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METRO BRANDS LIMITED

December 09, 2021

metro BRANDS

SMC Ranking
★★☆☆☆ (2/5)

Issue Highlights

Industry	Footwear
Offer for sale (Shares)	21,450,200
Fresh Issue (Shares)	5,900,000
Net Offer to the Public	**27,350,200**
Issue Size (Rs. Cr.)	1326-1368
Price Band (Rs.)	485-500
Offer Date	10-Dec-21
Close Date	14-Dec-21
Face Value	5
Lot Size	30

Issue Composition

	In shares
Total Issue for Sale	27,350,200
QIB	13,675,100
NIB	4,102,530
Retail	9,572,570

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	83.99%	79.06%
QIB	16.01%	15.91%
NIB	0.00%	1.51%
Retail	0.00%	3.53%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

The IPO aims to utilize the net proceed towards the following purposes;

Expenditure for opening new stores of the company, under the "Metro", "Mochi", "Walkway" and "Crocs" brands; and

General corporate purposes

Book Running Lead Manager

- Ambit Private Limited
- Axis Capital Limited
- DAM Capital Advisors Ltd (Formerly IDFC Securities Ltd)
- Equirus Capital Private Limited
- ICICI Securities Limited
- Motilal Oswal Investment Advisors Pvt Ltd

Name of the registrar

- Link Intime India Private Ltd

About the company

Established in 1955, Metro Brands Limited is one of the largest Indian footwear specialty retailers, in India. The company caters to the footwear needs of customers through a wide range of branded products for the entire family including men, women, unisex and kids, and different occasions. The company targets the mid and premium segments in the footwear market which have a higher presence of organized players and growth in the overall footwear industry. Some of the company's well-known brands include Metro, Mochi, Walkway, Da Vinchi, and J. Fontini, as well as certain third-party brands such as Crocs, Skechers, Clarks, Florsheim, and Fitflop. Metro Brands also offer accessories such as belts, bags, socks, masks, and wallets, at their stores. The company also retails footcare and shoe-care products at their stores through the joint venture, M.V. Shoe Care Private Limited. The company follows the "company-owned and company operated" (COCO) model of retailing through their own Multi Brand Outlets (MBOs) and Exclusive Brand Outlets (EBOs), to manage their stores. As of September 30, 2021, the company operated 598 Stores across 136 cities spread across 30 states and union territories in India. The company has been supported by Mr. Rakesh Jhunjhunwala as an investor since 2007.

Strength

One of India's largest pan India footwear retailers with a brand appeal among aspirational consumer segments in the fast-growing footwear retail industry: The company is one of the largest Indian footwear speciality retailers, and are among the aspirational Indian brands in the footwear category. As of September 30, 2021, it had a pan-India presence through 598 Stores (across Metro, Mochi and Walkway branded MBOs, Crocs™ branded EBOs, and Walkway franchisees and SIS) located in 136 cities spread across 30 states and union territories in India, operated by its Company. The Company operated a total Retail Business Area of 734,217 sq. ft., through its Stores as of September 30, 2021. Its operations are well-spread across metro cities, tier I, II and III cities and towns, and across all fits zones of India. The Indian footwear consumption in value terms is expected to grow at a CAGR of 15% to 17% between Fiscal 2022 and Fiscal 2025. Growth is estimated to be driven by value, with ASP of footwear expected to increase by a CAGR of around 5% to 7% between Fiscal 2022 and Fiscal 2025, driven by an overall shift in preference for premium categories of footwear. This is also expected to drive growth of the market share of organized players by a CAGR of approximately 20% to 22% in the same period. The market share of online footwear sales are also expected to grow at a CAGR of 26% to 30% between Fiscal 2020 and Fiscal 2025.

Wide range of brands and products catering to all occasions across age groups and market segments resulting in strong customer loyalty: Across its various brands, it is a one-stop-shop family retailer catering to the footwear needs of men, women and children for different occasions including casual and formal events. Due to its large network of multiple store formats located in key markets, and its ability to leverage its omni channel presence in India, it believes, it has become a partner of choice for third-party brands. As of September 30, 2021, it sold footwear as well as accessories across more than 10 owned brands and more than 25 third-party brands. Its active brand portfolio management ensures that it picks third-party brands which complement its in-house brands and which it views to have high growth potential. Its key third-party brands include Crocs, Skechers, FitFlop, Clarks, I-D, PRO and Von Wellx. As of September 30, 2021, its customer loyalty programmes, Club Metro, My Mochi, and Crocs Club had more than 5.09 million, 3.47 million and 0.59 million respectively.

