Metro Brands Limited

April 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	46.00 (Enhanced from 29.00)	CARE AA; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Metro Brands Limited (hereinafter known as 'MBL' or the 'Company') continue to derive strength from the vast experience of its promoters and the long track record of the company in the footwear business, the established market position of the company with a wide distribution network across India, resulting in stable operational performance on a sustained basis, as well as comfortable financial risk profile characterised by strong liquidity position and low overall gearing.

The ratings also factor the improvement in the operating performance of the company in FY22 & 9MFY23 on the back of improved demand from all segments, after recovering from adverse market conditions in the last two fiscals on account of covid. The company also got listed on the stock exchanges via an initial public offering (IPO) in December 2021, with fresh equity proceeds of Rs.295 crore proposed to be utilised to fund the future growth plans. MBL has added well-known brands such as 'Fila' and 'Proline' to its portfolio by acquisition of Cravatex Brands Limited during FY23. These brands are expected to contribute to incremental growth going forward.

The above strengths are tempered by the highly competitive & fragmented nature of the industry dominated by unorganised players, aggressive expansion by the new brands and the dependence on unorganised vendors/third-party for manufacturing. The ability to adapt to dynamic industry trends and scale up operations successfully while maintaining healthy margins and strong financial risk profile, would be a key rating factor.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors
- Improvement in total annual sales above Rs.3,000 crore on a sustained basis.
- Improvement in PBILDT margins above 30% on a sustained basis, resulting from increasing scale of operations

Negative factors
- Decrease in PBILDT margins below 18% on a sustained basis, affected by competition prevalent in the industry.
- Inability to scale up the business successfully in contrast to plans indicated during the IPO.
- Debt-funded acquisition, leading to deterioration in the financial risk profile.

Analytical approach: Consolidated approach is considered as the following group companies are in similar line of business and have operational linkages with MBL and are operating under common management. Following subsidiaries/Joint Ventures have been considered while adopting the consolidated approach:
- Metmill Footwear Private Limited (Subsidiary; 51% shareholding by MBL), as on March 31, 2022 (CARE A-; Stable/CARE A2+).
- M V Shoe Care Private Limited (Joint Venture; 49% shareholding by MBL), as on March 31, 2022.
- Cravatex Brands Limited (Subsidiary; 100% shareholding by MBL) w.e.f. December 1, 2022.

Outlook: 'Stable': The Stable outlook is based on the expectation that MBL will continue to leverage upon its strong brand, sustain healthy operating performance and maintain a comfortable capital structure.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Key strengths

Experienced promoters and management

Ms Farah Malik Bhanji, Managing Director, has more than two decades of experience in the footwear retailing industry. Over the years, Ms Malik has led Metro Brands into an era of modern retailing, wherein, she is active in functions of marketing, product development, new concept development, and IT. The Chairman of the company and father of Ms Farah – Mr Rafique Malik – is the first-generation entrepreneur, with more than five decades of experience in the footwear retailing business, and is supported by qualified and experienced management. Mr Malik has been able to achieve a strong brand acceptance as well as the recall of MBL's various in-house brands, such as Metro, Mochi, Walkway, Da Vinci, J Fontini, etc. among others, which has helped MBL command a premium for its products.

Well established market presence, product portfolio and strong brand recognition

MBL is one of the largest Indian footwear specialty retailers and is amongst the aspirational Indian brands in the footwear category. The company 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. In addition to men's, women's, and kid's footwear, it also has a wide range of handbags, belts, wallets, etc. MBL has recently added licensing & distribution rights of 'Fila' and 'Proline' brands to its portfolio by acquisition of Cravatex Brands Limited for ~Rs. 200 crore.

Metro Brands retail footwear under its own brands of Metro, Mochi, Walkway, Da Vinchi and J. Fontini, as well as certain third-party brands such as Crocs, Skechers, Clarks, Fitflop Puma and Adidas, which complement its in-house brands. The Metro footwear range is specially curated based on the regional sensitivity to cater to the needs of different regions. As of December 31st, 2022, the Company operated 720 Stores across 164 cities spread across 30 states and union territories in India.

Strong operating performance driven by improved demand and stores addition

With wading effects of COVID and recovery in demand, TOI has grown y-o-y by 68% from Rs. 800 crore in FY21 to Rs. 1,343 crore in FY22. The sales growth has been achieved by pent-up demand, higher pricing, store addition and increase in footfall. Since IPO last year, the company has been on an expansion trajectory with average of 30 stores being added each quarter. The store count has increased to 720 as on December 31, 2022 from 624 as on March 31, 2022. Strong growth momentum sustained during 9MFY23 with sales of Rs. 1,583 crore, registering 68% jump from corresponding period last year. The Company has recorded highest ever Sales, EBITDA and PAT in Q3FY23 and 9MFY23. Revenue growth is expected to continue driven by healthy demand and higher sales realization with addition of new brands.

Strong Financial Risk Profile

MBL continues to have a robust capital structure. It does not have any external long-term debt. The dependence on working capital borrowings is also Nil. Outstanding debt pertains to lease liabilities (under Ind-AS 116). The Overall Gearing (considering lease liabilities as debt), stood at 0.54x as on March 31, 2022 (P.Y. 0.67x).

