

# Quick Insight Update

**Q2FY23 Highlights**

- Consolidated revenues grew by 47% YoY to ₹476Cr. EBITDA increased 52% YoY with margin expanding 110 bps to 31% YoY driven by the operating leverage due to a strong top-line growth.
- Gross margins moderated marginally in Q2 primarily due to end of season sales impact in Aug-Sep and change in -in-house v/s outside brands mix. In coming quarters, overall gross margins may normalize back to around ~ 55-57% levels.
- Reported PAT increased by 41% in Q2FY23 to ₹78Cr
- Signed a share purchase agreement for 100% acquisition of Cravatex Brands Ltd. Cravatex Brands holds exclusive long-term license for the Italian sportswear brand FILA & owns the Indian sportswear brand Proline.

**Concall Highlights**

- Revenues grew 47% YoY, led mainly by volume growth on the back of strong consumer demand. Price increases owing to the rise in input costs as well as a better product mix (higher sales of premium products) also boosted top-line growth. Overall revenues in H1FY23 were up 66%, compared to H1FY20 (pre-COVID levels), indicating a strong underlying demand. MBL expects the strong momentum to continue in the upcoming festive season.
- The company has an adequate inventory to cater to upcoming festive / wedding season & new store openings to avoid any sale loss due to stock outs.
- **Store Expansion** – The company is on track for a rapid store expansion. MBL had indicated it would open 260 stores over the next three years. MBL added 28 new stores in Q2FY23, making an overall addition of 48 stores during H1FY23. The company's overall store count is 672, as of Sep'22.
- **Improving product mix by premiumisation and online business** – MBL is improving product mix by introducing footwear at higher price points. It received a strong response for the FitFlop brand of footwear (average realisation of ₹5,650), which it launched towards the end of the previous fiscal. The share of premium footwear (priced above ₹3,000) in MBL's sales increased from 34% in FY20 to 43 % in H1FY23. The online sales grew 50% YoY in H1FY23, with the share of the online (including omni-channel) stream in overall sales increasing to 8.2% in H1FY23 from 2.5% in FY20.
- **Acquisition of Cravatex brands enable MBL to enter into most promising segment i.e. Sports and Athleisure Segment** – The company has agreed to acquire 100% shareholding of Cravatex Brands for an enterprise value of ₹202Cr (about 1.3 times FY22 revenues). Cravatex Brands imports and retails footwear, apparel and accessories under various brands, including Fila and Proline. This acquisition will fill a key white space in the MBL product portfolio, viz., the sport and athleisure space. MBL expects to bring the profitability of Fila and Proline to MBL's levels in three years.

**Store Additions**

	FY19	FY20	FY21	FY22	Jun'22	Sep'22
Metro	209	218	219	231	238	255
Mochi	136	145	145	162	168	173
Walkway	63	70	73	53	56	58
Crocs	96	118	149	178	181	185
Fitflop	-	-	-	-	1	1
<b>Total Stores</b>	<b>504</b>	<b>551</b>	<b>586</b>	<b>624</b>	<b>644</b>	<b>672</b>

Source - Company Data, Way2Wealth Research

Nifty	18,872
Sensex	63,358
<b>Key Stock Data</b>	
CMP	₹833
Market Cap (₹ Cr)	₹22,624
52W High/Low	980/426
<b>Shareholding pattern (%) Sep'22</b>	
Promoter	74.3
Institutions	08.0
Others	17.7

Source: Company Data, Way2Wealth Research

1<sup>st</sup> December 2022**Risk**

- **Slowdown in the economy**
- **Inflationary raw material prices**

**View**

Metro Brands is one of the largest Indian footwear & accessories specialty retailers and are among the aspirational Indian brands in the footwear category. MBL's recent acquisition of rights for both Fila and Proline for India and neighbouring countries will enable company to enter into the sports and athleisure segment.

We appreciate the competitive strengths of Metro brands, in terms of the product mix, pricing mix, distribution, third party brands etc.

Considering all the above factors, Metro Brands is in a strong position to drive growth in the medium to longer term. **At the current price of ₹833, it is trading at ~65.6 times P/E to its EPS(TTM) of ₹12.7.** Strong margins, asset light business model, operating efficiency, high share of premium products, immense size of opportunity and innovation justifies the premium valuations given to the stock.

