

02 August 2023

India | Equity Research | Q1FY24 results review

Metro Brands

Consumer Staples & Discretionary

Retail expansion triumphs amid SSSG headwinds

There are three key positives in the result (1) highest retail expansion rate (at 27% YoY) compared to results declared by other retail companies so far (22-23% by GoFashion and Vedant), (2) CBL's integration going on well (3% negative impact on NPM, inventory issue likely to be solved by Mar'24, closed 2 stores), (3) premium price point (> INR 3K) outperforms (31% YoY) value range. However, SSSG and revenue PSF performance has been weak – likely impact of general slowdown in discretionary consumption. Albeit accelerated retail expansion impacted operating profit margins (YoY), it remained at healthy levels. We like the continued outperformance in women and kids wear segment. Maintain BUY.

Negative SSSG; Healthy retail expansion

Metro Brands reported revenues of INR 5.8bn, up 15% YoY and 7% QoQ. The current quarter also include INR 170mn revenue from Cravatex (which is not in the base quarter). Post adjusting for this, revenue grew 11% YoY while retail expansion was aggressive (total retail area up by 27% YoY to 1.17mn sq. ft) implying negative SSSG. Revenue per sq ft declined 12% YoY to INR 5,000. In the current quarter it added 27 stores – Metro: 11, Mochi: 12, Walkway: 3, Fitflop: 1. Online sales (including omni-channel) continue to outperform; grew 63% YoY (to INR 610mn), contributing 11% of (standalone) sales (7.9% in FY23).

Consolidation of Cravatex impacts net margin by 3%

Gross margins contracted 64bps YoY to 59.1% (60bps negative impact of Cravatex consolidation). Gross margin of Cravatex stands at 38% in 1QFY24. Revenue contribution from own and third party brands stands at 70%/30% in 1Q; in line with long-term trends. EBITDA margin contracted 398bp YoY to 32% while EBITDA grew 2% YoY due to (1) INR 90mn EBITDA loss in Cravatex (2.6% negative impact on consolidated EBITDA margin) and (2) elevated operating expense and higher staff cost (impact of higher store addition during the quarter). Net margin excluding the impact of Cravatex net loss (at INR 140mn) at 19% is healthy.

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	13,429	21,271	25,474	30,289
EBITDA	4,092	6,788	7,571	9,612
EBITDA Margin (%)	30.5	31.9	29.7	31.7
Net Profit	2,116	3,615	3,906	5,222
EPS (Rs)	7.8	13.3	14.4	19.2
EPS % Chg YoY	219.4	70.6	8.0	33.5
P/E (x)	132.8	77.8	72.0	54.0
EV/EBITDA (x)	67.2	40.7	36.1	28.2
RoCE (%)	19.4	25.8	23.4	26.0
RoE (%)	19.8	25.3	22.9	26.0

Manoj Menon

manoj.menon@icicisecurities.com
+91 22 6807 7209

Varun Singh

varun.singh@icicisecurities.com

Karan Bhuwania

karan.bhuwania@icicisecurities.com

Akshay Krishnan

akshay.krishnan@icicisecurities.com

Market Data

Market Cap (INR)	283bn
Market Cap (USD)	3,436mn
Bloomberg Code	METOBRA IN
Reuters Code	METB BO
52-week Range (INR)	1,110 /674
Free Float (%)	11.0
ADTV-3M (mn) (USD)	2

Price Performance (%)	3m	6m	12m
Absolute	20.3	35.6	41.8
Relative to Sensex	9.5	12.3	15.8

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(0.7)	(0.4)
EBITDA	(6.4)	(0.9)
EPS	(9.6)	(2.1)

Previous Reports

24-05-2023: [Q4FY23 results review](#)

18-01-2023: [Q3FY23 results review](#)

CBL's integration on track – closed two stores

Key priorities for Cravatex Brands Limited (CBL) during CY24 shall include; (i) integration with MBL existing eco-system to leverage cost and operating leverage synergies: CBL already migrated to SAP S4 HANA ERP system from Apr'23, (ii) liquidation of current excess inventory (to be achieved by Mar'24) and cash conversion cycle and (iii) improve store-throughput at existing outlets (currently CBL has 23 FILA EBOs – closed 2 stores in 1QFY24). At exit run rate; revenue from CBL stands at INR 830mn (~3% of METRO FY24E revenue).

