

02 August 2023

India | Equity Research | Q1FY24 results review

## Metro Brands

Consumer Staples &amp; 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.

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#### Market Data

Market Cap (INR)	283bn
Market Cap (USD)	3,436mn
Bloomberg Code	METROBRA 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).

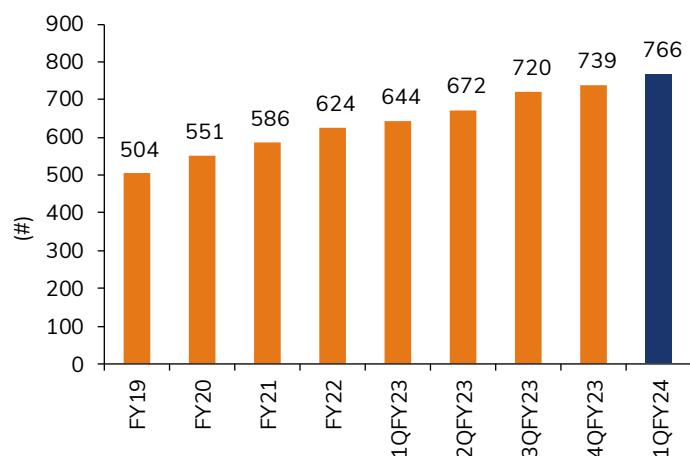
### Valuation and risks:

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.

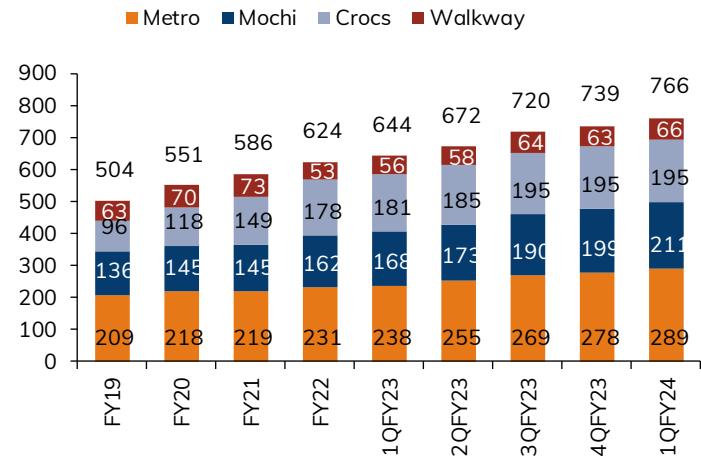
### Exhibit 1: Consolidated results of Metro

