

## Prudently diversifying across TAM; initiate with BUY

Retail ▶ Initiating Coverage ▶ January 4, 2025

TARGET PRICE (Rs): 1,500

We initiate coverage on Metro with BUY and DCF based TP of Rs1,500 (implied target multiple of 70x Dec-26 EPS). Metro is the epitome of financial discipline, given long-term mid-teen revenue CAGR and consistent rewards to shareholders (~30% dividend payout). Metro's formats are a one-stop-shop for footwear across a wide range of price-points (ASP: Rs700-12,000); also, it is gradually evolving into a giant in the S&A market (FILA/Foot Locker). Metro remains a platform of choice for third-party brands looking to enter India, and offers a multi-decade opportunity of double-digit growth, enabled by lower penetration of existing formats, ramp-up of new formats, and future portfolio additions. Our extensive analysis around global benchmarking suggests Metro has potential to achieve 4x topline in the coming decade, with ~1,500 store additions across formats (2.5x). Its demand-driven agile supply-chain ensures best-in-class mix of fresh sales and shortest store paybacks of 2-3Y. It deserves superlative valuation on the back of best possible growth longevity/strong FCF generation. Delay in ramp-up of FILA/Foot Locker is a potential downside.

## Metro Brands: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	21,271	23,567	25,483	30,292	35,621
EBITDA	6,788	6,996	7,373	8,991	10,682
Adj. PAT	3,774	4,129	4,076	5,021	6,072
Adj. EPS (Rs)	13.9	15.2	15.0	18.5	22.4
EBITDA margin (%)	31.9	29.7	28.9	29.7	30.0
EBITDA growth (%)	65.9	3.1	5.4	21.9	18.8
Adj. EPS growth (%)	78.1	9.4	(1.3)	23.2	20.9
RoE (%)	26.8	24.2	20.4	22.0	22.9
RoIC (%)	54.2	47.5	35.9	43.7	49.3
P/E (x)	91.2	83.3	84.4	68.5	56.7
EV/EBITDA (x)	49.7	47.9	45.1	36.7	30.6
P/B (x)	22.2	18.5	16.2	14.0	12.1
FCFF yield (%)	0.2	1.4	1.6	1.6	2.0

Source: Company, Emkay Research

**Timely investments in S&A category bode well for growth sustenance:** The Indian sports and athleisure (S&A) category is clearly leading growth for the overall industry, with FY18-23 CAGR of ~20% for major players vs 7-8% in Casual/Fashion/Formal categories. Our global benchmarking (China/Israel) suggests that India has so far only scratched the surface, and that the category has a multi-decade growth opportunity. We believe Metro has gained exclusive rights in a timely manner for FILA/Foot Locker, whose differentiated Apparel-first/Premium Sneakers offering should help gain more than a fair share of the market. We see long-term potential of over 1,000/200 stores for FILA/Foot Locker, respectively, which should add ~250bps of incremental growth and enable Metro to deliver mid-teen topline growth over the next decade.

**Metro offers best-in-class proposition across key parameters:** Metro offers a wide assortment of products (one-stop family destination) and addresses consumer needs across a large price bracket with separate formats (ASP: Rs700-12,000). Metro has perfected demand-based sourcing, which ensures in-demand styles, prevents stock-outs, and drives higher throughputs (90-95% fresh mix). The work culture is highly progressive, with ~30% of employee payouts linked to store sales; motivated employees, along with a strong loyalty program, ensure better SSG trends (3-4%). Financial discipline and higher throughputs warrant the shortest possible payback periods (2-3 years – the best among most reputed footwear companies in India).

**All-round combo calls for superlative valuations:** Metro has delivered revenue CAGR of ~15% over the last decade and has strong potential to surpass this in the coming decade. Metro has exemplary financial discipline (21-22% EBITDA margin; ~60% CFO/EBITDA), which ensures growth through internal accruals, future growth optionality, and consistent reward to shareholders. Our extensive research around scope for existing formats, global benchmarking of potential for new/exclusive formats, and Metro's long-term financial discipline grants us confidence that Metro deserves superlative valuations. We recommend BUY on the stock with TP of Rs1,500 (70x Dec-26E EPS).

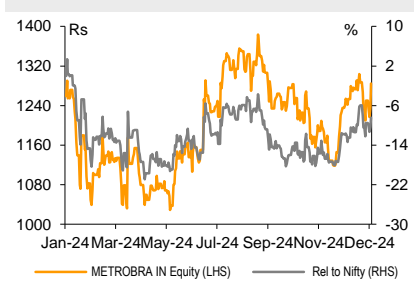
Target Price – 12M	Dec-25
Change in TP (%)	NA
Current Reco.	BUY
Previous Reco.	NR
Upside/(Downside) (%)	18.4
CMP (03-Jan-25) (Rs)	1,267.2

Stock Data	Ticker
52-week High (Rs)	1,430
52-week Low (Rs)	990
Shares outstanding (mn)	272.1
Market-cap (Rs bn)	345
Market-cap (USD mn)	4,019
Net-debt, FY25E (Rs mn)	-11,473
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	131.8
ADTV-3M (USD mn)	1.5
Free float (%)	15.0
Nifty-50	24,005
INR/USD	85.8
<b>Shareholding, Sep-24</b>	
Promoters (%)	72.0
FPIs/MFs (%)	3.4/7.0

## Price Performance

(%)	1M	3M	12M
Absolute	1.0	1.9	-
Rel. to Nifty	2.9	7.2	(10.4)

## 1-Year share price trend (Rs)



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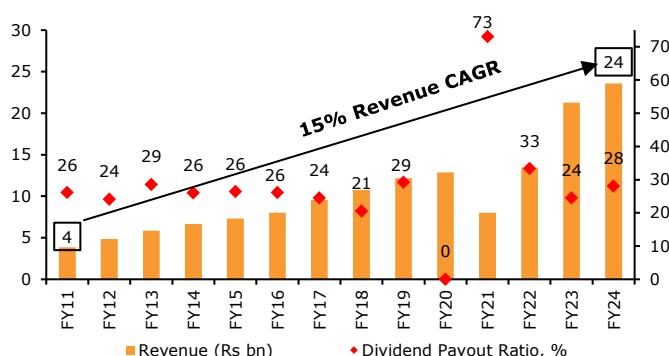
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## Investment thesis: Metro deserves higher valuations for growth longevity; time correction offers good entry point

We initiate coverage on Metro Brands with BUY and target price of Rs1,500 (implied multiple of 70x Dec-26E EPS). Our extensive research and analysis around the scope of growth for existing formats, global benchmarking of potential for new exclusive formats, and Metro's long-term financial discipline grants us confidence that the company deserves superlative valuations. Our investment thesis is built around four major arguments: 1) Exemplary financial discipline. 2) Healthy high-teen, near-term earnings growth. 3) Relatively strong medium-term potential with new, scalable, and exclusive partnerships. 4) Future growth optionality with healthy cash reserves and a strong balance sheet.

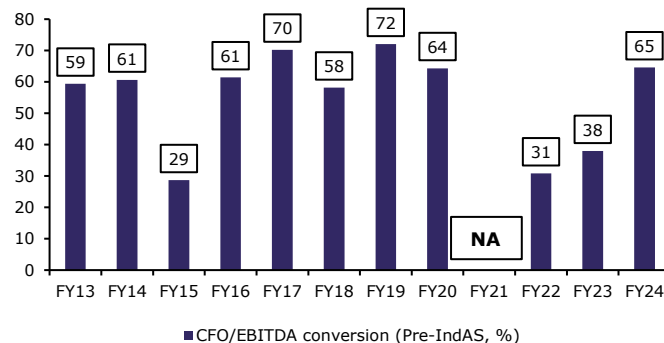
**1) Exemplary financial discipline:** Metro is the epitome of financial discipline with strong decadal track record of delivering mid-teen revenue CAGR, along with a best-in-class return profile, and consistent reward to shareholders in the form of annual dividends. Metro stands tall among leading discretionary names, in terms of FCF generation in the business. Business ROIC is currently strong at ~30% (FY24), which we expect to further improve by ~500bps to 35% by FY27E. The gains will be driven by normalization of WC days (85 in FY27E vs 100 in FY24), while margin is expected to retreat to FY24 levels after a dip in FY25E, due to the sluggish demand environment.

**Exhibit 1: Metro has consistently posted a healthy revenue CAGR of 15%; topline grows 6x over FY11-24**



Source: Company, MCA, Emkay Research

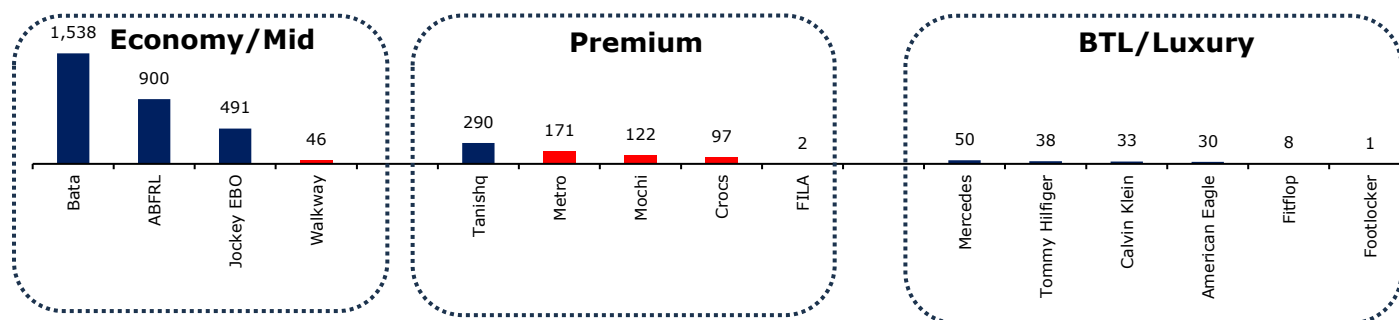
**Exhibit 2: Cash flow generation best-in-class, at ~60% over FY13-24 – Better than that of most retail peers**



Source: Company, MCA, Emkay Research

**2) Healthy high-teen, earnings growth in near-term:** Comparison with top-premium formats (like Tanishq) and Economy formats (like Bata) suggests that there is healthy potential for deeper penetration, thus offering a large medium-term headroom for growth. Premium brands Metro/Mochi/Crocs have individual presence in only 171/122/97 cities currently vs presence in 290 cities for Tanishq; Economy brand Walkway has presence in only 46 cities vs >1,500 cities for Bata. We believe Metro can add 110-120 stores annually in the near term, with entry into 10-15 new cities and fortification of the existing presence. We expect Metro to deliver ~22% earnings CAGR over FY25-27E, which is in line with or better than that of some of the best-performing companies within our coverage.

**Exhibit 3: Comparison of city penetration vs leading retailers across price points suggests that there is a long headway of growth for Metro Brands**



Network penetration across leading retail formats and price tiers (Number of cities)

Source: Company, Store locators (Brand websites), Emkay Research

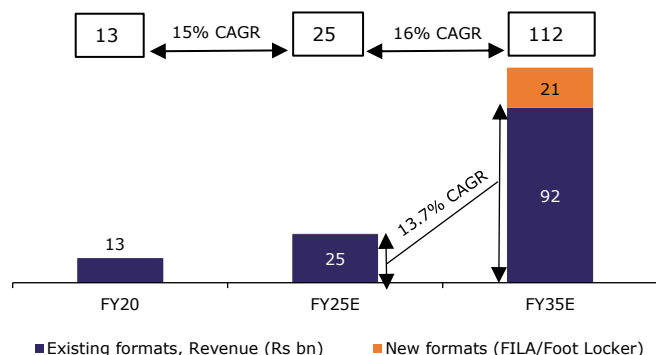
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**3) Stronger medium-term potential with new, scalable, and exclusive partnerships:**

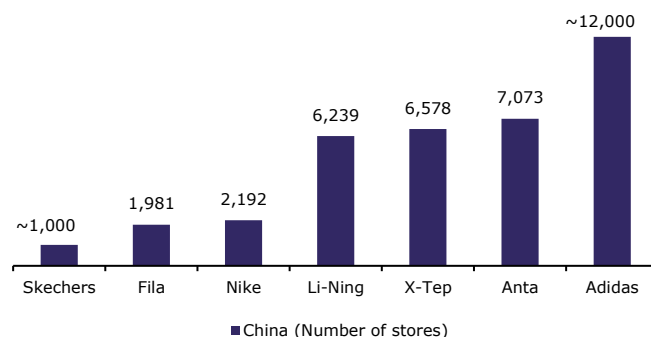
The medium-term growth prospects are relatively strong, as we expect the robust high-teens earnings CAGR to continue over FY25-35E as well. This would be supported by continuation of mid-teens growth in the existing portfolio (Metro/Mochi/Crocs/Walkway) and incremental ~250bps CAGR from the big scale-up opportunity in new retail formats (Foot Locker/FILA). With global precedents and growing preference for sports-inspired fashion/premium sneakers, we believe both FILA/FitFlop have potential and Metro's operational discipline can scale them to ~Rs10bn brands individually over the next decade.

**Exhibit 4: We expect new formats (FILA/Foot Locker) to add ~250bps incrementally to growth over FY25-35E**



Source: Emkay Research

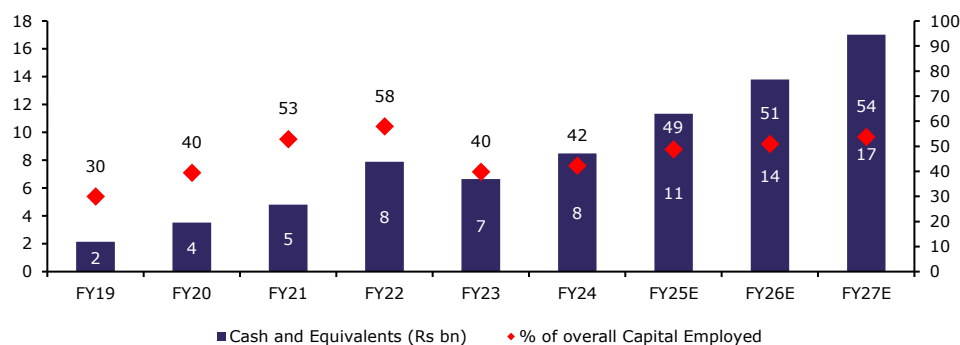
**Exhibit 5: Benchmarking with S&A brands in China gives confidence on medium-term growth for FILA/Foot Locker**



Source: Store locators (brand websites), Emkay Research

**4) Future growth optionality with healthy cash reserves:** Aided by FCF generation in the business, Metro has a strong balance sheet with cash reserves being ~45% of overall capital employed in the business. We believe Metro's strong cash reserves, pan-India omnipresence, and multi-decadal business expertise position it as the go-to choice for all leading global brands/retailers looking to enter India. The recent FILA/Foot Locker partnerships reflect Metro's investment aggression toward good, long-term opportunities.

