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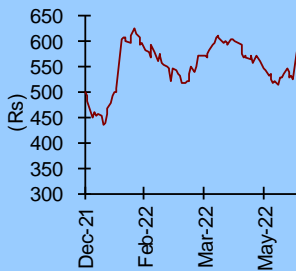
Consumer Staples & Discretionary

Target price: Rs700

Shareholding pattern

	Dec '21	Mar '22
Promoters	74.3	74.3
Institutional investors	7.1	8.0
MFs and others	2.4	3.4
FIs/Bank/Ins	0.9	1.1
FII	3.8	3.5
Others	18.6	17.7

Price chart



INDIA

Metro Brands

BUY

Disciplined and (steadily) growing platform –
initiate at BUY

Rs588

Metro Brands, one of the largest Indian footwear speciality retailers present in India, has a right mix of brands (three umbrella brands + two EBO tie-ups) providing growth runway (of store addition). Its focus on financial discipline along with balance sheet strength provides confidence on the execution. It has an optimized mix of in-house brands and third-party brands in MBOs (Metro, Mochi and Walkway) to drive customer footfalls, improve sales density and gross margins. Besides, a platform of choice for international brands aids confidence on new avenues (of growth). We model revenue / EBIDTA / PAT CAGR of 30% / 28% / 31% over FY22-24E. Initiate at BUY with a DCF-based target price of Rs700. Key risks are (1) delay in store addition and (2) likely increased competition from regional players trying to premiumise.

- **Store expansion to be a key growth driver:** With a portfolio of 624 stores (Mar'22), Metro is looking to add 260 stores in the next three years (expansion of 40%+). We believe the runway of store expansion is good given (1) The brands already have national presence, (2) able to achieve penetration in lower tier cities and (3) has balanced mix of men and women customers. It is targeting growth in all three segments of the market – economy, mid and premium. Metro retails footwear under own brands of Metro, Mochi Walkway, Da Vinci and J. Fontini, as well as certain third-party brands such as Crocs, Skechers, Clarks, Florsheim, and Fitflop, which complement in-house brands.
- **Key strengths:** (1) Asset light business (outsourced manufacturing) with an efficient business model, (2) Financial discipline led by focus on unit economics, (3) (Potential) platform of choice for third party brands, (4) Strong portfolio of umbrella brands with in-house (brand) contribution of 70% in these stores, (5) Strong promoter background and management team.
- **E-commerce and other opportunities:** Given the underlying trend of e-commerce adoption in footwear space, Metro Brands has ramped up capabilities (8% contribution), with separate platforms for its three umbrella brands. Besides, it is also ramping up its digital presence (consumer connect).
- **Valuation and risk:** We model revenue / EBITDA / PAT CAGR of 30% / 28% / 31% respectively over FY22-FY24E. We initiate coverage on the stock with a BUY rating and DCF-based target price of Rs700. Key risks are (1) delay in store addition and (2) likely increased competition from regional players trying to premiumise.

Market Cap	Rs160bn/US\$2.1bn	Year to March (Cons)	FY21	FY22	FY23E	FY24E
Bloomberg	METROBRA IN	Net Revenue (Rs mn)	8,001	13,429	19,113	22,751
Shares Outstanding (mn)	271.5	Net Profit (Rs mn)	682	2,116	2,961	3,641
52-week Range (Rs)	626/437	Dil. EPS (Rs)	2.6	7.8	10.9	13.4
Free Float (%)	25.7	% Chg YoY	(56.5)	203.4	39.9	23.0
FII (%)	3.5	P/E (x)	229.0	75.5	53.9	43.9
Daily Volume (US\$'000)	NA	CEPS (Rs)	7.2	12.7	16.5	19.9
Absolute Return 3m (%)	10.1	EV/EBITDA (x)	88.3	37.8	28.1	23.2
Absolute Return 12m (%)	NA	Dividend Yield (%)	0.1	0.3	0.6	0.7
Sensex Return 3m (%)	1.1	RoCE (%)	5.9	21.4	26.7	28.2
Sensex Return 12m (%)	9.1	RoE (%)	8.2	16.7	20.1	21.2

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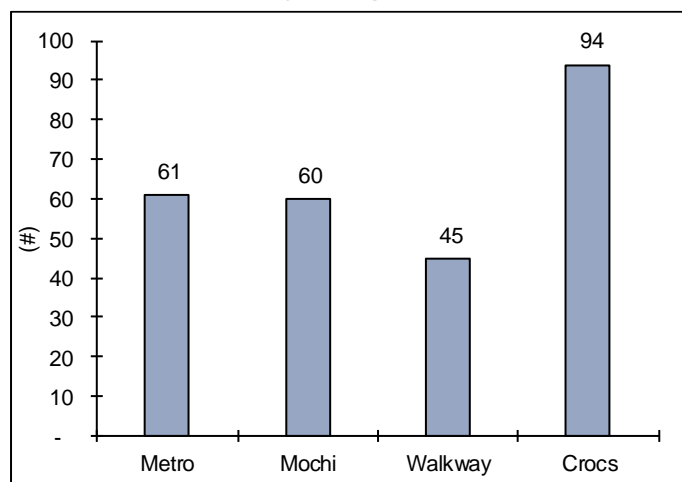
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Planned network expansion of 40%+ in next three years

We believe store addition is likely to be the key driver of growth for Metro Brands. In the next three years, the company is looking to open 260 new stores, which is equivalent to 40%+ of its existing store print.

