

24 October 2024

India | Equity Research | Q2FY25 results review

Metro Brands

Consumer Staples & Discretionary

Navigating near-term challenges

Metro's Q2FY25 revenue growth continues to be underwhelming at 5% YoY, impacted by a higher base and lower-than-expected revenue performance (-5% YoY) in the mid-price segment (< INR 3,000). Key positives: 1) Retail expansion was healthy at 11% YoY, 2) Outperformance in the premium price segment (>INR 3k, 53% revenue share); 10% YoY and 3) stabilisation in revenue PSF (-4% YoY) vs last five quarters (-8% YoY). Gross and operating margin continues to be under stress due to inventory liquidation (FILA) and negative operating leverage. Liquidation of inventory for FILA to be completed in the upcoming quarters (largely done in Q2FY25). Management guides to open 225 stores by FY26 (FY25: 100) and its first New Era showroom / kiosk in H2FY25.

The Implementation of BIS QCO by DPIIT (Jul'24) was key positive as the company is allowed to liquidate its legacy stock till 31-Jul-26. However, overall SSSG and revenue PSF delivery have been weak, impacted by tough market condition with lower wedding days. **ADD.**

Revenue growth decelerates; premium continues to outperform

Metro Brands reported revenues of INR 5.9bn, up 5% YoY, indicating subdued discretionary demand and pressure on SSSG (impact due to high base) and footfalls given the quarter had lower number of wedding dates. Revenue print was slightly soft considering the 3% YoY / 4% QoQ decline in sales throughput (per sq. ft. basis) to INR 4,300. Retail expansion continues to be robust (+10% YoY to 871 stores); 12% YoY in Mochi (EOP: 249 stores) and 11% YoY in Metro (EOP: 332 stores).

It added 23 stores; closed 3 stores in the quarter (net additions – Metro: 8, Mochi: 9, Crocs: 2 and Flipflop: 1). Management guides to open 100 stores in FY25 and 125 stores in FY26. The first Footlocker showroom is expected to be opened in Q3FY25. The company plans to launch its first store / kiosk of New Era in H2FY25.

Online sales (including omni-channel) advanced 8% YoY to INR 640mn, contributing about 11.4% of sales. Healthy premiumisation trend was witnessed as >INR 3k price points (~53% of revenues) grew 10.4% YoY (vs -5% YoY for < INR 3,000 price range) in Q2FY25.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	21,271	23,567	25,836	30,890
EBITDA	6,787	6,996	7,770	9,554
EBITDA Margin (%)	31.9	29.7	30.1	30.9
Net Profit	3,614	4,125	4,090	5,220
EPS (Rs)	13.3	15.2	15.1	19.2
EPS % Chg YoY	70.6	13.5	(0.9)	27.7
P/E (x)	88.1	77.7	78.3	61.4
EV/EBITDA (x)	46.2	44.6	39.9	32.3
RoCE (%)	25.8	24.2	19.8	21.9
RoE (%)	25.3	23.8	20.2	22.5

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Market Data

Market Cap (INR)	321bn
Market Cap (USD)	3,816mn
Bloomberg Code	METOBRA IN
Reuters Code	METB BO
52-week Range (INR)	1,441 /990
Free Float (%)	11.0
ADTV-3M (mn) (USD)	2.0

Price Performance (%)	3m	6m	12m
Absolute	(11.4)	7.4	(2.1)
Relative to Sensex	(10.9)	(1.2)	(26.1)

ESG Score	2022	2023	Change
ESG score	54.6	68.9	14.3
Environment	30.4	48.6	18.2
Social	40.9	75.3	34.4
Governance	72.9	75.3	2.4

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	(4.5)	(5.0)
EBITDA	(7.3)	(7.8)
EPS	(7.3)	(8.0)

Previous Reports

12-08-2024: [Q1FY25 results review](#)

23-05-2024: [Q4FY24 results review](#)

Inventory liquidation impacts margins

Gross margins contracted 177bps YoY to 55% (largely due to negative impact of liquidation and old FILA inventory at a higher discount). Revenue contribution from own/third-party brands stands at 72%/28%, slightly higher than long-term trends. EBITDA margin contracted 152bps YoY to 26.4% due to an increase in staff cost (+8% YoY). PBT declined 1% YoY. Impact on profitability was lower despite healthy store expansion as it was offset by reduction in losses for FILA and Proline driven by cost control (Cravatex brand had losses of INR 140mn in Q2FY24).