Efficient operating model through deep vendor engagements and TOC based supply chain: It has long-standing relationships with many of its vendors, and work with them to continuously introduce new designs, which are regularly updated. In the last three Fiscals and six months ended September 30, 2021, it dealt with over 250 vendors for its products. It has been dealing with certain of its vendors for over 20 years, and it leverages these relationships together with its combined understanding of evolving customer preferences, regional sensitivities, and prevailing trends, to frequently introduce new designs and styles. Through its merchandising and design team and continued engagements with its vendors, it is able to translate trends into products efficiently and remain relevant to its growing customer base by catering to various segments across price points. To efficiently manage its extensive vendor network, supply chain, and inventory for its wide range of products, it follows a pull model for product availability at its stores where product placement is led by a demand driven inventory replenishment method. It endeavors to drive its sales through a strong focus on product assortment – a theory-of-constraints method for its supply chain offering greater predictability of latest products, availability of products in demand and reducing stock-outs. It demands driven lean inventory norms ensure optimum capital employed, minimizes stale stock, thereby reducing discounting of products and improving its gross margins. As a result, it liquidates its inventory (18 months or older) only twice a year, primarily through its stores, and discounted sales from its Stores represented 6.68%, 8.05%, 9.01%, 9.15% and 6.97% of its Total Store Product Sales in Fiscal 2019, 2020 and 2021 and in the six months ended September 30, 2020 and September 30, 2021.

Asset light business with an efficient operating model leading to sustained profitable growth: It is among the few footwear retailers in India to source all its products through outsourcing arrangements without its own manufacturing facility, resulting in an asset light model. Its asset light model is based on third-party manufacturing by long-standing vendor relationships, and supported by active brand portfolio management, optimum store size and layout, and long-term lease arrangements. As of September 30, 2021, it had 598 Stores, of which 260 were in malls, 307 were located on high-streets, 10 in airports and 21 were SIS. It opened 120 new MBOs (other than franchisee), 110 new Crocs EBOs, and franchised 7 MBOs in the last three Fiscals and in the six months ended September 30, 2021. It believes its asset light model, relatively low capital expenditure and optimised operating expenses, together with repeat sales through customer loyalty has enabled it to sustain profitable growth.

Presence across multiple formats and channels: It has owned and operates stores of both MBO and EBO formats. It operates a broad retail distribution set-up that is complemented by scalable e-commerce capabilities including through tie-ups with select commercial partners. Choice of store format depends on the store location, brands retailed and the target customer audience. Further, it also engages distributors and has SIS in major departmental stores. It owns and operate stores of both MBO and EBO formats. It operates a broad retail distribution set-up that is complemented by scalable e-commerce capabilities including through tie-ups with select commercial partners. Choice of store format depends on the store location, brands retailed and the target customer audience. Further, it also engages distributors and have SIS in major departmental stores. Its customers are able to order-in-store, buy online and ship-from-store. It operates websites for its various brands and has an extensive online presence. These are brand websites directly managed by the company. They include www.metroshoes.net, www.mochishoes.com, and www.walkwayshoes.com.

Platform of choice for third party brands looking to expand in India: It believes it has grown to be a platform of choice for other national and international third-party brands on the back of its footwear focussed retailing experience since 1955, track record of successfully incubating and scaling up various retail brands, and extensive pan-India operations through which it has gained strong insight on evolving customer preferences across demographics. It believes it has grown to be a platform of choice for other national and international third-party brands on the back of its footwear focussed retailing experience since 1955, track record of successfully incubating and scaling up various retail brands, and extensive pan-India operations through which it has gained strong insight on evolving customer preferences across demographics. The company currently retail Fitflop products, a global brand offering shoes for all-day wearing, using a combination of biomechanics, comfort and fashion

at its MBOs. When approached by other brands, it continues to evaluate similar arrangements with them as part of its active brand portfolio management. It believes it is well positioned to help other third party brands to achieve similar expansion and growth in India.

