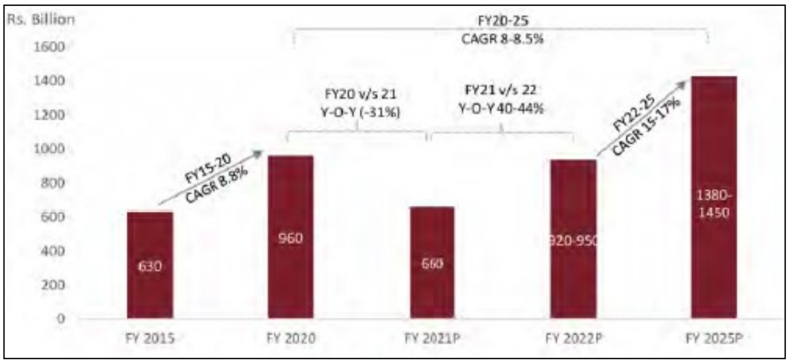
Metro Brands Limited

Issue Opens	Friday, Dec 10, 2021
Issue Closes	Tuesday, Dec 14, 2021
Price Band (in Rs)	485 - 500
Bid Lot	30 shares and multiples thereafter

Overview: Indian Footwear Industry

Over last few years, Indian retail has seen healthy growth with rise in disposable income, increased consumer spending and modernization of shopping experience. The Indian footwear market has followed the trend and witnessed healthy growth on account of rise in income levels, increase in awareness of brands and fashion styles, rise in modern retail, heightened discretionary spending and increase in urbanization. Consequently, the Indian footwear market, in value terms, has grown from Rs630bn in FY15 to Rs960bn in FY20 at CAGR of 8.8%. Some of the prominent players in the Indian footwear market includes Bata, Khadim, Liberty, Metro, Paragon, Relaxo and Mirza International Ltd. The market size witnessed a decline of approximately 31% in FY21 compared to FY20 on account of decreased consumer spending due to the pandemic. Going forward, CRISIL research expects Indian footwear consumption in value terms to grow moderately at a CAGR of 15-17% between FY22-25.

Exhibit 01: Indian footwear market size (in value)



Source: Company RHP

Being a price-sensitive market, the Indian footwear industry is dominated by the mass segment which occupies a share of ~56% as of FY20. This segment is largely catered by unorganized players, comprising local footwear brands as well as unbranded footwear products. The share of the mass segment has dropped from 62% in FY15 to 56% in FY20, mainly on account of growth of organized players in the market.

The decline in market share has been captured by economy, mid and premium price-range segments, which have grown at CAGR of ~12%, ~12.5% and ~12% respectively during FY15-20. Typically, these segments are catered by organized players with national, regional and international brands and their growth in the overall footwear industry has led to an increase in their respective shares.

Moreover, factors like higher penetration of modern retail formats, rising income levels, and growing brand awareness have aided the growth of the mid and premium price segments.

Exhibit 02: Indian footwear industry under varied price segments

Note: The categorization is done as follows:
- *Mass segment is priced below ₹ 500 a pair*
- *Economy segment is priced between ₹ 501 to ₹ 1,000 per pair*
- *Mid-segment is priced between ₹ 1,001 to ₹ 3,000 per pair*
- *Premium segment is priced at ₹ 3,001 per pair and above*

Source: Company RHP

SNAPSHOT		
Issue Opens	Friday, Dec 10, 2021	
Issue Closes	Tuesday, Dec 14, 2021	
Price Band (Rs)	485/500	
Bid Lot	30 shares and multiples thereafter	
Face Value	Rs5	
Listing	BSE & NSE	
Type of Issue	Fresh Issue & OFS	
Offer Size *(Rs Mn)*	**Fresh Issue**	2,950
	OFS	10,725
	Total	13,675
Implied Market Cap *(Rs Mn)	135,754	
P/E *(based on FY21 Earnings)**	210.08	

**Note: Implied Market Cap & P/E are calculated at upper price band of Rs500*

Issue Allocation	
Reservations	**% of Net Issue**
QIB	50
NIB	15
Retail	35
Total	**100**