Inventory liquidation in FILA on track

In FILA, liquidation of excess inventory is on track and was largely completed as of Q2FY25 and the management guides to complete the entire liquidation in the upcoming quarters. As of Sept'24, there are 2 FILA EBOs operational. In FY25, as guided earlier, it will focus to re-launch FILA through Metro/Mochi distribution network. From H2FY26, it will start to focus on adding separate FILA EBOs.

Valuation and risks

We cut our earnings estimates by 7-8% for FY25-26E. We model revenue/EBITDA/PAT CAGR of 14%/17%/12% over FY24-FY26E. Maintain **ADD** rating with a DCF-based revised target price of INR 1,300 (vs. INR 1,380).

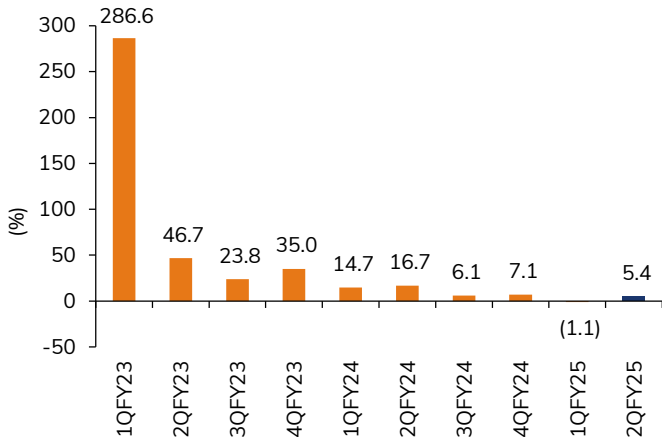
Key risks: 1) Delay in store addition; and 2) likely increased competition from regional players trying to premiumise.

Exhibit 1: Consolidated results of Metro

(INR mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	1HFY25	1HFY24	YoY (%)
Net Revenues	5,855	5,557	5	5,761	2	11,615	11,382	2
COGS	(2,633)	(2,401)	10	(2,334)	13	(4,967)	(4,784)	4
Gross profit	3,222	3,156	2	3,427	(6)	6,649	6,598	1
Staff cost	(597)	(553)	8	(594)	0	(1,191)	(1,085)	10
Other opex	(1,077)	(1,050)	3	(1,029)	5	(2,106)	(2,093)	1
EBITDA	1,548	1,554	(0)	1,804	(14)	3,352	3,420	(2)
Other income	234	162	45	234	(0)	467	305	53
Finance cost	(218)	(197)	11	(208)	5	(426)	(382)	11
D&A	(624)	(572)	9	(600)	4	(1,224)	(1,114)	10
PBT	939	947	(1)	1,230	(24)	2,169	2,229	(3)
Tax	(225)	(275)	(18)	(309)	(27)	(534)	(629)	(15)
Recurring PAT	715	671	6	921	(22)	1,635	1,600	2
Minority Interest	(19)	(4)	355	(3)	462	(23)	(5)	369
Recurring PAT after MI	696	667	4	917	(24)	1,613	1,595	
Extraordinaries	-	-	-	-	-	-	-	-
Net profit (reported)	696	667	4	917	(24)	1,613	1,595	1
EPS	2.6	2.5	4	3.4	(24)	5.9	5.9	1
Costs as a % of sales								
COGS	45.0	43.2	176 bps	40.5	444 bps	42.8	42.0	72 bps
Gross margin (%)	55.0	56.8	-177 bps	59.5	-445 bps	57.2	58.0	-73 bps
Staff cost	10.2	9.9	24 bps	10.3	-12 bps	10.2	9.5	71 bps
Other opex	18.4	18.9	-50 bps	17.9	53 bps	18.1	18.4	-26 bps
EBITDA margin (%)	26.4	28.0	-152 bps	31.3	-487 bps	28.9	30.0	-119 bps
Income tax rate (%)	23.9	29.1	-517 bps	25.1	-119 bps	24.6	28.2	-361 bps

