

January 18, 2025

RESULT REPORT Q3 FY25 | Sector: Retail- Footwear

Metro Brands Ltd

Strong performance in Q3FY25 but rich multiple compels NEUTRAL rating!

Result Synopsis

Q3FY25 saw a recovery in demand owing to festive and wedding season after the tepid demand in H1FY25. Hence, Metro Brands Ltd (METRO)'s overall revenue for the quarter grew by 11%YoY which was primarily driven by volume growth as average selling price remained stable at Rs1,500/pair. Contribution of <Rs500/Rs501-1,500/Rs1,501-3,000/Rs3,000+ was 4%/8%/34%/54% respectively. During the quarter, METRO opened 22 new stores (net), an 8%YoY growth in total store count. Of the new stores- 6 were of METRO and 4 were for MOCHI while CROCS store addition stood at 4. Additionally, the 1st Foot Locker store was opened during the quarter in New Delhi. The 1st kiosk for New Era was also launched in Bangalore in the quarter followed by Hyderabad & Mumbai. The liquidation of all Fila inventory has been completed. Revenue/Sqft remained flattish YoY at Rs5,150. Revenue from e-commerce sales (including omni-channel) stood at Rs760Mn (11% of topline), a growth of 37%YoY. Gross margins contracted from 59.9% in Q3FY24 to 58.6% in Q3FY25; ~50bps lower on account of liquidation of old FILA inventory at higher discounts and ~80bps lower due an increase in e-commerce sales at reduced margins. However, owing to various cost control measures implemented by the company, EBITDA margins expanded to 32% in Q3FY25 Vs 31.3% in Q3FY24.

Guidance

Company witnessed a resurgence in demand in Q3FY25 and expects the growth trajectory to continue. Management has guided for a medium term (3-5years) revenue growth of 15-18% with 55%+ Gross Margins and 30%+ EBITDA margins. While the company will miss their target of 100 net store additions in FY25E, management is confident on opening 220-225 total over FY25E-26E.

Our View

Metro Brands has delivered its highest ever quarterly revenue in Q3FY25. With the completion of liquidation of Fila's existing inventory at discounted prices, Metro has initiated local manufacturing of Fila footwear and is relaunching the brand. Thus, we expect margins to improve. Foot Locker will gradually ramp up as and when management receives more clarity on BIS implementation. In addition to the above, we believe company's clear target on store expansion will further aid volume growth. Overall, we reckon Revenue/EBITDA/PAT to grow at a CAGR of 11%/12%/8% (Metro had a lower Tax as %PBT at 10.8% in FY24) respectively over FY24-FY27E. At CMP, stock trades at a rich P/E(x) multiple of 63x on FY27E EPS of Rs19.1. We value the company at P/E(x) of 65x, arriving at a target price of Rs1,241. Hence, we maintain our NEUTRAL rating on the stock.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	7,031	6,335	7,180	11.0	(2.1)	Overall beat on estimates. PAT lower due to one-time tax expense.
EBITDA	2,250	1,980	2,280	13.6	(1.3)	
EBITDA Margin (%)	32.0	31.3	31.8	75 bps	24 bps	
Adjusted PAT	943	1,028	1,230	(8.3)	(23.3)	

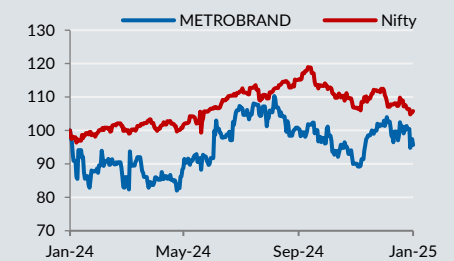
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 1,199
Target Price	: Rs 1,241
Potential Return	: +3.5%

Stock data (as on Jan 17, 2025)