**Exhibit 6: Metro has a strong balance sheet with cash reserves being ~45% of the overall capital employed, providing future growth optionality for new formats**



Source: Company, Emkay Research

**Strong long-term growth prospects at best-in-class ROIC justify the higher target multiple:** In our view, Metro deserves superlative valuations for offering leading growth longevity and a best-in-class return profile across our covered companies (Exhibits 7, 10). We value Metro using a 2-stage DCF model, which gives us an implied multiple of 70x Dec-26E EPS (pre IndAS-116). We recommend BUY on Metro with Dec-25E TP of Rs1,500. The stock has corrected ~10% from its 52-week high and the expected improvement in demand trends offers a good entry point, in our view. Continued investments by companies across retail formats also suggest anticipation of a pick-up in consumer demand sooner than later.

**Exhibit 7: We expect new formats (FILA/Foot Locker) to add ~250bps incrementally to growth over FY25-35E; existing formats should also continue to see a healthy CAGR, of 13.7%, given lower penetration across price segments**

(Rs bn)	FY20	FY25E	FY35E	FY45E	CAGR (%)		
					FY20-25E	FY25-35E	FY35-45E
Revenue (Existing formats)	13	25	92	203	14.6	13.7	8.3
Revenue (New formats: FILA/Foot Locker)	0.0	0.1	21	154			22.2
<b>Total Revenue</b>	<b>13</b>	<b>25</b>	<b>112</b>	<b>357</b>	<b>14.7</b>	<b>16.0</b>	<b>12.2</b>
EBITDA	2.4	5.2	25	84	16.5	17.3	12.7
<b>EBITDA Margin (%)</b>	<b>18.7</b>	<b>20.2</b>	<b>22.7</b>	<b>23.5</b>			
Depreciation	0.3	0.7	2.4	6.1	15.4	13.5	9.9
Depreciation, % of EBITDA	13.5	12.9	9.3	7.2			
<b>EBIT</b>	<b>2.1</b>	<b>4.5</b>	<b>23.1</b>	<b>77.8</b>	<b>16.6</b>	<b>17.8</b>	<b>12.9</b>

Source: Company, Emkay Research

#### Exhibit 8: Our key DCF assumptions

(Rs mn)	
Cash Flow at FY45E-end	51,122
Terminal Growth Rate	8.0%
WACC	10.5%
Terminal Value	2,208,486
Discounted Terminal Value	295,911
Present Value of Firm till Terminal Year	104,175
<b>Total Discounted Value of Firm</b>	<b>400,086</b>
Add: FY26E Cash Balance	13,793
Less: FY26E Debt	-
<b>Present Value of Equity (Dec-25E TP)</b>	<b>413,879</b>
Fair Value - Dec-25E TP (Rs)	1,500

Source: Emkay Research

#### Exhibit 9: Valuation comparison across our covered companies

Company	Price (Rs)	MCap (Rs bn)	Reco	Target Price (Rs)	EPS (Rs)			P/E (x)			EV/EBITDA (x)*		
					FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Titan Company	3,452	3,064	Buy	4,050	39.5	54.3	70.5	87.3	63.5	48.9	54.1	41.9	34.0
Varun Beverages	652	2,205	Buy	750	7.7	10.4	13.4	84.3	62.6	48.8	48.8	38.4	32.2
Ethos	2,887	71	Buy	3,350	38.3	51.5	68.2	75.4	56.1	42.3	37.1	25.8	19.5
Aditya Vision	512	66	Buy	550	8.7	11.9	16.0	59.1	43.0	32.1	30.4	23.2	18.0
Page Industries	47,941	535	Reduce	39,000	604	730	867	79.3	65.7	55.3	51.2	43.1	36.7
ABFRL	281	301	Sell	280	-4.5	-1.2	-0.5	NA	NA	NA	19.0	13.8	11.2
Go Fashion	1,019	55	Buy	1,450	17.8	23.6	29.3	57.3	43.2	34.7	19.1	15.4	12.8
Jubilant FoodWorks	759	501	Add	680	3.8	6.9	9.3	199.5	110.1	81.5	31.5	26.1	22.5
Devyani International	191	230	Reduce	160	0.3	0.6	1.3	659.4	308.0	152.3	28.3	22.5	18.3
Westlife Foodworld	801	125	Add	925	2.0	8.1	11.6	403.4	99.3	69.1	34.9	23.9	19.7
Sapphire Foods	349	112	Add	375	0.8	2.9	4.6	416.6	121.9	75.9	23.4	17.9	14.2
Senco Gold	1,135	93	Buy	1,600	29.2	40.0	49.0	38.9	28.4	23.1	18.7	16.3	13.5
<b>Metro Brands</b>	<b>1,267</b>	<b>345</b>	<b>Buy</b>	<b>1,500</b>	<b>15.0</b>	<b>18.5</b>	<b>22.4</b>	<b>84.4</b>	<b>68.5</b>	<b>56.7</b>	<b>45.2</b>	<b>37.1</b>	<b>31.2</b>

Source: Emkay Research; \*Note: Post IndAS-116 EBITDA

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**Exhibit 10: Comparison of near-term growth, ROIC expectations, and valuations across our coverage companies**

Company	FY25-27E CAGR (%)		FY25E RoIC (%)	FY26E P/E (x)
	Revenue	EBITDA		
Ethos	28	33	12	56
Aditya Vision	28	36	19	43
Varun Beverages	22	31	18	63
Go Fashion	19	28	20	43
ABFRL	19	NA	-1	NA
<b>Metro Brands</b>	<b>18</b>	<b>22</b>	<b>28</b>	69
Titan Company	18	34	25	64
Senco Gold	18	30	15	28
Westlife Foodworld	17	142	8	99
Sapphire Foods	16	134	3	122
Page Industries	16	20	59	66
Devyani International	16	108	4	308
Jubilant FoodWorks	14	56	9	110

Source: Emkay Research

## Metro Brands: Alluring combo of strong growth, big moat, and best-in-class return profile

Metro Brands is an undisputed leader in the premium fashion/formal footwear space, with best-in-class, mid-teen revenue CAGR for more than a decade. Metro's key strengths include offering of in-demand styles through a mix of own/third-party brands across price points, differentiated loyalty program, eye-catching store formats/building online presence, and a strong back-end enabling unmatched financial discipline (high fresh mix of more than 90%). Metro's reliance on third-party manufacturing and agile back-end ensure fashion-forward styles and best-in-class gross-margin among peers. In our view, near-term challenges in terms of BIS-implementation and weak macros should also be behind soon, and Metro's strong balance sheet should help it capitalize better in a weak demand environment. We expect Metro to deliver a revenue-led EBITDA CAGR of ~18% over FY25-27E, along with an improving return profile with optimization of back-end inventory.

**Lower penetration suggests potential to add ~80 Metro/Mochi stores annually:** We expect Metro Brands to continue adding 80-90 Metro/Mochi EBOs annually, driven by fortification within existing cities and annual foray into 10-15 new cities. Overall, annual store addition should be higher at 110-120 stores in the near-term, helped by additions for Crocs/Walkway/FitFlop and ramp-up of new own/exclusive retail formats (FILA/Foot Locker). With better brand strength now, we expect faster expansion for Metro/Mochi formats in cities with a population of 1-5mn vs the top-10 cities (~70% of the store network by CY30 vs ~65% currently). Fortification of metros should also continue, as we expect Metro/Mochi to add ~25 stores annually in the top-10 cities over the next decade.

**Comparison with top-premium formats (like Tanishq) and Economy formats (like Bata) also suggests that there is a large medium-term headroom for growth.** Metro/Mochi/Crocs have individual presence in 171/122/97 cities currently vs presence in 290 cities for Tanishq. Additionally, FILA/Foot Locker offer huge potential upsides, basis the strong global traction in sports-inspired fashion and solid precedents in geographies like China, where FILA/NIKE/Adidas have nearly 2,000-12,000 mono-brand stores. Metro Brands has a big right-to-win in Economy and Bridge-to-luxury (BTL) segments, given multi-decadal domain experience, long-term vendor relationships, first-mover advantage, and strong balance sheet.

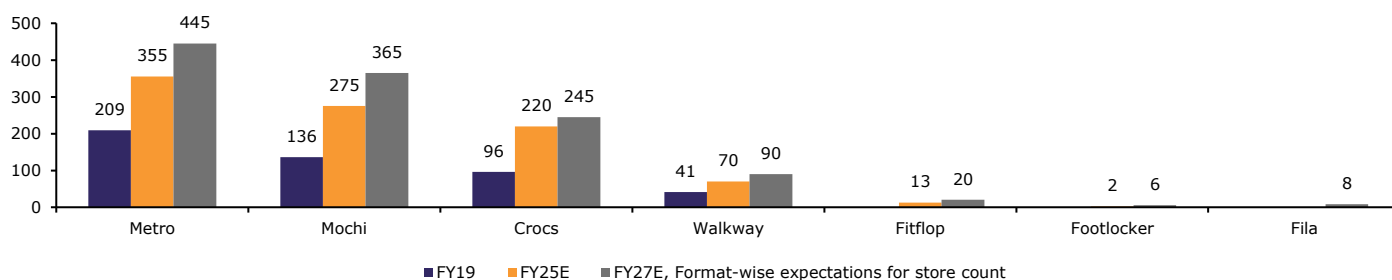
**Gradually diversifying portfolio into the S&A category:** In line with evolving consumer trends, Metro is gradually building its presence in the athleisure (fashion sportswear), premium sneakers/comfort-wear via its recent partnerships with FILA, Foot Locker, and FitFlop. Our analysis of these partnerships in other geographies grants us confidence on the mid-teen topline growth continuing for Metro Brands over the medium term, led by stable low-teen CAGR in the existing portfolio, and ~250bps of incremental growth from new formats.

**Exhibit 11: New Tier-1/2/3 cities offer huge penetration potential, along with fortification in existing cities**

Population	India Urban Cities (UN)		Metro/Mochi (store locator)		Metro/Mochi (CY30)		Current	CY30
	Current	CY30	No of cities	No of stores	No of cities	No of stores	No of stores per city	No of stores per city
<0.1mn	Rest	Rest	10	12	15	20	1.2	1.3
0.1-0.3mn	200	200	45	66	60	108	1.5	1.8
0.3-0.5mn	71	94	26	42	42	85	1.6	2.0
0.5-1.0mn	49	70	41	79	60	137	1.9	2.3
1-5mn	52	62	41	164	56	391	4.0	7.0
5-10mn	6	3	6	68	3	45	11.3	15.0
>10mn	4	7	4	129	7	280	32.3	40.0
<b>Total</b>	<b>382</b>	<b>436</b>	<b>173</b>	<b>560</b>	<b>243</b>	<b>1,065</b>		

Source: Company, United Nations' estimates for number of urban centers in India in 2030 ([Link](#)), Emkay Research

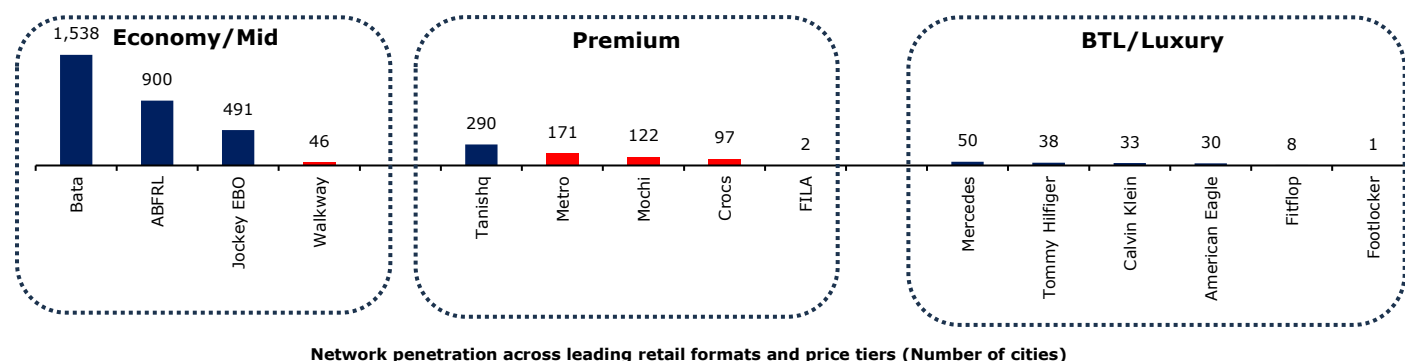
**Exhibit 12: Our format-wise expectation for network expansion over FY25-27E**



Source: Company, Emkay Research

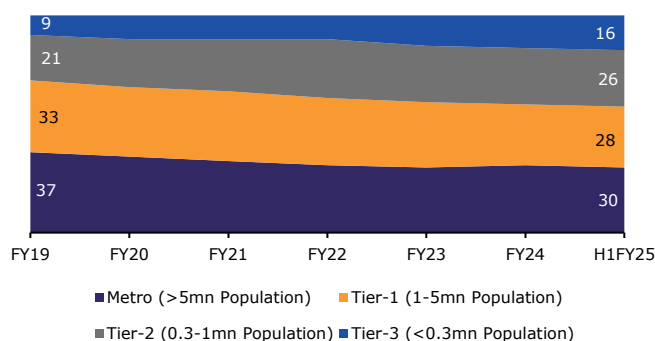
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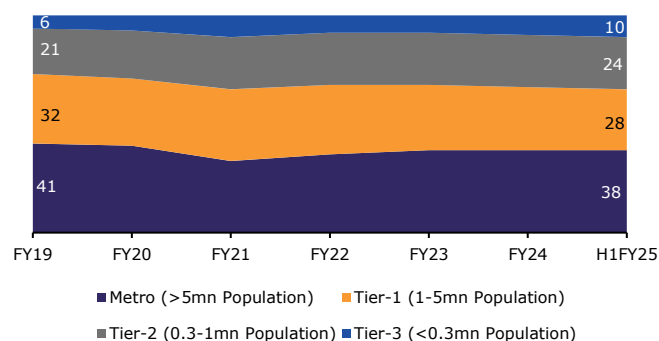
**Exhibit 13: Comparison of city penetration vs leading retailers across price points suggests that there is a long headway of growth for Metro Brands**

Network penetration across leading retail formats and price tiers (Number of cities)