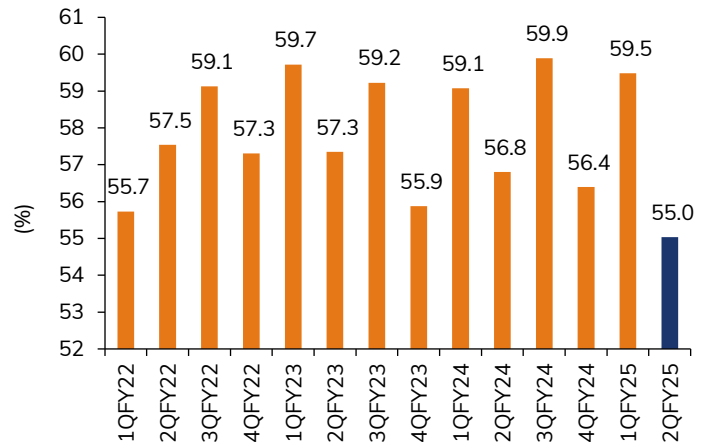
Source: Company data, I-Sec research

Exhibit 2: Revenue growth (%)



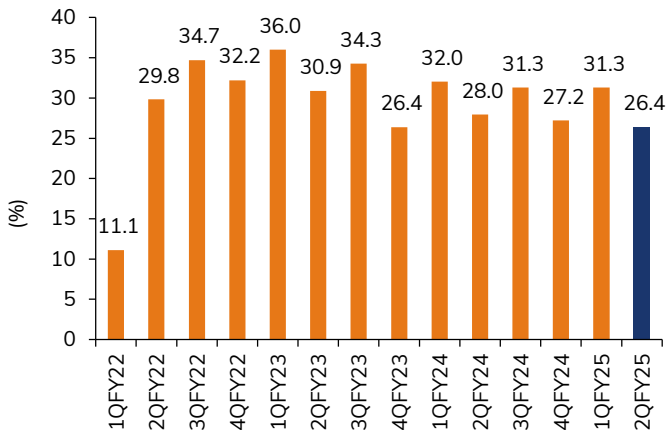
Source: Company data, I-Sec research

Exhibit 3: Gross margin (%)



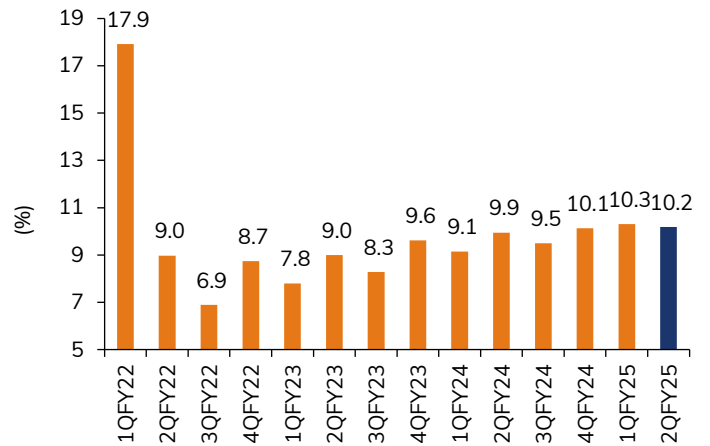
Source: Company data, I-Sec research

Exhibit 4: EBITDA margin (%)