Nifty	23,203
52 Week h/l (Rs)	1,430 / 990
Market cap (Rs/USD mn)	332,477 / 3,840
Outstanding Shares (mn)	272
6m Avg t/o (Rs mn):	171
Div yield (%):	0.4
Bloomberg code:	METROBRA IN
NSE code:	METROBRAND

Stock performance



	1M	3M	1Y
Absolute return	-5.6%	-5.4%	-2.3%

Shareholding pattern (As of Sep'24 end)

Promoter	74.2%
FII+DII	8.6%
Others	17.2%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	1,241	1,332

Δ in earnings estimates

	FY25E	FY26E	FY27E
EPS (New)	12.9	16.4	19.1
EPS (Old)	13.9	16.7	19.0
% change	-7.0%	-2.0%	0.5%

Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Net Revenue	25,099	28,437	32,219
YoY Growth	6.5	13.3	13.3
EBITDA	7,404	8,602	9,827
EBITDA (%)	29.5	30.3	30.5
PAT	3,518	4,451	5,190
YoY Growth	(15.2)	26.7	16.7
ROE	17.8	19.7	19.7
EPS	12.9	16.4	19.1
P/E	92.7	73.2	62.8
BV/Share	77.2	89.3	104.2
P/BV	15.5	13.4	11.5

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Result Highlights

- Revenue for the quarter grew by 10.6%YoY to Rs7.30Bn (highest quarterly sales), driven by healthy volume growth aided by swift recovery during festive and marriage season. (11% above our est & 2% below consensus est).
- EBITDA margins came in at 32% Vs 31.3%/26.4% in Q3FY24/Q2FY25 respectively. Hence, absolute EBITDA stood at Rs2.25Bn, a growth of 13% YoY (13% above our est & in-line with consensus).
- Net profit was impacted due to higher tax owing to reconciled and reassessed tax balances as per books primarily of the FILA business with balances as per return of income pertaining to earlier years resulting in current tax expense and reversal of deferred tax assets of ~Rs68.1Mn & ~182.1Mn respectively. Hence PAT stood at Rs950Mn, a minor decline of 4%YoY.
- However barring the impact of tax adjustment, Net profit growth was ~21%YoY.
- During the quarter ASP remained at Rs1,500 & revenue/sqft also remained flattish at Rs5,150 on YoY basis & improved by 20% sequentially.
- Metro opened 24-new stores during the quarter & closed 2-stores.
- Notably, products above Rs3,000 range witnessed highest growth of 22%YoY.
- E-commerce sales stood at Rs760Mn, a growth of 37%YoY.

Exhibit 2: Quarterly Snapshot:

Rs mn	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	% yoy	% qoq	9M FY24	9M FY25	% yoy
Revenue	5,557	6,355	5,830	5,761	5,855	7,031	10.6	20.1	17,737	18,646	5.1
Expenditure	4,003	4,365	4,244	3,957	4,306	4,781	9.5	11.0	12,328	13,045	5.8
- RM	2,401	2,549	2,542	2,334	2,633	2,909	14.1	10.5	7,333	7,875	7.4
- Staff Cost	553	604	591	594	597	634	5.0	6.2	1,689	1,824	8.0
- Other Cost	1,050	1,213	1,111	1,029	1,077	1,239	2.2	15.0	3,306	3,345	1.2
Operating Profit	1,554	1,990	1,586	1,804	1,548	2,250	13.1	45.3	5,409	5,602	3.6
OPM (%)	28.0	31.3	27.2	31.3	26.4	32.0	69 bps	555 bps	30.5	30.0	-46 bps
Other Income	162	160	244	234	234	232	45.5	(0.7)	465	699	50.5
Depreciation	572	586	591	600	624	655	11.7	4.9	1,701	1,879	10.5
Interest	197	204	203	208	218	235	15.2	7.6	586	661	12.8
PBT	947	1,359	1,036	1,230	939	1,592	17.1	69.5	3,588	3,761	4.8
Tax	275	379	(508)	309	225	649	71.4	188.6	1,007	1,182	17.4
PAT	671	981	1,544	921	715	943	(3.8)	32.0	2,581	2,579	(0.1)
Profit from JV	6	7	12	2	3	7	(4.2)	122.6	19	12	(38.1)
OCI	(0)	(1)	14	(0)	(2)	(1)	-	(60.0)	(0)	(2)	666.7
Reported PAT	677	987	1,570	923	716	950	(3.8)	32.6	2,600	2,588	(0.4)

