Metro Brands Limited

April 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	46.00	CARE AA; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to Metro Brands Limited's (hereinafter known as 'MBL' or the 'Company') bank facilities are driven by the extensive experience of its promoters and the company's longstanding presence in the footwear industry. MBL continues to benefit from its well-established market position and a broad distribution network across India, contributing to consistent operational performance and a robust financial risk profile marked by ample liquidity and low overall gearing.

The company's operating performance notably improved in FY23 and 9MFY24, driven by heightened demand across all segments. MBL's Total Operating Income (TOI) surged by 58.44% year-on-year, primarily propelled by aggressive store expansion initiatives, resulting in substantial sales growth. Leveraging omni-channel strategies via Exclusive Brand Outlets (EBOs), Multi-Brand Outlets (MBOs), and e-commerce platforms, MBL operates efficiently with an asset-light structure, fostering sustained profitability. MBL expanded its brand portfolio through the acquisition of Cravatex Brands Limited in FY23, incorporating renowned brands like 'Fila,' and 'Proline,' which are expected to contribute to incremental growth in the future. The company has partnered with Footlocker, an American retailer, to access premium brands globally in the sports and athleisure space.

Despite these strengths, MBL faces challenges stemming from the fiercely competitive and fragmented industry landscape, dominated by unorganized players, alongside aggressive expansion by emerging brands and reliance on unorganized vendors/third parties for manufacturing. The company's ability to adapt to evolving industry dynamics, effectively scale up operations, uphold healthy margins, and maintain a resilient financial risk profile will be crucial determinants influencing its ratings.

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 the increasing scale of operations.

Negative factors

- Decrease in PBILDT margins below 18% on a sustained basis, affected by competition prevalent in the industry
- Debt-funded acquisition, leading to deterioration in the financial risk profile

Analytical approach: Consolidated approach is considered as the group companies mentioned in Annexure 6 are in a similar line of business and have operational linkages with MBL, operating under common management.

Outlook: Stable
The Stable outlook is based on the expectation that MBL will continue leveraging its strong brand, sustaining healthy operating performance, and maintaining a comfortable capital structure.

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

Detailed description of the key rating drivers:

Key strengths

Well-established market presence, product portfolio and brand recognition
MBL holds the position of the largest brand in India's footwear industry by market capitalization. With a significant presence in the mid-premium segment, MBL maintains prominence in the footwear industry. As of December 31, 2023, the company has a nationwide presence with 840 stores spread across 192 cities in 31 states and union territories. MBL offers a range of footwear and accessories, including formal and casual shoes, sandals, slippers, boots, sneakers, and ethnic footwear, alongside accessories such as belts, wallets, socks, and shoe care products. MBL owns and operates several brands in the footwear and accessories segment, including Metro, Mochi, Walkway, Crocs, Fitflop, Da Vinchi, VANS, Biofoot, Cheemo, and J. Fontini, as well as certain third-party brands like Skechers, Clarks and Florsheim, among others, which complement its in-house brands. Each brand serves different market segments with its distinct styles and offerings. MBL focuses on products for the entire family with a focus on the mid & premium segment.

Robust performance bolstered by rising demand and improved profitability
The company's TOI grew by 58.44% on a year-on-year basis, primarily driven by the expansion of stores, which contributed to a substantial increase in sales. In FY 2022-23, the company achieved the highest-ever net store additions across all formats, adding a total of 115 new stores. The strong growth momentum continued during 9MFY24, with a TOI of ₹1,773.72 crore, representing a 12.05% increase from the corresponding period last year. The company's sales are predominantly driven by its own brands, constituting 74% of total sales, while third-party brands contribute 26%. The company generates 91.1% of its revenue from sales made through in-store outlets, highlighting the significance of physical retail presence in its revenue stream. Online sales contribute 5.6% to the total revenue, reflecting the growing importance of e-commerce channels. The remaining 3.3% of revenue comes from omni-channel sales, which integrate both online and offline channels, demonstrating the company's multi-channel sales strategy. Additionally, 1.0% of the revenue is derived from other sources.

