-24 to ~58%.
- The company's strong cost controls allowed it to expand its reported EBITDA margins by ~220bp over FY20-24 to ~30%, delivering 19%/21% EBITDA/PAT CAGR over the same period.

Exhibit 2: MBL recorded ~11% store additions over FY20-24



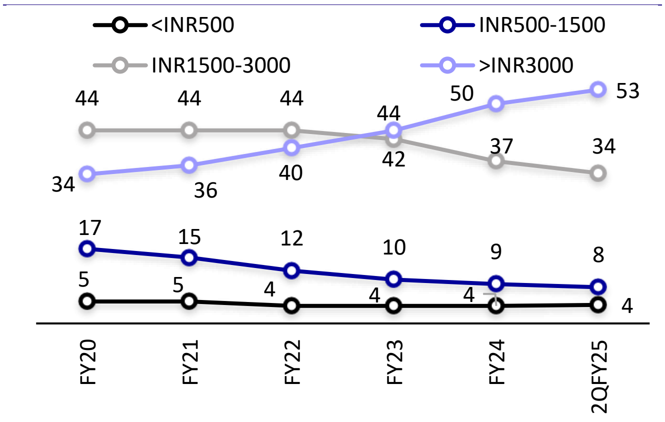
Source: MOFSL, Company

Exhibit 3: Crocs, Mochi, and Metro make up the bulk of MBL's stores



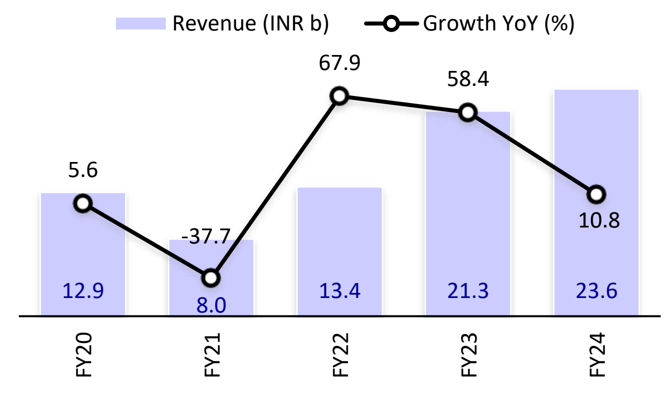
Source: MOFSL, Company

Exhibit 4: Share of INR3,000+ footwear in MBL's mix on a rising trend



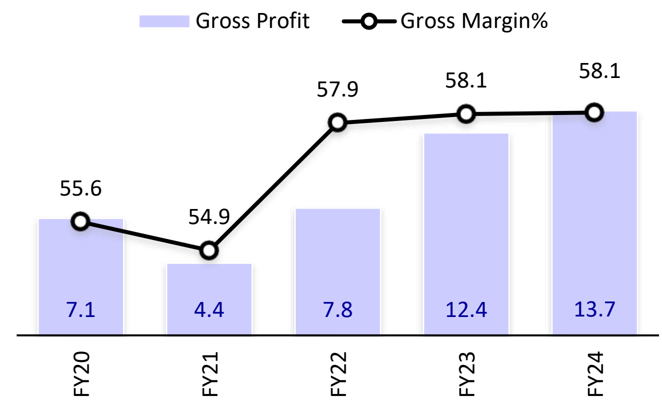
Source: MOFSL, Company

Exhibit 5: MBL clocked ~16% revenue CAGR over FY20-24



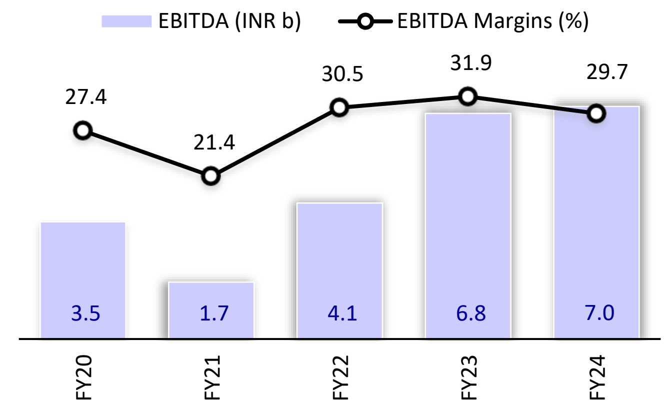
Source: MOFSL, Company

Exhibit 6: GP margin expanded ~250bp to ~58% over FY20-24



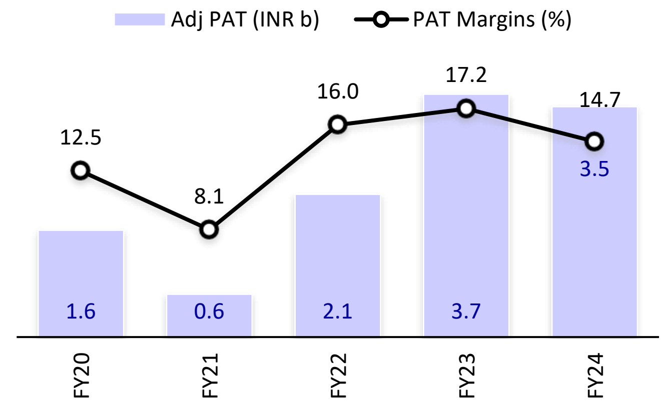
Source: MOFSL, Company

Exhibit 7: EBITDA margin expanded ~220bp over FY20-24, driving ~19% EBITDA CAGR over FY20-24