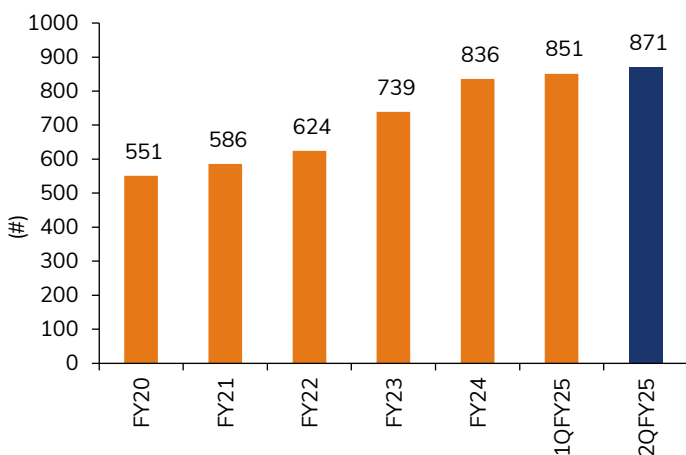
Source: Company data, I-Sec research

Exhibit 5: Staff cost as a % of sales



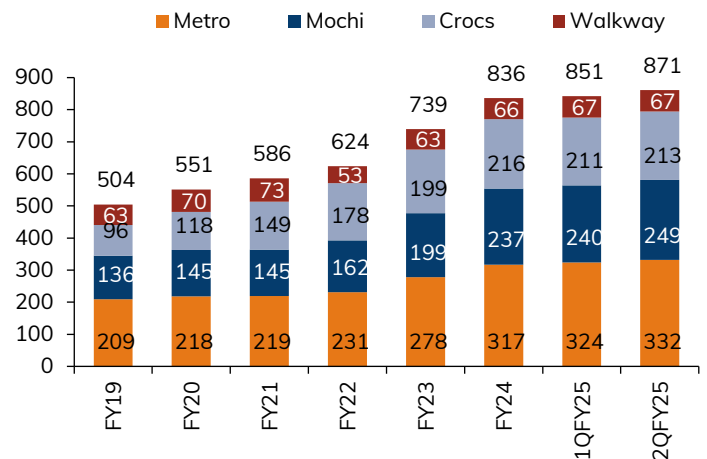
Source: Company data, I-Sec research

Exhibit 6: Store count (EoP)