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

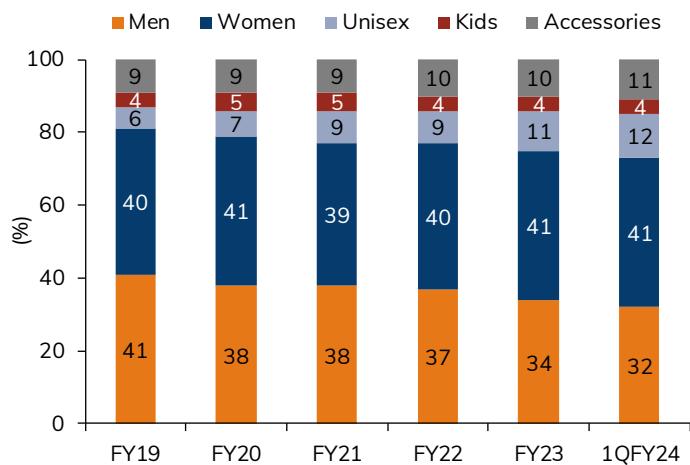
Source: Company data, I-Sec research

**Exhibit 2: Store count (EoP)**


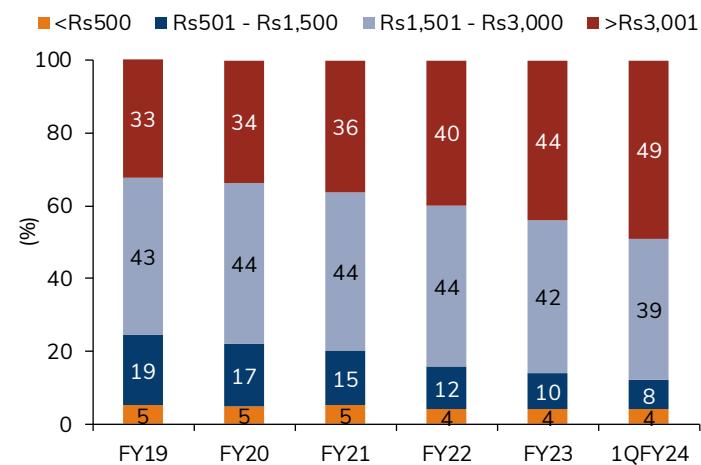
Source: Company data, I-Sec research

**Exhibit 3: Store breakup by concepts**


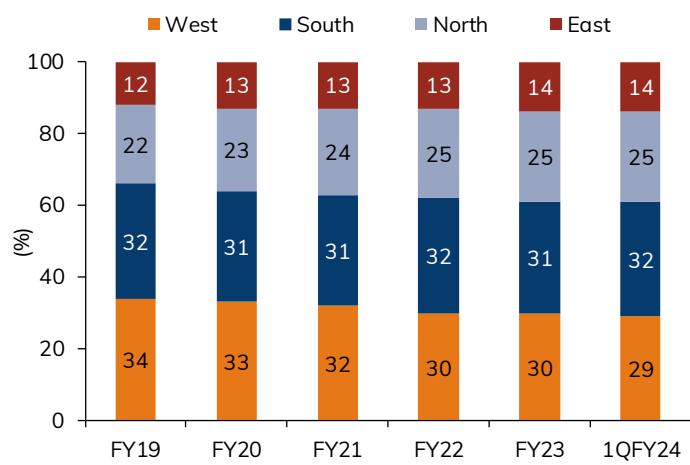
Source: Company data, I-Sec research

**Exhibit 4: Revenue breakup by target segment**


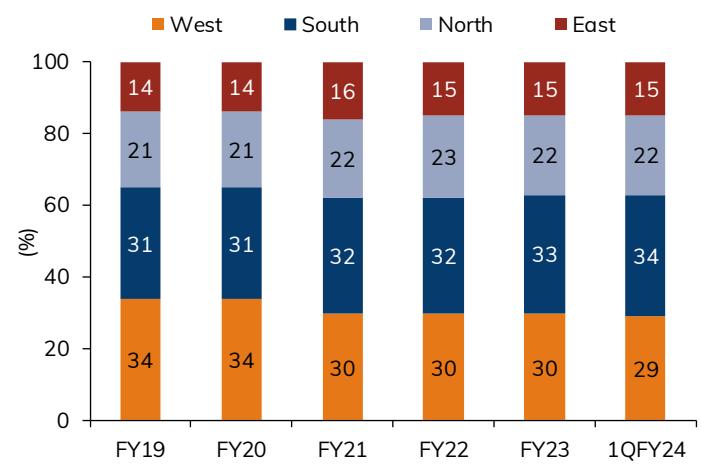
Source: Company data, I-Sec research

**Exhibit 5: Revenue breakup by price points**


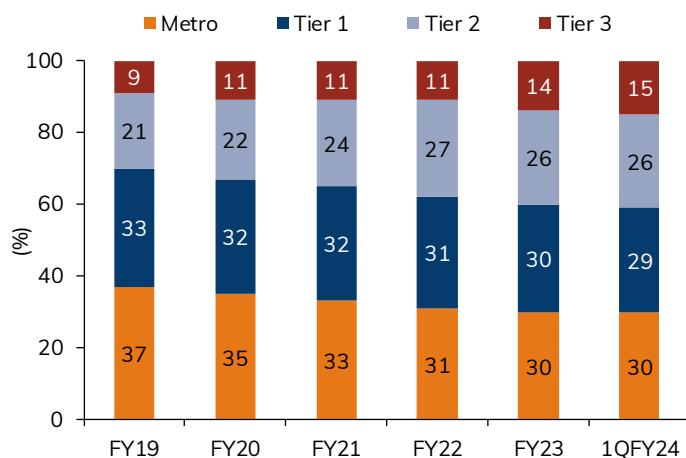
Source: Company data, I-Sec research

**Exhibit 6: Store break-up by region**


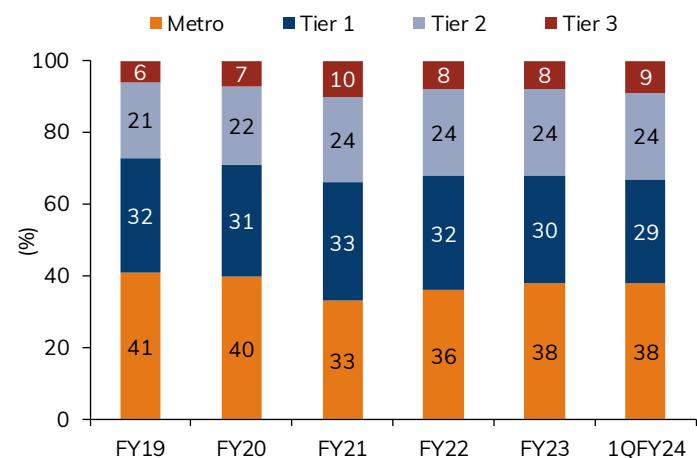
Source: Company data, I-Sec research

**Exhibit 7: Sales contribution by region**


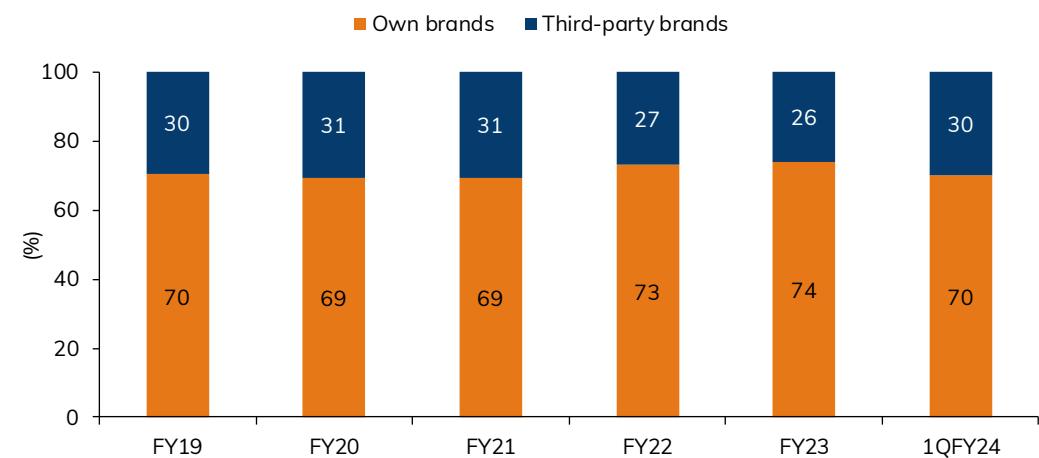
Source: Company data, I-Sec research

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

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
<b>Net Current Assets</b>	<b>10,338</b>	<b>11,146</b>	<b>13,735</b>	<b>17,161</b>
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
<b>Total Assets</b>	<b>19,800</b>	<b>25,182</b>	<b>29,014</b>	<b>33,619</b>
<b>Liabilities</b>				
Borrowings	-	15	-	-
<b>Deferred Tax Liability</b>	-	-	-	-
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
<b>Total Net Worth</b>	<b>12,647</b>	<b>15,477</b>	<b>18,112</b>	<b>21,504</b>
Minority Interest	224	264	264	264
<b>Total Liabilities</b>	<b>19,800</b>	<b>25,182</b>	<b>29,014</b>	<b>33,619</b>