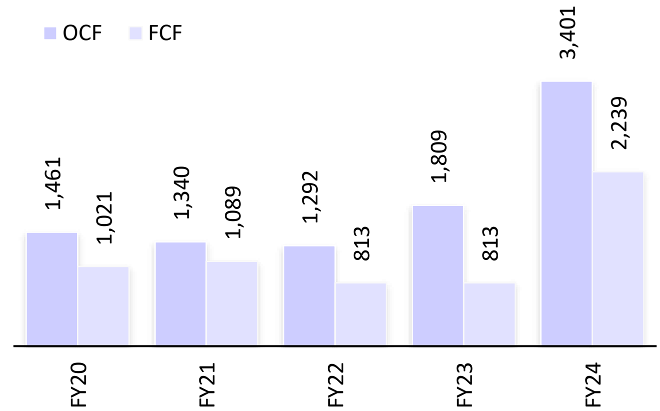
Source: MOFSL, Company

Exhibit 8: MBL posted ~21% CAGR in adjusted PAT over FY20-24



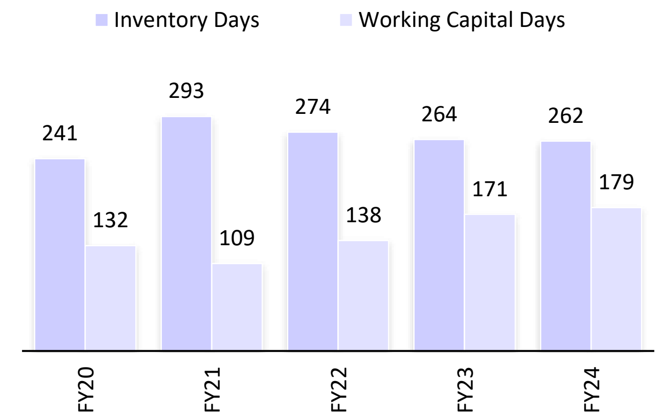
Source: MOFSL, Company

Exhibit 9: Cash generation remained robust despite COVID-19-led demand disruption



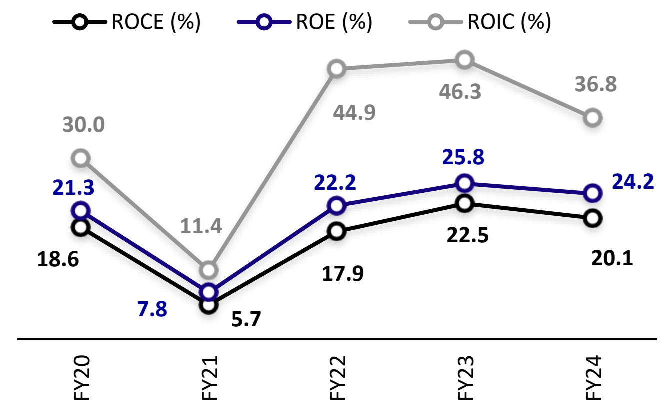
Source: MOFSL, Company

Exhibit 10: MBL's inventory and WC days increased recently due to pre-buying ahead of the BIS deadline



Source: MOFSL, Company

Exhibit 11: MBL had strong return ratios over FY20-24



Source: MOFSL, Company

Long runway for growth with store additions funded by internal accruals

- While MBL has doubled its store count over the last six years, we note that its store count is still half of the other leading footwear retailer, BATA.
- Further, we note that MBL has an overall presence in <200 cities across its MBO/EBO formats compared to 300+ cities for Titan and ~600+ cities for Raymond, offering a long runway for growth.
- Over the medium term, we believe MBL can expand its presence to 300 cities for its Metro and Mochi formats, while also deepening its presence in existing cities.
- MBL is focused on refining the store economics for its value format, Walkway, which we believe could expand MBL's presence in tier 3+ cities.
- Further, the ramp-up of recent additions in MBL's portfolio, such as FILA and Foot Locker, provides a long runway for growth.
- **Internally funded expansion:** With a strong net cash balance sheet and healthy OCF generation of ~INR13.5b over FY24-27, MBL can potentially double its store count (average capex of INR10-12m per store) over the next three years from its internal accruals.
- Conservatively, we assume ~100-110 store additions on average annually over FY24-27 (vs. an average of 380 annually based on MBL's OCF generation).
- Overall, we factor in ~14% revenue CAGR over FY24-27, driven by ~12% footprint CAGR and mid-single digit annual growth in same store sales.

Exhibit 12: MBL has a presence in 198 cities through its seven store formats

MBL store formats	Stores	Cities
Metro	332	171
Mochi	249	122
Crocs	213	97
Walkaway	67	46
Fitflop	10	8
Fila	2	1
Foot Locker	1	1

Source: MOFSL, Company

Exhibit 13: MBL's presence (198 cities) significantly lower vs. Raymond (600 cities), Titan (429 cities), and Bata (1,500+ cities)

Presence	Stores	Cities
MBL (5 formats)	871	198
Bata (COCO+FOFO stores)	1,955	1,560
Raymond Lifestyle	1,470	600
Vedant Fashion	650	243
DMart	377	NA
Vishal MM	645	414
V-Mart	444	288
Zudio	585	183
Titan	3,171	429

Source: MOFSL, Company

Exhibit 14: We ascribe a TP of INR1,460 to MBL based on 70x Dec'26 P/E

(INR/share)	Dec'26
EPS (INR)	20.8
Target P/E (x)	70
Target Price	**1,460**
CMP	1,217
Upside (%)	20%

Source: MOFSL

Exhibit 15: Implied revenue / EBITDA CAGR for MBL based on our TP

MBL	FY25-35E	FY35-50E	FY25-50E
Store additions CAGR	10.4%	5.2%	7.3%
Revenue/store CAGR	4.8%	3.5%	4.0%
Revenue CAGR	15.8%	9.0%	11.7%
EBITDA CAGR	**18.9%**	**9.2%**	**13.0%**

Source: MOFSL

Exhibit 16: DCF assumptions for our TP of INR1,460/share

DCF valuation		
WACC	%	10.5%
Terminal growth	%	6.5%
PV of FCF (FY25-50E)	**INR b**	**200**
Exit FCF multiple	x	26.6
PV of terminal value	**INR b**	**197**
Enterprise value	INR b	396
Market cap	**INR b**	**396**
Target Price	**INR/sh**	**1,460**

Source: MOFSL, Company

Exhibit 17: Sensitivity of our TP to discount rate and terminal growth rate

TP (INR/sh)		Discount rate (%)				
		9.5%	10.0%	10.5%	11.0%	11.5%
Terminal growth (%)	5.5%	1,446	1,367	1,304	1,252	1,209
	6.0%	1,555	1,453	1,373	1,309	1,257
	6.5%	1,701	1,563	**1,460**	1,379	1,315
	7.0%	1,906	1,711	1,571	1,467	1,385
	7.5%	2,212	1,917	1,720	1,579	1,474

Source: MOFSL, Company

FILA: Addresses the whitespace in MBL's S&A portfolio

Post-COVID-19, the S&A category has seen a rapid growth in India, with S&A footwear brands such as Puma, Adidas, Asics, and Campus posting 20%+ revenue CAGR over FY19-23. With a rising focus on fitness, we expect S&A to remain the fastest-growing category in the Indian footwear market over the medium term.