The PBILDT margins further improved to 32.07% in FY23 compared to 30.78% in FY22 due to product premiumization. The company has observed a rising percentage of revenue contribution from products priced above ₹3000, demonstrating its success in offering premium products to the market, leading to higher gross margins and profitability. Additionally, due to the higher price point and asset-light model (manufacturing outsourced to 3rd party vendors), MBL garners higher margins.

Asset light business model
MBL procures finished products for its private label brands from local and unorganised vendors in metro cities, with over 250 vendors across India. The company's in-house design cell ensures product design and raw material quality to maintain high standards. These design concepts are exclusive, preventing vendors from selling them to competitors. Despite reliance on unorganised vendors posing supply quality risks, MBL mitigates this with a separate Quality Control department at its Bhiwandi storage facility. Agreements with vendors include provisions for cost recovery in case of customer returns due to defects, ensuring consistent quality. MBL's asset-light model minimises ownership of physical assets like manufacturing facilities, instead relying on third-party vendors for production. This approach reduces capital expenditure, enhances flexibility, and allows focus on core competencies such as branding and retail operations, contributing to sustained profitability. Despite long-standing relationships with vendors, disruptions or quality issues at third-party facilities could impact MBL's reputation and business. However, the vendors' track record of over 30 years instils confidence in maintaining product quality.

Strong financial risk profile
MBL maintains a robust capital structure and remains net debt-free on a standalone basis. As of March 31, 2023, the company had an outstanding debt of Rs. 1.52 crore, which pertains to one of its subsidiaries, Metmill Footwear Private Limited. However, this outstanding amount has been paid off as of December 31, 2023. Its reliance on working capital borrowings is negligible. The outstanding debt primarily consists of the present value of lease obligations under Ind-AS 116. Despite this, MBL maintains working capital limits of ₹46 crore, which are scarcely utilized. Overall gearing increased marginally to 0.67x in FY23 compared to 0.54x in FY22 due to an increase in lease liabilities for store expansion.

Key weaknesses

Highly competitive and fragmented footwear retail space resulting in pricing pressure
The highly competitive and fragmented nature of the footwear retail space creates pricing pressure for MBL, impacting various aspects of its operations. Firstly, the intense competition from both national and international organized retailer's forces MBL to carefully manage its pricing strategy to remain competitive in the market. This pressure can lead to reduced profit margins as the company may need to lower prices to attract customers. Both domestic and international brands, such as Steven Madden, Adidas, Reebok, Puma, Hush Puppies, Crocs, Sketchers, Aldo, New Balance, Charles and Keith, and Asics, are well-established in the Indian market. Key domestic brands include Bata India, Liberty Shoes, Campus, and Paragon. Moreover, in such a competitive environment, MBL needs to continuously innovate and invest in product development to differentiate itself from competitors. This can strain the company's resources and increase operating expenses, further affecting its profitability. The pricing pressure may also affect MBL's bargaining power with suppliers and manufacturers. As the company seeks to maintain competitive prices for

its products, it may need to negotiate favourable terms with suppliers to secure cost-effective sourcing of materials and products. Failure to do so could result in higher production costs, negatively impacting the company's bottom line.

Navigating compliance challenges due to BIS Quality Control Orders

The BIS QCO mandate certification for sports shoes, sandals, and slippers since July 2023, effective from January 1, 2024, with a deadline extended to August 2024. Given the impending BIS certification implementation, inventory levels are expected to shoot up to accommodate the demand while navigating through the transitional phase. In anticipation of potential supply chain disruptions during the transition period, the company has proactively increased inventory purchases to ensure smooth inventory management. While short-term disruptions are expected until the BIS certification process stabilizes, the company remains committed to supporting vendors by providing necessary guidance and assistance during product testing. It is noteworthy that the implementation of BIS QCO has been deferred for micro & small industries as defined under the MSME Act.