Source: Company, YES Sec

Exhibit 3: Operational Numbers:

	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	y/y (%)	q/q (%)
Revenue/sqft (Rs)	4,450	5,200	4,800	4,500	4,300	5,150	-1.0	19.8
ASP (Rs/Pair)	1,500	1,500	1,500	1,500	1,500	1,500	0.0	0.0
Store Network (Nos.)								
Metro	299	313	317	324	332	338	8.0	1.8
Mochi	223	229	237	240	249	253	10.5	1.6
Walkway	69	70	66	67	67	70	0.0	4.5
Crocs	197	206	208	211	213	217	5.3	1.9
Fitflop	7	8	8	9	10	11	37.5	10.0
Fila	0	0	0	3	2	2	NA	0.0
Foot Locker	0	0	0	0	0	1	NA	NA
New Era	0	0	0	0	0	3	NA	NA
Total	795	826	836	854	873	895	8.4	2.5

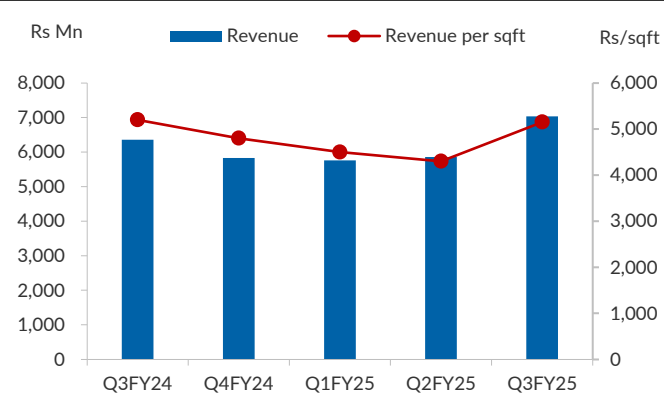
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Management has guided for a medium term (3-5years) revenue growth of 15-18% with 55%+ Gross Margins and 30%+ EBITDA margins.
- Company expects Q4FY25E to have decent growth owing to EOSS and marriage season.
- October saw extremely high growth, November was good, and December was average. December started off well for the company but a lot of retailers preponed EOSS to clear the piled up inventory. Hence, in December end, there was a slowdown.
- Liquidation of Fila inventory has been causing a decrease in GM by ~50bps. The increase in e-commerce sales has reduced by an additional ~80bps.
- Fila is going to be repositioned this year as company has 2-3 more merchandise drops planned. The royalty structure is also being staged to be more in-line with Fila's growth trajectory. Company plans to increase total store count for Fila to 5-6 by Aug'25.
- Company plans to have net store additions of 140-145 in FY26E. Crocs run rate of 20-30 stores annually will be maintained.
- 3 more Foot Locker stores are planned to be opened in 6-9 months. Further new store addition plan will only be made after management receives full visibility on BIS. Foot Locker is the only segment for Metro that is impacted by BIS since the production for other brands, mainly Metro & Mochi has been shifted to India.
- Metro supplies the Foot Locker inventory itself to Nykaa for online sales and receives the warehousing margins.
- Company reiterated its focus on South & West as key market areas owing to lower seasonality impact. Following this, company will expand in North and then increase its presence in East.
- WC days reduced from 82 to 76 as on Dec'24. Cash reserves were at Rs9-10Bn as on Dec'24.