MBL had a presence in the S&A category through the sale of third-party brands such as Skechers, Adidas, and Reebok in its Metro/Mochi stores. However, it had just one own brand in the S&A category – "Activ".

To address the whitespace in its portfolio, MBL acquired Cravatex Brands (CBL) in Dec'22. CBL held the license for the FILA brand in India (and a few other countries in the Indian subcontinent) and also owned the Indian sportswear brand Proline. Under the licensing agreement, MBL has: a) the freedom to design products, b) 100% flexibility on sourcing, and c) full freedom on pricing.

FILA has strong brand recall but a limited presence in India

- FILA is a well-recognized brand globally, particularly in the US, South Korea, and China (license with Anta). Even in India, FILA has a strong brand awareness, though its brand salience needs to be re-established.
- Despite a strong brand recall, FILA had a limited presence compared to top MNC sportswear brands such as Puma, Adidas, Nike, and Skechers, which dominate the Indian sportswear market.
  - Top MNC sportswear brands such as Puma, Adidas and Skechers have a retail presence of 400+ stores in India with revenues ranging from INR18-33b, compared to a modest turnover of ~INR1.6b for CBL (FY22, including Proline).
  - Under the MBL umbrella, FILA could expect a revival in brand salience, given the company's ability to nurture affordable premium brands.

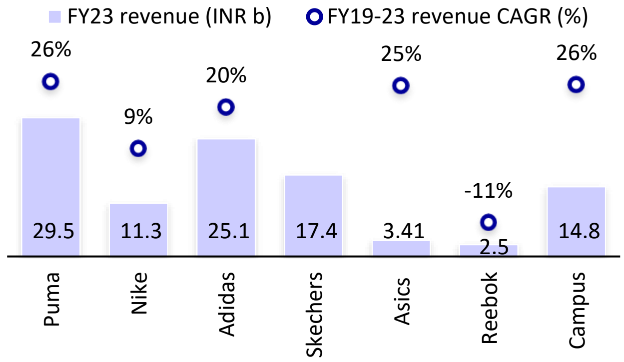
Exhibit 18: Puma, Adidas, Nike, and Skechers are among the leading S&A brands in India

Brands	Stores	Store count as on	Revenue (INRb) - FY24
Adidas	450	May'24	~25*
Asics	103	Mar'24	~3.5*
Nike	115	Jul'24	~12
Puma	447	Sep'24	~33
Reebok	170	Jan'24	~4
Skechers	427	Dec'24	~17.5

*FY23 revenue

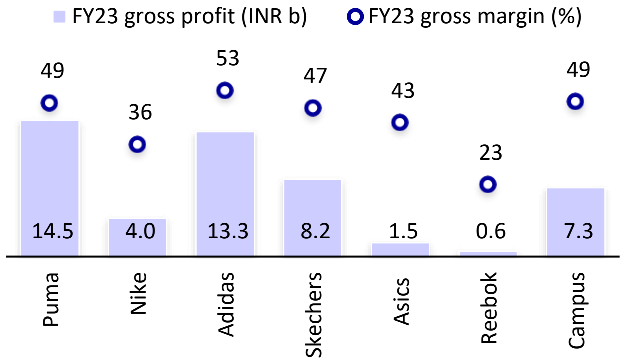
Source: MOFSL, Company

Exhibit 19: Revenue and growth rate for top S&A brands in India



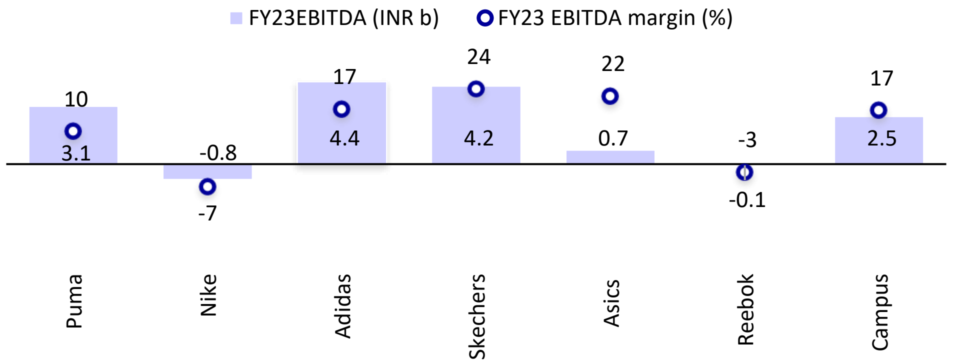
Source: MOFSL, Company

Exhibit 20: Gross profit and gross margin for top S&A brands in India



Source: MOFSL, Company

Exhibit 21: EBITDA and EBITDA margin for top S&A brands in India



Source: MOFSL, Company

BIS-led delays in the expansion plan, but FILA remains a key growth driver

- MBL's initial focus for FILA was on re-energizing the brand by clearing existing inventory and exiting low-margin channels. The company has closed most of FILA's existing EBOs (except for two) and largely completed the liquidation of FILA's old inventory by 2QFY25.
- MBL planned to relaunch FILA in FY25 and start opening EBOs by 2HFY25. The company has recently launched new offerings under FILA in its Metro/Mochi stores. However, due to challenges posed by BIS implementation, the plans of opening FILA EBOs has been deferred to 2HFY26.
- We believe the delays are short-term bumps, but FILA remains a key growth driver for MBL. Over the medium term, MBL can potentially open ~300 FILA EBOs, similar to the top sportswear brands in India.
- **Apparel:** We believe apparel also contributes a significant share to the top sportswear brands in India. Apparels would be a new category for MBL and hence the initial focus in FILA is likely to be on the footwear opportunity. However, over time, FILA could also provide an apparel play for MBL.
- **Price range:** Currently, MBL has launched FILA in the price range of INR5,000-12,000, with INR8,000 being the most popular selling price point. We believe this price point is at a significant premium to Puma and even opening price points for Adidas.