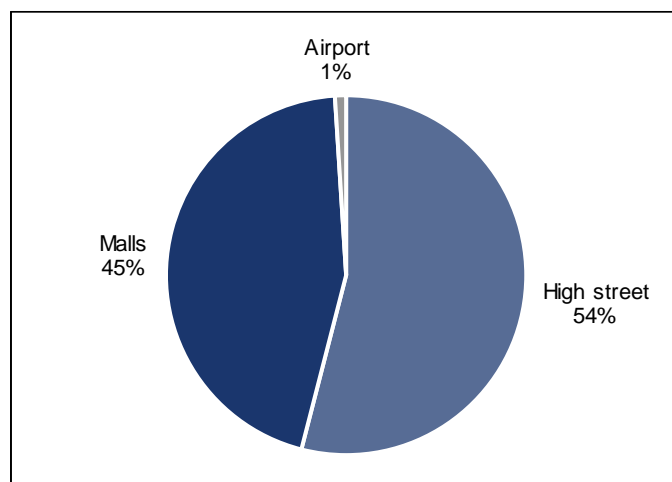
We note that on a gross basis, it has added 298 stores in the last four years. It is also in the process of strengthening retail presence through franchisees for Walkway brand. Company’s total store count has grown from 504 in 116 cities in FY19 to 624 stores across 142 cities at the end of FY22. It has a pan-India presence through store network in prominent high streets, malls and airports.

Chart 1: Brand-wise store addition plan over next three years (company’s target)



Source: Company data, I-Sec research

Chart 2: Metro Brands has a good split of high-street and mall stores (FY22)



Source: Company data, I-Sec research

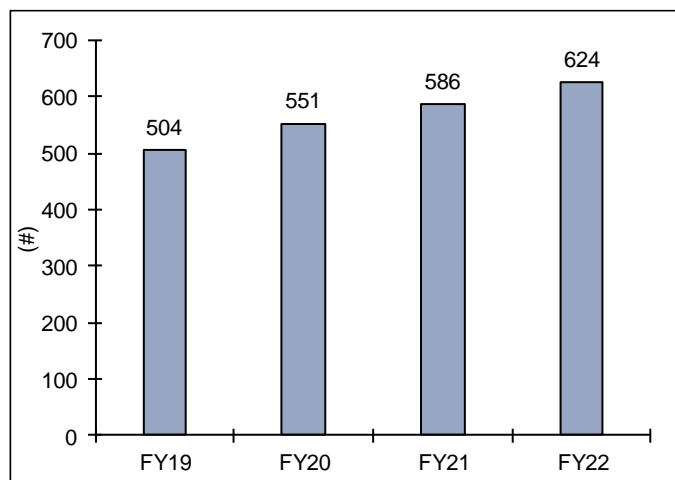
Multiple (store) umbrella brands

Metro Brands is one of the few footwear companies which has multiple umbrella brands for its stores. Under both Metro and Mochi, it is looking to add ~60 stores each (in next three years). Besides, it is looking to add 94 stores in Crocs and around 45 stores of Walkway. While Metro branded stores cater to the family, the Mochi brand is more focused on the youth.

Metro’s execution on the Crocs EBOs (expansion) has also been impressive. It tied-up with Crocs (only for offline channel) in 2015. In the last 6-7 years, it has added 178 CROCS EBOs (average store size of 596 sq. ft.).

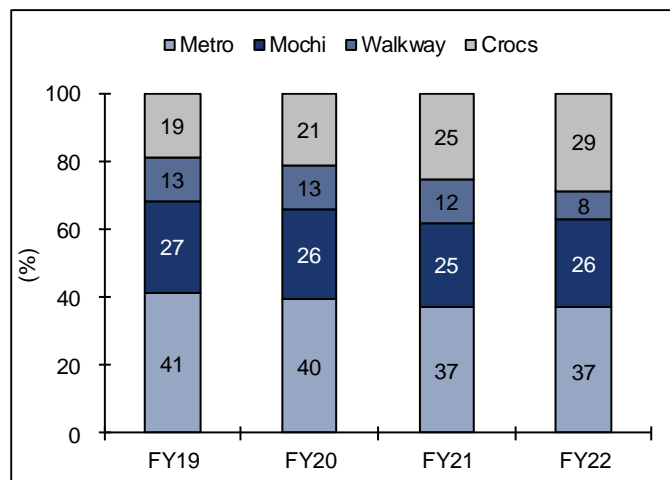
We believe Metro’s brands Walkway MBO can continue to gain in the value segment. The footwear segment is also a beneficiary of formalization, accelerated by the GST regime. While the conversion from unorganized to organized happens even at the premium-end, the value segment is actually a key beneficiary of it. Walkway stores have shoes in the price range of Rs350-3,500, with ASP of Rs626.