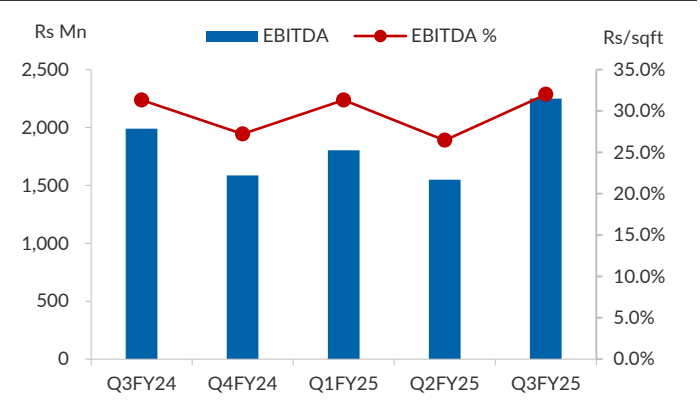
QUARTERLY TRENDS

Exhibit 4: Revenue grew by 10.6%YoY...



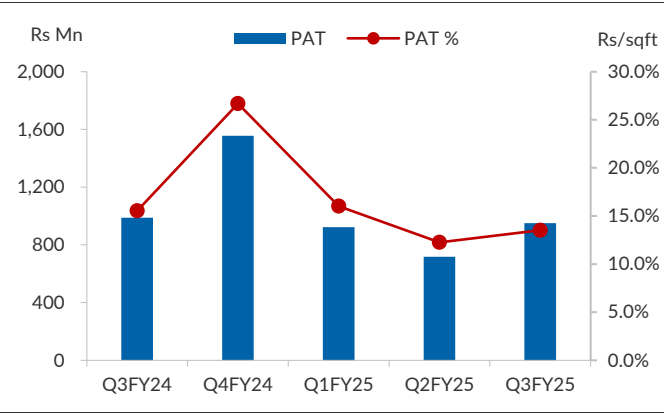
Source: Company, YES Sec

Exhibit 5: EBITDA margin came in at 32%...



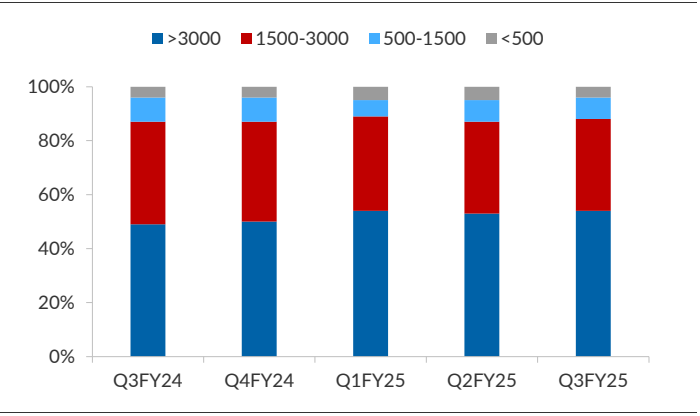
Source: Company, YES Sec

Exhibit 6: Net profit stood at Rs950Mn...



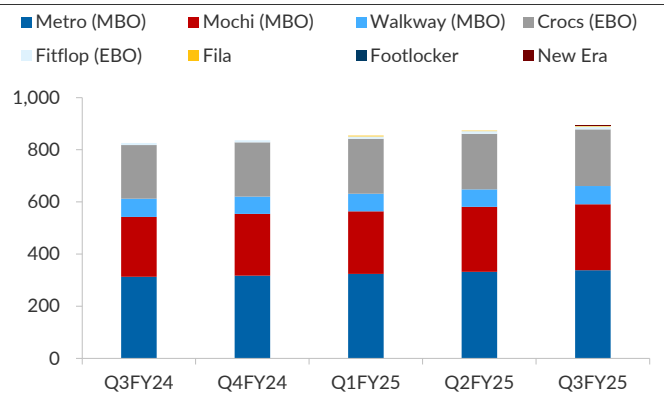
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Exhibit 7: Contribution of Rs3,000+ stood at 54%...