- Given the higher opening price points, we expect FILA to be accretive to MBL's current blended ASP of INR1,500. Further, the gross margin for FILA will likely be similar to that of the existing portfolio. However, over time, we believe MBL will need to increase spends on advertisements and promotions for FILA.

- **Stores and revenue potential:** Over the medium term, MBL can potentially open ~300 FILA stores. The size of a typical FILA store is expected to be similar to Metro/Mochi stores, ranging from ~1,200 to 1,800 sq. ft. with space allocated for both footwear and apparel.
  Over the medium term, we expect FILA to deliver revenue productivity per store similar to MBL's existing formats. We believe FILA can potentially contribute ~INR6-9b to MBL's revenue (~25-38% of MBL's FY24 revenue).

Exhibit 22: FILA can contribute ~INR6-9b over the medium term (~25-38% of MBL's FY24 revenue)

Scenarios	Bear	Base	Bull
Potential store rollout	200	300	400
Revenue per store (INRm)	20	25	30
Revenue (INRb)	4	7.5	12
% of Metro on FY24	***17%***	***32%***	***51%***
EBITDA (INRm)	720	1,500	2,640
margin	*18%*	*20%*	*22%*
% of Metro on FY24	***10%***	***21%***	***38%***
PAT (INRm)	480	1125	2,040
margin	*12%*	*15%*	*17%*
% of Metro on FY24	***14%***	***32%***	***59%***

Source: MOFSL

Foot Locker: To boost premium sneakers play

Foot Locker — a leading footwear and apparel retailer

- Foot Locker operates around 2,600 retail stores in 26 countries across North America, Europe, Asia, Australia, and New Zealand, and has presence through franchise stores in the Middle East and Asia.
- It has a strong brand association with sneakers and operates a portfolio of brands, including Foot Locker, Kids Foot Locker, Champs Sports, WSS, Atmos, and Footaction.
- Foot Locker curates exclusive product assortments from brands such as Nike Jordans, Adidas Originals, and Puma, as well as new and emerging brands in the athletic and lifestyle space. This, along with its marketing content, helps position Foot Locker as a premium brand.
- Nike contributed around 65% of Foot Locker's total sales, while the top five brands contributed ~84% of supplies as of CY23.

Foot Locker to boost MBL's play in premium sneakers

- MBL has signed a multi-decade-long licensing agreement with auto-renewal clauses for operating Foot Locker offline stores in India.
- The company has an exclusive right to own and operate Foot Locker stores in India, while Nykaa Fashions would manage its online presence in India. MBL will have to pay royalty on Foot Locker sales in India.
- MBL has recently opened its first Foot Locker store in Delhi and plans to add 3-4 more stores in the near term.
- Given the impact of BIS implementation on imports of high-end shoes, MBL will take a cautious approach to Foot Locker's expansion. However, the management believes that Foot Locker can have a presence of ~50 stores in top cities across India.
- Foot Locker's average store size in the US is ~3,200sq. ft., while its international stores have an average size of ~2,000 sq. ft. Kids Foot Locker stores have an average size of ~ 1,900sq. ft.
- **In India, the average store size could be 2-2.5x of Metro/Mochi -** In India, MBL plans to open stores in two variants: a) core stores spanning 3-5k sq. ft. and b) larger power stores spanning 5-7k sq. ft.
- **Target ASP could be 3x MBL's blended ASPs:** Foot Locker's average store size as well as ASP could be 3x that of MBL's existing Metro/Mochi formats. Further, Foot Locker will have a larger play on apparel and accessories (recent tie-up with New Era for premium caps).
- **INR2.5-6b medium-term revenue potential:** We believe Foot Locker's revenue per store could be significantly higher than MBL's current annual store productivity of ~INR25-30m/store. Assuming INR50-60m sales per store and 50-100 stores over the medium term, we believe Foot Locker could contribute ~INR2.5-6b to MBL's revenue (~11-16% of MBL's FY24 revenue).
- **Lower GM, but likely higher EBITDA/store:** Foot Locker's gross margins would be lower than Metro's margin of ~55-57%, given the higher salience of third-party brands. However, with higher revenue per store and MBL's strong cost controls, we expect it to generate higher absolute EBITDA/store.
- **New Era:** New Era offers a niche play in the premium headgear category, with caps priced in the range of INR3k-4k. MBL has launched three kiosks so far and expects New Ear to complement the premium offerings in Foot Locker stores. MBL will purchase New Era products at a specific price with a set mark-up, and the inventory risk will be borne by MBL.

Exhibit 23: Foot Locker can contribute ~INR2.5-6b to MBL's revenue over the medium term

Scenario	Bear	Base	Bull
Potential store rollout	50	100	150
Revenue per store (INRm)	50	60	75
Revenue (INRb)	2.5	6	11.25
% of Metro on FY24	***11%***	***25%***	***48%***
EBITDA (INRm)	450	1,200	2,475
Margin	*18%*	*20%*	*22%*
% of Metro on FY24	***6%***	***17%***	***35%***
PAT (INRm)	300	900	1,913
Margin	*12%*	*15%*	*17%*
% of Metro on FY24	***9%***	***26%***	***55%***

Source: MOFSL, Company

We have not factored in any significant earnings contribution from FILA and Foot Locker till FY27, but we believe both formats put together can add ~INR9-15b in revenue for MBL over the medium term (i.e. 38-63% of MBL's FY24 revenue). MBL will target not to dilute EBITDA/PAT margins with the store rollouts. Since both brands are in the initial stages of investment, successful execution will be critical.

