Metro Brands Limited

March 29, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term/Short-term Bank Facilities	29.00 (Enhanced from 25.00)	CARE AA; Stable/CARE A1+ (Double A; Outlook: Stable/A One Plus)	Reaffirmed
Total Bank Facilities	**29.00 (Rs. Twenty-nine crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Metro Brands Limited (MBL) 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.

CARE Ratings notes that the performance of the company was impacted significantly during the first and second wave of COVID; nevertheless, it has rebounded strongly since then, as reflected by its 9MFY22 performance, notably with Q3FY22 recording the highest ever quarterly sales in MBL's history. The momentum is expected to continue in light of the pandemic being under control to a considerable extent. The company 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.

The above strengths are, however, partially tempered by the highly competitive nature of the industry dominated by unorganised players, and the dependence on unorganised vendors/third-party for manufacturing. The ability to adapt to dynamic industry trends and scale up operations successfully, as indicated during the IPO, would be a key rating factor.

Rating Sensitivities

Positive Factors – Factors that could lead to positive rating action/upgrade:

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

Negative Factors – Factors that could lead to negative rating action/downgrade:

- 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.

Detailed description of the key rating drivers

Key Rating 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. 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, Florsheim, and Fitflop, 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, 2021, the Company operated 629 Stores across 140 cities spread across 30 states and union territories in India.

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

Significant recovery in business in 9MFY22 after being severely hit by the first and second wave of COVID
The COVID pandemic had an adverse impact on the company's sales and operations in FY21, resulting in a 38% decline in y-o-y sales from FY20. The impact of COVID bottomed out during 9MFY22 (except two months during the Delta wave in April-May 2021), thereby leading to a resurgence in MBL's operating performance. Sales during 9MFY22 were Rs.940 crore, and 9MFY21 Rs.481 crore with jump of 95%. Notably, the last quarter, i.e., Q3FY22, has seen the highest quarterly sales of Rs.484 crore in the history of the company. Despite fall in the sales, the cost-saving measures undertaken by the company during the year, viz., negotiation in rentals, fit-outs costs, sales & marketing, admin costs, and other discretionary costs, has enabled the company to achieve a positive PAT and maintain stable profitability margins.

Robust capital structure; to be supported by recent equity infusion and higher expected earnings
MBL has a robust capital structure. It does not have any external long-term debt. The dependence on working capital borrowings is also negligible. Outstanding debt pertains to lease liabilities (under Ind-AS 116). Despite lower-than-expected retained earnings to net worth during FY20 and FY21, which was impacted by COVID, nevertheless, the overall gearing (considering lease liabilities as debt) remained comfortable, at 0.67x as on March 31, 2021 (P.Y. 0.66x). 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.

Asset light business model
Metro are 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, Metro 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 Rating 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 such 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 balance stands at Rs.19.40 crore, as on September 30, 2021. The company has Rs.29 crore of sanctioned working capital limits, which remained unutilised for the last 12-months ending February 28, 2022. This, along with the liquid investments of Rs.405.20 crore as on September 30, 2021, provides additional liquidity cushion. These investments are mostly parked in mutual funds such as liquid fund/short-term funds, which carry low risk.

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, 2021 (CARE A-; Stable/CARE A2+).
- M V Shoe Care Private Limited (Joint Venture; 49% shareholding by MBL), as on March 31, 2021.

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

About the Company
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 629 stores of Metro, Mochi, Walkway, Crocs, among others, with a presence in more than 140 cities, spread across 30 states and UTs, as on December 31, 2021. 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, Sparx, 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.

On December 10, 2021, MBL made an IPO having an Issue Size of Rs.1,368 crore, comprising of Fresh Issue of Rs.295 crore and OFS of Rs.1,073 crore. MBL is listed on BSE and NSE w.e.f. December 22, 2021. The fresh proceeds are proposed to fund the expansion plans of the company and partly for general corporate purposes.

Brief Financials (Rs. crore): Consolidated	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	1311.07	878.54	985.05
PBILDT	378.57	250.01	324.61
PAT	161.22	66.48	144.42
Overall gearing (times)	0.66	0.67	-
Interest coverage (times)	9.59	5.71	9.06

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer 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 for this company: Annexure-4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	29.00	CARE AA; Stable / CARE A1+

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	29.00	CARE AA; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (07-Apr-21)	-	1)CARE AA; Stable / CARE A1+ (31-Mar-20)	1)CARE AA; Stable / CARE A1+ (18-Feb-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities: Nil

Annexure-4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: CARE Ratings Limited 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 CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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