**We recommend investors to *Buy* the stock on *Dips*.**

1<sup>st</sup> December 2022

**Financials**

(₹Cr)

Particulars	Q2FY23	Q2FY22	VAR [%]	Q1FY23	VAR [%]	H2FY23	H2FY22	VAR [%]
Net Sales (Net of Excise Duty)	476.3	324.6	46.7%	508.0	-6.2%	984.3	456.0	115.8%
Other Income	11.8	17.4	-32.3%	9.3	26.7%	21.0	33.3	-36.8%
<b>TOTAL INCOME</b>	<b>488.1</b>	<b>342.0</b>	<b>42.7%</b>	<b>517.2</b>	<b>-5.6%</b>	<b>1,005.3</b>	<b>489.3</b>	<b>105.5%</b>
Cost Of Materials Consumed	294.9	154.8	90.5%	263.2	12.0%	558.1	244.9	127.9%
Stock Adjustment	(91.7)	(17.0)	439.9%	(58.6)	56.5%	(150.3)	(48.9)	207.4%
<i>RMC as a %age of sales</i>	42.7%	42.5%		40.3%		41.4%	43.0%	
Employee Benefit Expenses	42.8	29.1	47.0%	39.6	8.2%	82.4	52.6	56.7%
<i>EPC as a %age of sales</i>	9.0%	9.0%		7.8%		8.4%	11.5%	
Other Expenses	83.2	60.8	36.8%	80.9	2.8%	164.1	95.9	71.1%
<i>Other Expenses as a %age of sales</i>	17.5%	18.7%		15.9%		16.7%	21.0%	
<b>TOTAL EXPENDITURE</b>	<b>329.2</b>	<b>227.8</b>	<b>44.5%</b>	<b>325.1</b>	<b>1.3%</b>	<b>654.2</b>	<b>344.5</b>	<b>89.9%</b>
<b>EBIDTA</b>	<b>147.1</b>	<b>96.8</b>	<b>51.9%</b>	<b>182.9</b>	<b>-19.5%</b>	<b>330.0</b>	<b>111.5</b>	<b>195.9%</b>
<i>EBIDTA Margins %</i>	<b>30.9%</b>	<b>29.8%</b>		<b>36.0%</b>		<b>33.5%</b>	<b>24.5%</b>	
Finance Costs	14.8	12.3	20.7%	13.4	10.4%	28.3	23.6	19.9%
<b>PBDT</b>	<b>144.1</b>	<b>101.9</b>	<b>41.3%</b>	<b>178.7</b>	<b>-19.4%</b>	<b>322.8</b>	<b>121.2</b>	<b>166.3%</b>
Depreciation	41.4	33.6	23.1%	39.0	6.2%	80.4	65.2	23.4%
<b>PBT before exceptional items</b>	<b>102.7</b>	<b>68.3</b>	<b>50.4%</b>	<b>139.7</b>	<b>-26.5%</b>	<b>242.4</b>	<b>56.1</b>	<b>332.4%</b>
Share of Profit/(loss) of JV	0.5	0.1		0.5		1.0	(0.0)	
<b>PBT</b>	<b>103.1</b>	<b>68.4</b>	<b>50.8%</b>	<b>140.3</b>	<b>-26.5%</b>	<b>243.4</b>	<b>56.0</b>	<b>334.4%</b>
Tax	25.3	13.2	91.0%	34.5	-26.8%	59.7	12.9	363.4%
<i>Tax Rate</i>	24.5%	19.3%		24.6%		24.5%	23.0%	
<b>Reported Profit After Tax</b>	<b>77.9</b>	<b>55.2</b>	<b>41.1%</b>	<b>105.8</b>	<b>-26.4%</b>	<b>183.7</b>	<b>43.2</b>	<b>325.7%</b>
<i>PATM %</i>	<b>16.4%</b>	<b>17.0%</b>		<b>20.8%</b>		<b>18.7%</b>	<b>9.5%</b>	
<b>Adjusted Profit After Extra-ordinary item</b>	<b>77.9</b>	<b>55.2</b>	<b>41.1%</b>	<b>105.8</b>	<b>-26.4%</b>	<b>183.7</b>	<b>43.2</b>	<b>325.7%</b>
Other Comprehensive Income (Net of tax)- net credit / (charge)	0.1	0.9		(0.7)		(0.8)	0.7	
<b>Total Comprehensive Income</b>	<b>78.0</b>	<b>56.1</b>	<b>39.1%</b>	<b>105.1</b>	<b>-25.8%</b>	<b>182.9</b>	<b>43.9</b>	<b>316.7%</b>
<b>EPS</b>	<b>2.9</b>	<b>2.0</b>	<b>41.1%</b>	<b>3.9</b>	<b>-26.4%</b>	<b>6.8</b>	<b>1.6</b>	<b>325.7%</b>
Equity	135.8	135.8		135.8		135.8	135.8	
Face Value	5.0	5.0		5.0		5.0	5.0	

Source - Company Data, Way2Wealth Research

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Name of the Security	Metro Brands Ltd.
Name of the analyst	Ashwini Sonawane
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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