Exhibit 24: FILA and Foot Locker ramp-up provides significant growth opportunity for MBL in the medium term

Scenario	FILA			Foot Locker			FILA + Foot Locker		
	Bear	Base	Bull	Bear	Base	Bull	Bear	Base	Bull
Potential store rollout	200	300	400	50	100	150	250	400	550
Revenue per store (INRm)	20	25	30	50	60	75			
Revenue (INRb)	4	7.5	12	2.5	6	11.25	6.5	13.5	23.25
% of Metro on FY24	***17%***	***32%***	***51%***	***11%***	***25%***	***48%***	***28%***	***57%***	***99%***
EBITDA (INRm)	720	1,500	2,640	450	1,200	2,475	1,170	2,700	5,115
Margin	*18%*	*20%*	*22%*	*18%*	*20%*	*22%*	*18%*	*20%*	*20%*
% of Metro on FY24	***10%***	***21%***	***38%***	***6%***	***17%***	***35%***	***16%***	***38%***	***73%***
PAT (INRm)	480	1,125	2,040	300	900	1,913	780	2,025	3,953
Margin	*12%*	*15%*	*17%*	*12%*	*15%*	*17%*	*12%*	*15%*	*15%*
% of Metro on FY24	***14%***	***32%***	***59%***	***9%***	***26%***	***55%***	***23%***	***58%***	***114%***

Source: MOFSL, Company

Outperformed peers despite a challenging environment

- Due to macro challenges (weak demand post the COVID bump-up and challenges arising from BIS implementation), footwear companies' revenue growth has been tepid over the last 1-2 years.
  - However, MBL still outperformed its footwear peers, though the revenue growth rate moderated to single digits in 1HFY25 (vs. 15-18% earlier).
- The implementation of BIS standards for footwear has posed several challenges, including higher inventory levels due to advanced purchases made ahead of the deadline.
  - MBL's inventory days increased as a result of advanced procurement. Further, BIS related challenges have also led to delays in the company's plans for FILA and Foot Locker store additions.
- We expect an improvement in footwear demand as: a) the high base normalizes from 2HFY25, b) discretionary spending revives from 2HFY25, driven by the festive and wedding seasons, and c) further clarity emerges on the BIS standards.

Exhibit 25: MBL and other footwear stocks under our coverage have underperformed major indices in last two year

Price performance	1W	1M	6M	1Y	2Y
Nifty 50	(0.3)	(2.0)	(1.5)	8.8	30.6
Metro	(1.3)	(1.5)	(0.9)	(4.4)	37.7
Relaxo	(1.0)	(7.5)	(25.1)	(31.4)	(31.9)
Bata	1.0	(2.5)	(9.2)	(16.7)	(16.6)
Campus	9.4	13.3	10.7	15.3	(21.9)

Source: MOFSL, Company

Exhibit 26: MBL outperformed its peers in all the metrics over the last 2-4 years

CAGR %	Revenue		Gross Profit		Pre Ind-AS 116 EBITDA		PAT	
	FY22-24	FY20-24	FY22-24	FY20-24	FY22-24	FY20-24	FY22-24	FY20-24
Bata	21	3	24	3	68	-5	60	-5
Metro	**32**	**16**	**33**	**18**	**26**	**19**	**28**	**22**
Campus	10	19	12	21	-7	10	-9	9
Relaxo	5	5	9	5	2	2	-7	-3

Source: MOFSL, Company

Exhibit 27: MBL's outperformance over other footwear stocks in our coverage likely to continue over FY25-27

Footwear stocks	M.Cap (INR b)	CMP (INR)	Revenue (INR b)			Revenue growth (%)			PAT (INR b)			PAT margin (%)		
			FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Metro	329	1,210	25	30	35	7.4	17.6	17.5	3.8	4.8	6.0	14.9	16.0	17.0
Relaxo	155	621	30	34	37	4.5	10.2	10.2	2.1	2.6	3.2	6.8	7.7	8.7
Bata	176	1,373	36	39	42	4.3	7.1	7.1	3.0	3.4	4.2	8.3	8.8	10.0
Campus	99	323	16	18	21	8.8	14.4	14.4	1.2	1.6	2.1	7.6	9.0	10.3

Source: MOFSL, Company

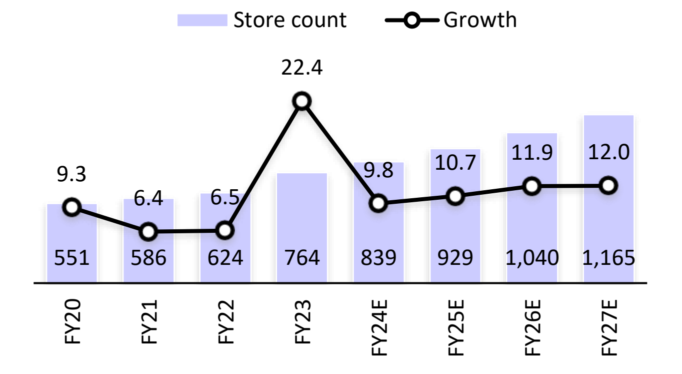
Exhibit 28: MBL justifiably trades at a premium to its footwear peers

Footwear stocks	ROCE (%) (Pre Ind AS-116)			EV/Sales			EV/EBITDA (Pre Ind AS-116)			P/E		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Metro	14.9	16.6	18.0	13.3	11.2	9.4	67.2	51.2	40.0	88	69	55
Relaxo	9.8	11.4	12.9	5.0	4.5	4.1	55.3	45.7	38.8	75	59	48
Bata	20.4	21.3	23.3	5.1	4.7	4.4	41.2	33.4	27.3	59	52	42
Campus	16.7	18.7	20.3	6.5	5.5	4.8	42.8	33.5	26.5	82	61	46