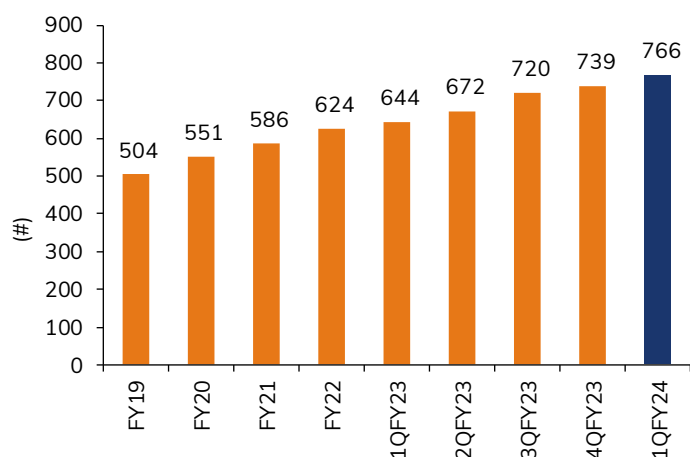
Valuation and risks:

We cut our earnings estimates by 10-2% for FY24-25E. We model revenue / EBITDA / PAT CAGR of 19% / 19% / 20% respectively over FY23-FY25E. Maintain a BUY rating with DCF-based revised target price of INR 1,200 (vs INR 1,050). Key risks are (1) delay in store addition and (2) likely increased competition from regional players trying to premiumise.

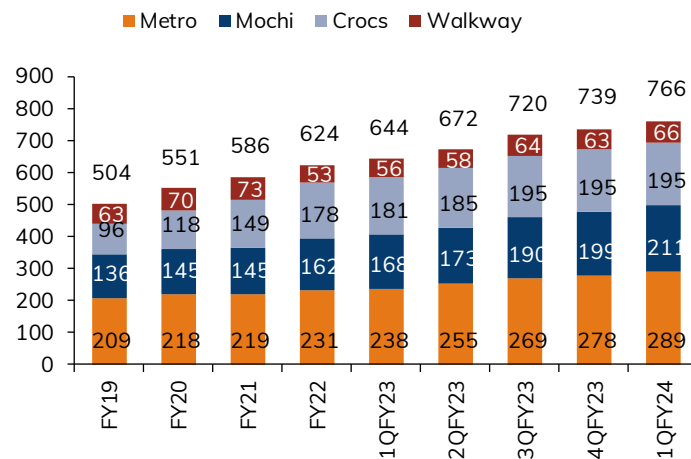
Exhibit 1: Consolidated results of Metro

(INR mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Net Revenues	5,825	5,080	15	5,441	7
COGS	(2,384)	(2,046)	16	(2,401)	(1)
Gross profit	3,442	3,033	13	3,040	13
Staff cost	(533)	(396)	35	(523)	2
Other opex	(1,043)	(809)	29	(1,082)	(4)
EBITDA	1,866	1,829	2	1,436	30
Other income	144	93	55	187	(23)
Finance cost	(185)	(134)	38	(175)	6
D&A	(543)	(390)	39	(502)	8
PBT	1,282	1,397	(8)	946	36
Tax	(353)	(345)	2	(267)	33
Recurring PAT	929	1,052	(12)	679	37
Minority Interest	(1)	(5)	(88)	6	(111)
Recurring PAT after MI	928	1,048	(11)	685	36
Extraordinaries	-	-	-	-	-
Net profit (reported)	928	1,048	(11)	685	36
EPS	3.4	3.9	(11)	2.5	36
Costs as a % of sales					
COGS	40.9	40.3	63 bps	44.1	-321 bps
Gross margin (%)	59.1	59.7	-64 bps	55.9	320 bps
Staff cost	9.1	7.8	135 bps	9.6	-48 bps
Other opex	17.9	15.9	198 bps	19.9	-198 bps
EBITDA margin (%)	32.0	36.0	-398 bps	26.4	564 bps
Income tax rate (%)	27.5	24.7	287 bps	28.2	-63 bps