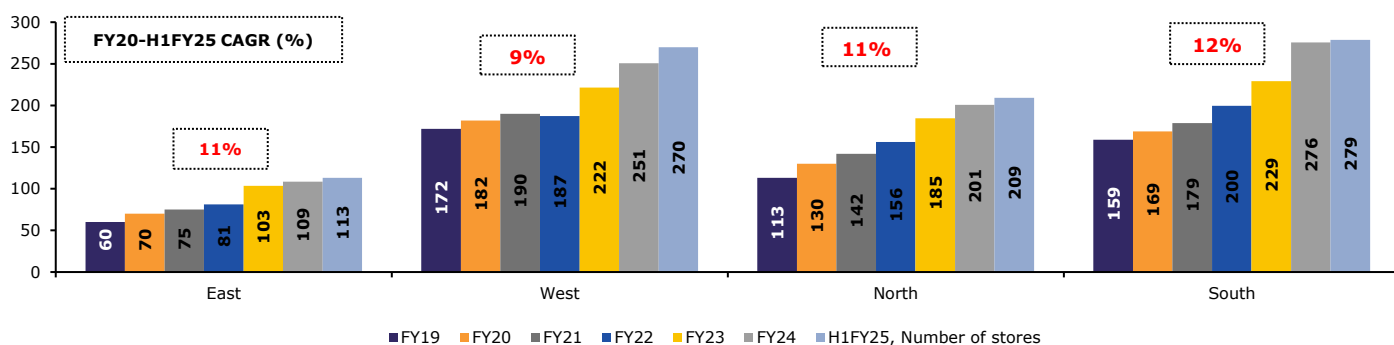
Source: Company, Store Locators (Brand Websites), Emkay Research

**Exhibit 14: Store mix in Tier-2/3 cities has been increasing over the last few years**

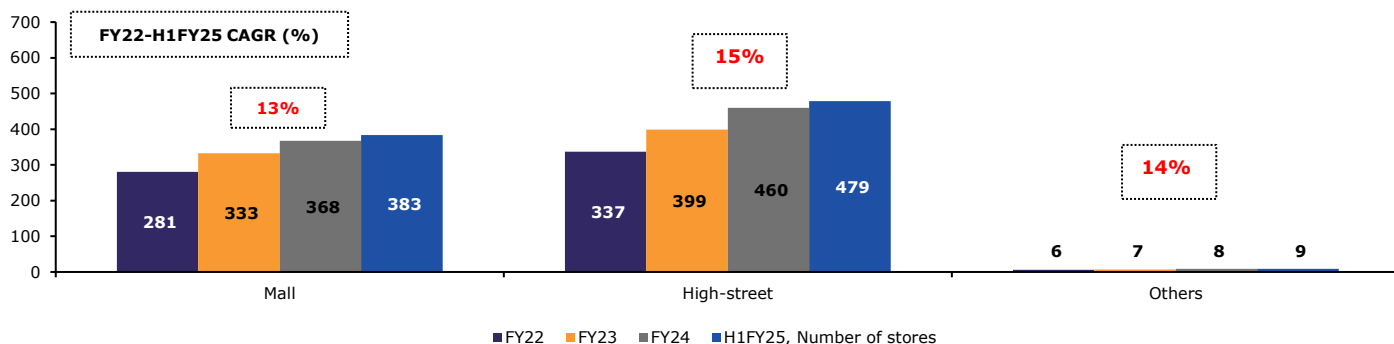
Source: Company, Emkay Research

**Exhibit 15: Increase in store salience is also reflecting in the higher revenue mix from Tier-2/3 cities**

Source: Company, Emkay Research

**Exhibit 16: Among regions, Metro is diversifying its presence in the North/East/South, which are seeing faster store-count growth vs the western region (11-12% store-count CAGR over FY20-H1FY25 vs 9% CAGR in the western region)**

Source: Company, Emkay Research

**Exhibit 17: Metro has a higher mix of stores in the high-street space (vs malls), where it is seeing faster store-count CAGR, implying that the model is time-tested and not just dependent on mall growth in the country**

Source: Company, Emkay Research



**Metro is best-placed across all four parameters of our 4P framework – Key moat**

- **Product:** With a strong portfolio of brand retail formats (Crocs/FitFlop/Foot Locker/FILA) and healthy mix of own/third-party brands within the Metro/Mochi store formats, Metro is a one-stop family retailer, and also addresses discerning needs of premium customers for casual, comfort, sneakers, and sports fashion via separate store formats. Metro caters to these occasions with a wide assortment of footwear across styles, heels, and foot size, while maintaining a deep operational/inventory discipline. Our channel checks suggest that the availability of brand options is also relatively higher with Metro/Mochi (vs other retail formats) which drives a superior consumer experience (Exhibit 19).
- **Pricing:** Metro has an agile supply chain, which follows the theory of constraints and ensures optimum availability of in-demand products and minimizes stale stock, thereby resulting in best-in-class mix of fresh sales and higher gross margin. With multiple unique retail formats, Metro caters to a wide consumer base across pricing tiers. Among formats, Walkway starts with an ASP of Rs700, followed by Metro/Mochi at Rs1,700, and then the premium formats of Crocs/FitFlop at Rs3,150/5,500.
- **Promotion:** Metro has an attractive rewards program, which offers 4% of net bill value as loyalty points to be used within one year of purchase. Loyalty points, coupled with an intelligent CRM, result in an optimal mix of sales from repeat consumers at ~55% and lower ad expenses. Metro is also proactively reaching out to millennials through celebrity-based marketing campaigns (Tripti Dimri and Vijay Varma).
- **Placement:** Metro retails its products largely through EBO/Online channels vs significant revenue mix via MBOs (GT) for other footwear players. In our view, the shopping experience is better with full display of all categories in EBOs vs limited shelf space in MBOs (General Trade). Operationally, EBO is a lighter channel in terms of working capital and helps in reduction of thought-to-shelf product cycles while offering stronger pricing power.

**Exhibit 18: Metro is well-placed across all fronts of our 4P matrix – Key Moat**

Source: Company, Emkay Research

Luxury	Birkenstock	Ecco Birkenstock	Naturalizer				
	DaVinci	J Fontini					
Premium	FitFlop Clarks Florsheim Ecooss Language Von Wellx ID Crocs Cheemo Princess	Adidas Skechers Fila	FitFlop Clarks Heydude Language Egoss Von Wellx ID Crocs Cheemo Haute Diva	Adidas Skechers Fila	Nine West Hush Puppies	Clarks ID Lee Cooper Catwalk	Superdry Adidas Puma Sketchers Reebok
	Mardi Gras Buckaroo Metro		Mardi Gras Buckaroo Mochi		Scholl Red Label Bata Comfit	Power Lazera Buckaroo Schumann Sanlee Ceriz	Performax
Mid							
Economy		Aeros Activ	Aeros	Marie Claire Floatz	North Star	Hi Attitude Frisbee	Campus Duke Christofano
	Casual/Formal	Sports/Ath	Casual/Formal	Sports/Ath	Casual/Formal	Sports/Ath	Casual/Formal
	Metro		Mochi		Bata		Trends Footwear

**Exhibit 20: Format-wise store presence in cities targets consumers and key operational metrics**

Source: Company, Emkay Research

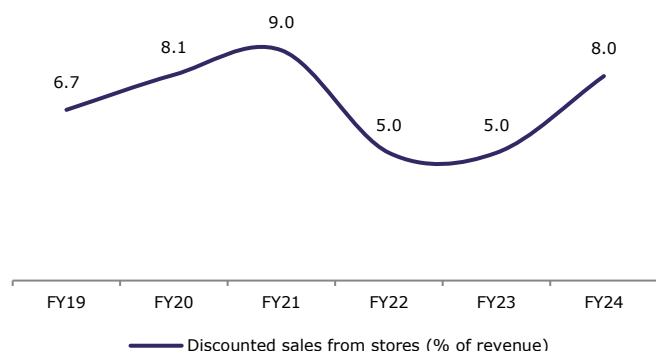
**Agile back-end and operational efficiencies ensure best-in-class unit metrics; allow faster scale-up:** Metro generates blended company-level ROCE of 35-40% (Emkay), implying blended store-level payback period of 2-3 years. In our view, Metro's best-in-class ROCE is a result of a demand-based agile supply chain (higher fresh mix) and operational efficiencies, which result in better store throughputs and margins. In our view, Metro's gross profit per square foot and EBITDA margin at 21-22% (pre IndAS-116) are among the best across leading Indian footwear players. Margins should improve gradually, as fixed costs (rental, employee) form ~25% of sales for the company, and losses reduce for FILA/Cravatex. Working Capital (WC) inched-up intermittently on higher stocking in anticipation of supply-chain disruptions and Cravatex acquisition. However, Metro is making conscious efforts to normalize its WC to 85 days by FY27E (vs 100 days at FY24-end). To efficiently manage its WC, Metro follows a pull model for product availability, where product placement is led by the demand-driven replenishment method. Demand-driven sourcing ensures optimum availability of in-demand products, minimizes stale stock, and results in best-in-class gross margin. The same is reflected in the lower discounted sales at 5-10% over FY19-24.

**Exhibit 21: Metro has best-in-class store payback periods, aided by strong product-value proposition and higher store throughputs with better fresh mix**

Particulars	Metro Brands	Bata	Relaxo	Campus	Khadim	Redtape
Price Tier	Premium	Mid-Premium	Economy	Mid-Premium	Economy	Mid-Premium
<b>Number of stores</b>	<b>871</b>	<b>1,862</b>	<b>405</b>	<b>295</b>	<b>891</b>	<b>423</b>
Number of cities	198	1,538				
Franchisee model	No	Yes	largely COCO	Mixed	Mixed	Mixed
Distribution/Wholesale Channel	Low	Low	Majority	Significant	Significant	Low
<b>FY24 Revenue (Rs bn)</b>	<b>23.6</b>	<b>34.8</b>	<b>29.1</b>	<b>14.5</b>	<b>6.1</b>	<b>18.4</b>
<b>Revenue CAGR (FY19-24)</b>	<b>14%</b>	<b>3.5%</b>	<b>5%</b>	<b>20%</b>	<b>-5%</b>	<b>NA</b>
Gross Margin	56-57%	55-56%	45-48%	50-52%	42-45%	48-50%
<b>PAT Margin</b>	<b>14-15%</b>	<b>8-9%</b>	<b>7-8%</b>	<b>6-9%</b>	<b>1-2%</b>	<b>9-10%</b>
Inventory Days (no of)	110	98	75	100	115	151
Receivable Days (no of)	12	8	45	30	110	18
Payable Days (no of)	40	31	32	50	93	55
Other Net Assets Days (no of)	17	25	-13	30	46	-27
<b>Net Working Capital Days (no of)</b>	<b>99</b>	<b>99</b>	<b>75</b>	<b>109</b>	<b>178</b>	<b>88</b>
Fixed Asset Turnover	3.3	4.1	1.9	3.7	3.6	3.9
<b>ROCE (Pre-Tax; %)</b>	<b>38</b>	<b>28</b>	<b>15</b>	<b>25</b>	<b>Single Digit</b>	<b>NA</b>
<b>ROE (%)</b>	<b>22</b>	<b>17</b>	<b>10</b>	<b>14</b>	<b>Single Digit</b>	<b>27</b>

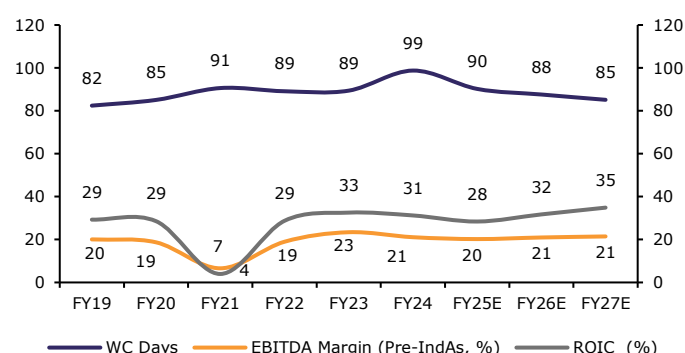
Source: Company, Emkay Research

**Exhibit 22: Discounted sales have remained at a low 5-10% of revenue, resulting in better store throughputs**

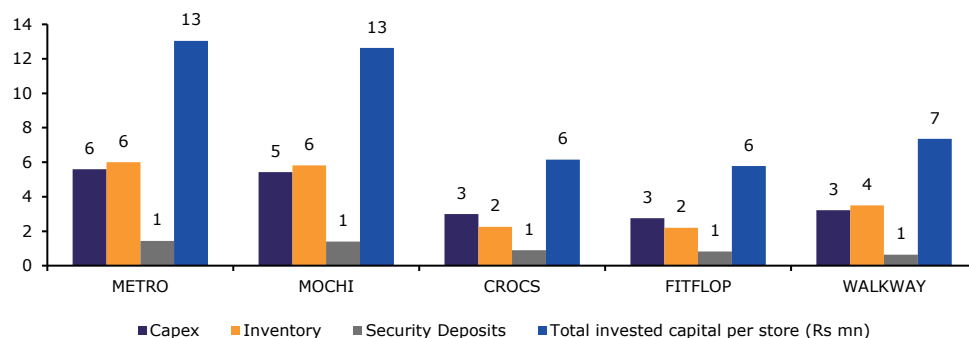


Source: Company, Emkay Research

**Exhibit 23: WC cycle/ROIC expected to improve, with normalization of supply chain and gradual margin gains**

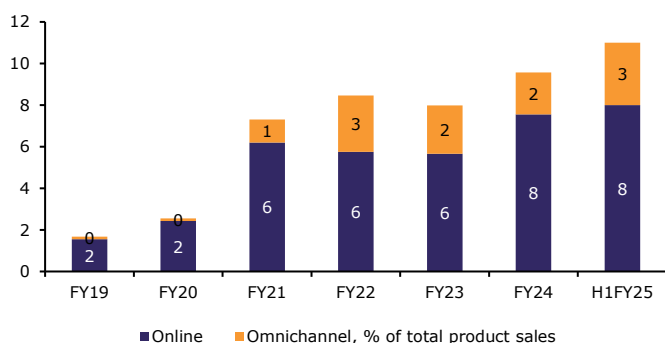


Source: Company, Emkay Research

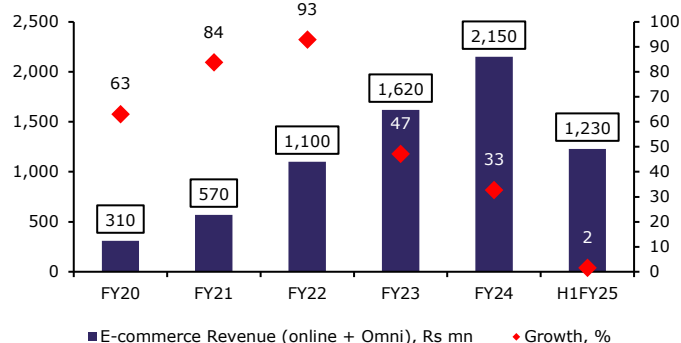
**Exhibit 24: Our expectations on format-wise investment in stores for Metro Brands**

Source: Company, Emkay Research

**The Online channel has ramped-up significantly; lower discounts suggest healthy profitability:** Metro has invested in building its own digital assets and has fully enabled omnifilment capabilities at its stores. Overall, E-commerce contributes ~10% of revenue for Metro, of which, online is 8% and omni-channel is the remaining 3% of sales for the company. We expect this channel to grow faster on account of a low base (~11% revenue mix by FY27E vs 9.5% in FY24). Relative to other brands, Metro/Mochi offer a sizable assortment for both, men and women categories on online platforms, as reflected in the size of its bubbles (Exhibits 27, 28). However, the discounting levels are relatively much lower, suggesting financial prudence and treatment of online channel as an alternate channel of growth vs a liquidation channel for peers.