Source: MOFSL, Company

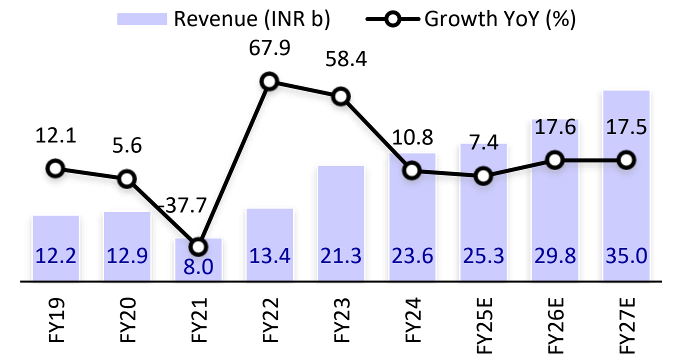
Financial story in charts

Exhibit 29: Expect ~12% CAGR in store additions over FY24-27…



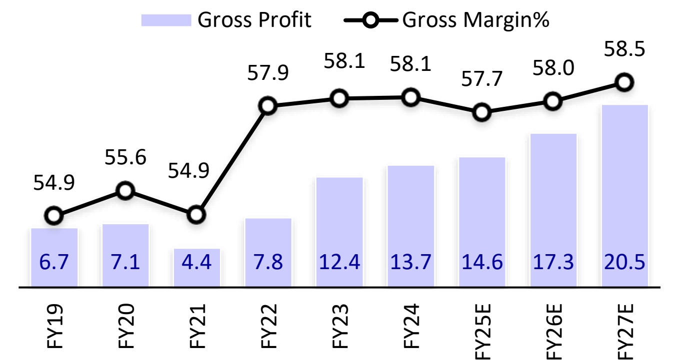
Source: MOFSL, Company

Exhibit 30: … to drive ~14% revenue CAGR over FY24-27



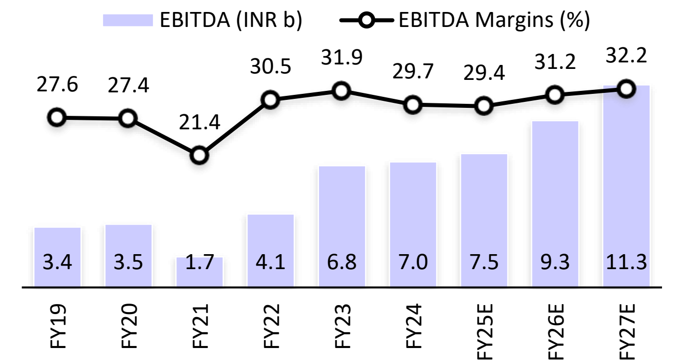
Source: MOFSL, Company

Exhibit 31: Expect gross margin expansion of ~40bp over FY24-27 to drive ~14% gross profit CAGR over FY24-27