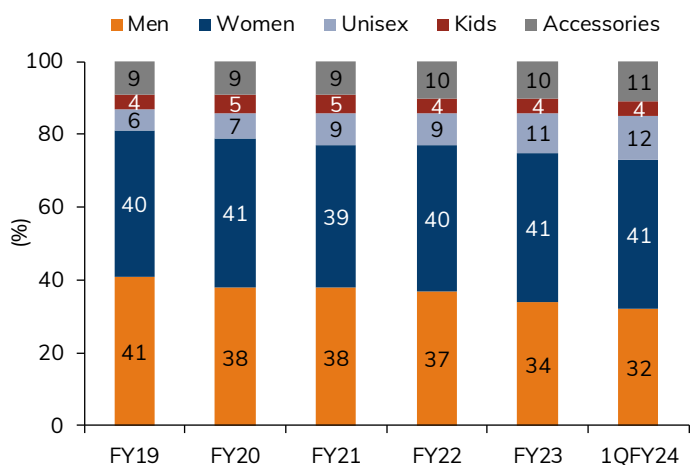
Source: Company data, I-Sec research

Exhibit 2: Store count (EoP)


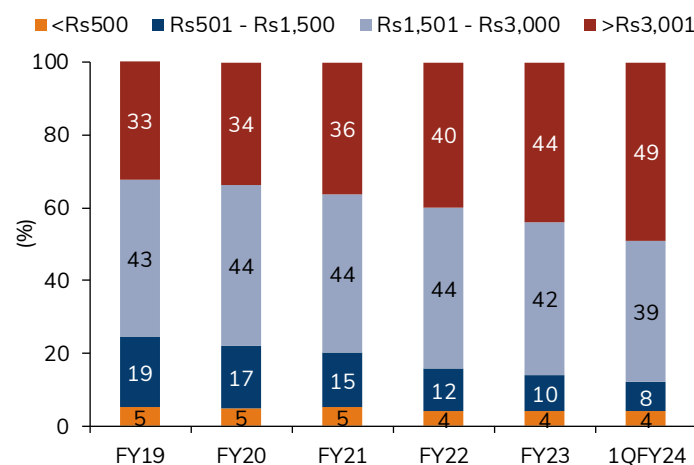
Source: Company data, I-Sec research

Exhibit 3: Store breakup by concepts


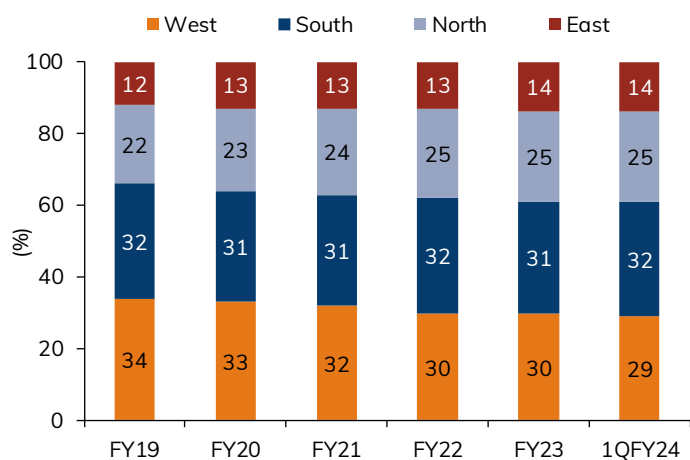
Source: Company data, I-Sec research

Exhibit 4: Revenue break by target segment


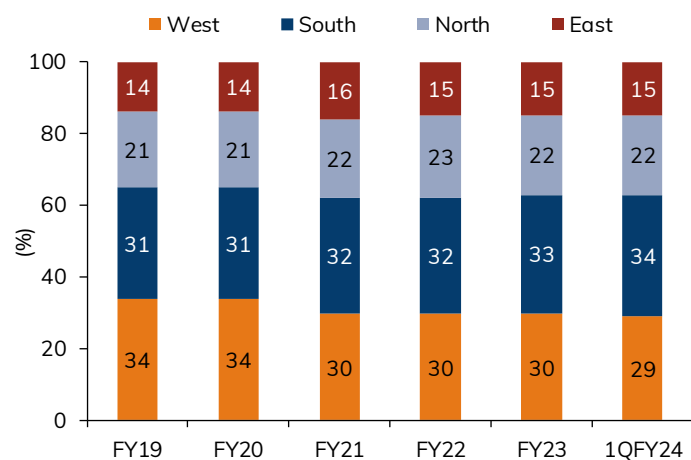
Source: Company data, I-Sec research

Exhibit 5: Revenue breakup by price points


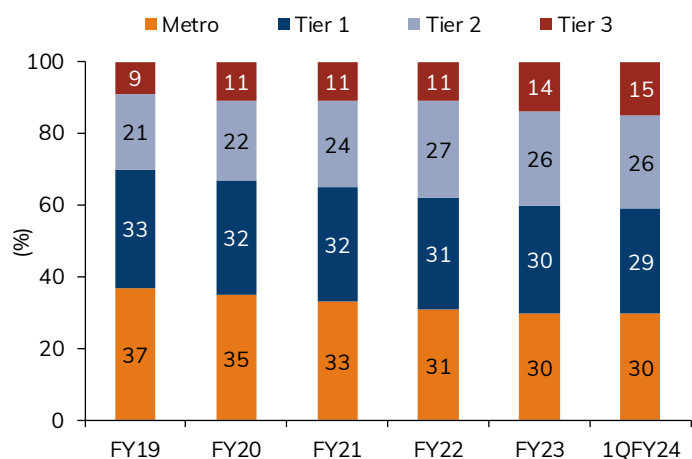
Source: Company data, I-Sec research

Exhibit 6: Store break-up by region


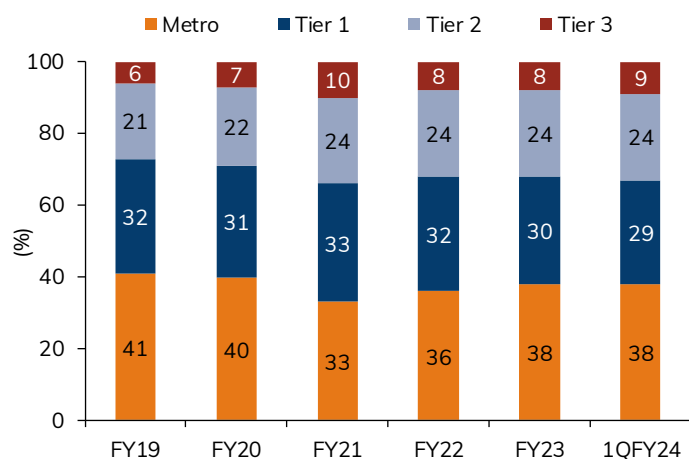
Source: Company data, I-Sec research

Exhibit 7: Sales contribution by region


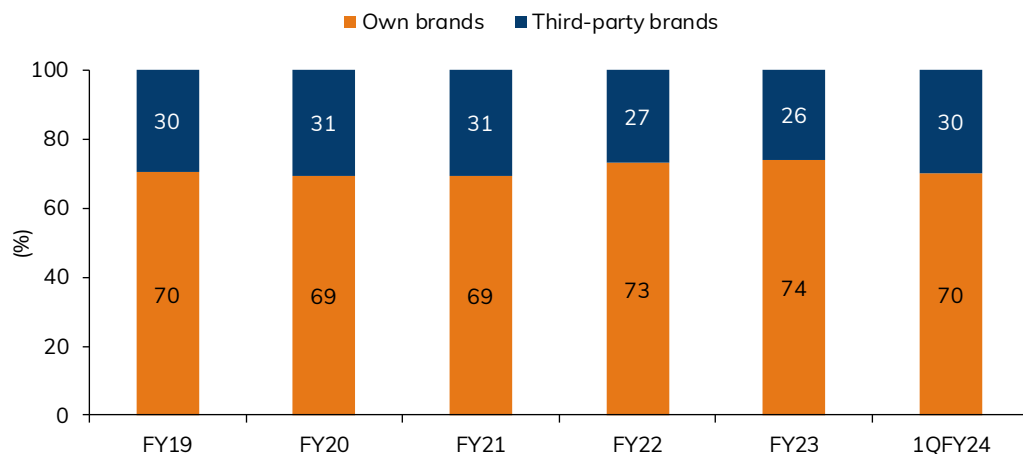
Source: Company data, I-Sec research

Exhibit 8: Store break-up by cities


Source: Company data, I-Sec research

Exhibit 9: Sales contribution by cities


Source: Company data, I-Sec research

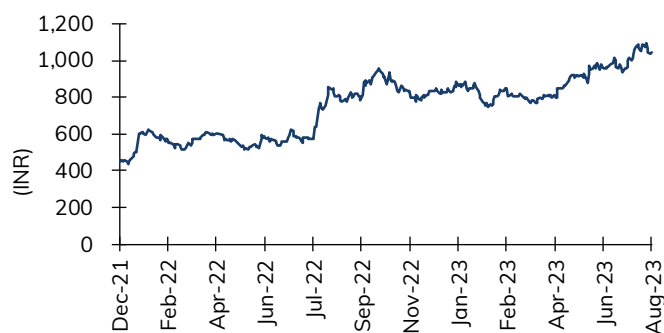