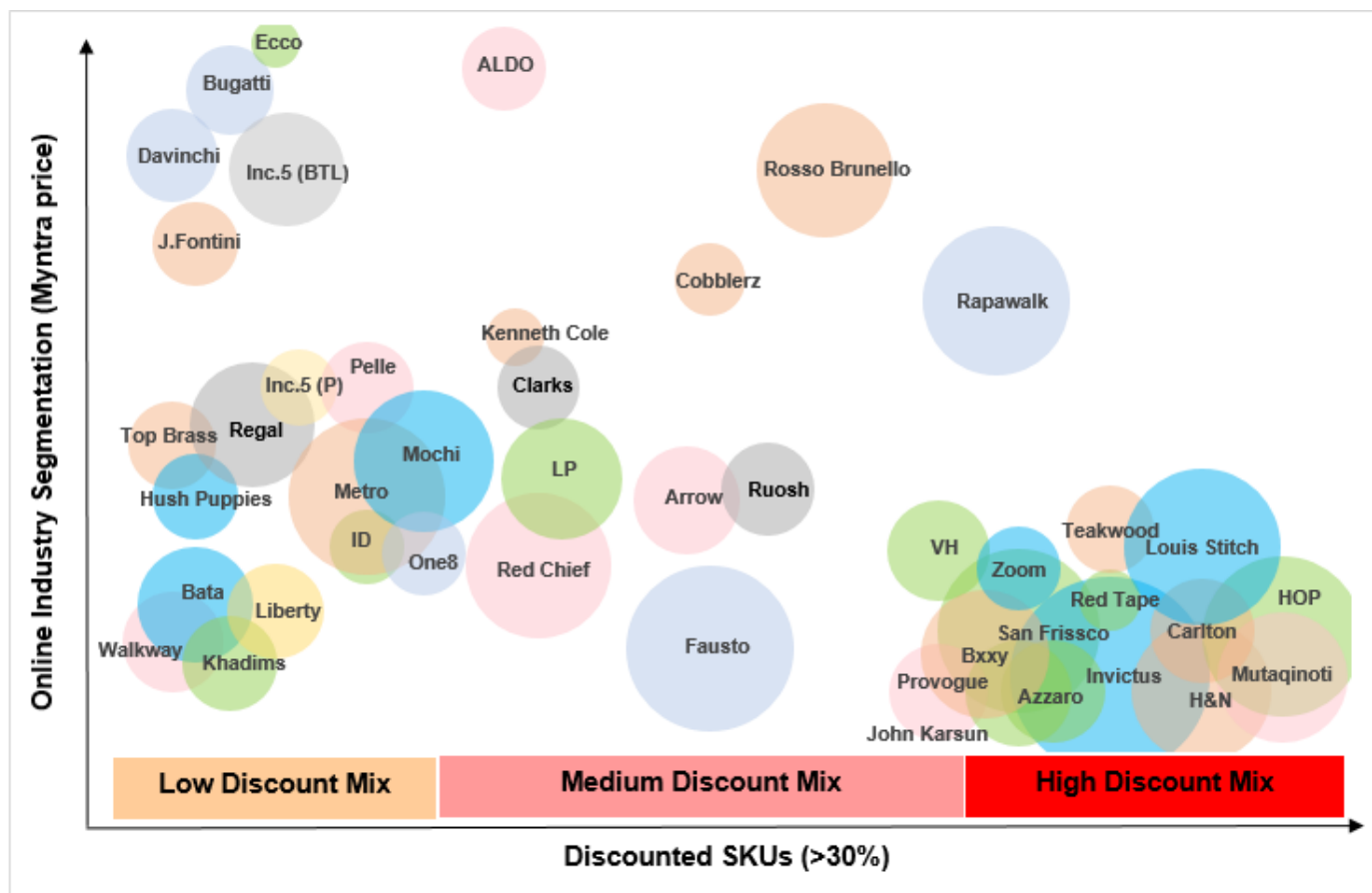
**Exhibit 25: E-commerce has emerged as a growth channel for Metro, resulting in mix increase for the channel**

Source: Company, Emkay Research

**Exhibit 26: Metro Brands has registered CAGR of 62% over FY20-24, in the e-commerce channel**

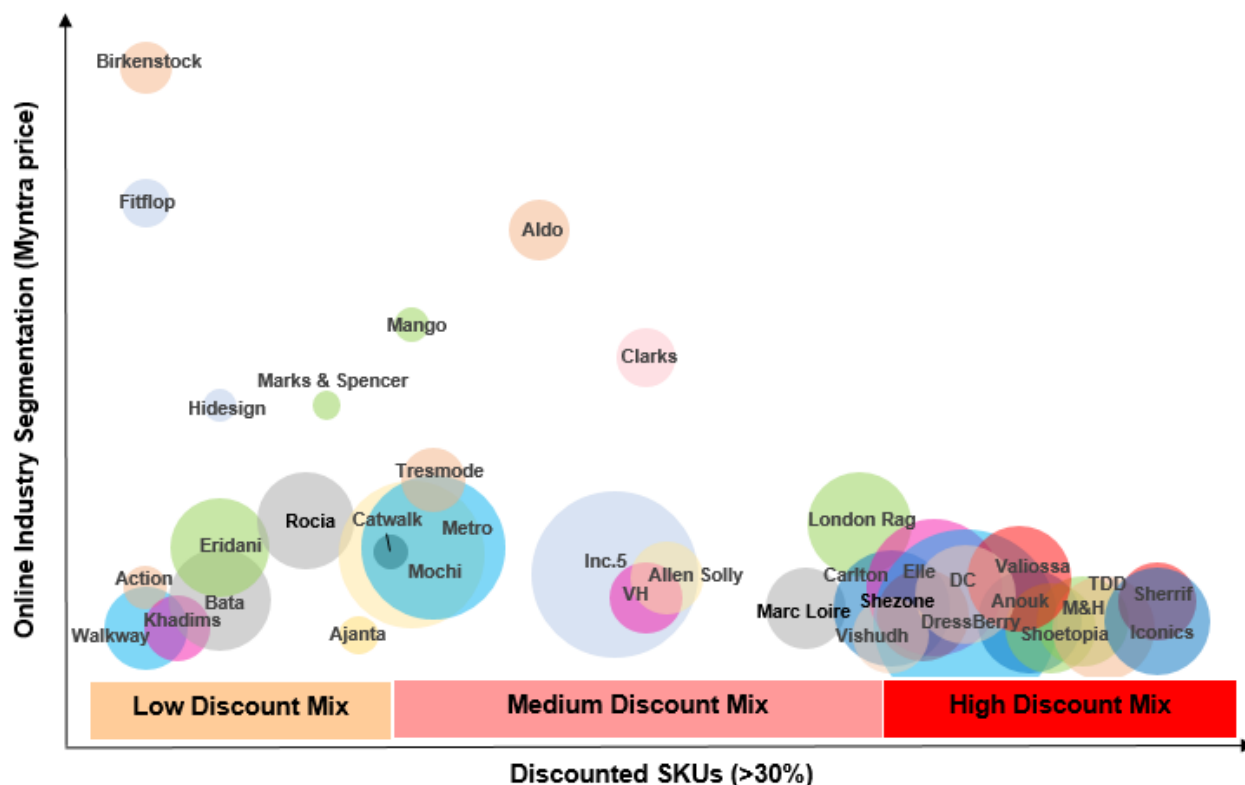
Source: Company, Emkay Research

**Exhibit 27: Online marketplace comparison for men's footwear across SKUs/pricing/discounting – Both, Metro and Mochi, have a considerable SKU presence; discounting is relatively lower than that of other players'**



Source: Myntra (leading online marketplace in India), Emkay Research

**Exhibit 28: Online marketplace comparison for women's footwear across SKUs/pricing/discounting – Both, Metro and Mochi, have a considerable SKU presence; discounting is relatively lower than that of other players'**



Source: Myntra (leading online marketplace in India), Emkay Research

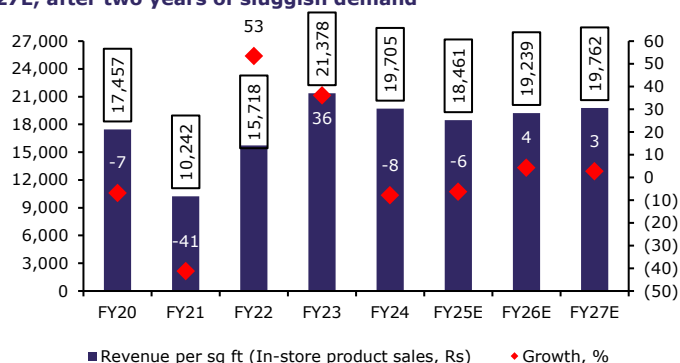


**Loyalty, cross-selling, and premiumization to drive 4-5% SSG:** After two years of sluggish growth in revenue per sqft on weak macros and new store additions (higher in Tier-2/3), we expect it to start improving gradually over FY24-27E. Our SSG expectations are conservative and led by mix improvement, attractive loyalty program, cross-selling, and population growth in the catchment area. We expect CAGR in revenue per sqft to be lower at 3-4% (vs our estimate of 4-5% SSG) over FY25-27E, due to our expectations of increase in mix of the non-metro store portfolio, where the store throughputs are relatively lower. However, this should not impact margins, as operational costs (rent/employee) are also commensurately lower in such towns.

**Optimal mix of repeat sales, helped by targeted CRM and a strong loyalty program:**

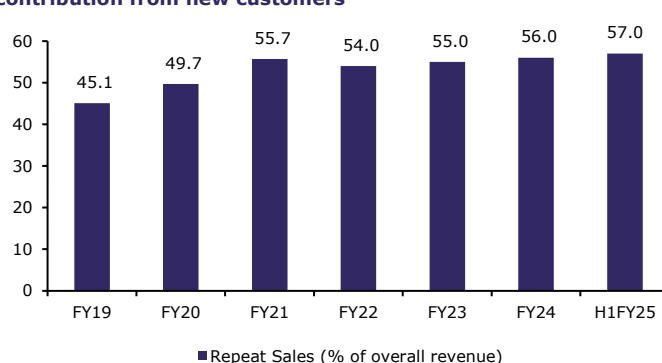
Metro has a healthy mix of sales from new and repeat customers, where repeat sales to member of loyalty programs across retail formats is 55-57% at the company level, while the rest is contributed by new customers. We would like to highlight that repeat sales to consumers at the store level are ~70%, and the remaining 30% sales are from new consumers. Around 15% of the new consumer mix is likely aided by the addition in new retail space. The repeat sales are helped by an attractive customer loyalty program, where customers get 4% of net bill value as loyalty points. The program is also simple with a single-level membership program.

**Exhibit 29: We expect 3-4% growth in revenue per sqft over FY25-27E, after two years of sluggish demand**



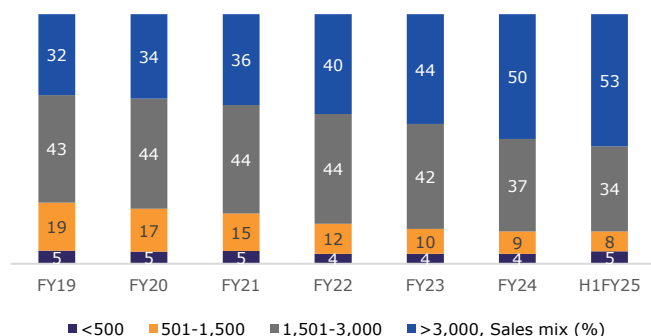
Source: Emkay Research; Note: \*Revenue per sqft = Revenue/average Retail sqft

**Exhibit 30: Metro has an optimal mix of repeat sales and sales contribution from new customers**



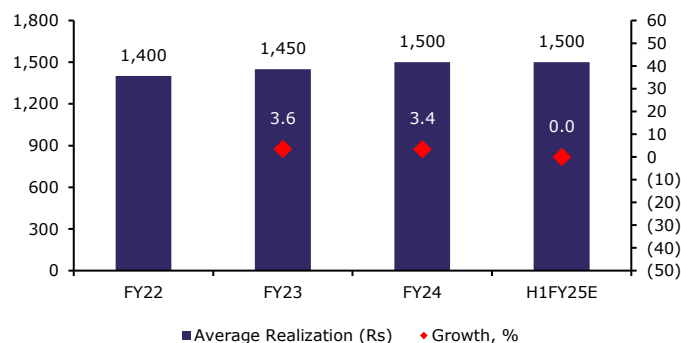
Source: Company, Emkay Research

**Exhibit 31: Premiumization has been a strong growth driver, as reflected in the growing share of the >Rs3,000 footwear**



Source: Company, Emkay Research

**Exhibit 32: Realization has increased at a healthy rate of 3-4% over FY22-24**



Source: Company, Emkay Research

**Exhibit 33: Metro has an easy and attractive loyalty program, which offers 4% of net bill value in the form of loyalty points**

**Club Metro and My Mochi Loyalty Program Details**



- Valid for a period of one year from the date of purchase unless specified otherwise
- Flat, Single level membership programs
- 4% of net bill value in the form of loyalty points (one point equals Re. 1)
- Highest loyalty points credit for customers among the key Indian footwear players (Source : CRISIL Research)
- Can be redeemed across any store of the respective brands

Source: Company, Emkay Research

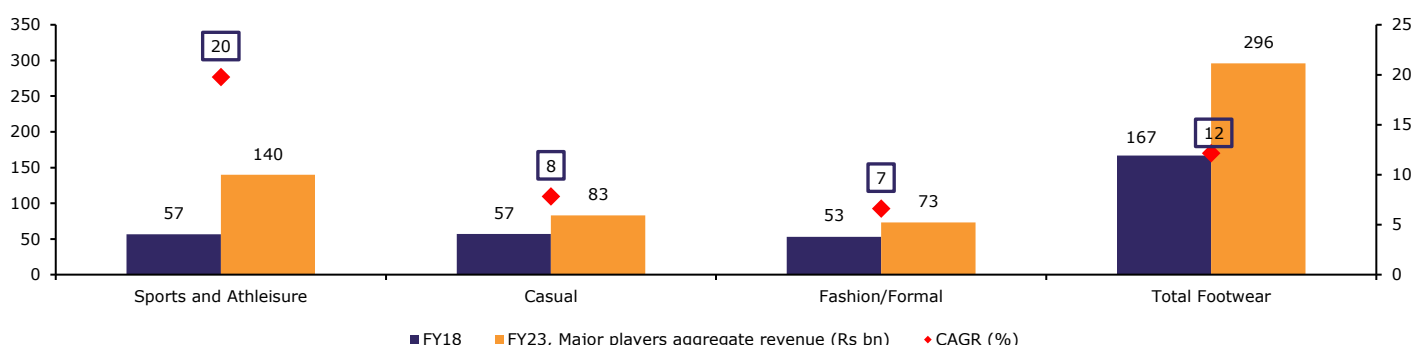
## Key Trend: S&A category and premiumization driving growth; brands focusing on improving accessibility

There is an increasing preference for sports-inspired fashion (comfort/sneakers) vs the conventional footwear styles and categories. Interestingly, such trends are also increasingly becoming part of formal attire and reflecting themselves in strong growth for players in sports and athleisure categories (~20% CAGR over FY18-23 vs 7-8% growth for other footwear categories). The contemporary consumer is well aware of the global fashion trends and brands are focusing on improving the accessibility of products via India sourcing, flagship stores in metros/network expansion in Tier-2/3/4 towns, and investments in online channel or via exclusive arrangements with leading global retail formats. Retailers like Metro Brands are continuously expanding their portfolio to meet these evolving preferences, and providing superior experience through COCO stores. Comfort and premiumization are other big trends in formal/fashion categories, resulting in growth outperformance for players like Metro Brands.

