

Metro Brands

Another weak print; ask from H2 remains steep

MBL registered a marginal recovery (5.4% YoY; INR 5.85bn); however, it fell short of expectations (HSIE: INR6.03bn). FILA inventory liquidation is almost through. Sales densities normalisation continued as MBL dealt with tough comparables (vs base). Q2FY25 GM contracted 177bps to 55% (HSIE: 56.7%) courtesy FILA's inventory liquidation at high discounts (100 bps impact). EBITDAM followed suit and contracted 151bps YoY to 26.4% (HSIE: 28.8%). FY25 store addition guidance was maintained at 100 stores (net) despite a soft H1 (35 stores added). While management maintains its 12-15% revenue guidance (ask from growth in H2 works out to be 21%+ YoY – a stretch, in our view). Hence, we tone down our FY25/26 EPS estimates by 5/2% resp and maintain our SELL rating on the stock, with a DCF-based TP of INR875/sh, implying 44x Sep-26E P/E.

- Q2FY25 highlights:** MBL's topline grew 5.4% YoY to INR 5.85bn (vs HSIE: INR6.03bn). While Q2 is a seasonally weak quarter, we suspect fewer wedding dates may be the reason for the weak recovery. Consequently, TTM revenue/sq ft (on a rolling basis) is down ~11% in Q2 (at ~INR18.8k vs ~INR21.2k/sq. ft. in base period). On channel mix, in-store/online+omni/others contributed 87/12/1% in Q2. Products > INR 3,000 contributed 52% to the sales mix in Q2FY25 vs. 48% in Q2FY24. GM contracted 177bps to 55% (HSIE: 56.7%) courtesy FILA's inventory liquidation at high discounts (100 bps impact). EBITDAM followed suit and contracted 151bps YoY to 26.4% (HSIE: 28.8%). MBL added a mere 20/35 stores (net; ex-FILA) in Q2/H1 respectively (store count – 871) as it took a prudent stance on expansion amid a rising rent environment. However, management is seeing a reversal of the same and, hence, remains optimistic about adding 100 stores (net) in FY25 and maintains its revenue guidance of 12-15%. Note: the ask from growth in H2 works out to be 21%+ YoY – a stretch, in our view. While management highlighted that the core portfolio (Metro + Mochi + Walkway) is BIS-compliant, its S&A portfolio needs work. APAT grew 6.1% YoY to INR 718mn (HSIE: INR 848mn). Core net WC improved to 79 days in H1FY25 (vs 83 days in H1FY24). MBL remains a net cash company.
- Valuation and outlook:** MBL remains among the more disciplined footwear retailers with an in-sync product-market fit. While all eyes are on H2 for recovery, the ask of 21%+ growth in the second half to achieve management's guided 12-15% revenue growth seems steep, in our view. Hence, we tone down our FY25/26 EPS estimates by 5/2% resp and maintain our SELL rating on the stock, with a DCF-based TP of INR875/sh, implying 44x Sep-26E P/E.

Quarterly financial summary

(Rs mn)	Q2 FY25	Q2 FY24	YoY (%)	Q1 FY25	QoQ (%)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Revenue	5,855	5,557	5.4	5,761	1.6	13,429	21,271	23,567	25,922	30,714	35,862
EBITDA	1,548	1,554	(0.4)	1,804	(14.2)	3,053	5,078	4,899	5,425	6,468	7,555
APAT	718	676	6.1	923	(22.2)	2,142	3,654	3,367	3,738	4,803	5,946
EPS (Rs)	2.6	2.5	6.0	3.4	(22.2)	8.0	13.4	12.4	13.7	17.7	21.9
P/E (x)						147.8	86.6	76.2	84.7	65.9	53.2
EV/EBITDA (x)						99.5	61.0	62.8	56.0	46.2	38.8
Core RoCE(%)						46.5	51.0	38.6	31.1	35.0	37.6

Source: Company, HSIE Research, Consolidated Financials

Change in estimates

(Rs mn)	FY25E			FY26E			FY27E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	25,922	26,737	(3.0)	30,714	31,231	(1.7)	35,862	36,295	(1.2)
Gross Profit	14,949	15,418	(3.0)	17,665	17,963	(1.7)	20,591	20,839	(1.2)
Gross Profit Margin (%)	57.7	57.7	-	57.5	57.5	(0 bps)	57.4	57.4	0 bps
EBITDA	5,425	5,595	(3.0)	6,468	6,577	(1.7)	7,555	7,647	(1.2)
EBITDA margin (%)	20.9	20.9	0 bps	21.1	21.1	0 bps	21.1	21.1	-
APAT	3,738	3,917	(4.6)	4,803	4,915	(2.3)	5,946	6,039	(1.5)
APAT margin (%)	14.4	14.7	(23 bps)	15.6	15.7	(10 bps)	16.6	16.6	(6 bps)
EPS	13.7	14.4	(4.6)	17.7	18.1	(2.3)	21.9	22.2	(1.5)

Source: Company, HSIE Research, Consolidated Financials

SELL

CMP (as on 24 Oct 2024) INR 1,162

Target Price INR 875

NIFTY 24,399

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 875	INR 875
	FY25E	FY26E
EPS %	-4.6	-2.3

KEY STOCK DATA

Bloomberg code	METROBRA IN
No. of Shares (mn)	272
MCap (INR bn) / (\$ mn)	316/3,760
6m avg traded value (INR mn)	205
52 Week high / low	INR 1,441/990

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(11.6)	7.3	(3.5)
Relative (%)	(11.5)	(1.1)	(27.5)

SHAREHOLDING PATTERN (%)

	Jun-24	Sep-24
Promoters	74.15	71.96
FIs & Local MFs	5.6	6.26
FPIs	3.05	3.39
Public & Others	17.2	18.39
Pledged Shares	0	0

Source : BSE

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