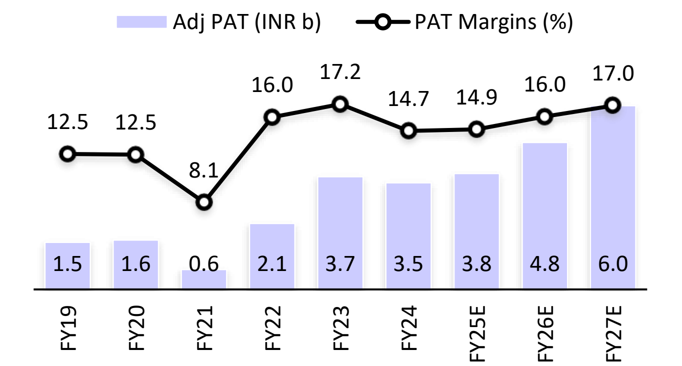
Source: MOFSL, Company

Exhibit 32: Expect ~17% EBITDA CAGR over FY24-27, driven by margin expansion



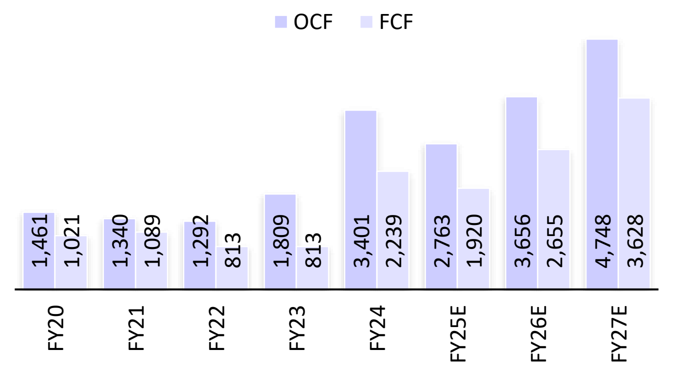
Source: MOFSL, Company

Exhibit 33: Expect PAT CAGR of 20% over FY24-27



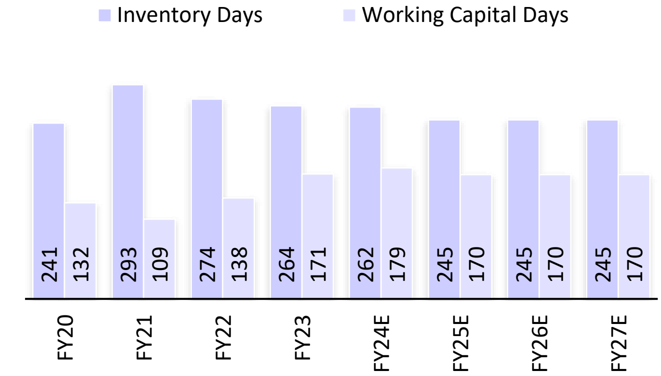
Source: MOFSL, Company

Exhibit 34: Expect cash generation to remain robust



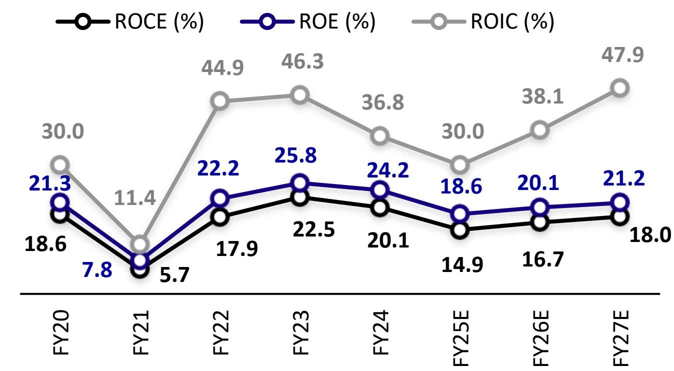
Source: MOFSL, Company

Exhibit 35: We expect inventory and WC days to moderate from FY24 levels



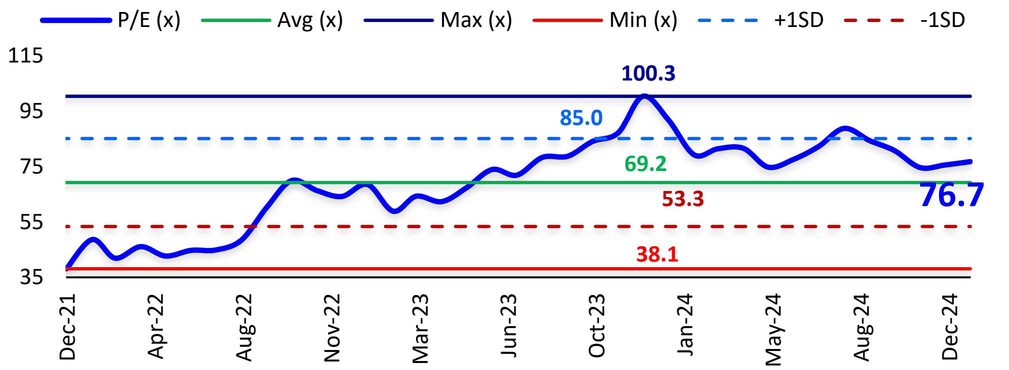
Source: MOFSL, Company

Exhibit 36: Return ratios to improve further over FY24-27



Source: MOFSL, Company

Exhibit 37: MBL trades at ~77x one-year rolling forward P/E



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement (INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	**12,852**	**8,001**	**13,429**	**21,271**	**23,567**	**25,313**	**29,759**	**34,975**
Change (%)	5.6	-37.7	67.9	58.4	10.8	7.4	17.6	17.5
Raw Materials	5,707	3,605	5,659	8,920	9,875	10,708	12,500	14,516
Gross Profit	**7,145**	**4,396**	**7,770**	**12,351**	**13,692**	**14,605**	**17,259**	**20,460**
Margin (%)	55.6	54.9	57.9	58.1	58.1	57.7	58.0	58.5
Employees Cost	1,268	1,026	1,212	1,843	2,280	2,468	2,753	3,148
Other Expenses	2,351	1,655	2,466	3,720	4,417	4,683	5,208	6,033
Total Expenditure	**9,325**	**6,285**	**9,338**	**14,483**	**16,571**	**17,859**	**20,460**	**23,697**
% of Sales	72.6	78.6	69.5	68.1	70.3	70.6	68.8	67.8
EBITDA	**3,527**	**1,715**	**4,092**	**6,788**	**6,996**	**7,454**	**9,299**	**11,279**
Margin (%)	27.4	21.4	30.5	31.9	29.7	29.4	31.2	32.2
Depreciation	1,206	1,218	1,342	1,810	2,291	2,502	2,902	3,291
EBIT	**2,321**	**497**	**2,749**	**4,978**	**4,704**	**4,952**	**6,397**	**7,987**
Int. and Finance Charges	395	437	504	631	789	885	1,023	1,118
Other Income	259	785	586	544	708	935	1,028	1,131
PBT bef. EO Exp.	**2,184**	**845**	**2,831**	**4,891**	**4,624**	**5,002**	**6,402**	**8,000**
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	**2,184**	**845**	**2,831**	**4,891**	**4,624**	**5,002**	**6,402**	**8,000**
Total Tax	587	193	702	1,257	499	1,247	1,632	2,040
Tax Rate (%)	26.9	22.8	24.8	25.7	10.8	24.9	25.5	25.5
Minority Interest	8	-6	15	-19	1	5	0	0
Reported PAT	**1,589**	**658**	**2,115**	**3,653**	**4,124**	**3,749**	**4,769**	**5,960**
Adjusted PAT	**1,589**	**658**	**2,115**	**3,654**	**3,465**	**3,759**	**4,769**	**5,960**
Change (%)	6.2	-58.6	221.3	72.8	-5.2	8.5	26.9	25.0
Margin (%)	12.4	8.2	15.7	17.2	14.7	14.9	16.0	17.0

Consolidated - Balance Sheet (INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	1,328	1,328	1,358	1,359	1,360	1,360	1,360	1,360
Total Reserves	6,980	7,147	11,289	14,118	17,278	20,369	24,297	29,207
Net Worth	**8,308**	**8,474**	**12,647**	**15,477**	**18,637**	**21,728**	**25,657**	**30,566**
Minority Interest	0	0	224	264	294	294	294	294
Total Loans	5,491	5,669	6,922	9,430	10,984	11,533	12,363	13,505
Lease Laibilities	5,376	5,655	6,922	9,414	10,984	11,533	12,363	13,505
Deferred Tax Liabilities	0	0	0	0	0	0	0	0
Other Liabilities	6	6	6	45	10	10	10	10
Capital Employed	**13,804**	**14,150**	**19,800**	**25,216**	**29,926**	**33,565**	**38,324**	**44,375**
Gross Block	9,798	10,394	12,765	17,904	21,412	24,084	27,199	30,862
Less: Accum. Deprn.	2,718	3,158	4,287	4,883	6,589	9,091	11,993	15,284
Net Fixed Assets	**7,080**	**7,236**	**8,478**	**13,021**	**14,823**	**14,993**	**15,206**	**15,578**
Other Non-Current	444	493	614	661	795	795	795	795
Capital WIP	130	45	62	178	93	178	178	178
Total Investments	**3,484**	**3,997**	**3,625**	**4,778**	**7,851**	**7,851**	**7,851**	**7,851**
Curr. Assets, Loans&Adv.	**4,912**	**4,655**	**10,140**	**10,579**	**9,566**	**13,396**	**18,628**	**25,090**
Inventory	3,761	2,898	4,242	6,458	7,102	7,188	8,390	9,744
Account Receivables	701	506	577	1,261	757	1,734	2,038	2,396
Cash and Bank Balance	109	879	4,350	1,985	1,123	3,795	7,508	12,255
Loans and Advances	341	373	971	875	585	680	692	695
Curr. Liability & Prov.	**2,370**	**2,444**	**3,342**	**4,056**	**3,601**	**4,047**	**4,734**	**5,516**
Account Payables	2,015	2,047	2,343	2,813	2,570	2,934	3,425	3,977
Other Current Liabilities	331	389	958	1,114	950	1,013	1,190	1,399
Provisions	25	8	40	129	80	101	119	140
Net Current Assets	**2,542**	**2,212**	**6,798**	**6,522**	**5,965**	**9,349**	**13,895**	**19,574**
Deferred Tax assets	124	167	223	56	399	399	399	399
Misc Expenditure	0	0	0	0	0	0	0	0
Appl. of Funds	**13,804**	**14,150**	**19,800**	**25,216**	**29,926**	**33,566**	**38,324**	**44,376**