Chart 3: Metro Brand's store count (EoP)



Source: Company data, I-Sec research

Chart 4: Split of stores across brands

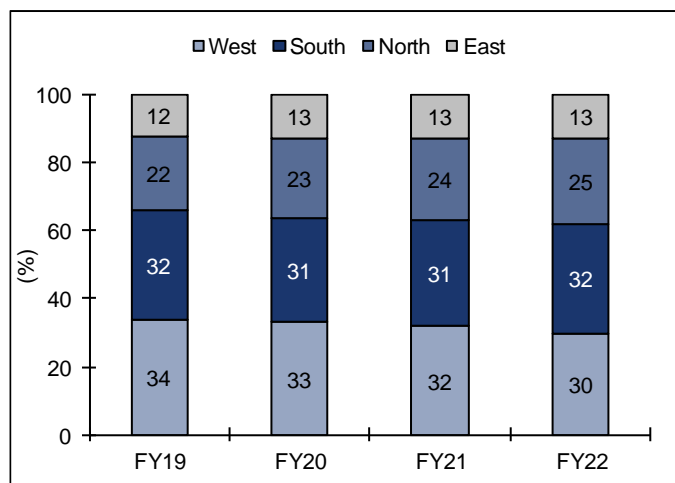


Source: Company data, I-Sec research

Pan-India presence

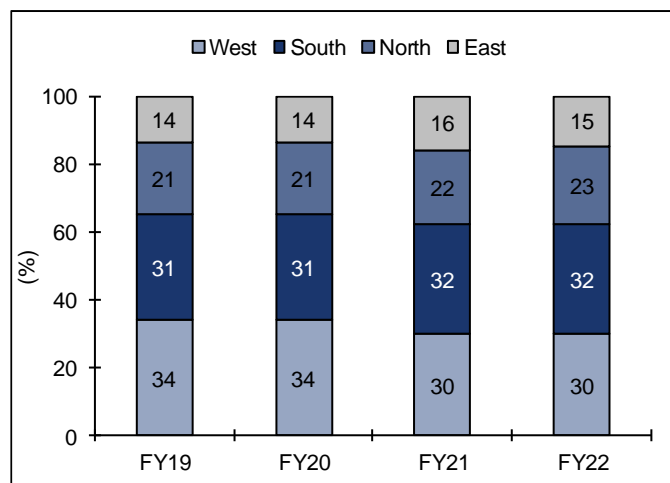
Metro is amongst the select large footwear retailers having national presence. Nationwide acceptance of the brands provides a good runway for growth. With more than 60% of its stores in west and south India, Metro Brands is ramping up presence in north and east in the last four years. We note that as on Mar-22, north accounted for 25% of its stores with east accounting for 13%.

Chart 5: Store break-up by region



Source: Company data, I-Sec research

Chart 6: Sales contribution by region

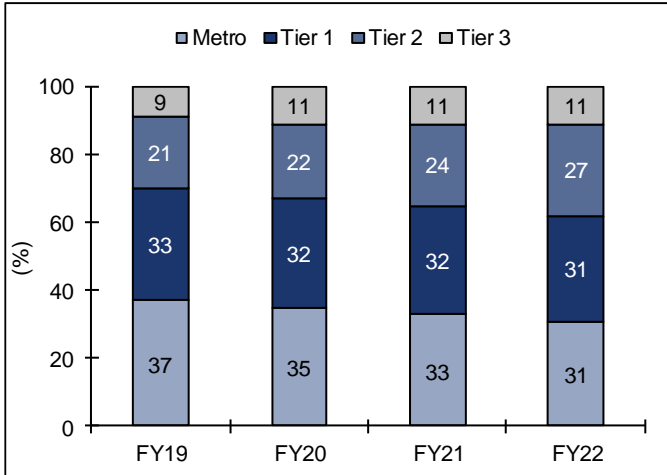


Source: Company data, I-Sec research

Presence beyond the metros

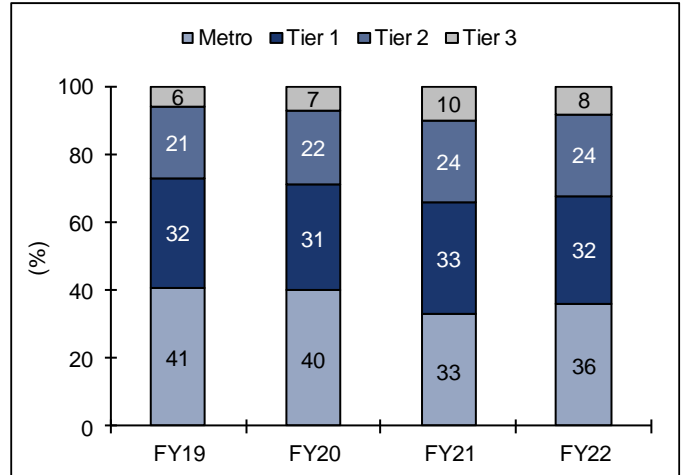
Despite not being a mass player (in the footwear category), Metro has been able to develop good presence beyond the metro cities also. At the end of March-22, about 31% of its stores were in metro cities with tier 1 cities also contributing 31%, followed by tier 2 (27%) and tier 3 (11%). In terms of product sales, metro cities do comprise 36% of sales while tier 3 cities contribute 8%.