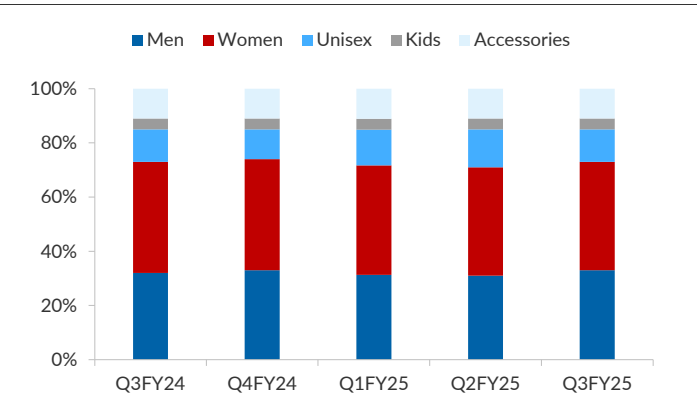
Source: Company, YES Sec

Exhibit 8: Net 22 stores opened in Q3FY25...



Source: Company, YES Sec

Exhibit 9: Women constitute 40% of sales...



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Income Statement

Y/e 31 Mar (Rs Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenues	21,271	23,567	25,099	28,437	32,219
Growth (%)	58.4%	10.8%	6.5%	13.3%	13.3%
EBITDA	6,788	6,996	7,404	8,602	9,827
EBITDA margin (%)	31.9%	29.7%	29.5%	30.3%	30.5%
Growth (%)	65.9%	3.1%	5.8%	16.2%	14.2%
Depreciation & Amortization	1,810	2,291	2,443	2,621	2,833
Other income	544	708	914	1,001	1,111
EBIT	5,522	5,413	5,876	6,982	8,105
EBIT margin (%)	26.0%	23.0%	23.4%	24.6%	25.2%
Interest	631	789	877	1,072	1,210
PBT	4,891	4,624	4,999	5,910	6,895
Tax	1,257	499	1,500	1,477	1,724
Net profit	3,654	4,155	3,518	4,451	5,190
Net profit margin (%)	17.2%	17.6%	14.0%	15.7%	16.1%
EPS	13.4	15.2	12.9	16.4	19.1
Growth (%)	70.5%	13.4%	-14.8%	26.6%	16.6%

Source: Company, YES Sec

Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs Mn)	FY24	H1FY25	FY25E	FY26E	FY27E
Equity Share Capital	1,359	1,360	1,360	1,360	1,360
Reserves	14,118	17,278	19,637	22,933	26,968
Total Shareholders' Funds	15,477	18,637	20,997	24,293	28,328
Liabilities					
Lease Liabilities	9,414	10,984	11,627	13,776	14,955
Trade Payables	2,947	2,570	2,809	3,146	3,522
Others	1,225	1,335	1,423	1,548	1,687
Total equity and liabilities	29,064	33,527	36,856	42,762	48,492
Assets					
PPE	2,976	3,502	3,455	3,761	3,774
CWIP	171	73	73	73	73
Right of Use	8,377	9,703	9,831	11,444	12,145
Inventories	6,458	7,102	7,761	8,691	9,731
Investments	4,671	7,364	7,364	7,364	7,364
Trade Receivables	1,053	757	806	913	1,035
Cash	1,985	1,123	3,701	6,689	10,580
Other Financial Assets	660	1,137	1,137	1,137	1,137
Others	2,714	2,767	2,729	2,691	2,652
Total assets	29,064	33,527	36,856	42,762	48,492