**Global benchmarking suggests long growth headroom for S&A category:** In line with global trends, Sports and Athleisure (S&A) category has led overall industry growth with 20% CAGR over FY18-23 (vs ~12% overall CAGR for 30 major players). When we compare the scale of Indian footwear industry with global trends, we believe that we have just scratched the surface and there is a long-term headroom for growth (refer to Exhibit 38). The category growth is broad-based across most major players and also led by entry of new players like Abros, Under Armour, and Birkenstock over FY18-23. After easing of FDI norms for e-commerce/own retail channels, the e-commerce and mono-brand stores are leading the growth for most of the S&A brands, whereas distribution channel is seeing muted trends. In addition to footwear, sports-inspired apparel is an even bigger category globally and FILA provides a big opportunity with high apparel share in countries like China (60-65%).

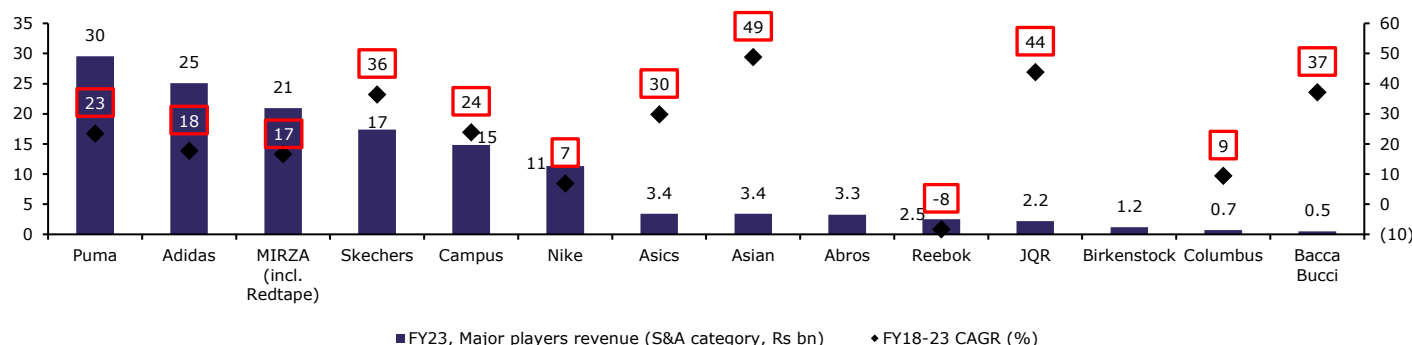
*As there is significant deviation in estimations for the Indian footwear industry by consulting agencies, we are basing our analysis on reported revenue for 30 major footwear players across S&A, casual, and formal/fashion categories over FY18-23. We believe this is a fair representation for understanding growth trends across categories for branded players. However, note that the absolute retail-level size of the industry would be significantly higher, when accounted for retail/distribution margins and GST.*

**Exhibit 34: In line with global trends, the Sports and Athleisure (S&A) category has led overall industry CAGR of 20% over FY18-23 (vs ~12% overall CAGR for 30 major players in the Indian footwear industry)**



Source: Company, MCA (overall, 30 major brands across footwear category), Emkay Research

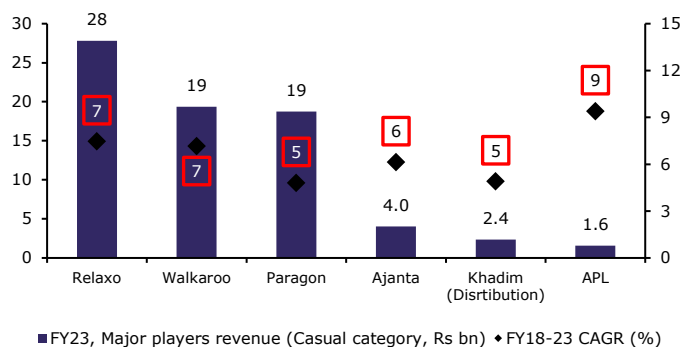
**Exhibit 35: The S&A category growth has been led by broad-based growth across most players and entry of new players like Abros, Under Armour, and Birkenstock, over FY18-23**



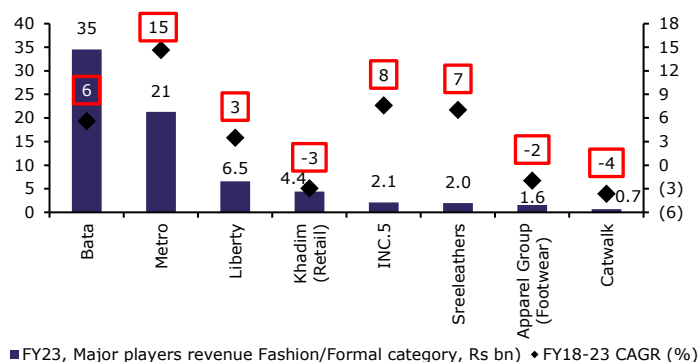
Source: Company, MCA, Emkay Research

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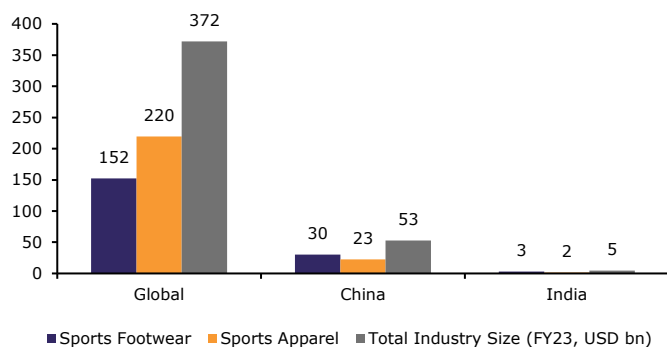
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**Exhibit 36: Economy players in the casual category have witnessed subdued growth trends over FY18-23**

Source: Company, MCA, Emkay Research

**Exhibit 37: Premium players like Metro Brands have significantly outperformed Fashion/Formal peers**

Source: Company, MCA, Emkay Research

**Exhibit 38: Size of the Indian S&A industry is considerably lower currently; offers a long headroom for growth**

Source: Global brands Annual Reports, Topsports (China), Emkay Research

**Exhibit 39: Easing of FDI regulations has led to higher investments from global majors in the S&A category****THE FDI RACE****2015**

- March:** Adidas files application to operate single-brand retail stores with 100% FDI
- November:** DIPP relaxed rules to allow single-brand retailers with FDI to operate online and have wholesale outlets to sell through e-commerce platforms. But companies had to maintain separate entities for each platform

**2016**

- March:** Adidas and Puma sought govt permission to have all the platforms under single entity for easier business processes
- July:** DIPP allows Adidas to operate single-brand, wholesale and online under one entity, while keeping their accounts separate

Source: Business Standard, Emkay Research

**MBO-focused brands opening EBOs, indicating shift toward organized retailing:** Most brands that were general trade or B2B-heavy are gradually shifting toward consumer-facing channels (EBO/Online). Brands are adopting this strategy to better understand consumer trends, reduce thought-to-shelf product cycles, lighten working-capital investment, and improve pricing power of the brand. Metro has led the evolution of the standalone EBO format for the footwear category, with other MBO-focused players following suit.

**Exhibit 40: MBO-focused players are slowly moving toward EBOs, suggesting a trade area shift favoring modern trade channels**

Channel	EBO	LFS	Online	MBO
<b>Metro Brands</b>	✓ ✓ ✓ ✓ ✓	✗	✓ ✓	✗
Puma	✓ ✓ ✓	✓ ✓	✓ ✓ ✓ ✓	✗
Adidas	✓ ✓	✓ ✓	✓ ✓ ✓ ✓	✗
Skechers	✓	✓ ✓	✓ ✓ ✓ ✓	✗
Nike	✓	✗	✓ ✓ ✓	✗
Campus	✓	✓ ✓	✓ ✓ ✓	✓ ✓ ✓ ✓
Bata	✓ ✓ ✓ ✓	✓	✓ ✓	✓ ✓ ✓
Relaxo	✓	✓	✓	✓ ✓ ✓ ✓

Source: Company, Online marketplaces, Emkay Research



### BIS: Implementation of Bureau of Indian Standards for footwear

The Department for Promotion of Industry and Internal Trade (DPIIT) has issued BIS Quality Control Order (QCO) for footwear which mandates BIS implementation wef 31-Jul-24. However, the final notification allows liquidation of declared non-BIS inventory (as on 31-Jul-24) till 31-Jul-26 (2-year window is now vs 1-year earlier). In the interim, the regulatory authorities have also allowed purchase of footwear from factories that have applied for BIS certification (till end of Jul-24) to facilitate smooth transition to the new BIS norms.

**Big investments by global leaders should ease BIS-related issues:** In our view, import restrictions due to BIS regulations are likely to lead short-term supply chain disruptions as India's infrastructure is currently not ready to suffice the requirements of premium footwear brands. However, significant investments are happening from globally-renowned footwear manufacturers in shoe manufacturing and creation of component ecosystem, which should ease the supply chain going ahead. Refer to Exhibit 41 for the announced investments.

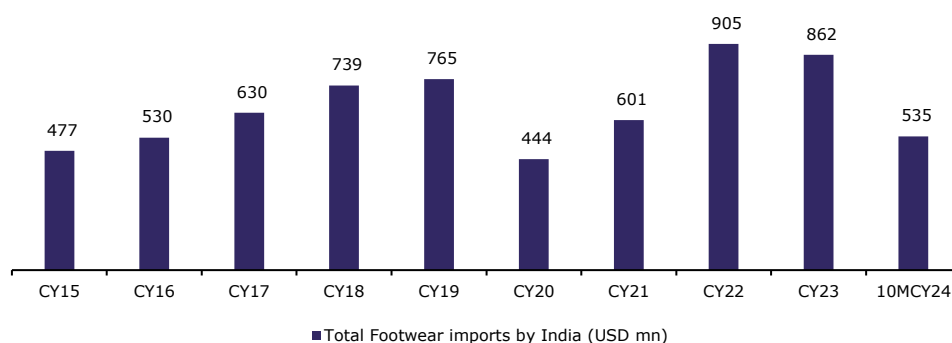
As of now, Metro has front-loaded inventory purchases, which are expected to normalize toward FY25-end. Beyond FY25, Metro will take a cautious approach in evaluating its expansion strategy for the sports and athleisure category, depending upon further clarity.

**Exhibit 41: Big investments by leading global footwear manufacturers should ease the BIS-related supply-chain issues over time in India**

Footwear Manufacturer	Brands	Investment (Rs bn)	Investment location
Hong Fu	Nike, Converse, Vans, UGG, Puma, Adidas, Reebok, HOKA, Under Armour, and ON	15	Tamil Nadu
Pou Chen	Nike, Adidas, Asics, New Balance, Timberland and Salomon	23	Tamil Nadu
Dean Shoes		10	Tamil Nadu
Shoetown	Crocs	50	Tamil Nadu
Apache	Adidas	10	Andhra Pradesh
Zucca	Planning to enter India		
Sports Gear	Planning to enter India		
Oasis Footwear	Planning to enter India		

Source: Media Reports, Emkay Research

**Exhibit 42: Import of footwear in India has been on a declining trend over CY23/24, led by implementation of BIS standards in India**



Source: Ministry of Commerce and Industry (HS64), Emkay Research

## Foot Locker: Global leader spreading wings in EMEA / APAC; Israel success gives confidence on India scale-up

Foot Locker has a strong history of sneaker authority and has a global presence with ~2,500 retail stores in 26 countries. After a recent leadership overhaul to revive growth/profitability, the format is focusing on expanding the sneaker culture, catering to more sneaker occasions, and offering best-in-class omni-shopping experience to consumers. The global retailer is also pursuing asset-light, franchisee-led expansion in EMEA/Asia regions and is leveraging all-round strengths of local footwear leaders to scale the Foot Locker retail brand (refer to Exhibit 43).

**Exponential trends for Ethos suggest strong demand for luxury goods in India:** Luxury formats like Ethos (luxury watches) are seeing strong trends in Top-50 Indian cities, with expectations of 8-9% CAGR in HNI population. The import-driven brand formats also benefit from annual price hikes by brands and 3-4% INR depreciation over the long term. Given rising community of sneakerheads in India and ramp-up to ~85 stores in Israel within 6-7 years of launch (with similar HNW population as India), we see scope of more than 200 stores for Foot Locker in India over time.

**Agreement allows direct sourcing from brands, enabling localization and future partnerships:** The Foot Locker agreement is also attractive as it is a multi-decade exclusive agreement to operate Foot Locker stores in India, with direct sourcing from global sneaker/athletic brands. In our view, direct sourcing should allow Metro to leverage its local expertise and source merchandise in line with consumer trends in India. The same also provides a future optionality of developing a franchisee relationship with some of these brands. In return, Metro will be paying a royalty on Foot Locker sales in India.