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	<b>4,763</b>	<b>5,987</b>	<b>5,441</b>	<b>5,825</b>
% growth (YOY)	46.7	23.8	35.0	14.7
<b>EBITDA</b>	<b>1,472</b>	<b>2,052</b>	<b>1,436</b>	<b>1,866</b>
Margin %	30.9	34.3	26.4	32.0
Other Income	118	146	187	144
Extraordinaries	-	-	-	-
<b>Adjusted Net Profit</b>	<b>763</b>	<b>1,120</b>	<b>685</b>	<b>928</b>

Source Company data, I-Sec research

### Exhibit 16: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Operating Cashflow</b>	<b>2,834</b>	<b>4,891</b>	<b>5,245</b>	<b>7,001</b>
Working Capital Changes	(1,262)	(1,726)	(264)	(935)
Capital Commitments	(474)	(915)	(995)	(1,106)
<b>Free Cashflow</b>	<b>194</b>	<b>1,223</b>	<b>2,943</b>	<b>3,463</b>
<b>Other investing cashflow</b>	<b>(2,535)</b>	<b>400</b>	<b>(1,477)</b>	<b>(1,343)</b>
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)
<b>Chg. in Cash &amp; Bank balance</b>	<b>352</b>	<b>(297)</b>	<b>1,388</b>	<b>1,500</b>
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
<b>Per Share Data (INR)</b>				
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
<b>Growth (%)</b>				
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
<b>Valuation Ratios (x)</b>				
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
<b>Operating Ratios</b>				
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
<b>Profitability Ratios</b>				
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

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