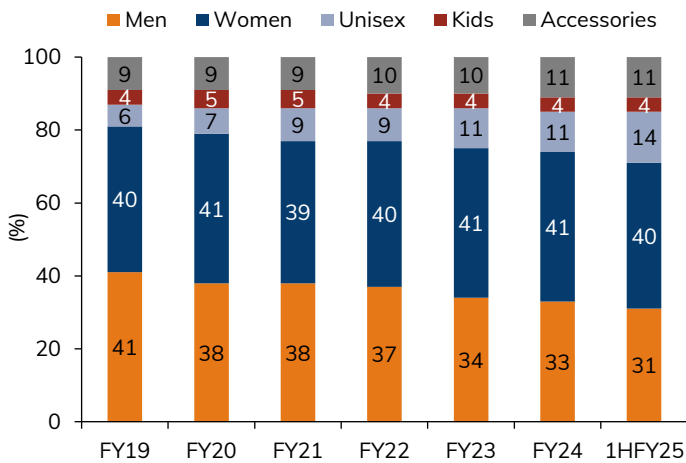
Source: Company data, I-Sec research

Exhibit 7: Store break-up by concepts



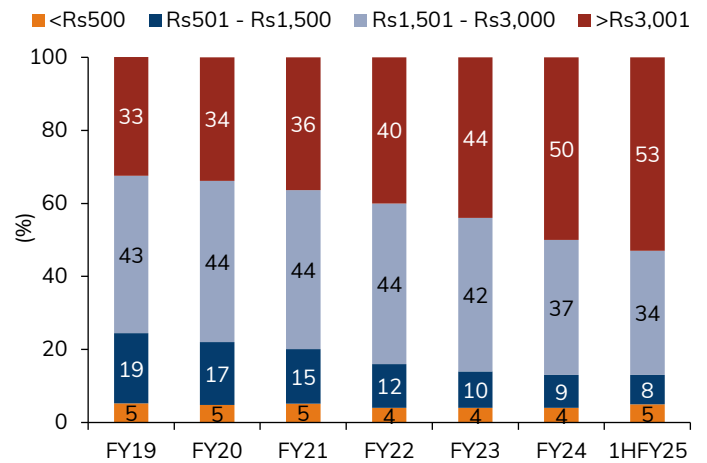
Source: Company data, I-Sec research

Exhibit 8: Revenue break-up by target segment



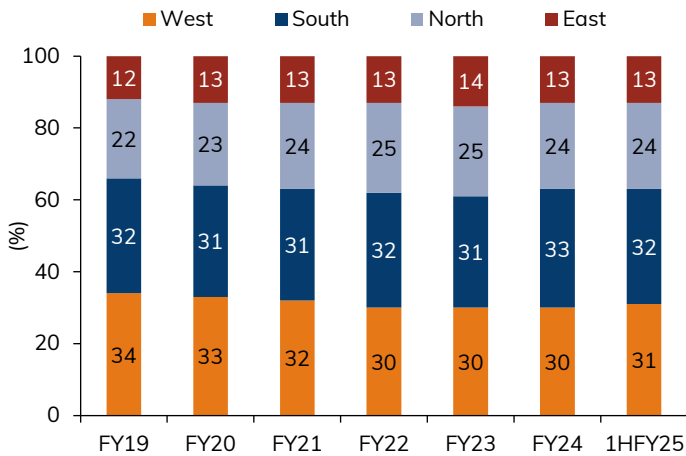
Source: Company data, I-Sec research

Exhibit 9: Revenue break-up by price points



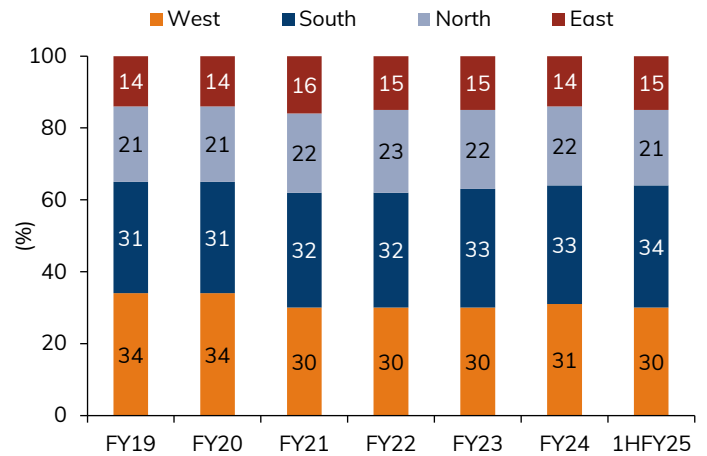
Source: Company data, I-Sec research

Exhibit 10: Store break-up by region



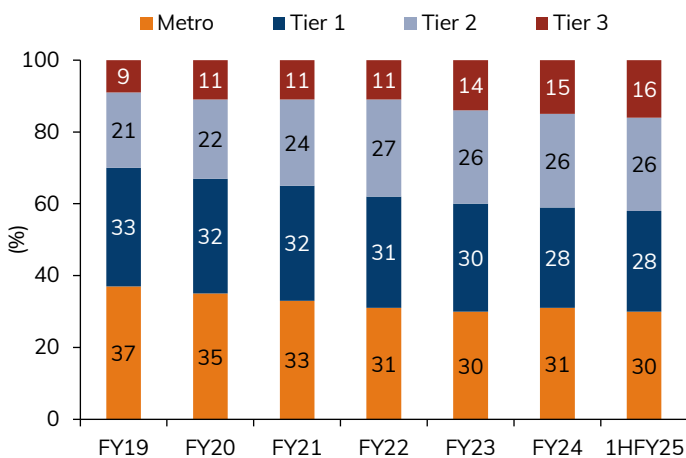
Source: Company data, I-Sec research

Exhibit 11: Sales contribution by region



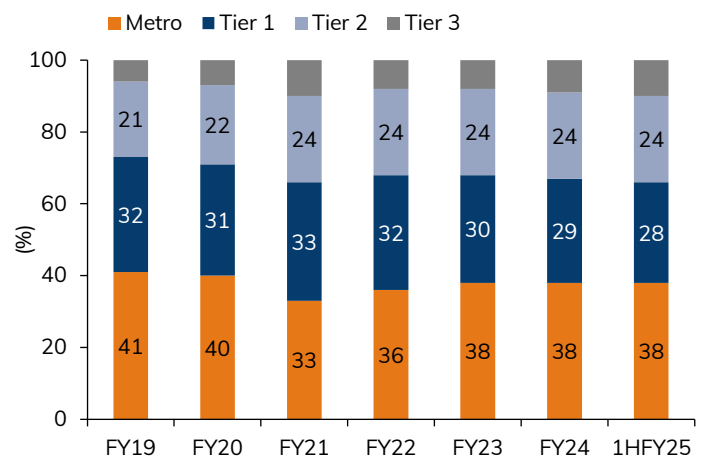
Source: Company data, I-Sec research

Exhibit 12: Store break-up by cities



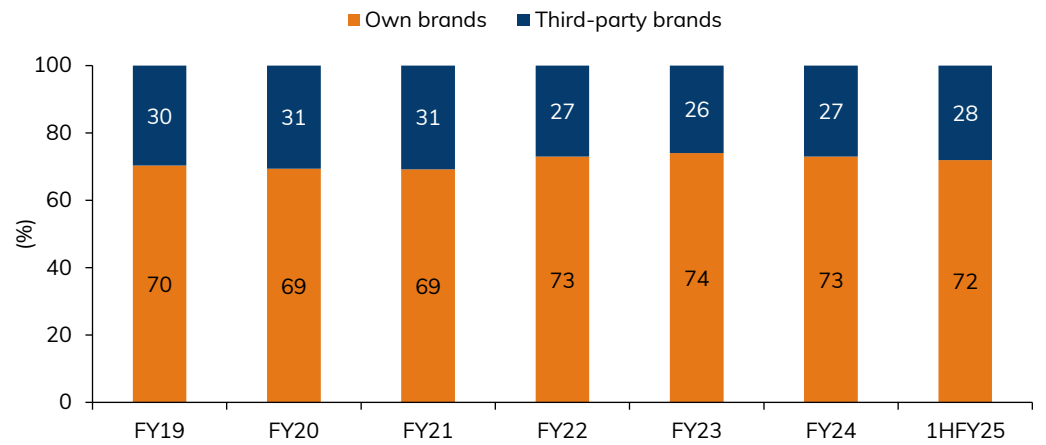
Source: Company data, I-Sec research

Exhibit 13: Sales contribution by cities



Source: Company data, I-Sec research

Exhibit 14: Own brands vs. third-party brands



Source: Company data, I-Sec research

Exhibit 15: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	74.2	74.2	72.0
Institutional investors	8.7	8.6	10.4
MFs and other	5.2	4.8	6.3
FIs/ Banks	0.0	0.0	0.0
Insurance Cos.	0.4	0.4	0.4
FII	3.1	3.4	3.7
Others	17.1	17.2	17.6

Source: Bloomberg, I-Sec research

Exhibit 16: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 17: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	21,271	23,567	25,836	30,890
Operating Expenses	14,484	16,571	18,066	21,336
EBITDA	6,787	6,996	7,770	9,554
EBITDA Margin (%)	31.9	29.7	30.1	30.9
Depreciation & Amortization	1,810	2,291	2,408	2,766
EBIT	4,977	4,705	5,363	6,788
Interest expenditure	631	789	856	914
Other Non-operating Income	544	708	957	1,102
Recurring PBT	4,891	4,624	5,465	6,976
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	1,257	499	1,375	1,756
PAT	3,633	4,125	4,089	5,220
Less: Minority Interest	19	(1)	(1)	(1)
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	3,633	4,125	4,089	5,220
Net Income (Adjusted)	3,614	4,125	4,090	5,220