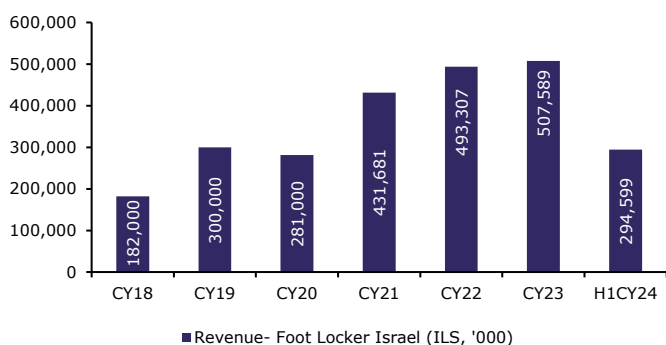
**Format has scaled-up strongly in Israel:** Interestingly, Foot Locker has seen a strong ramp-up in Israel with Retailors (FOX group), after its launch in 2017. Despite the pandemic-led challenges, the format has seen strong 22% revenue CAGR over CY18-24, along with a healthy double-digit SSG profile. The format is seeing a strong throughput in Israel with Rs150mn revenue per store and a gross-margin profile of 46-48% (vs 57-58% for Metro Brands currently). The pre-IndAS EBITDA margin are currently at 7-11%, but we believe, that Metro's financial discipline can help it to deliver a better EBITDA margin in India.

**Exhibit 43: In an attempt to improve its growth/return profile, Foot Locker is partnering with leading footwear retailers across the EMEA and APAC regions**

Country	Partner
Israel	Retailors (Fox Group)
Parts of South-East Asia	MAP Active
Parts of Europe	Fourlis
Parts of the Middle East	Alshaya Group
India	Metro Brands and Nykaa

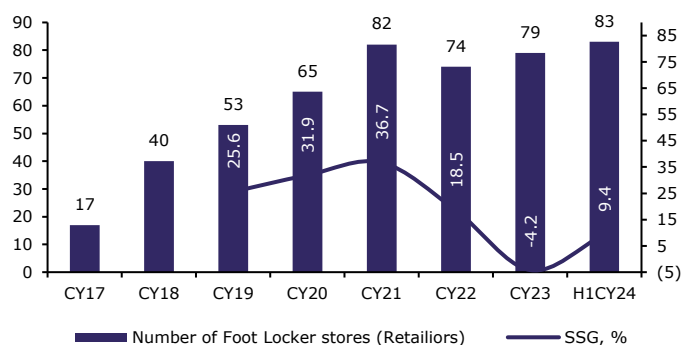
Source: Foot Locker (US) Investor PPT, Emkay Research

**Exhibit 44: Foot Locker has seen a strong ramp-up in Israel; revenue rose 3x over CY18-23 despite pandemic challenges**

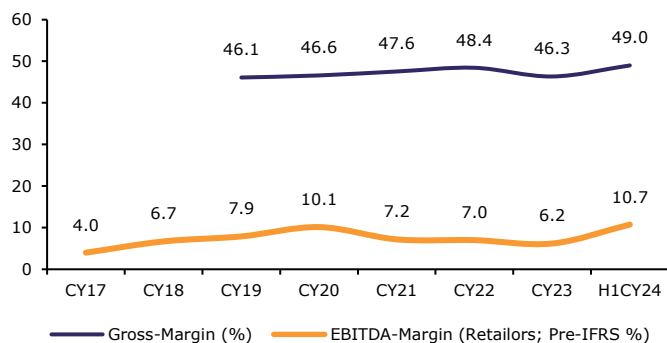


Source: Fox Group (Israel) Investor PPT, Emkay Research, **ILS-INR: 23**

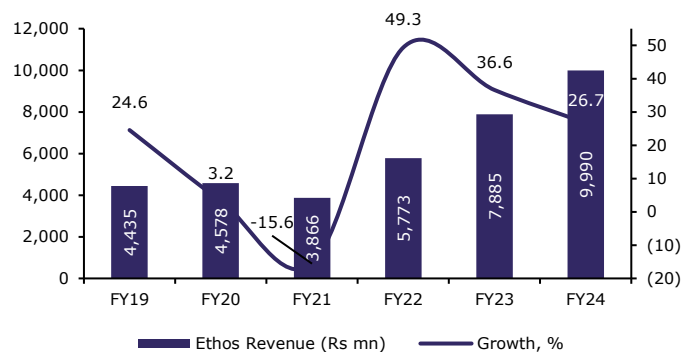
**Exhibit 45: Foot Locker – Store additions galore in Israel, excluding exit in specific European regions in CY22 by the Fox Group**



Source: Fox Group (Israel) Investor PPT, Emkay Research

**Exhibit 46: Fox delivers 7-11% EBITDA margin; Metro's discipline can help it generate better EBITDA margin**

Source: Fox Group (Israel) Investor PPT, Emkay Research

**Exhibit 47: Luxury formats are seeing exponential growth in India, as reflected in the strong trends for Ethos**

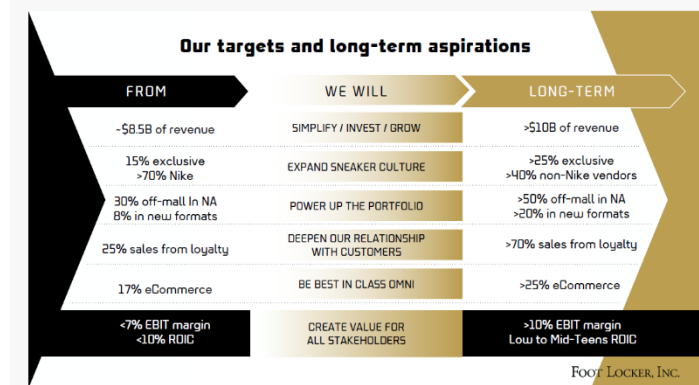
Source: Company, Emkay Research

**Exhibit 48: The Sneakers market is a growing and large market, valued at USD80bn globally (~50% of overall footwear spends); size of the overall Indian S&A footwear market is miniscule, at ~USD3bn, which provides prospects of long-term growth**

Source: Foot Locker (US) Investor PPT, Emkay Research

**Exhibit 49: Foot Locker is improving its competitive moats with higher share of non-Nike footwear and exclusives**

Source: Foot Locker (US) Investor PPT, Emkay Research

**Exhibit 50: Foot Locker is working on a loyalty program and targets >70% sales from Loyalty (vs 25% currently)**

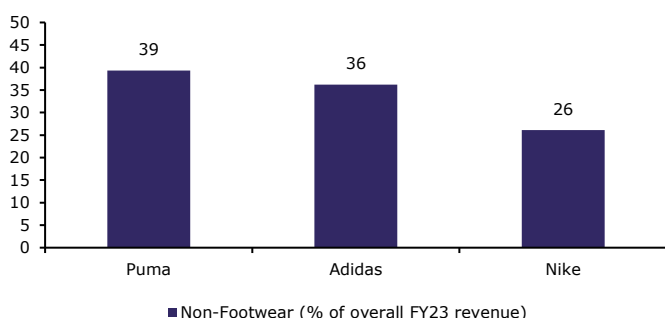
Source: Foot Locker (US) Investor PPT, Emkay Research

## FILA: Scalable franchisee with moat around sports-inspired fashion; China benchmarking shows huge scope

FILA has been at the forefront of sports-inspired fashion and the China success reflects the strong playbook that can be replicated in India. The brand has reached a scale of ~Rs300bn with ~2,000 stores and at an attractive Gross/EBIT margin profile of ~70%/25% (~55%/20% for Metro Brands currently). While FILA has lagged behind other sports brands in India, we believe the growth in the Indian S&A industry and FILA's apparel-first positioning will help it to differentiate, and therefore, offers scope of multifold scale-up in India. We see a long-term potential of more than 1,000 stores in India vs 2,000 FILA stores in China currently.

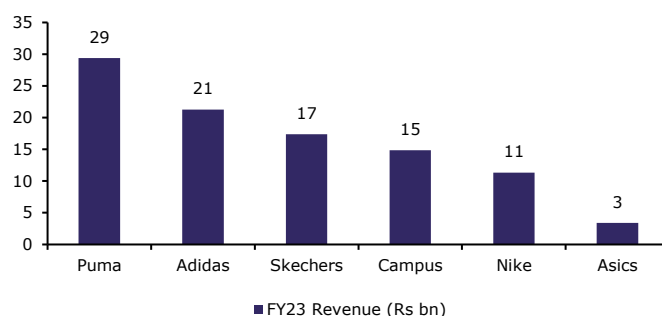
**Highly scalable, but Metro has to swim in uncharted territories:** China has seen strong trends for FILA supported by brand rejuvenation (high-end sports fashion brand targeting the young elite and kids), product innovation, and store refurbishments. FILA China has invested in big-season launches, celebrity/sports endorsements, cross-over products, and better experience (store décor/displays), which has led to a multifold scale-up. Apparel will be a new territory for Metro, which will require new set of learnings and investments. However, learnings from Crocs scale-up and an experienced team/promoters should help Metro to navigate.

**Exhibit 51: FILA has strong moat in sports-inspired fashion, which should differentiate it from incumbents (low non-footwear mix)**



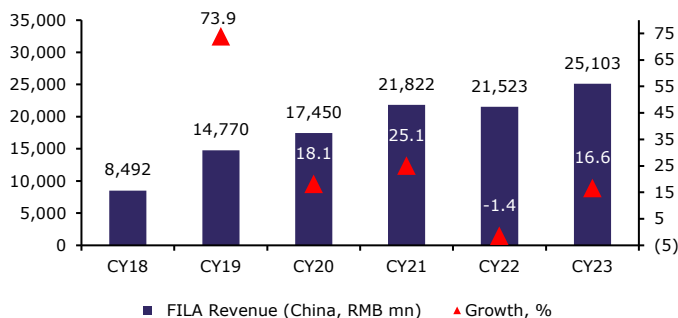
Source: Company, MCA, Emkay Research

**Exhibit 52: India scale for global S&A brands is sub-optimal; Metro's capabilities should help scale up FILA**



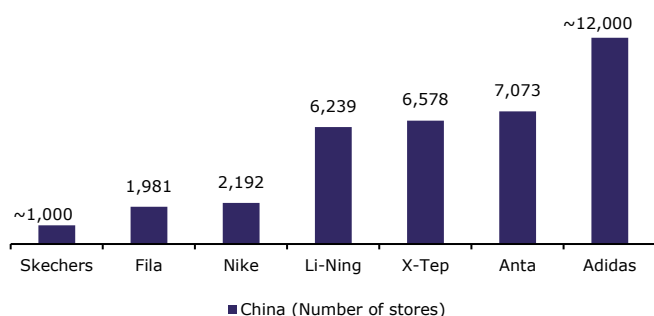
Source: Company, MCA, Emkay Research

**Exhibit 53: FILA China's scale is as much as Rs300bn, which is higher than even the combined scale of S&A brands in India**



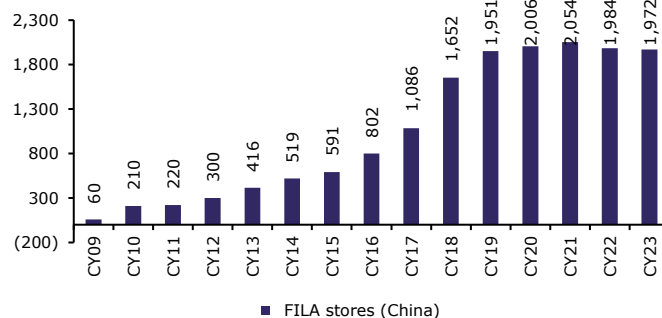
Source: Anta Annual Reports, Emkay Research; **RMB-INR: 11.7**

**Exhibit 55: Major S&A brands have more than 35,000 stores in China**



Source: Anta Annual Reports, Bloomberg, Emkay Research

**Exhibit 54: FILA China has seen unprecedented network scale-up over CY09-19**



Source: Anta Annual Reports, Bloomberg, Emkay Research

**Exhibit 56: Major S&A brands have ~2,000 stores in India, providing a headroom for strong multi-year scale-up**



Source: Leadership Interviews (Media), Brand websites, Emkay Research

**Exhibit 57: Metro Brands has to swim in uncharted territories as the FILA scale-up in China has been led by the brand's apparel-first positioning, brand endorsements, cross-over products, and continuous store refurbishments, in our view**

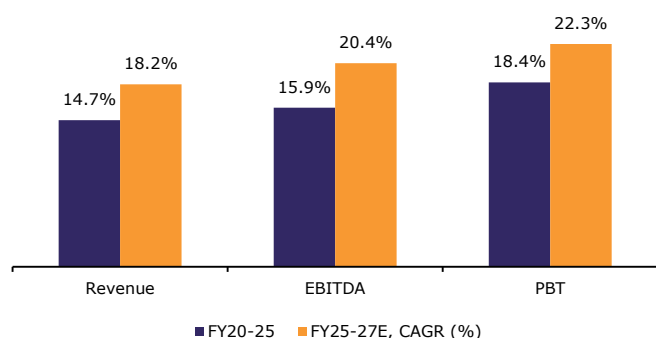
Year	Brand endorsements (celebrities)	Cross-over products	Store refurbishments
2011			3.0 layout
2012		Mathew Waldman (FILA X NOOKA)	
2013	Shu Qi	Mathew Waldman (FILA X NOOKA)	
2014	Lee Min/Shu Qi	Anna Sui for FILA	
2015	Chris Evans (Captain America)	Jason WU X FILA	4.0 layout
2016	GaoYuanyuan/Chris Evans	Jason WU X FILA FILA Ginny (Ginny Hilfiger)	FILA KIDS
2017	GaoYuanyuan/Chen Kun	Jason WU X FILA FILA Ginny (Ginny Hilfiger) Staple X FILA crossover Fila Blue/Red/White/Originale	FILA FUSION
2018	GaoYuanyuan/Chen Kun/Ma Sichun	Jason WU X FILA FILA Ginny (Ginny Hilfiger) FILA X 3.1 Phillip Lim Series (Phillip Lim) FILA Blue/Red/White/Originale	
2019	Huang Jingyu	FILA X 3.1 Phillip Lim Series (Phillip Lim) FILA Blue/Red/White/Originale CLUB ALPINO ATHLETICS YOGA MODERN HERITAGE	
2020	GaoYuanyuan/ Huang Jingyu/ Wo Jinyan/ Koki/ Cai Xukun; Celebrities + KOLs	FILA X 3.1 Phillip Lim Series (Phillip Lim) FILA Blue/Red/White/Originale FILA X Maison MIHARA YASUHIRO	Opening new flagship stores
2021	GaoYuanyuan/ Huang Jingyu/ Jiang Shuying and Ni Ni/Cai Xukun/ Gianna Jun; Celebrities + KOLs	FILA X 3.1 Phillip Lim Series (Phillip Lim) FILA X MSGM FILA X LANVIN FILA X Maison MIHARA YASUHIRO FILA X Gogh Museum	
2022	Ning Chang	FILA X GOLF FILA X Latte Girl FILA X LANVIN FILA X Maison MIHARA YASUHIRO FILA X Gogh Museum	FILA GOLF Stores; focus on Golf (Mission Hills), Tennis and Running FILA ONE FILA ULTRA Live streaming/social platforms
2023	Yang Mi	Athflow Outdoor Techwear Business Casual FILA GOLF X McLaren	FILA KIDS FILA FUSION