Object of the Offer

- Expenditure for opening new stores of the company
- General corporate purposes

The Indian footwear market is anticipated to shift in favour of economy, mid and premium-priced segments. Mass market price segment is expected to maintain a dominant share at 51% as of FY25, but the growth rate is expected to be lower at ~6-6.5% CAGR between FY20-25. Increasing exposure to global fashion brands and trends, higher aspiration levels coupled with demographic factors are expected to galvanise this shift. Also, since the economy, mid and premium sections have a higher presence of organised players, the faster growth of these sections is also expected to accelerate growth of the organized segment in the footwear industry. Moreover, higher growth rates in the higher prices segments as compared to the mass segment will aid in overall increase in average selling prices of the organised footwear segment in India.

Overview: Industry (contd.)

Growth drivers and challenges of footwear industry

(i) Rise in footwear as fashion-wear and athletics segment to drive growth, (ii) Footwear from utility to fashion statement, (iii) Footwear for every occasion, (iv) Health and fitness awareness, (v) Women segment to rise with rise in women workforce, (vi) Spending will rise as the new-age generation enters prime years, (vii) Rising in disposable income has led to consumer shifting to higher price segments, (viii) Rise in urbanisation, (ix) Increase in brand consciousness, (x) The footwear retail market in India is dominated by unorganised players and domestic / well-established Indian brands.

About the company:

Metro Brands Limited (Metro Brands) is one of the largest Indian footwear speciality retailers, and is among the aspirational Indian brands in the footwear category. They opened their 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. As of September 30, 2021, Metro Brands operated 598 Stores across 136 cities spread across 30 states and union territories in India. Metro Brands targets the economy, mid and premium segments in the footwear market, which together are expected to grow at a higher rate compared to the total footwear industry between FY20-25. These segments have a higher presence of organised players and their growth in the overall footwear industry is expected to accelerate growth of the organized segment in the footwear industry. Metro Brands had the 3rd highest number of exclusive retail outlets in India in FY21.

These brands have a pan-India appeal across regions. They also offer accessories such as belts, bags, socks, masks and wallets, at their stores. They also retail foot-care and shoe-care products at their stores through their joint venture, M.V. Shoe Care Pvt Ltd, making them a 'one-stop-shop' for all footwear and related accessories to their customers. Company's business is consumer-centric and they have loyalty programs for their customers, including Club Metro, My Mochi, and Crocs Club. Their loyalty programmes have given them insights into customer preferences and trends over the years, further enabling them to tailor their product offerings to their customers' preferences.
As of 30th September, 2021, the company has operated 2 warehouses in India, both located at Bhiwandi in Maharashtra, on a leave-and-license basis. One of their warehouses has a designated e-commerce operations area to cater to sales through online channels.

Exhibit 03: Retail Footwear Brands

Own Brand	Third Party Brands
Metro	Crocs
Mochi	Skechers
Walkway	Clarks
Da Vinchi	Florsheim
J. Fontini	Fitflop

Source: Company RHP, Progressive Research

Strengths:

- One of India's largest pan India footwear retailers with a brand appeal among aspirational consumer segments in the fast-growing footwear retail industry
- Wide range of brands and products catering to all occasions across age groups and market segments resulting in strong customer loyalty
- Efficient operating model through deep vendor engagements and TOC based supply chain
- Asset light business with an efficient operating model leading to sustained profitable growth
- Presence across multiple formats and channels
- Platform of choice for third party brands looking to expand in India
- Strong promoter background and an experienced and entrepreneurial management team with a proven track record and a high degree of employee ownership
- Strong track record of growth and profitability and financial discipline

Strategies:

- Expand the store network in existing and new Indian cities
- Leverage the multi-channel platform to pursue new business opportunities
- Increase contribution of e-commerce and omni-channel sales as a proportion of the sales
- Expand portfolio of accessories and grow other allied businesses
- Evaluate accretive inorganic growth opportunities
- Introduce and expand the portfolio of environmentally sustainable footwear