Chart 7: Store break-up by cities



Source: Company data, I-Sec research

Chart 8: Sales contribution by cities

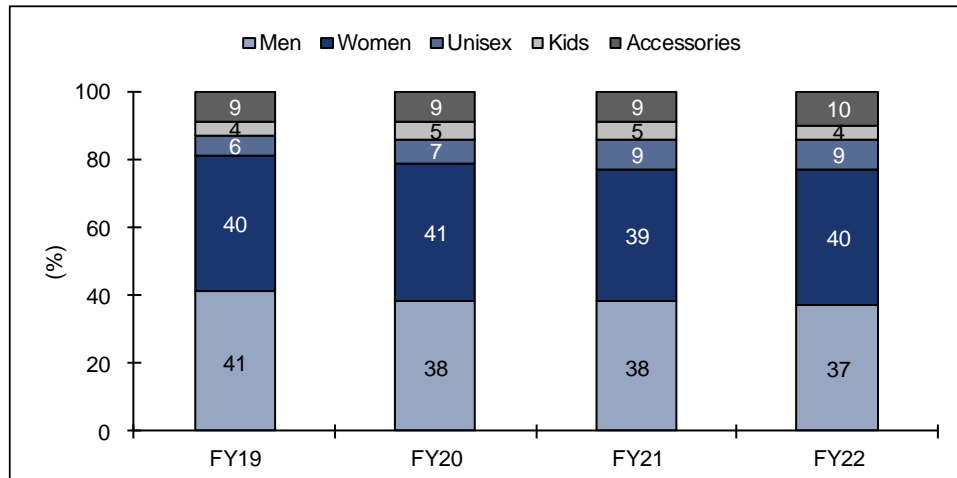


Source: Company data, I-Sec research

Good mix across both genders

Metro has 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. More importantly, only select retailers are able to equally crack both the men and women market which Metro Brands has been able to do so.

Chart 9: Sales contribution by gender



Source: Company data, I-Sec research

Strong store economics

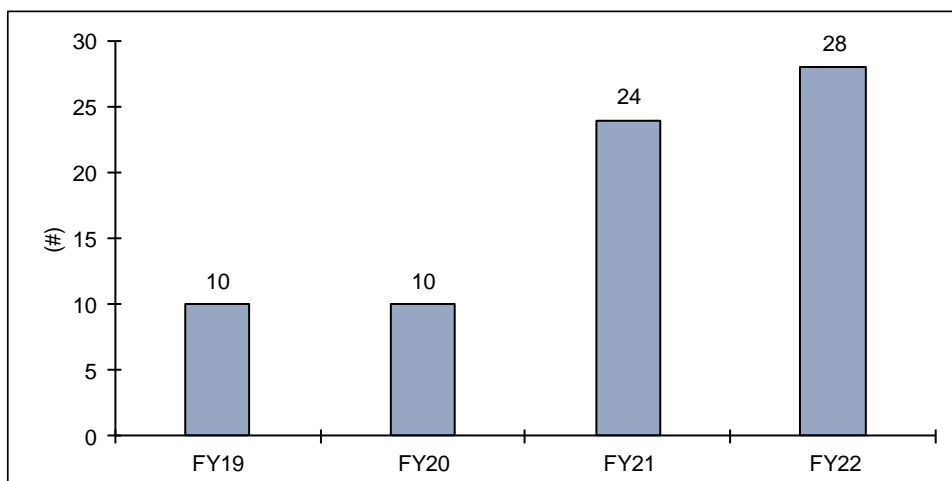
Good retailing discipline

We believe Metro Brands has high focus on getting each store right (in terms of financial test). We have observed that a few retail companies continue to carry select unprofitable stores in their portfolio hoping for a turnaround (for a long time). Metro Brands on the other hand believes that the stores shouldn't be run just for having a presence at a particular prime location.

“We don’t operate on vanity metrics, we operate on financial metrics” – Nissan Joseph

For the stores not doing well, Metro internally tracks stores operating at less than 5% profit at the store level. These stores are considered as infant stores and then actions like reviewing the merchandise that goes into the store or reviewing the store staff which may not be adequate or appropriate for that catchment. In spite of all this, if the store doesn’t ramp-up, it decides to close that store. We note that some of the stores are re-located with better locations.

Chart 10: Store closures by Metro Brands



Source: Company, I-Sec Research

Note: Excludes 21 Walkway Shop in Shops closed in 4QFY22

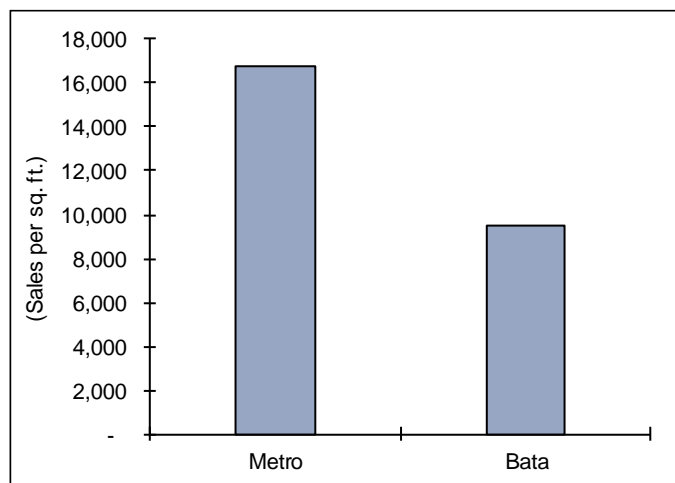
In terms of the impact of store closures, the capex for a Metro and Mochi outlet is Rs5mn while it is around Rs3mn for a Crocs and Walkway store. This amount has to be written-off while the inventory is transferred to other stores.