On December 22, 2021, MBL completed its IPO and got listed on the BSE and NSE. The IPO comprised Fresh Issue of Rs.295 crore and Offer for Sale (OFS) of Rs.1,073 crore. As mentioned in the prospectus, the company proposes to utilise proceeds of the Fresh Issue to establish 260 new stores by FY25, under various formats. Out of the IPO proceeds, Rs. 164 crore remained unutilized as on December 31, 2022.

Asset light business model

Metro is among the few footwear retailers in India to source all products through outsourcing arrangements without their own manufacturing facility, resulting in an asset light model. Metro's 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. Owing to Metro's scale of operations and strong supplier network, it is able to leverage better margins with their vendors and enter into arrangements with third-party brands on favourable terms. For instance, under most of arrangements for third-party brands, Metro is required to pay for products only once these products are sold.

Metro operates stores based on variable cost structures in terms of lease rentals and employee expenses. Stores are operated either on a fixed lease basis or revenue share basis with landlords and follow a robust location and store selection process primarily targeting high streets, malls and airports. The compensation of store managers includes a significant variable pay for performance component to incentivise them by following an entrepreneurial model of operations at an individual store-level. The variable component of store-level employee remuneration is pegged to store-level sales to contain volatility of store-level margins. The company seek to strengthen Walkway brand using a franchisee model, to further enhance efficiencies as fixed asset costs and recurring rental expenses are borne by the franchisee.

Key weaknesses

Highly competitive and fragmented footwear retail space, resulting in pricing pressure

The footwear retail industry is highly competitive, characterised by the strong presence of the unorganised sector (includes small local brands, local brick and mortar shops, street vendors, and unbranded footwear sale) and the intensifying competition in the organised segment due to the increasing presence of large retailers as well as international brands, leading to pressure on margins. There is also competition within the organised segment from national and international organised retailers like Bata India Limited, Mirza shoes, etc.

Other risk factors inherent to MBL's business model
Despite successfully engaging third-party manufacturers for many years, any disruptions at such third-party manufacturing facilities, or failure of such third-parties to adhere to the relevant quality standards, may have a negative effect on the company's business. Furthermore, the company's stores are operated on properties that are either leased or obtained on a leave and license basis, and the company is exposed to renewability risk and the market conditions of the retail rental market. Moreover, the company being present to a certain extent in the premium footwear segment is also exposed to economic downturns, as was evident during the COVID outbreak, where customers' propensity to spend on premium items decreased.

Liquidity: Strong
The liquidity profile of MBL is comfortable, with consistent and healthy cash accruals. The company has no term debt and the cash and bank balance stood at Rs. 255 crore, as on September 30, 2022. The company has Rs.46 crore of sanctioned fund-based and non-fund based working capital limits, which remained unutilised for the last 12-months ending February 28, 2022. This, along with the liquid investments of Rs.529 crore as on September 30, 2022, provides additional liquidity cushion. These investments are mostly parked in mutual funds such as liquid fund/short-term funds, which carry low risk. The aforementioned liquidity balance is inclusive of the unutilized IPO proceeds which shall be deployed for stores addition.

ESG Risk
CARE Ratings believes that MBL's environment, social, and governance (ESG) profile supports its strong credit risk profile. MBL has been stepping up their environmental sustainability initiatives by introducing sustainable footwear and sustainable packaging. MBL is running a project to co-process old, discarded footwear in an eco-friendly manner. MBL has also installed solar rooftops at both their warehouses with a combined capacity of 240 KW. The solar rooftops generated 221 MWh of power during FY 2021-22. MBL also actively promotes the cause of education in the country by supporting underprivileged children and development of community health and well being

Applicable criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Retail
Policy on Withdrawal of Ratings

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Services	Retailing	Distributors

Incorporated in 1977, Metro Brands Limited (MBL) owns and operates a chain of fashion footwear and accessories stores, and has a countrywide network of an exclusive 720 stores of Metro, Mochi, Walkway, Crocs and Fitflop with a presence in more than 164 cities, spread across 30 states and UTs, as on December 31, 2022. MBL sells formals, casuals, party, wedding, ethnic, and sports footwear for women, kids, and men, along with shoe-care and foot-care products. MBL also showcases the curated range of Indian and foreign brands, who retail their products through the company's outlets. Such brands include Crocs, Skechers, , Buckaroo, Language, Clarks, Fila, and Fitflop. MBL's in-house and private label brands like Metro, Mochi, Walkway, Da Vinci, J.Fontini, Princess, Gen-X, etc, have gained considerable popularity and acceptability among consumers. It also offers accessories such as belts, bags, socks, masks, and wallets, at its stores. It also retails foot-care and shoe-care products at its stores through a joint venture, M.V. Shoe Care Private Limited, making it a one-stop shop for all footwear and related accessories to its customers.

Brief Financials (₹ crore): Consolidated	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	800.06	1,342.93	1,583.00
PBILDT	172.08	410.41	572.00
PAT	64.62	214.20	292.00
Overall gearing (times)	0.67	0.54	-
Interest coverage (times)	3.83	8.13	12.43

A: Audited; UA: Unaudited; Note: the above results are latest financial results available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	46.00	CARE AA; Stable / CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	46.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (29-Mar-22) 2)CARE AA; Stable / CARE A1+ (07-Apr-21)	-	1)CARE AA; Stable / CARE A1+ (31-Mar-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not available

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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