Strategy

Expand its store network in existing and new Indian cities: The footwear industry will benefit from the rise in retail and consumer expenditure on account of rising disposable incomes of Indian consumers, desire for better standard of living, higher favitsable working age group, nuclearisation of families, and change in consumer attitudes towards branded products. The share of organised players' is expected to grow at a CAGR of approximately 20% to 22% between Fiscal 2022 and Fiscal 2025 to comprise approximately 36% to 40% of the total footwear industry market by Fiscal 2025. Its total Store count has grown from 504 in 116 cities as of March 31, 2019 to 586 in 134 cities as of March 31, 2021 and to 598 Stores across 136 cities as of September 30, 2021. As of March 31, 2019, 2020 and 2021 and as of September 30, 2020 and September 30, 2021, its Company operated Stores with a total Retail Business Area of 643,442 sq. ft., 694,955 sq. ft., 720,994 sq. ft., 692,211 sq. ft. and 734,217 sq. ft., respectively. The company will continue to adopt a methodical approach in evaluating and selecting suitable locations for the establishment of new stores, such as local population density, and identifying prime retail areas.

Leverage its multi-channel platform to pursue new business opportunities: The company is currently retail Fitflop products, a global brand offering shoes for all-day wearing, using a combination of biomechanics, comfort and fashion at its MBOs. It has entered into a non-binding term sheet dated July 27, 2021 with Fitflop. It continues to evaluate similar and other arrangements, including licensing arrangements with other national as well as international brands as part of its active brand portfolio management and seek new brands which it believes to have high potential in its markets and are complementary to its existing in-house brands. It continues to take a long-term view of the partnerships it enter into with third-party brands; investing time to understand a new brand, the target customer segment and their expansion aspirations. Its asset light model and low indebtedness further makes it an attractive retailer to partner with for brands that require reach and visibility.

Increase contribution of e-commerce and omni-channel sales as a proportion of its sales: The company intends to leverage its existing capabilities to increase its e-commerce operations. It intends to integrate its omni-channel model as well as apply new technologies to further expand and improve its operations to handle individual customer deliveries and enhance customer buying experience with faster dispatches. It also intends to grow its dedicated team of e-commerce operations. It proposes to make further investments in digital marketing to build an omni-channel engagement experience for its customers. In addition, it intends to invest in content generation to build engagement with a younger audience. It will continue to focus on analytic technologies to create personalized jitsneys for customers and increase ATV, drive customer loyalty, increase the number of transactions per customer through active customer engagement, and introduce complementary products.

Expand portfolio of accessories and grow other allied businesses: The company continues to look at new opportunities to increase its in-house range of belts, wallets, socks and handbags, by leveraging on its understanding of the Indian consumer market. It intends to introduce a wider range of products under its existing brands of accessories based on consumer preferences and demand, and assess international and local fashion trends and evolving market preferences in order to evaluate the feasibility of new types of product introductions. It intends to leverage its existing vendor arrangements, distribution, and retail network through its MBOs, in order to effectively launch and distribute its new products. It sells "PRO" Accessories through its joint venture that it entered into in August 2016 seeing the potential to grow the footcare and shoe care business in India. It plans to expand its accessories business through higher sales of branded PRO products. It believes this also positions us well as an outsourcing partner for other third party brands seeking to develop and expand their in-house line of shoe care products.

Evaluate accretive inorganic growth opportunities: The company intends to continue its

expansion through an active evaluation of inorganic opportunities, partnerships, tie ups and franchises (including international opportunities). It will evaluate acquisition opportunities based on its targeted returns, operational scale and diversification criteria and on whether it consider these opportunities to be available at reasonable prices that it can fund through its internal accruals. It believes that its experienced operational and management teams will enable it to identify, structure, execute and integrate acquisitions effectively based on its demonstrated ability to partner with several third party brands, such as Crocs™.

