Metro Brands Limited

February 18 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long/Short term bank facilities	25.00	**CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable/A One Plus)**	**Reaffirmed**
Total facilities	**25.00 (Rs. Twenty Five Crore Only)**		

Details of instruments/facilities in Anneuxre-1

Detailed Rationale

The ratings reaffirmation to the bank facilities of Metro Brands Limited (MBL) continue to derive strength from experienced promoter & management, established market position of the company with wide distribution network, strong credit risk profile characterized by health cash accruals, continuing healthy operational performance with strong liquidity position and debt-free status.

However, the above strengths are partially offset by highly competitive nature of the industry dominated by unorganized players and dependence on unorganized vendors for the supply of the goods.

The ability of the company to manage its exposure for procurement from unorganized vendors and any large debt-funded capital expenditure in the future remains the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters & management

Ms. Farah Malik Bhanji, Managing Director and CEO, is a graduate from University of Texas and has more than decade of experience in footwear relating industry. Over the years, Ms Malik has led Metro Brands into era of modern retailing wherein she is active in functions of Marketing, Product development, new concept development and IT. The chairman of the company - Mr Rafique Malik is the first-generation entrepreneur with more than three decades of experience in footwear retailing business and is supported by qualified and experienced management.

Well established market presence and strong brand recognition

During FY18 (refers to the period April 2017- March 2018), the company has opened 66 new stores with its first stores opening in the cities of Guntur (Andhra Pradesh), Gandhi Nagar (Gujarat), Itanagar (Arunachal Pradesh) and Manipal (Karnataka). The number of showrooms has increased to 455 as on September 30, 2018 compared to 419 showrooms as on April 01, 2018. The company has been focusing on further penetration in Tier II and Tier III cities wherein they see a promising growth rate.

Healthy operational performance coupled with increasing brand penetration in semi-urban markets

MBL's operating income increased by 2.10% to Rs.1102.22 in FY18 on account of opening of new stores in tier II cities and increasing contribution from high fashion stores and "Crocs" outlets. The company opened 22 exclusive brand outlets (EBO's) of Crocs that recorded total turnover of Rs.80.59 crores in FY18 compared to Rs.36.96 crores made in FY17. With increasing revenue base coupled with comprehensive presence in urban centers across more than 104 cities in India, the net sales have been increasing at CAGR of 16.56% during FY16-FY18 period.

Comfortable liquidity position and robust financial metrics

MBL has an unleveraged capital structure and a net-worth of Rs.590.13 crore as on March 31, 2018. The store opening expenses and working capital requirements are mainly funded through internal accruals. There was a slight improvement in its inventory management cycle over the FY16-FY18 period despite being in footwear retailing business where the company needs to maintain significantly high stock in order to cater to the demand from different market segments. The working capital limits remains unutilized. Thus the company continues to maintain its strong liquidity position with liquid investments and cash and bank balance of Rs.191 crore as on September 30 2018. The capital expenditure going forward will be towards opening of new stores and this is proposed to be funded entirely through internal accruals which will assist the company in maintaining its debt -free status and ensure comfortable debt protection metrics.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Asset light business model
The company is engaged in the purchase of finished products for its private label brands from local /unorganised vendors located in metro cities. The design for the products is provided by company's in-house design cell mainly relating to material being used for maintaining the long term consistency in supplying the quality products.

Profitability driven business model with consistent control over major cost heads
MBL procures the final products (footwear) directly from various local/unorganised vendors and thus is able to bypass the manufacturing cost and concentrate on marketing, quality checking and optimising the input cost. Although the company operates as a multi-brand retailer in order to increase footfalls, the strong emphasis on private labels which command higher margins has helped the company to earn stable PBILDT and PAT margins over the years (FY16-FY18). In FY18, the in-house brands accounted for 72% of total revenue for the company.

Key Rating Weakness
Highly competitive and fragmented footwear retail space; threat from E-commerce segment
Despite having the highest organized penetration, footwear retailing continues to be highly competitive and fragmented space with large number of unorganized retailers leading to pressure on margins. The situation is further aggravated by the competition from national and international organized retailers like Bata India Limited, Mirza shoes etc.

Procurement from unorganized retailers
The dependence on unorganised vendors remains an area for concern for supply of quality products for which the company is undertaking measures (Centralised Distribution System) to reduce inventory and increase sales growth in its stores.

Analytical Approach: Consolidated approach. Following subsidiaries/ Joint Ventures have been considered while adopting consolidated approach:

1. Metmill Footwear Private Limited (Subsidiary Company)
2. M V Shoe Care Private Limited (Joint Venture)

Applicable Criteria:
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for retail *companies*
Financial ratios – Non-Financial Sector

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 exclusive 455 "Metro" showrooms across 104+ cities as on September 30 2018. The company sells formals, casuals, party, wedding, ethnic, and sports footwear for women, kids along with shoe care and foot care products. MBL also showcases the curated range of Indian and foreign brands who retail their products through company's outlets. Some such brands include Woodland, Lee cooper, Redtape, Scholl, Crocs and Steve Madden

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	910.29	1102.22
PBILDT	159.52	233.37
PAT	97.69	142.28
Overall gearing (times)	NM*	
Interest coverage (times)		

**NM- Not Meaningful as the company has no debt*

Status of non-cooperation with previous CRA: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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	-	-	-	25.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	25.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (08-Jan-18)	1)CARE AA; Stable / CARE A1+ (14-Feb-17)	1)CARE AA / CARE A1+ (15-Jan-16)

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