Exhibit 10: Own brands vs third-party brands


Source: Company data, I-Sec research

Exhibit 11: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	74.2	74.3	74.2
Institutional investors	8.1	8.0	8.3
MFs and other	4.3	4.8	5.2
FIs/ Banks	0.0	0.0	0.0
Insurance Cos.	0.4	0.3	0.4
FIIIs	3.4	2.9	2.7
Others	17.7	17.7	17.5

Source: Bloomberg, I-Sec research

Exhibit 12: Price chart


Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 13: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	13,429	21,271	25,474	30,289
Operating Expenses	9,338	14,484	17,903	20,677
EBITDA	4,092	6,788	7,571	9,612
EBITDA Margin (%)	30.5	31.9	29.7	31.7
Depreciation & Amortization	1,342	1,810	2,224	2,631
EBIT	2,749	4,977	5,348	6,981
Interest expenditure	504	631	772	858
Other Non-operating Income	586	544	669	877
Recurring PBT	2,831	4,891	5,245	7,001
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	702	1,257	1,320	1,762
PAT	2,130	3,634	3,925	5,239
Less: Minority Interest	14	19	19	16
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	2,130	3,634	3,925	5,239
Net Income (Adjusted)	2,116	3,615	3,906	5,222

Source Company data, I-Sec research

Exhibit 14: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	13,587	15,237	19,331	23,836
of which cash & cash eqv.	3,965	1,985	3,373	4,873
Total Current Liabilities & Provisions	3,249	4,090	5,596	6,675
Net Current Assets	10,338	11,146	13,735	17,161
Investments	85	105	105	105
Net Fixed Assets	2,350	3,385	3,416	3,363
ROU Assets	6,096	8,377	9,454	10,530
Capital Work-in-Progress	62	178	178	178
Total Intangible Assets	32	1,260	1,260	1,260
Long Term Loans & Advances	549	661	792	941
Deferred Tax assets	223	49	49	49
Total Assets	19,800	25,182	29,014	33,619
Liabilities				
Borrowings	-	15	-	-
Deferred Tax Liability	-	-	-	-
Provisions	6	11	13	16
Other Liabilities	-	-	-	-
Equity Share Capital	1,358	1,359	1,359	1,359
Reserves & Surplus	11,289	14,118	16,753	20,145
Total Net Worth	12,647	15,477	18,112	21,504
Minority Interest	224	264	264	264
Total Liabilities	19,800	25,182	29,014	33,619