Favorable unit economics

As highlighted above, Metro Brands is focused on getting the unit store economics right for all stores. Besides advantages of high sales per square feet and high ASP, the company is also focused on keeping costs below thresholds. Our interactions suggested that the company focusses on keeping rentals below 12% (benchmarked at 10% though). On an ex-IndAS basis, Metro Brands has (company) EBITDA margins of 18-19% with good return ratios.

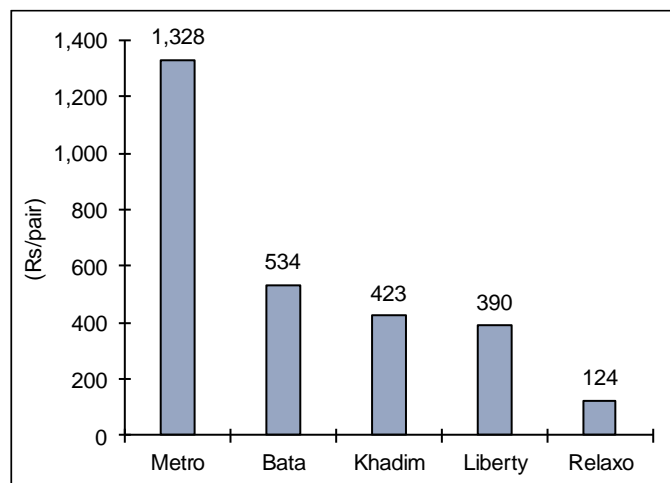
The payback period for a Metro and Mochi store is less than 2 years. The build-out capex for these stores is ~Rs5mn with an almost equal amount required for the inventory (at the store level).

Chart 11: Sales per sq. ft. comparison between Metro Brands and Bata



Source: Company data, I-Sec research

Chart 12: Average selling price (Rs) for footwear cos. (FY21)

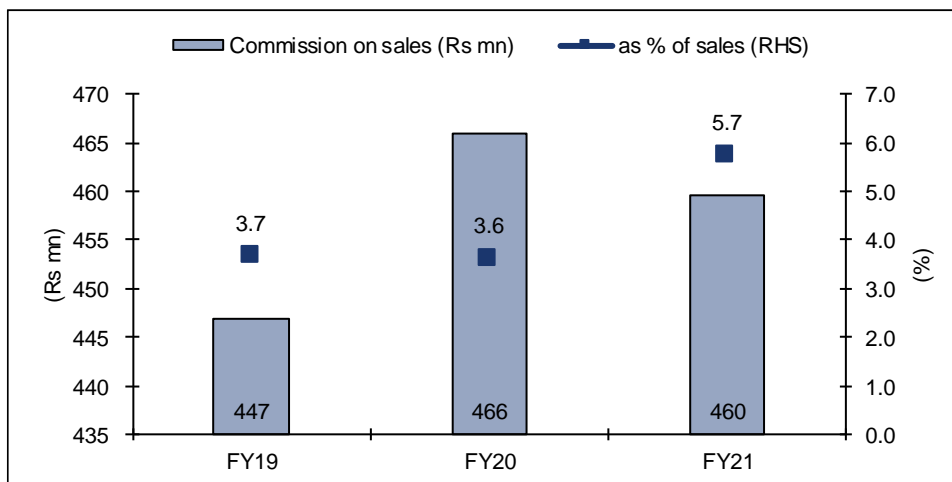


Source: Company data, I-Sec research

Sales staff incentivisation

We believe getting the right mix of people at the store along with incentivizing them appropriately has been instrumental for Metro Brands. Besides, Metro Brands has also decentralized a lot of the decision making with the store manager having a lot of say in the kind of product assortment which is to be kept in the store. Given the stores are located in different micro-market with different customer requirements and profile, this provides good results. The focus of the company is to have a pull model of replenishment (vs a push one). The sales staff at outlets of Metro Brands is well incentivized enhancing their motivation to complete the sale.

Chart 13: Sales staff commission

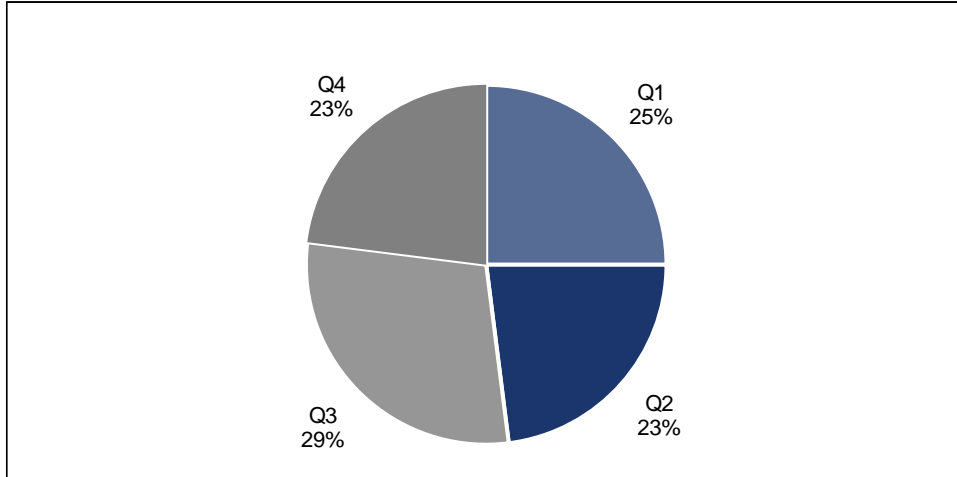


Source: Company data, I-Sec research

Low seasonality

The seasonality of sales is low for Metro Brands. Being a festive-quarter, the sales salience is slightly high in Q3 (29%), the remaining quarter contribute 23-25% of annual revenues. It has been able to achieve this despite being an ‘occasion-wear’ brand. Besides, it has a high component of full-price sales (discounted sales contribution to overall sales is typically 8-9% which was down to 5% in FY22).