Source: Anta Annual Reports, Emkay Research

## Financials: High-teen earnings growth, ramp-up of new formats and margin/WC optimization– The 3 key pillars

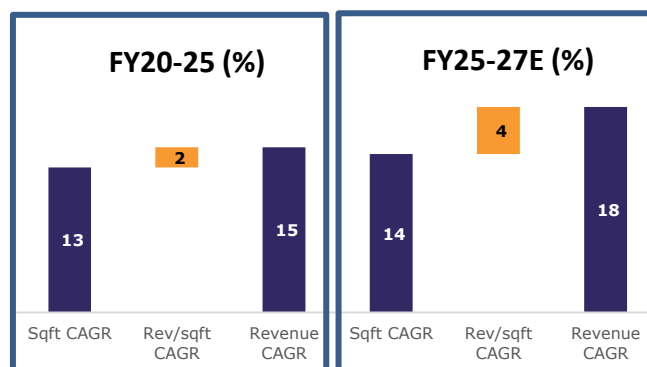
Our financial projections for Metro rests on three key pillars: i) Strong high-teens revenue CAGR over FY25-27E. ii) Claw-back of lost EBITDA margin and optimization of working capital with normalization of demand environment over FY25-27E. iii) Ramp-up of new formats. We expect ~18% revenue CAGR, led by similar growth in the EBO channel and ~20% CAGR in omnichannel on a small base. The EBO CAGR will be led by ~4% SSG and the rest through incremental contribution from new store additions (110-120 annual additions). Operating leverage, turnaround in Cravatex/FILA and higher other income with WC optimization should drive a higher PBT CAGR of 22% over FY25-27E. Working Capital (WC) increased intermittently due to higher stocking in anticipation of supply-chain disruptions and Cravatex acquisition. However, Metro is making efforts to normalize its WC to 85 days (vs 100 days at FY24-end).

**Exhibit 58: We expect a strong PBT CAGR of >20% for Metro, led by 18% revenue CAGR and gradual margin gains**



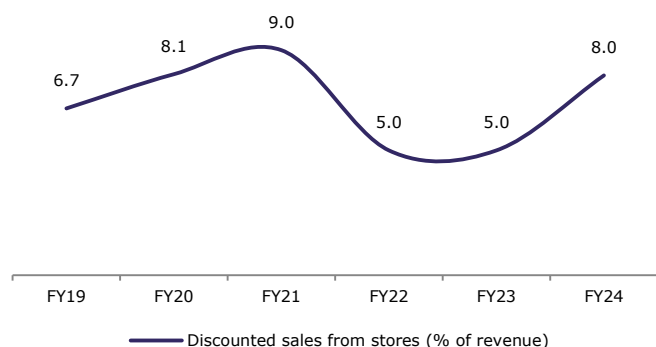
Source: Company, Emkay Research

**Exhibit 59: Revenue CAGR will be driven by ~15% CAGR in the retail space and 3-4% CAGR in Revenue per sqft**



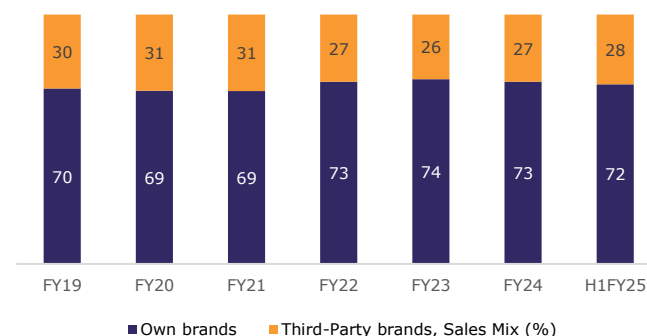
Source: Company, Emkay Research

**Exhibit 60: Low mix of discount sales drives better margin**



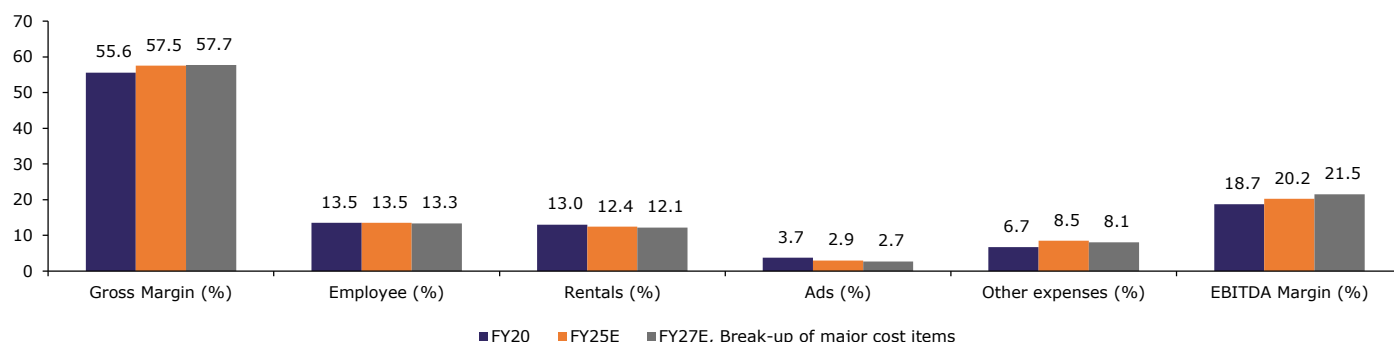
Source: Company, Emkay Research

**Exhibit 61: Higher private brand mix has helped margins**



Source: Company, Emkay Research

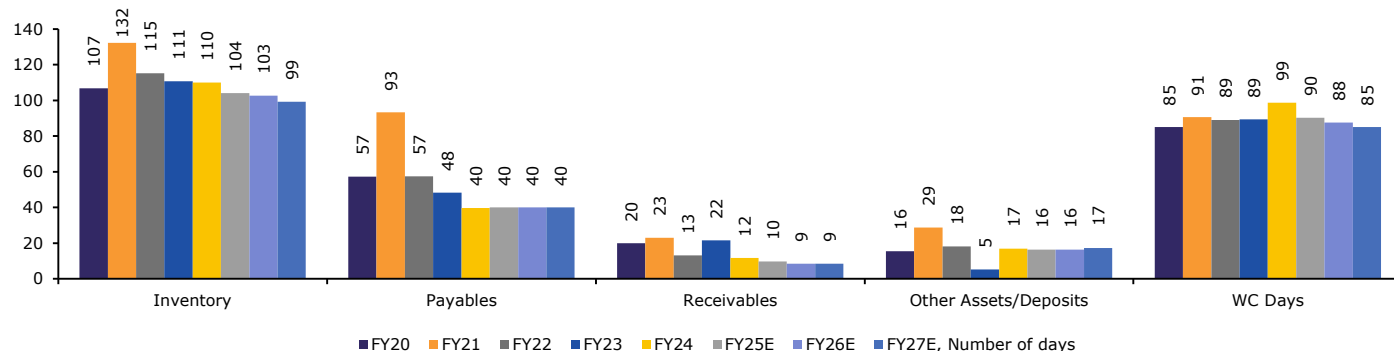
**Exhibit 62: Turnaround in Cravatex and operating leverage to drive gradual margin gains; a likely lower margin profile of Foot Locker should be largely offset by the expected higher margin profile of FILA**



Source: Company, Emkay Research

**Easing of supply-chain to drive WC reduction:** The key to success in footwear retail is effective inventory management, as working capital (WC) is ~55% of total capital employed in the business. To efficiently manage its WC, Metro follows a pull model for product availability, where product placement is led by demand-driven inventory replenishment method. The demand-driven inventory sourcing ensures optimum availability of in-demand products, and minimizes stale stock, reducing product discounting and delivering best-in-class gross margin. The same gets reflected in lower discounted sales at 5-10%.

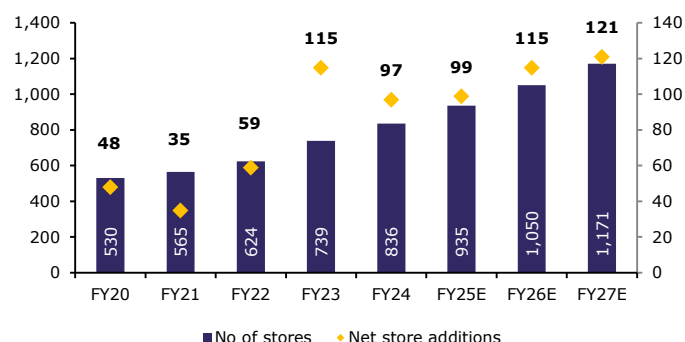
**Exhibit 63: Normalization of supply chain to drive working capital optimization for Metro Brands over FY24-27E**



Source: Company, Emkay Research

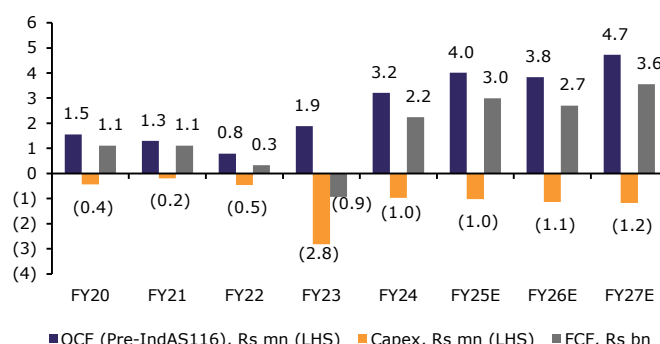
**We expect free cash-flow to remain strong:** Metro's financial discipline is top-notch with best-in-class unit metrics and strong cash flow generation with strong growth; improving margins and reduction in WC should help Metro generate healthy free cash flows. Metro incurs a capex of Rs13mn/store for Metro/Mochi formats, while it is lower for other formats like Crocs/Walkway/FitFlop. Together, opening of 115-120 stores annually should require Rs1.3-1.5bn (including working capital). We expect capex to be higher at Rs1-1.2bn to account for store maintenance and tech investments. Metro should generate FCF of Rs2.5-3.5bn annually over FY25-27E, which should provide optionality for further investments in the business.

**Exhibit 64: We expect Metro to continue adding 115-120 stores over FY25-27E**



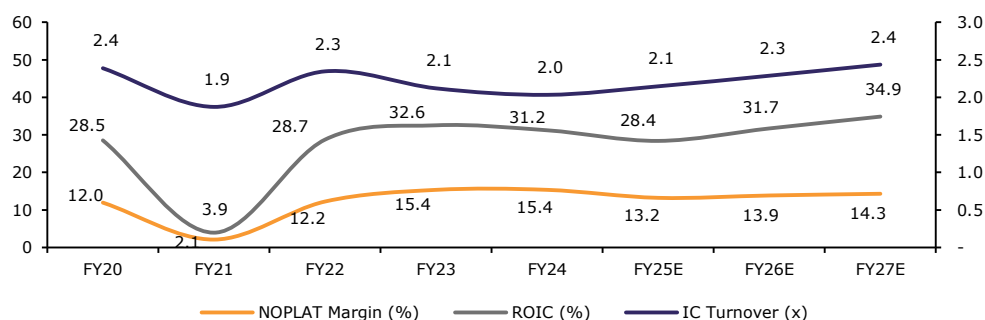
Source: Company, Emkay Research

**Exhibit 65: Metro's operational parameters stand tall among peers, helping it generate healthy FCFs along with growth**



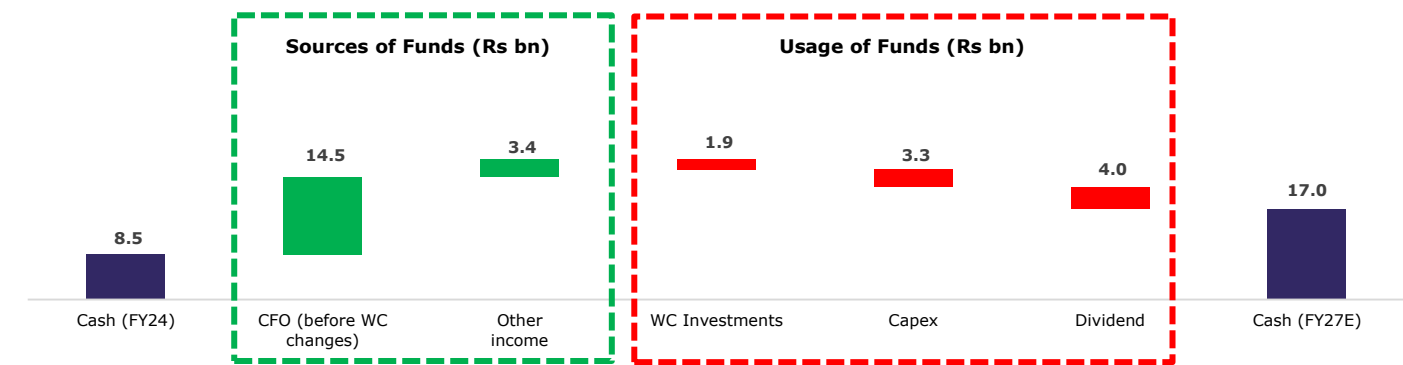
Source: Company, Emkay Research

**Exhibit 66: Better margin and strong capital turnovers help generate leading ROIC for Metro Brands**



Source: Company, Emkay Research

Exhibit 67: Balance sheet strength should continue improving, with strong FCFs, providing healthy prospects for future growth optionality



Source: Emkay Research



## Potential upsides

- **Case 1 – Best-in-class balance sheet provides scope for faster ramp-ups and filling of portfolio gaps:** Metro has a best-in-class balance sheet with FCF generation and healthy cash balance of Rs11bn. The company has recently partnered with Foot Locker/FILA with exclusive agreements, which have a big scale-up potential. In the near-term, there are BIS-implementation related supply-chain issues as major global footwear manufacturers are setting up their plants in India. An early resolution of supply-chain issues can lead to faster ramp-up of FILA/Foot Locker formats, and is a potential upside.
- **Case 2 – SSG estimates are conservative due to the current weak demand environment.** We have currently factored-in 4-5% SSG across formats and our revenue per sqft assumptions for FY25/FY26E are lower vs FY23. Lower assumptions factor-in the current weak macros and relatively faster expansion in lower-tier cities, which typically have lower throughputs. A faster recovery in consumer demand and premiumization shall lead to higher throughputs and is a potential upside to our growth/margin estimates.