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)								
EPS	**6.0**	**2.5**	**7.8**	**13.4**	**12.7**	**13.8**	**17.5**	**21.9**
Cash EPS	10.5	7.1	13.0	20.6	21.7	23.6	28.9	34.8
BV/Share	31.3	31.9	47.6	58.3	70.2	81.8	96.6	115.1
DPS	3.0	1.1	0.8	5.0	2.2	2.4	3.1	3.9
Payout (%)	25.1	45.4	9.6	37.2	14.8	17.7	17.6	17.6
Valuation (x)								
P/E	202.2	488.2	155.3	90.0	95.0	87.5	69.0	55.2
Cash P/E	115.0	171.2	92.9	58.8	55.8	51.3	41.9	34.7
P/BV	38.7	37.9	25.4	20.8	17.2	14.8	12.5	10.5
EV/Sales	12.9	40.8	24.7	15.8	14.4	13.3	11.2	9.4
EV/EBITDA	47.1	190.1	80.9	49.5	48.4	45.2	35.9	29.3
Dividend Yield (%)	0.2	0.1	0.1	0.4	0.2	0.2	0.3	0.3
FCF per share	17.3	9.0	8.6	10.3	17.4	17.1	21.5	26.4
Return Ratios (%)								
RoE	21.2	7.8	20.0	26.0	20.3	18.6	20.1	21.2
RoCE	15.3	7.1	14.9	18.4	17.7	14.1	15.5	16.6
RoIC	18.1	4.0	19.7	24.6	21.4	17.4	21.4	25.4
Working Capital Ratios								
Fixed Asset Turnover (x)	1.3	0.8	1.1	1.2	1.1	1.1	1.1	1.1
Asset Turnover (x)	0.9	0.6	0.7	0.8	0.8	0.8	0.8	0.8
Inventory (Days)	241	293	274	264	262	245	245	245
Debtor (Days)	20	23	16	22	12	25	25	25
Creditor (Days)	129	207	151	115	95	100	100	100
Leverage Ratio (x)	132	109	138	171	179	170	170	170
Current Ratio	2.1	1.9	3.0	2.6	2.7	3.3	3.9	4.5
Interest Cover Ratio	5.9	1.1	5.5	7.9	6.0	5.6	6.3	7.1
Net Debt/Equity	0.2	0.1	-0.1	0.2	0.1	0.0	-0.1	-0.2

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	2,184	845	2,831	4,891	4,624	5,002	6,402	8,000
Depreciation	1,206	1,218	1,342	1,810	2,291	2,502	2,902	3,291
Interest & Finance Charges	395	437	491	631	789	885	1,023	1,118
Direct Taxes Paid	-608	-204	-715	-1,412	-840	-1,247	-1,632	-2,040
(Inc)/Dec in WC	-156	1,135	-638	-1,727	-490	-712	-832	-932
CF from Operations	**3,021**	**3,432**	**3,312**	**4,193**	**6,374**	**6,430**	**7,862**	**9,438**
Others	-291	-779	-491	-386	-474	-935	-1,028	-1,131
CF from Operating incl EO	**2,731**	**2,653**	**2,821**	**3,807**	**5,901**	**5,495**	**6,834**	**8,307**
(Inc)/Dec in FA	-440	-251	-479	-996	-1,161	-843	-1,001	-1,120
Free Cash Flow	**2,291**	**2,402**	**2,342**	**2,810**	**4,740**	**4,651**	**5,832**	**7,186**
(Pur)/Sale of Investments	-1,243	-329	538	-620	-1,885	0	0	0
Others	57	-644	68	-748	478	935	1,028	1,131
CF from Investments	**-1,626**	**-1,224**	**127**	**-2,365**	**-2,569**	**91**	**27**	**11**
Issue of Shares	0	0	2,924	29	44	0	0	0
Inc/(Dec) in Debt	17	-101	-14	-1,023	-15	0	0	0
Interest Paid	-8	-6	-1	-1	-3	-885	-1,023	-1,118
Dividend	0	-498	0	-883	-1,155	-663	-841	-1,051
Others	-1,124	-665	-1,038	-1,710	-2,097	-1,280	-1,283	-1,401
CF from Fin. Activity	**-1,115**	**-1,271**	**1,870**	**-3,588**	**-3,227**	**-2,828**	**-3,147**	**-3,570**
Inc/Dec of Cash	**-10**	**158**	**4,818**	**-2,146**	**106**	**2,758**	**3,714**	**4,747**
Opening Balance	115	105	263	5,081	2,935	3,041	5,799	9,512
Closing Balance	**105**	**263**	**5,081**	**2,935**	**3,041**	**5,799**	**9,512**	**14,260**
Other Bank Balance/(OD)	**4**	**616**	**-732**	**-950**	**-1,918**	**-2,004**	**-2,004**	**-2,004**
Net Closing Balance	**109**	**879**	**4,350**	**1,985**	**1,123**	**3,795**	**7,508**	**12,255**

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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