Chart 14: Typical sales split by quarter



Source: Company data, I-Sec research

Diverse brands (store concepts) and product portfolio to cater to all consumer segments and occasions

One-stop-shop for footwear

Metro Brands is a one-stop-shop footwear speciality retailer catering to all the footwear needs of men, women and children for both casual and formal occasions. Metro also has wide presence across price points (economy, mid and premium segments). It has been able to achieve such diversified portfolio of customer and price points through its presence in products across multiple categories through own and third-party footwear brands. Further, Metro Brands is present across various store concepts which further helps it to target certain consumer segments.

Presence across store concepts

Metro currently operates four store formats – Metro, Mochi, Crocs and Walkway. Metro, Mochi and Walkway are MBOs having both own and third-party brands while Crocs is operated as EBOs. Choice of store format depends on the store location, brands retailed and the target customer audience.

Metro

Established in 1955, Metro is a contemporary Indian fashion footwear and accessories brand offering a range of products with the latest designs and styles, for all occasions. Its range includes casual footwear, work wear and embellished footwear for parties, festivals and weddings for the entire family. In addition to footwear, it also has a wide range of hand bags, belts, wallets and other accessories. Metro's footwear range is specially curated based on different regional preferences in India. It caters to consumers in the mid and premium segments. As of Mar'22, it had 231 Metro branded MBO format stores.

Mochi

Company commenced sale of products under the Mochi brand in 1986, and opened first Mochi branded MBO in 2000. Mochi is a footwear and accessories brand targeting the youth while also catering to the entire family. This brand provides footwear to the youth for their day, work, evening and party needs as well as for special occasions including weddings. As of Mar'22, company had 162 Mochi branded MBO format stores.

Walkway

Walkway is a value brand that caters to the entire family. The Walkway format which was previously 'MSL – More Shoes for Less' started in 2009. Walkway offers footwear at value-for-money prices in the mass market segment. This everyday fashion brand provides affordable footwear to men, women and kids. As of Mar'22, it had 53 Walkway branded MBO format stores.

Metro has taken a strategic decision to remove Walkway SIS operations from DMart stores (minimal impact as the segment had revenue of ~46mn which is 0.35% of sales) as it plans to focus on expanding Walkway brand through COCO and franchise stores.

Crocs

Company entered into a non-exclusive retail agreement with Crocs on April 25, 2015, under which it was granted a right to sell Crocs products in India at stores and kiosks, as approved by Crocs. Pursuant to the Crocs Agreement, it has also been granted a right of first refusal to the opening of a retail store/ kiosk or outlet in India, as may be proposed by Crocs.

It operates Crocs EBOs pursuant to the Crocs Agreement having a tenure of 18 years. After the first term of three years, the contract provides for automatic renewal for five successive periods of three years each. Under the Crocs Agreement, it is permitted to use the trademarks and other intellectual property under the Crocs brand, for the limited purpose of retailing Crocs products in India. As of Mar'22, it had 178 Crocs branded EBO format stores.

Fitflop

Fitflop offers shoes for all-day wearing, using a combination of biomechanics, comfort and fashion. Fitflop products are designed to promote optimal body alignment while complementing the user's natural walking style, by even distributing body weight to the extent possible.

Metro has now entered into an exclusive strategic partnership with FitFlop for its entire distribution in India (EBOs, MBOs, distribution, online marketplaces and web store). However, Metro has been selling FitFlop in stores for last 4 years.

Metro has launched 1st FitFlop EBO store in Express Avenue Mall, Chennai. Customer experience and sales traction has been positive in its initial few weeks of operations. Metro intends to open 5 FitFlop stores in FY23.

Table 1: One Stop Shop for all Footwear Needs

	Metro	Mochi	Crocs	Walkway
Format Type	MBO	MBO	EBO	MBO
Target Customer	Family	Youth	Premium	Value Format
No. of Stores	231	162	178	53
Cities	127	84	83	38
Price Range (Rs)	1,000 -10,000	1,000 -10,000	1,500 - 6,000	350 - 3,500
Avg. Realization per Unit (Rs)	1,538	1,530	1,895	626
Size (sq. ft.)	1,601	1,520	596	1,348

Source: Company Data

Mix of own and third-party brands

In terms on mix of own and third-party brands at its MBOs (Metro and Mochi stores), the mix has largely been 70:30 over last few years. The idea is to be present in sub-categories consumers are demanding. Therefore, as and when a particular category is in trend they augment the product portfolio in order to cater to the latest demand trends. For example, given the latest trend of casualisation and accelerated growth in sports shoes segment, Metro Brands has been working continuously toward augmenting its portfolio to cater to this demand. It has been able to grow its casual assortment through its own brand and partnering with third-party brands such as Sketchers and Adidas. Active brand portfolio management ensures that it picks third-party brands which complement in-house brands and have high growth potential. Key third-party brands include Crocs, Skechers, FitFlop, Clarks, I-D, PRO and Von Wellx.

