Metro Brands Limited (Revised)

March 31, 2020

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 reaffirmation of ratings assigned to the bank facilities of Metro Brands Limited (MBL) continues to derive strength from vast experience of promoters and long track record of company in footwear business, established market position of the company with wide distribution network resulting in strong operational performance on a sustained basis, as well as comfortable financial risk profile characterized by strong liquidity position and low overall gearing.

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.

Key rating sensitivities

Positive factors

- Improvement in PBILDT margins above 25% on sustained basis resulting in further improvement in cash accruals

Negative factors

- Decrease in PBILDT margins below 18% on a sustained basis with decline in scale of operations
- Increase in overall gearing mainly on account of high working capital requirement or lower cash accruals

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 two decades of experience in footwear retailing 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 and father of Ms. Farah - Mr Rafique Malik is the first-generation entrepreneur with more than five decades of experience in footwear retailing business and is supported by qualified and experienced management. Mr. Malik has been able to achieve strong brand acceptance as well as recall of MBL's various in-house brands such as Metro, Mochi, Walkway, Da Vinci, Princess, Gen-X etc. which has helped MBL command premium for its products.

Well established market presence and strong brand recognition

During FY19, the company has opened 85 new stores with its first stores opening in Nagaland, Manipur, and Meghalaya. The number of showrooms further increased to 535 as on December 31 2019 compared to 504 showrooms as on March 31, 2019. The company has been focusing on further penetration in Tier II and Tier III cities wherein they see a promising growth rate. The company recorded sales of Rs.1360 crore till March 15, 2020.

Asset light business model and Centralized Distribution system ensuring high levels of quality controls

The company is engaged in the purchase of finished products for its private label brands from 250-300 local /unorganized vendors located across India. The design and raw material quality for the products is provided by company's in-house design cell for maintaining the quality products. The design concepts provided by the company are of monopoly nature and vendors are barred from selling it to other vendors. Although the dependence on unorganized vendors can be an area for concern for supply of quality products, the company has developed separate Quality Control department for achieving high level of control in terms of quality of products procured from vendors. The company also has Centralized Distribution System (CDS) for private label/in-house brands, wherein the finished goods are procured at the central warehouses at Bhiwandi which are then dispatched to showrooms across India after quality checking, labelling and packing.

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

Although the inventory holding cost, logistics cost and lead time remain high on account of CDS, the company's classification of inventory under three segments (namely fast moving, slow moving and no moving) helps in replenishment of stock and hence manage product life cycle and in turn reduce inventory levels. The inventory holding is funded mainly through creditors and gross cash accruals.

Profitability driven business model with focus on in-house brands

MBL procures the final products (footwear) directly from various local/unorganized vendors and thus is able to bypass the manufacturing cost and concentrate on marketing, quality checking and optimizing 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 have helped the company to improve its PBILDT margins over the years (FY17-FY19). In FY19, the in-house brands accounted for 73% of total revenue for the company compared to 68% in FY17.

Comfortable liquidity position characterized by moderate working capital cycle

MBL has comfortable capital structure and a net-worth of Rs.699.67 crore as on March 31, 2019 (as per CARE's calculation). The company's operating cycle has remained moderate at around 90 days for past two years. The company's inventory holding remains high mainly as the company needs to maintain significantly high stock in order to cater to demand from different market segments. The working capital limits remains unutilized on account of strong liquidity profile marked by healthy gross cash accruals, liquid investments along with cash and bank balance (Rs.342.08 crore as on December 31, 2019). The same are mainly parked in mutual funds which are highly liquid. The said investments are made post meeting working capital requirements.

Healthy financial metrics characterized by comfortable capital structure
Due to steady revenue growth arising from substantial increase in number of stores and high gross margin enjoyed by the company, accruals have also increased. The company does not have any long term debt as on March 15, 2020 on consolidated basis. The adjusted overall gearing as per IND AS-116 guidelines for lease obligations stood comfortable around 0.63 times as on December 31, 2019. The company issued bonus shares amounting Rs.118.06 crore during FY19 as a result of which equity share capital increased from Rs.14.73 crore in FY18 to Rs.132.77 crore in FY19.
Key Rating Weakness

Highly competitive and fragmented footwear retail space; threat from e-commerce segment

Despite having the highest organized penetration of around 30%, 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. However, to contain the challenges emerging from the growing e-commerce segment, the company has developed website for online sales and has also tied up with major online retailers such as Flipkart, Amazon which helps them to reduce their slow moving inventory.

Liquidity analysis: Strong

The liquidity profile is comfortable with consistent and healthy cash accruals. The company has no term debt as on March 15, 2020 and the cash balance stands at Rs.13.21 crore as on December 31 2019. The Company has Rs.25 crore of sanctioned working capital limits which remained unutilized for the past 12 months ending January 2020. This along with the liquid investments of Rs.342.08 crore as on December 31 2019 provides additional liquidity cushion.

Analytical approach: Consolidated approach as the group companies have significant operational linkages and are operating under the common management. Following subsidiaries/ Joint Ventures have been considered while adopting consolidated approach

- Metmill Footwear Private Limited (Subsidiary Company; 51% shareholding by MBL)
- M V Shoe Care Private Limited (Joint Venture; 49% shareholding by MBL)

Applicable Criteria:
[Criteria on assigning Outlook and Credit Watch to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology: Consolidation and Factoring Linkages in Ratings]
[Financial ratios – Non-Financial Sector]
[Rating Methodology - Organized Retail Companies]

About the company

Incorporated in 1977, Metro Brands Ltd. (MBL) owns and operates a chain of fashion footwear and accessories stores and has a countrywide network of exclusive 535 stores of Metro, Mochi, Walkway, and Crocs and has presence more than 120 cities as on December 31, 2019. The company 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 company's outlets. Such brands include Crocs, Skechers, Sparx, Buckaroo, Language, Clarks, Lotto, Fila, Nike, Fitflop, Moreschi. MBL's in-house / private label brands like Metro, Mochi, Walkway, Da Vinci, J.fontini, Princess, Gen-X, etc., have gained considerable popularity and acceptability among consumers.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1102.22	1235.27
PBILDT	233.37	263.75
PAT	142.28	159.38
Overall gearing (times; Including Corporate guarantee extended to Metmill Footwear Private Limited)	0.05	0.05
Interest coverage (times)	Very high	Very high

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.*

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	25.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (18-Feb-19)	1)CARE AA; Stable / CARE A1+ (08-Jan-18)	1)CARE AA; Stable / CARE A1+ (14-Feb-17)

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