Source: Company, YES Sec

Exhibit 12: Cash Flow

Y/e 31 Mar (Rs Mn)	FY24	H1FY25	FY25E	FY26E	FY27E
PBT	4,891	4,624	4,999	5,910	6,895
Depreciation	1,810	2,291	2,443	2,621	2,833
Finance cost	631	789	877	1,072	1,210
(Incr)/Decr in Working Capital	(1,726)	(490)	(280)	(391)	(501)
Taxes	(1,412)	(840)	(1,500)	(1,477)	(1,724)
Cash from ops.	3,807	5,901	6,555	7,754	8,731
(Incr)/ Decr in PP&E	(996)	(1,161)	(524)	(949)	(740)
Cash Flow from Investing	(516)	(2,513)	(524)	(949)	(740)
(Decr)/Incr in Borrowings	(1,023)	(15)	0	0	0
Payment of Lease	(1,710)	(2,097)	(2,298)	(2,662)	(2,945)
Dividend	(883)	(1,155)	(1,155)	(1,155)	(1,155)
Cash Flow from Financing	(3,588)	(3,227)	(3,453)	(3,817)	(4,100)
Incr/(Decr) in cash	(297)	161	2,579	2,988	3,891
Cash at beginning of year	615	318	1,123	3,701	6,689
Cash at end of year	318	479	3,701	6,689	10,580