Source Company data, I-Sec research

Exhibit 15: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	4,763	5,987	5,441	5,825
% growth (YOY)	46.7	23.8	35.0	14.7
EBITDA	1,472	2,052	1,436	1,866
Margin %	30.9	34.3	26.4	32.0
Other Income	118	146	187	144
Extraordinaries	-	-	-	-
Adjusted Net Profit	763	1,120	685	928

Source Company data, I-Sec research

Exhibit 16: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	2,834	4,891	5,245	7,001
Working Capital Changes	(1,262)	(1,726)	(264)	(935)
Capital Commitments	(474)	(915)	(995)	(1,106)
Free Cashflow	194	1,223	2,943	3,463
Other investing cashflow	(2,535)	400	(1,477)	(1,343)
Cashflow from Investing Activities	(3,009)	(516)	(2,472)	(2,449)
Issue of Share Capital	2,924	28	-	-
Interest Cost	(1)	(1)	(1)	-
Inc (Dec) in Borrowings	(14)	(1,023)	(15)	-
Dividend paid	(706)	(883)	(1,271)	(1,830)
Others	-	-	1,260	1,472
Cash flow from Financing Activities	2,694	(1,919)	(78)	(620)
Chg. in Cash & Bank balance	352	(297)	1,388	1,500
Closing cash & balance	615	318	1,707	3,207

Source Company data, I-Sec research

Exhibit 17: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	7.8	13.4	14.5	19.3
Adjusted EPS (Diluted)	7.8	13.3	14.4	19.2
Cash EPS	12.7	20.0	22.6	28.9
Dividend per share (DPS)	2.3	4.0	4.7	6.7
Book Value per share (BV)	46.6	57.0	66.7	79.2
Dividend Payout (%)	28.7	29.9	32.4	34.9
Growth (%)				
Net Sales	67.9	58.4	19.8	18.9
EBITDA	138.6	65.9	11.5	26.9
EPS (INR)	219.4	70.6	8.0	33.5
Valuation Ratios (x)				
P/E	132.8	77.8	72.0	54.0
P/CEPS	81.7	52.1	46.1	36.0
P/BV	22.4	18.3	15.6	13.1
EV / EBITDA	67.2	40.7	36.1	28.2
P / Sales	21.1	13.3	11.1	9.3
Dividend Yield (%)	0.2	0.4	0.4	0.6
Operating Ratios				
Gross Profit Margins (%)	57.9	58.1	57.4	58.1
EBITDA Margins (%)	30.5	31.9	29.7	31.7
Effective Tax Rate (%)	24.8	25.7	25.2	25.2
Net Profit Margins (%)	15.8	17.0	15.3	17.2
Net Debt / Equity (x)	(0.6)	(0.4)	(0.5)	(0.5)
Net Debt / EBITDA (x)	(1.9)	(1.0)	(1.2)	(1.2)
Fixed Asset Turnover (x)	3.8	5.1	4.9	4.9
Working Capital Days	204	235	189	175
Inventory Turnover Days	144	136	120	119
Receivables Days	16	27	23	23
Payables Days	72	59	64	64
Profitability Ratios				
RoCE (%)	19.4	25.8	23.4	26.0
RoE (%)	19.8	25.3	22.9	26.0
RoIC (%)	23.5	28.7	26.4	29.3

Source Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Manoj Menon, MBA, CMA; Varun Singh, MBA; Karan Bhuvania, MBA; Akshay Krishnan, MBA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities AIF Trust's SEBI Registration number is IN/AIF3/23-24/1292 ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