Source Company data, I-Sec research

Exhibit 18: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	15,028	16,917	19,580	23,068
of which cash & cash eqv.	1,985	1,123	1,562	3,323
Total Current Liabilities & Provisions	3,882	3,604	3,966	4,758
Net Current Assets	11,146	13,313	15,614	18,310
Investments	105	135	135	135
Net Fixed Assets	2,976	3,502	3,881	4,363
ROU Assets	8,377	9,703	10,864	12,315
Capital Work-in-Progress	178	93	93	93
Total Intangible Assets	1,669	1,618	1,618	1,618
Long Term Loans & Advances	661	1,133	1,242	1,485
Deferred Tax assets	49	363	363	363
Total Assets	25,182	29,923	33,879	38,764
Liabilities				
Borrowings	15	-	-	-
Deferred Tax Liability	-	-	-	-
Provisions	11	7	8	9
Other Liabilities	-	-	-	-
Equity Share Capital	1,359	1,360	1,360	1,360
Reserves & Surplus	14,119	17,278	19,919	23,160
Total Net Worth	15,477	18,637	21,279	24,520
Minority Interest	264	294	294	294
Total Liabilities	25,182	29,923	33,879	38,764

Source Company data, I-Sec research

Exhibit 19: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	6,355	5,830	5,761	5,855
% growth (YOY)	6.1	7.1	(1.1)	5.4
EBITDA	1,990	1,586	1,804	1,548
Margin %	31.3	27.2	31.3	26.4
Other Income	160	244	234	234
Extraordinaries	-	-	-	-
Adjusted Net Profit	978	1,552	917	696

Source Company data, I-Sec research

Exhibit 20: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	4,891	4,624	5,465	6,976
Working Capital Changes	(1,727)	(490)	(507)	(1,191)
Capital Commitments	(915)	(1,111)	(839)	(1,010)
Free Cashflow	920	2,290	2,246	2,445
Other investing cashflow	400	(1,402)	(1,673)	(347)
Cashflow from Investing Activities	(516)	(2,513)	(2,512)	(1,357)
Issue of Share Capital	28	42	-	-
Interest Cost	(1)	(3)	-	-
Inc (Dec) in Borrowings	(1,023)	(15)	-	-
Dividend paid	(883)	(1,153)	(1,448)	(1,979)
Others	-	-	1,947	2,239
Cash flow from Financing Activities	(1,617)	(727)	(134)	(337)
Chg. in Cash & Bank balance	(297)	161	439	1,761
Closing cash & balance	318	479	919	2,680

Source Company data, I-Sec research

Exhibit 21: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	13.4	15.2	15.1	19.2
Adjusted EPS (Diluted)	13.3	15.2	15.1	19.2
Cash EPS	20.0	23.6	23.9	29.4
Dividend per share (DPS)	4.0	5.0	5.3	7.3
Book Value per share (BV)	57.0	68.6	78.4	90.3
Dividend Payout (%)	29.9	32.9	35.4	37.9
Growth (%)				
Net Sales	58.4	10.8	9.6	19.6
EBITDA	65.9	3.1	11.1	22.9
EPS (INR)	70.6	13.5	(0.9)	27.7
Valuation Ratios (x)				
P/E	88.1	77.7	78.3	61.4
P/CEPS	59.0	49.9	49.3	40.1
P/BV	20.7	17.2	15.1	13.1
EV / EBITDA	46.2	44.6	39.9	32.3
P / Sales	15.1	13.6	12.4	10.4
Dividend Yield (%)	0.3	0.4	0.5	0.6
Operating Ratios				
Gross Profit Margins (%)	58.1	58.1	57.9	58.0
EBITDA Margins (%)	31.9	29.7	30.1	30.9
Effective Tax Rate (%)	25.7	10.8	25.2	25.2
Net Profit Margins (%)	17.0	17.5	15.8	16.9
Net Debt / Equity (x)	(0.4)	(0.4)	(0.5)	(0.5)
Net Debt / EBITDA (x)	(1.0)	(1.2)	(1.3)	(1.3)
Fixed Asset Turnover (x)	5.2	4.8	4.5	4.6
Working Capital Days	193	198	208	193
Inventory Turnover Days	136	116	114	118
Receivables Days	22	12	12	13
Payables Days	62	42	42	44
Profitability Ratios				
RoCE (%)	25.8	24.2	19.8	21.9
RoE (%)	25.3	23.8	20.2	22.5
RoIC (%)	28.7	27.8	23.4	25.5

Source Company data, I-Sec research

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