## Potential downsides

- **Case 3 – Delayed resolution of challenges related to BIS implementation:** Our long-term topline assumptions build-in significant contribution from Foot Locker/FILA formats. Given historical precedents, we are confident of Metro's ability to scale new formats, but a slower progress due to regulatory challenges has the potential to de-rate the valuation of Metro.
- **Case 4 – Mismatch in ramp-up of FILA/Foot Locker can cause impact on margin:** Precedents in Israel/China suggest that FILA operates at more than 25% operating margin in China, while Foot Locker operates at 7-11% EBITDA margin in Israel. In our long-term assumptions, a likely better margin profile in FILA is offsetting a possible lower margin profile in Foot Locker; however, a mismatch in scale-up of these formats can impact the margin, positively or negatively, depending upon the format that scales up faster.
- **Case 5 – Lower free-float:** Metro currently has a low free-float, as 72%/14% stake is with promoters/HNI (Rekha Rakesh Jhunjhunwala), who are long-term investors of the stock. A lower free-float can lead to big spikes (either side) in the stock price, depending on the event.

## Appendix

Metro Brands is one of the largest Indian footwear specialty retailers, and is among the top aspirational Indian brands in the footwear category. Metro opened its first store under the Metro brand in Mumbai in 1955, and have since evolved into a one-stop shop for all footwear needs by retailing a wide range of branded products for the entire family including men, women, unisex and kids, and for every occasion, including casual and formal events. As of Q2FY25, it operated 871 stores across 198 cities spread over 31 states and union territories in India, targeting all segments in the footwear market including economy, mid, and premium.

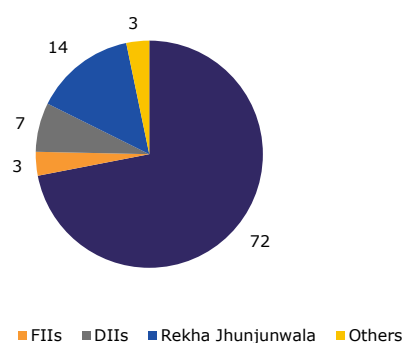
Metro retails footwear under own brands of Metro, Mochi, Walkway, Da Vinci, and J Fontini, as well as certain third-party brands such as Crocs, Skechers, Clarks, Florsheim, and FitFlop, which complement the in-house brands. These brands have a pan-India appeal across regions. It also offers accessories such as belts, bags, socks, masks, and wallets at its stores. Metro's JV, M.V. Shoe Care Private Limited, provides foot care and shoe-care products at its stores making it a 'one-stop shop' for all footwear and related accessories.

**Exhibit 68: Metro's key milestones**

Year	Description
1955	Started first Metro store
2000	Launch of Mochi MBO
2009	Launch of Walkway MBO
2010	Launch of e-Commerce and store count exceed the 100 mark
2012	Reached 200 store milestone
2015	Tie-up with Crocs
2021	Exclusive Tie up with FitFlop and store count reached the 600 milestone
2022	Acquired Cravatex brands, received exclusive license of Fila, and owns sportswear brand Pro-line
2023	Entered into a strategic partnership with Foot Locker and store count reached 800 milestone

Source: Company, Emkay Research

**Exhibit 69: Shareholding pattern (as of Sep-24)**



Source: Company, Emkay Research

**Exhibit 70: A brief about Metro Brands' Board of Directors**

Name	Designation	Description
Rafique A Malik	Chairman	He holds a bachelor's degree in commerce and has attended the Owner/President Management Program at the Harvard Graduate School of Business. He has been associated with Metro as a director since 19-Jan-1977. He has over 50 years of experience in the field of footwear retail.
Farah Malik Bhanji	Managing Director	She holds a bachelor's degree in arts/business administration from the University of Texas at Austin. She has been associated with Metro as a director since 5-Dec-2000. She has over 20 years of experience in the field of footwear retail.
Mohammed Iqbal Hasanally Dossani	Whole-Time Director	He holds a bachelor's degree in commerce/accounting/auditing. Prior to Metro, he has been employed with Schefata Pharmaceutical as a factory accounts manager and Workforce Media Network as partner. He was appointed as an additional director of Metro on 26-Nov-2020.
Utpal Hemendra Sheth	Non-Executive Director	He holds a bachelor's degree in commerce and has been awarded a certificate of merit by the ICAI. He was first appointed as an alternate director on 14-Mar-2007. He has been working with Rare Enterprises since 2003 and is currently the CEO of Rare Enterprises.
Manoj Kumar Maheshwari	Independent Director	He holds a bachelor's degree in science and has been associated with Metro as an independent director since 24-Jul-2009. He is the chairman of Maheshwari Investors and is a director on the board of directors of Mahindra CIE Automotive, R.J Investment, and RPG Life Sciences.
Aruna Bhagwan Advani	Independent Director	She holds a bachelor's degree in science and has been awarded the craft certificate in women's light clothing manufacture by the London College of Fashion. She is associated as an independent director since 27-Jul-2010. Earlier, she worked as the chairman of Ador Welding for more than ten years.
Arvind Kumar Singhal	Independent Director	He holds a bachelor's degree in electronics engineering from the University of Roorkee and has an MBA from University of California. He has been associated as an independent director since 12-Aug-2016. He is currently the managing director of Technopak Advisors as well.
Vikas Vijaykumar Khemani	Independent Director	He is associated as an independent director since 12-Mar-2019. He is an associate of ICAI and has passed the final examination held by the Institute of Company Secretaries of India. He is a director on the board of directors of BSAS Infotech, Carnelian Asset Advisors, and Tibbs Foods.
Srikanth Velamakanni	Independent Director	He holds a bachelor's degree in electrical engineering from IIT, Delhi, and has completed the post-graduate program in management from IIM, Ahmedabad. He is a whole-time director of Fractal Analytics. He has been associated as an independent director since 25-Mar-2021.
Mitun Padam Sancheti	Independent Director	He holds a bachelor's degree in commerce from Sydenham College of Commerce and Economics, Mumbai, and is also a certified gemologist from the Gemological Institute of America (GIA). He previously served as the Founder, CEO, and Managing Director of CaratLane.

Source: Company, Emkay Research

**Exhibit 71: A brief about Metro Brands Management**

Name	Designation	Description
Nissan Joseph	Chief Executive Officer	He holds an MBA degree from the University of Western Sydney. He has worked with Payless Shoes and Hickory Brands in the past. He has also spent over five years in key roles in Crocs, where he also worked with Metro. Prior to Metro, he was associated with MAP Active & Planet Sports Inc. in the Philippines, where he was CEO since Mar-2020. He has been appointed as CEO on 1-Jul-2021.
Sohel Jalaludin Kamdar	Chief Operating Officer	He holds a bachelor's degree of commerce and is a member of ICAI. He has been associated with Metro since 16-Feb-2005. Prior to Metro, he was associated with Jamani Investments.
Alisha Rafique Malik	President (Sports Division, E-commerce and CRM)	She holds a bachelor's degree in Arts (Finance). She has been associated with Metro since 1-Jul-2009.
Kaushal Parekh	Chief Financial Officer	He holds a bachelor's of commerce degree and is a qualified chartered accountant. He has previously served as AVP, Ernst & Young. He has been associated with Metro since 28-Mar-2012.
Tarannum Bhanpurwala	Company Secretary	She holds a master's degree in commerce from University of Mumbai, along with a bachelor's degree in law. She is also an associate of the Institute of Company Secretaries of India. She has been associated with Metro since 4-Apr-2014.

Source: Company, Emkay Research

Metro Brands : Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	21,271	23,567	25,483	30,292	35,621
Revenue growth (%)	58.4	10.8	8.1	18.9	17.6
EBITDA	6,788	6,996	7,373	8,991	10,682
EBITDA growth (%)	65.9	3.1	5.4	21.9	18.8
Depreciation & Amortization	1,810	2,291	2,543	2,927	3,345
EBIT	4,977	4,705	4,830	6,064	7,336
EBIT growth (%)	81.0	(5.5)	2.7	25.6	21.0
Other operating income	0	0	0	0	0
Other income	544	708	965	1,100	1,300
Financial expense	631	789	887	1,025	1,180
PBT	4,891	4,624	4,907	6,139	7,456
Extraordinary items	0	0	0	0	0
Taxes	1,257	184	1,222	1,547	1,879
Minority interest	(39)	(30)	(34)	(39)	(45)
Income from JV/Associates	20	30	35	40	46
Reported PAT	3,615	4,440	3,686	4,593	5,578
PAT growth (%)	70.8	22.8	(17.0)	24.6	21.4
Adjusted PAT	3,774	4,129	4,076	5,021	6,072
Diluted EPS (Rs)	13.9	15.2	15.0	18.5	22.4
Diluted EPS growth (%)	78.1	9.4	(1.3)	23.2	20.9
DPS (Rs)	3.3	4.3	4.0	4.9	6.0
Dividend payout (%)	24.4	26.0	29.2	29.2	29.2
EBITDA margin (%)	31.9	29.7	28.9	29.7	30.0
EBIT margin (%)	23.4	20.0	19.0	20.0	20.6
Effective tax rate (%)	25.7	4.0	24.9	25.2	25.2
NOPLAT (pre-IndAS)	3,698	4,517	3,627	4,536	5,487
Shares outstanding (mn)	271.5	271.5	271.5	271.5	271.5

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	4,891	4,624	4,907	6,139	7,456
Others (non-cash items)	1,810	2,291	2,543	2,927	3,345
Taxes paid	(1,257)	(184)	(1,222)	(1,547)	(1,879)
Change in NWC	(1,931)	(1,167)	79	(971)	(1,038)
Operating cash flow	3,599	5,645	6,229	6,472	7,765
Capital expenditure	(2,821)	(967)	(1,021)	(1,135)	(1,173)
Acquisition of business	(766)	(2,723)	0	0	0
Interest & dividend income	544	708	965	1,100	1,300
Investing cash flow	(3,043)	(2,982)	(56)	(35)	127
Equity raised/(repaid)	43	82	0	0	0
Debt raised/(repaid)	15	(15)	0	0	0
Payment of lease liabilities	(1,808)	(2,025)	(2,221)	(2,639)	(3,040)
Interest paid	(1)	(3)	(25)	0	0
Dividend paid (incl tax)	(883)	(1,155)	(1,077)	(1,342)	(1,630)
Others	98	(408)	0	0	0
Financing cash flow	(2,536)	(3,525)	(3,323)	(3,982)	(4,670)
Net chg in Cash	(1,979)	(862)	2,850	2,455	3,222
OCF	3,599	5,645	6,229	6,472	7,765
Adj. OCF (w/o NWC chg.)	5,530	6,812	6,151	7,444	8,803
FCFF	778	4,677	5,208	5,337	6,592
FCFE	691	4,597	5,286	5,412	6,712
OCF/EBITDA (%)	53.0	80.7	84.5	72.0	72.7
FCFE/PAT (%)	18.3	111.3	129.7	107.8	110.5
FCFF/NOPLAT (%)	21.0	103.5	143.6	117.7	120.1

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	1,359	1,360	1,360	1,360	1,360
Reserves & Surplus	14,119	17,278	19,886	23,136	27,082
Net worth	15,477	18,637	21,245	24,495	28,442
Minority interests	264	294	294	294	294
Deferred tax liability (net)	0	0	0	0	0
Total debt	15	0	0	0	0
Total liabilities & equity	15,756	18,931	21,539	24,789	28,736
Net tangible fixed assets	4,644	5,120	5,477	5,874	6,223
Net intangible assets	0	0	0	0	0
Net ROU assets	(1,038)	(1,281)	(1,801)	(2,375)	(3,037)
Capital WIP	178	93	93	93	93
Goodwill	0	0	0	0	0
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	6,761	8,622	11,473	13,928	17,150
Current assets (ex-cash)	9,312	9,989	10,251	11,968	13,832
Current Liab. & Prov.	4,102	3,612	3,952	4,698	5,525
NWC (ex-cash)	5,210	6,377	6,298	7,270	8,307
Total assets	15,756	18,931	21,539	24,789	28,736
Net debt	(6,746)	(8,622)	(11,473)	(13,928)	(17,150)
Capital employed	15,756	18,931	21,539	24,789	28,736
Invested capital	8,817	10,216	9,974	10,768	11,493
BVPS (Rs)	57.0	68.6	78.3	90.2	104.8
Net Debt/Equity (x)	(0.4)	(0.5)	(0.5)	(0.6)	(0.6)
Net Debt/EBITDA (x)	(1.0)	(1.2)	(1.6)	(1.5)	(1.6)
Interest coverage (x)	0.1	0.1	0.2	0.1	0.1
RoCE (%)	38.6	31.2	28.6	30.9	32.3

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	91.2	83.3	84.4	68.5	56.7
P/CE(x)	61.6	53.6	52.0	43.3	36.5
P/B (x)	22.2	18.5	16.2	14.0	12.1
EV/Sales (x)	15.9	14.2	13.1	10.9	9.2
EV/EBITDA (x)	49.7	47.9	45.1	36.7	30.6
EV/EBIT(x)	67.8	71.3	68.9	54.4	44.6
EV/IC (x)	38.3	32.8	33.3	30.7	28.4
FCFF yield (%)	0.2	1.4	1.6	1.6	2.0
FCFE yield (%)	0.2	1.3	1.5	1.6	2.0
Dividend yield (%)	0.3	0.3	0.3	0.4	0.5
DuPont-RoE split					
Net profit margin (%)	17.7	17.5	16.0	16.6	17.0
Total asset turnover (x)	1.5	1.4	1.3	1.3	1.3
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	26.8	24.2	20.4	22.0	22.9
DuPont-RoIC					
NOPLAT margin (%)	17.4	19.2	14.2	15.0	15.4
IC turnover (x)	3.1	2.5	2.5	2.9	3.2
RoIC (%)	54.2	47.5	35.9	43.7	49.3
Operating metrics					
Core NWC days	11.1	18.6	18.2	14.9	13.6
Total NWC days	89.4	98.8	90.2	87.6	85.1
Fixed asset turnover	5.1	4.2	4.2	4.5	4.9
Opex-to-revenue (%)	26.2	28.4	28.6	28.0	27.7

Source: Company, Emkay Research

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