Liquidity: Strong

MBL boasts a strong liquidity profile, supported by consistent and healthy cash accruals. The company is entirely free from term debt, maintaining free cash and liquid investments totalling ₹656 crore as of December 31, 2023. MBL holds fund-based working capital limits of ₹46 crore, which are scarcely utilized. The gross cash accruals stood at ₹535.07 crore in FY23 compared to ₹342.81 crore in FY22. These investments are mostly parked in mutual funds such as liquid fund/short-term funds, which carry low risk. The aforementioned liquidity balance includes the unutilized IPO proceeds, which will be deployed for store additions.

Environment, social, and governance (ESG) risks

CARE Ratings Limited (CARE Ratings) believes that MBL’s environment, social, and governance (ESG) profile supports its strong credit risk profile. MBL has been enhancing its environmental sustainability efforts by introducing sustainable footwear and packaging solutions. The company is engaged in a project to responsibly dispose of old footwear, processing approximately 900 tons (equivalent to around 2 million pairs) in FY23 and 1,210 tons (around 2.8 million pairs) in 9MFY24 in an eco-friendly manner. MBL has installed solar rooftops at both of its warehouses, with a combined capacity of 240 KW, generating 221 MWh of power. MBL’s CSR activities focus on eradicating hunger, poverty, and malnutrition, promoting preventive healthcare and sanitation, and providing safe drinking water, including contributions to the Swach Bharat Kosh established by the government for sanitation promotion.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Retail
Short Term Instruments

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) operates as a footwear and accessories retailer in India, boasting a nationwide presence with 840 stores across 174 cities in 31 states and union territories as of December 31, 2023. MBL offers a diverse range of footwear and accessories, including formal and casual shoes, sandals, slippers, boots, sneakers, and ethnic footwear, alongside accessories like belts, wallets, socks, and shoe care products. Following the Company Owned and Company Operated (COCO) model of retailing, MBL expanded its footprint in FY23 by opening 144 new stores, closing 29 stores, and relocating 13 stores. The company boasts partnerships with over 250 footwear vendors. MBL owns and manages several brands in the footwear and accessories segment, including Metro Shoes, Mochi, Walkway, Crocs, and FILA. These brands offer a wide variety of footwear for men, women, and children, with Mochi targeting a younger demographic with trendy options, while Walkway provides affordable footwear for everyday use. Crocs is renowned for its comfortable clog-style shoes, and FILA offers sportswear and athleisure products. Each brand caters to different market segments with unique styles and offerings.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	1,344.31	2,129.97	1,773.72
PBILDT	413.84	683.03	540.94
PAT	214.20	365.39	259.90
Overall gearing (times)	0.54	0.67	-
Interest coverage (times)	8.44	10.83	9.23

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 last three years: Please refer to Annexure-2

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

Complexity level of various instruments rated: Please refer to Annexure-4

Lender details: Please refer to 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 2023-2024	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
1	Fund-based/Non-fund-based-LT/ST	LT/ST	46.00	CARE AA; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (07-Apr-23)	-	1)CARE AA; Stable / CARE A1+ (29-Mar-22) 2)CARE AA; Stable / CARE A1+ (07-Apr-21)	-

LT/ST: Long term/Short term

Annexure-3: Detailed explanation of 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

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Metmill Footwear Private Limited	Proportionate	Subsidiary
2	Metro Athleisure Limited (formerly known as Cravatex Brands Limited)	Full	Wholly owned subsidiary
3	M V Shoe Care Private Limited*	Proportionate	Joint Venture

*Only profits have been consolidated of the Joint Venture

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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Ranjan Sharma Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3453 E-mail: ranjan.sharma@careedge.in Pulkit Agarwal Director **CARE Ratings Limited** Phone: +91-22-6754 3505 E-mail: pulkit.agarwal@careedge.in Arti Roy Associate Director **CARE Ratings Limited** Phone: +91-22-6754 3657 E-mail: arti.roy@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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