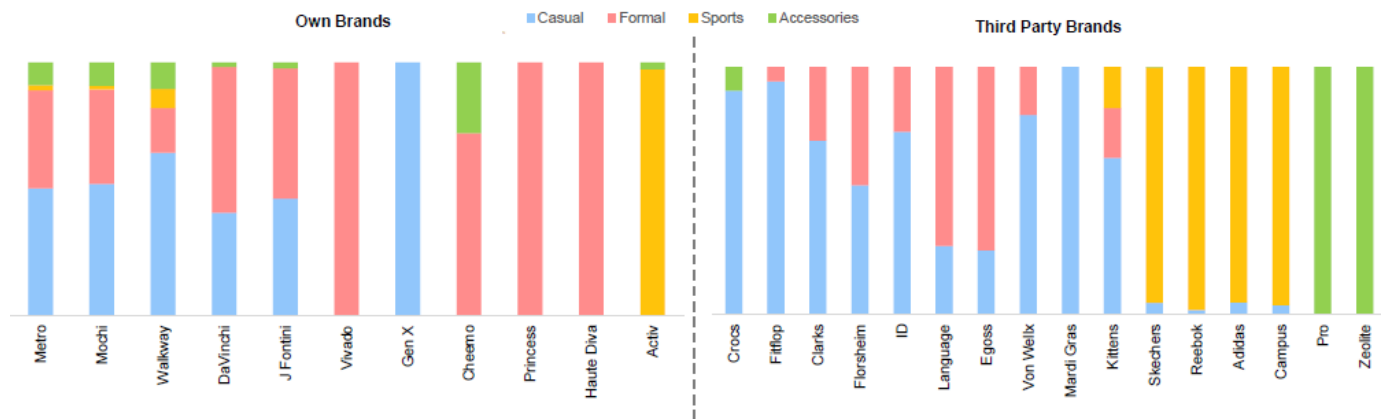
Further, Metro is amongst few footwear retailers in India to source all of its products outsourcing arrangements without having its own manufacturing facility. This asset light strategy is based on third-party manufacturing by long-standing vendor relationships, and supported by active brand portfolio management, optimum store size and layout, and long-term lease arrangements. This allows the company to focus more on retailing of products rather than manufacturing which sometimes becomes a liability to a retailer as it does not allow it to optimise the brand portfolio.

Metro seeks to offer consumers a vast array of stylish and comfortable footwear that satisfies their formal, casual, and athleisure footwear needs. Core consumers are attracted to its aspirational brand image, fashion-forward designs and affordable product range. Many of core styles are also targeted at the premium segment of customer base. It also offers accessories such as belts, bags, wallets and shoe care products. Company's revenue from sale of accessories stands at 9-10% of store product sales.

Merchandising and design team sources new designs regularly for consumers across diverse ethnicities and segments for various seasons and festivals. It draws inspiration from the fashion trends and contemporary colours of the season. It follows and survey fashion trends across international and domestic markets to understand the evolving needs of the consumers. Strong understanding of evolving consumer preferences has enabled it to create and grow brands.

Metro takes into account feedback from customers while developing new designs and products. In addition, sharing consumer insights across businesses further strengthens ability to connect with end consumers more effectively. Focus on customer delight has led to a high score for customer satisfaction evidenced by the Litmus Rating that it received in FY21 which was in the range of 4.6 to 4.7 (rating out of 5). As of March 31, 2022, customer loyalty programmes, Club Metro, My Mochi, and Crocs Club had more than 5.6mn, 3.9mn, and 0.8mn members, respectively. In recent Fiscals, it has witnessed a high proportion of repeat sales, i.e. purchases subsequent to the first purchase by members of loyalty programs.

Chart 15: Wide presence across multiple categories...

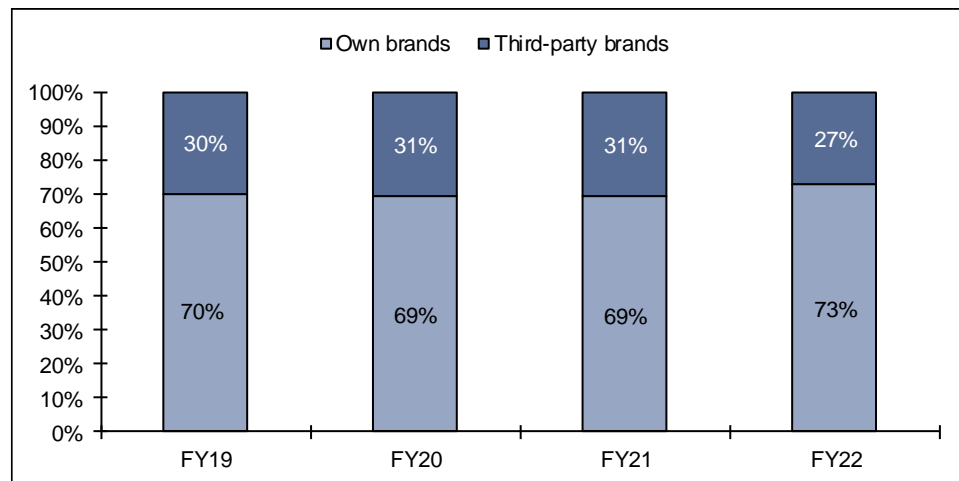


Product Presence across various Product Categories

Footwear			Accessories					
Men	Women	Kids	Bags	Clutches	Wallets	Foot care	Belt	Shoe care
✓	✓	✓	✓	✓	✓	✓	✓	✓

