

Metro Shoes Limited ^(Revised)
January 8, 2017

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 assigned to the bank facilities of Metro Shoes Limited (MSL) continue to derive strength from experienced promoter & management, established market position of the company with strong distribution network, continuing healthy operational performance and strong credit risk profile characterised by healthy cash accruals, strong liquidity position and debt free position.

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 Shoes 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 the year, the company has opened 55 new stores with its first stores opening in the cities of Bardez (Goa), Bharuch (Gujarat), Dhanbad (Jharkhand), Gandhidham (Gujarat), Thrissur (Kerala) and Nagercoil (Tamilnadu). The number of showrooms has increased to 405 as on December 31, 2017 compared to 362 showrooms as on April 01, 2017. 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

MSL's operating income increased by 12.6% to Rs.870.87 in FY17 crore on account of opening of new stores in tier II cities and increasing contribution from high fashion stores and "Crocs" outlets. The company opened 28 exclusive brand outlets (EBO's) of Crocs that recorded total turnover of Rs.36 crores compared to Rs.4 crores made in FY16. With increasing revenue base coupled with comprehensive presence in urban centres across 104 cities in India, the net sales have been increasing at CAGR of 10.88% during FY14-FY17. In 9MFY18, MSL has opened 46 stores including 16 in metro cities, 16 in tier I, 8 in Tier II, and 6 in tier III cities.

Comfortable liquidity position and robust financial metrics

MSL has an unleveraged capital structure and a net-worth of Rs.451.70 crore as on March 31, 2017. 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 period FY15-FY17 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.108.07 crore as on March 31, 2017. The capital expenditure going forward

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

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.

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

MSL 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 (FY14-FY17). In FY17, the in-house brands accounted for 68% of total revenue for the company.

Key Rating Weakness

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

Footwear contributes to about 1.2% of total retail market in India which stood at US \$690 billion in FY17. Despite having the highest organized penetration of 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.

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: Standalone

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 Shoes Ltd. (MSL) owns and operates a chain of fashion footwear and accessories stores and has a countrywide network of exclusive 405 "Metro" showrooms across 104 cities as on December 31, 2017. The company sells formals, casuals, party, wedding, ethnic, and sports footwear for women, kids along with shoe care and foot care products. MSL 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)	FY16 (A)	FY17 (A)
Total operating income	773.41	870.87
PBILDT	138.05	149.64
PAT	82.05	88.92
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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (28-Nov-14)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	25.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (14-Feb-17)	1)CARE AA / CARE A1+ (15-Jan-16)	1)CARE AA / CARE A1+ (23-Jan-15)

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