Financials:

On the financial performance front, the company has on a consolidated basis, posted turnover of Rs12,171mn in FY19, Rs12,852mn in FY20 and Rs8,001mn in FY21; whereas for 6MFY22, the revenues came in at Rs4,560mn. EBITDA margin stood at 27.6%, 27.4%, and 21.4% for FY19, FY20 and FY21 respectively; whereas the margins stood at 24.4% for 6MFY22. Net profit/(loss) for FY19, FY20 and FY21 stood at Rs1,527mn, Rs1,606mn and Rs646mn respectively for the period.; whereas the PAT stood at Rs431mn for 6MFY22. For the last three fiscals, on a consolidated basis, the company has posted an average EPS of Rs4.74 and an average RoNW of 16.80%. The company have been declaring and paying out dividend to shareholders consistently since FY2000, on the back of their strong financial performance. In the last 3 fiscals, the company declared a dividend of Rs384.1mn, Rs398.3mn and Rs398.3mn.

Please Turn Over

Financials (contd.):

Exhibit 04: Financial Snapshot

Parameters (Rs mn)	FY19	FY20	FY21	6MFY22
Sales	12,171	12,852	8,001	4,560
EBITDA	3,358	3,527	1,715	1,114
EBITDA Margin %	*27.6*	*27.4*	*21.4*	*24.4*
PAT	1,527	1,606	646	431
PAT Margin %	*12.5*	*12.5*	*8.1*	*9.4*
EPS	5.8	6.1	2.4	1.6
RoNW (%)	*22.8*	*19.4*	*8.2*	*4.9*

Source: Company RHP, Progressive Research

Risks and Concerns:

- The premises of all the stores and warehouses are leased. If the company fail to renew these leases on competitive terms or if they are unable to manage their lease rental costs, the results of operations would be materially and adversely affected.
- The company are dependent on third-parties for the manufacturing of all the products that they sell. 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 their reputation, business and financial condition.
- A significant portion of the company's revenue is generated from sale of third-party brands, and the loss of one or more such brands, or a reduction in demand for their products could adversely affect the business.
- The growth of online retailers may create pricing pressures, increase competition, and adversely affect their business.
- The company depend on third-parties for their transportation needs. Any disruptions may adversely affect their operations, business and financial condition.
- The company may be unable to grow their business in semi-urban markets, which may adversely affect the business prospects and results of operations.

Outlook and Recommendations:

Metro Brands is one of the largest footwear speciality retailers with the household brand. The company had the third-highest number of exclusive retail outlets in India, in FY21. At present, the company has 586 stores in 134 cities spread across 29 states and union territories in India. Of these, 211 stores were opened in the last three years. Apart from focusing on expansion of physical presence, the firm is investing in its online distribution channels as well. They target the economy, mid and premium segments in the footwear market, which together are expected to grow at a higher rate compared to the total footwear industry between FY20-25. Metro Brands face competition from organised as well as unorganised footwear retailers in India, and compete with different retailers for different aspects of their business. The pandemic affected the footwear industry including Metro Brands as the company's revenue from operations dropped to Rs8,000mn in FY21 from Rs12,850mn in FY20, while PAT declined to Rs646mn in FY21 from Rs1606mn in FY20. As indicated by Crisil, the company recorded the highest Realization per Unit compared to the two leading players in India from FY19-21 and in FY20 it recorded the highest operating margins among the key players in India. Additionally, in FY21, it recorded the highest net profit margin of 8.1% among footwear players having a majorly retail business model for reaching customers. The demand of footwear has reached the pre-Covid level for the company and online sales are also growing rapidly. Annualizing FY22 earnings and attributing it to its post-issue paid-up equity capital, then the asking price is at a P/E of around 157.23. Based on the upper price band of the IPO price, the company is looking for a market cap of Rs135,754mn. We feel that the long term investors should consider applying for the IPO as it seems to be fairly priced. **We recommend a Subscribe for the IPO.**

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