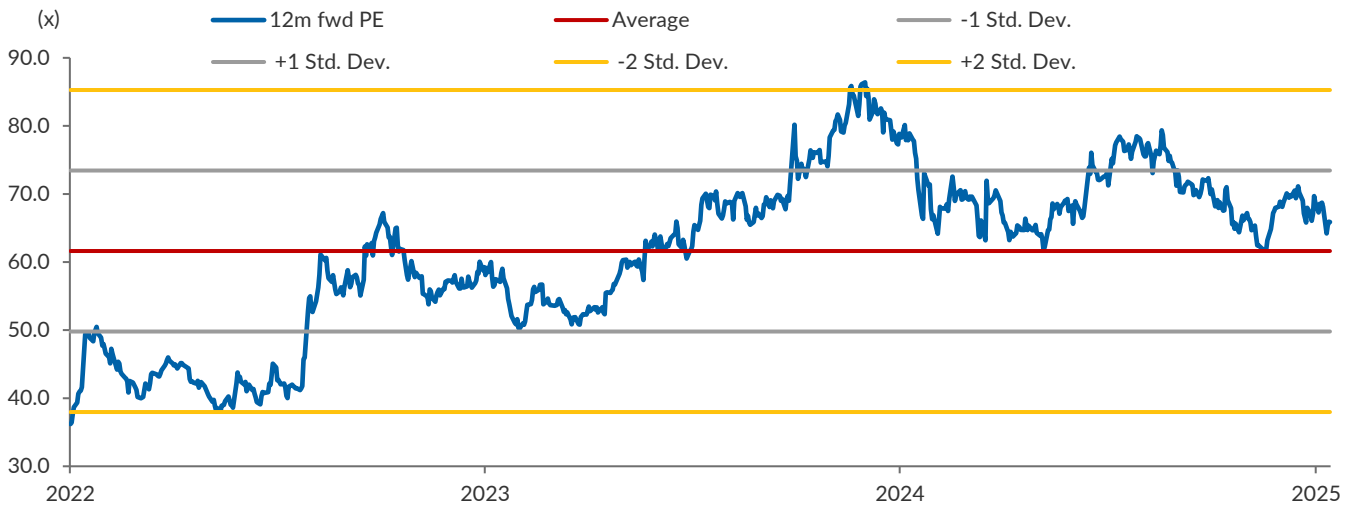
Source: Company, YES Sec

Exhibit 13: Ratios

Key Ratios	FY23	FY24	FY25E	FY26E	FY27E
Growth Matrix (%)					
Revenue growth	58.4%	10.8%	6.5%	13.3%	13.3%
EBITDA growth	65.9%	3.1%	5.8%	16.2%	14.2%
EBIT growth	65.5%	-2.0%	8.6%	18.8%	16.1%
PAT growth	70.6%	13.5%	-15.2%	26.7%	16.7%
Profitability ratios (%)					
EBITDA margin	31.9%	29.7%	29.5%	30.3%	30.5%
EBIT margin	26.0%	23.0%	23.4%	24.6%	25.2%
PAT margin	17.2%	17.6%	14.0%	15.7%	16.1%
RoCE	26.1%	20.9%	19.8%	20.7%	20.9%
RoE	26.0%	24.4%	17.8%	19.7%	19.7%
Per share values					
EPS	13.4	15.2	12.9	16.4	19.1
CEPS	20.1	23.7	21.9	26.0	29.5
BVPS	57.0	68.5	77.2	89.3	104.2
Valuation ratios (x)					
P/E	59.4	76.1	92.7	73.2	62.8
P/CEPS	39.5	48.7	54.7	46.1	40.6
P/B	13.9	16.8	15.5	13.4	11.5
EV/EBITDA	31.5	44.7	43.5	37.1	32.1
Leverage ratios (x)					
Debt/ Equity	0.0	0.0	0.0	0.0	0.0
Net debt/Equity	(0.1)	(0.1)	(0.2)	(0.3)	(0.4)
Net debt/EBITDA	(0.3)	(0.2)	(0.5)	(0.8)	(1.1)
Int coverage	8.8	6.9	6.7	6.5	6.7
A/To	1.9	1.7	1.6	1.7	1.7
NWC days					
Receivables	18	12	12	12	12
Inventory	264	262	262	262	262
Payables	121	95	95	95	95

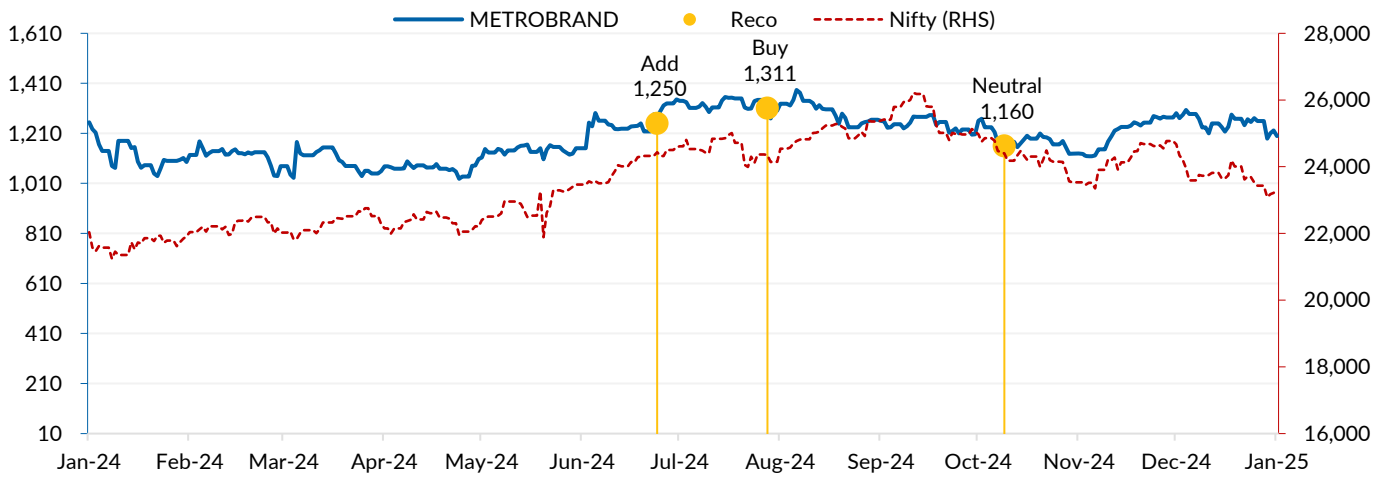
Source: Company, YES Sec

Exhibit 14: 1-year forward P/E (x) chart



Source: Company, YES Sec

Recommendation Tracker



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