Introduce and expand its portfolio of environmentally sustainable footwear: The company believes constant innovation in developing new products that are well-received by its target consumers is vital to its continuing success. The company intends to intensify its product development efforts to develop and launch sustainable footwear through alternate sitsces by optimizing its raw materials. For instance, it has recently developed a line of footwear using merino wool that is a natural fibre improving breathability of the shoe, making it suitable for summers and winters. It has similarly developed footwear by using materials created out of a yarn that is manufactured by upcycling the plastic from discarded PET bottles. It is also in the process of introducing sustainable packaging for its products, and intends to replace its traditional paper boxes, paper bags and fillers with recycled paper. It intends to similarly introduce other sustainable products and continue to refine its packaging, to enable it to remain cost efficient by optimizing raw materials involved, while catering to the growing trend of sustainable fashion. To enable it to implement its plans, it intends to realign its resources to focus on product development and explore other opportunities on sustainability that it may pursue.

Risk factors

- The current and continuing impact of the ongoing COVID-19 pandemic on its business and operations has been significant.
- The company may not be successful in maintaining and enhancing awareness of its brands.
- The premises of all its stores and warehouses are leased.
- The company is dependent on third-parties for the manufacturing of all the products it sells.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Bata India	2086.71	23.6	1.89	981.96	14.21	130.59	5.00	1855.90	23853.43
Relaxo Footwear	2631.26	291.89	11.73	106.77	19.35	64.72	1.00	1252.45	31176.74
Metro Brands Limited**	912.00	86.20	3.25	157.49	11.32	44.18	5.00	500.00	13575.37

**Fy22 Estimated Annualised financials
* TTM Financials

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.500, the stock is priced at pre issue P/E of 154.07x on an estimated annualised FY22 EPS of Rs.3.25. Post issue, the stock is priced at a P/E of 157.49x on its EPS of Rs.3.17. Looking at the P/B ratio at Rs.500, pre issue, book value of Rs. 32.43 of P/Bvx 15.42x. Post issue, book value of Rs.44.18 of P/Bvx 11.32x.

Considering the P/E valuation, on the upper end of the price band of Rs.485, the stock is priced at pre issue P/E of 149.45x on an estimated annualised FY22 EPS of Rs.3.25. Post issue, the stock is priced at a P/E of 152.77x on its EPS of Rs.3.17. Looking at the P/B ratio at Rs.485, pre issue, book value of Rs. 32.43 of P/Bvx 14.95x. Post issue, book value of Rs.44.18 of P/Bvx 10.98x.

Industry overview

The approximately Rs. 62 trillion (in 2019 to 2020) Indian retail industry is dependent on disposable income, affordability, and consumer sentiment. Low inflation, lower interest rates, favourable economic growth positively influences consumer disposable income and sentiment, which improves

retail spending. The Indian economy's GDP grew at a slower pace of 4.2% in Fiscal 2020. With implementation of nationwide lockdown on account of COVID-19, retail consumption took a hit and thus, overall retail grew at a slower pace of 7.5% in Fiscal 2020. Retail sector is expected to decline in Fiscal 2021 in line with decline in GDP and PFCE. According to advance estimate by government, PFCE is estimated to shrink 6% in Fiscal 2021. The impact of COVID-19 can be divided into two segments - on essential and non-essential goods. Essential products (especially food, grocery) witnessed normal growth. However, non-essential goods were adversely impact as a result of the restrictions imposed on its sale. As essentials (food, grocery and pharmacy) form around 60% of overall retail, the decline of overall retail is expected to be restricted to 9% to 10%. The Indian footwear industry has witnessed increase in activity over the last few years, with the changing consumer attitude towards footwear. Shoes, initially positioned as a value purchase, are now transcending into a lifestyle purchase. The demand for athleisure and sportswear is specifically expected to increase post the pandemic due to an increased awareness about healthy living amongst the urban youth. The footwear segment comprises approximately 1.5% share of total retail industry as of Fiscal 2020. Like the apparel segment, the footwear segment is characterised by fashion designs and trends, high margins and presence of private labels. The segment is estimated at ₹ 1 trillion as of Fiscal 2020. The segment witnessed a decline of approximately 31% in Fiscal 2021 due to the lockdown restrictions imposed throughout the country to fight the coronavirus pandemic. Going forward, CRISIL Research expects growth momentum to pick up and the segment to reach an estimated ₹ 1.4 trillion by Fiscal 2025, growing at a CAGR of approximately 21% between Fiscal 2021 and 2025.

Outlook

The Company is one of the India's largest pan India footwear retailers with a brand appeal among aspirational consumer segments in the fast-growing footwear retail industry. It has asset light business with an efficient operating model leading to sustained profitable growth. Metro Brands revenues have declined in FY21 due to covid pandemic. Its margins have fallen in FY21 and for 6 months ending Sep-21. The current and continuing impact of the ongoing COVID-19 pandemic on its business and operations has been significant. Considering all these positive and risk factors as said above, investors can opt the issue for long term.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	Dec 10, 2021
Bid/Offer Closing Date	Dec 14, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about Dec 17, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about Dec 20, 2021
Credit of Equity Shares to depository accounts of Allottees	On or about Dec 21, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about Dec 22, 2021

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Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-21 (6 Months)	Period ended 31-Mar-21 (12 Months)	Period ended 31-Mar-20 (12 Months)
Revenue from operations	456.00	800.06	1285.16
Total expenditure	344.56	628.53	926.35
Operating Profit	**111.45**	**171.52**	**358.82**
OPM%	24.44	21.44	27.92
Other Income	33.27	78.48	25.91
PBDIT	**144.71**	**250.00**	**384.72**
Depreciation	65.15	121.84	126.76
PBIT	**79.56**	**128.16**	**257.97**
Interest	23.58	43.66	39.55
PBT	**55.99**	**84.51**	**218.42**
Tax	12.89	19.29	58.69
Profit After Tax	**43.10**	**65.22**	**159.73**

Balance sheet is on next page

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Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-21	As on 31-Mar-21	As on 31-Mar-20
Non-current assets			
Property, plant and equipment	218.40	220.02	220.59
Capital Work in Progress	10.37	4.22	12.90
Right-of-Use Assets	526.33	499.60	482.50
Intangible assets	3.39	3.96	4.95
Intangible assets under development	0.36	0.33	0.13
Investment in Joint Venture	7.26	7.30	7.89
Financial Assets			
Other Financial Asset	46.35	43.29	39.22
Deferred tax assets (net)	19.00	16.67	12.39
Non Current tax assets (net)	10.89	3.12	2.36
Other non-current assets	3.29	2.94	2.81
Total non-current assets	**845.65**	**801.44**	**785.75**
Current assets			
Inventories	338.64	289.76	376.13
Financial Assets			
Investments	327.97	392.37	340.46
Trade receivables and contract assets	69.57	50.55	70.13
Cash and cash equivalents	19.37	26.32	10.50
Bank balances other thean above	77.23	61.61	0.39
Loans	1.66	1.88	1.92
Other Financial assets	16.32	13.11	7.08
Other Current assets	43.20	22.31	25.08
Total current assets	**893.96**	**857.90**	**831.68**
Total Assets	**1739.61**	**1659.34**	**1617.42**
Non-current liabilities			
Financial liabilities			
Lease Liabilities	515.76	488.65	458.03
Other Financial Liabilities	1.48	0.00	0.00
Provisions	0.69	0.64	0.56
Total financial liabilities	**517.93**	**489.28**	**458.59**
Current liabilities			
Financial liabilities			
Borrowings	0.93	1.41	11.52
Trade payables			
Total outstanding dues of micro enterprises and small enterprises	5.77	2.20	1.74
Total outstanding dues of creditors other than micro enterprises and small enterprises	229.77	202.45	199.72
Lease Liabilities	85.47	76.85	79.54
Other Financial liabilities	14.21	14.46	18.65
Other current liabilities	23.08	20.09	14.42
Provisions	1.03	0.84	2.48
Current tax liabilities (net)	0.00	4.34	0.00
Total current liabilities	**360.26**	**322.63**	**328.08**
Total	**878.19**	**811.91**	**786.67**
NET Worth	**861.42**	**847.43**	**830.76**
Net worth represented by:			
Share capital	132.77	132.77	132.77
Other Equity	707.27	694.80	674.52
Non Controlling Asset	21.38	19.86	23.47
Net Worth	**861.42**	**847.43**	**830.76**

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RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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