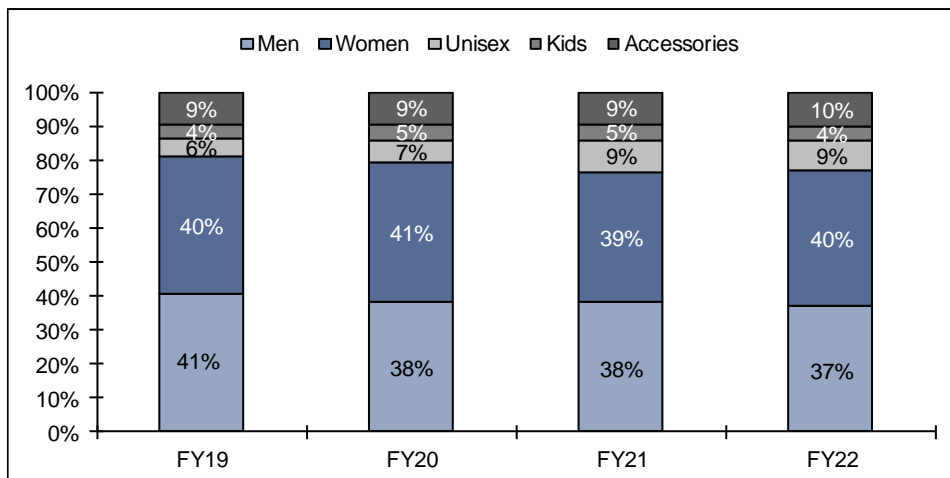
Source: Company Data, I-Sec Research

Chart 16: ...through own and third party brands



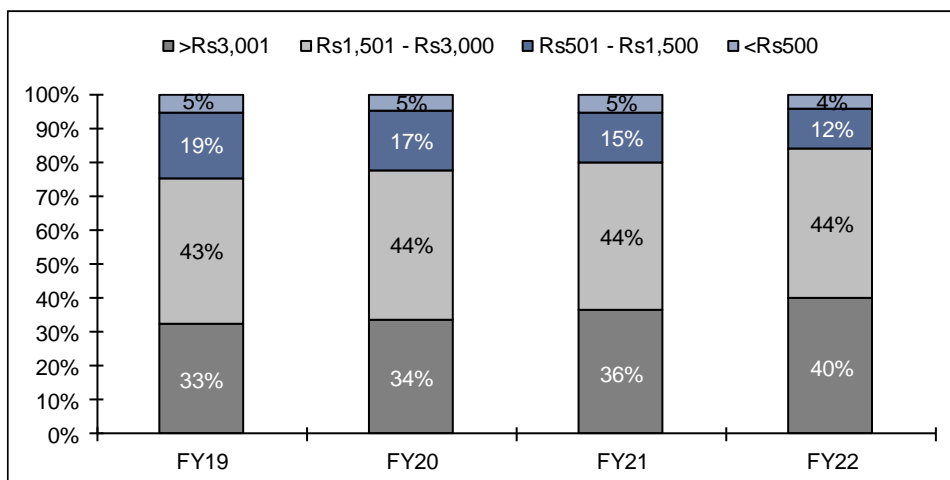
Source: Company Data, I-Sec Research

Chart 17: Diversified presence across customer type



Source: Company Data, I-Sec Research

Chart 18: Diversified presence across price points



Source: Company Data, I-Sec Research

Platform of choice for third party brands looking to expand in India

Metro has grown to be a platform of choice for other national and international third-party brands on the back of footwear focussed retailing experience since 1955, track record of successfully incubating and scaling up various retail brands, and extensive pan-India operations through which it has gained strong insight on evolving customer preferences across demographics. This has also been reflected through successful partnership with Crocs, a global brand offering innovative casual footwear for women, men and children, with a focus on its moulded products. It entered into a retail license arrangement with Crocs in 2015, and has since expanded Crocs branded EBOs throughout the country.

Metro has now entered into an exclusive strategic partnership with FitFlop for its entire distribution in India (EBOs, MBOs, distribution, online marketplaces and web store).

Strong market position, wide reach across India, healthy store economics achieved through optimising its operational costs and several years of retailing experience serving customers of different ethnicities and markets have led to successful expansion of third-party branded stores in India by Metro.

Metro continues to evaluate similar opportunities as part of active brand portfolio management. We believe Metro is well positioned to help other third party brands to achieve expansion and growth in India. Further, Metro intends to continue expansion through an active evaluation of inorganic opportunities, partnerships, tie-ups and franchises (including international opportunities).

Pivoting from primarily "Offline" to an "Omni-channel" enabled footwear and accessories retailer

Metro operates websites for various brands (directly managed) and has an extensive online presence. It operates three brand websites - www.metroshoes.net, www.mochishoes.com, and www.walkwayshoes.com.

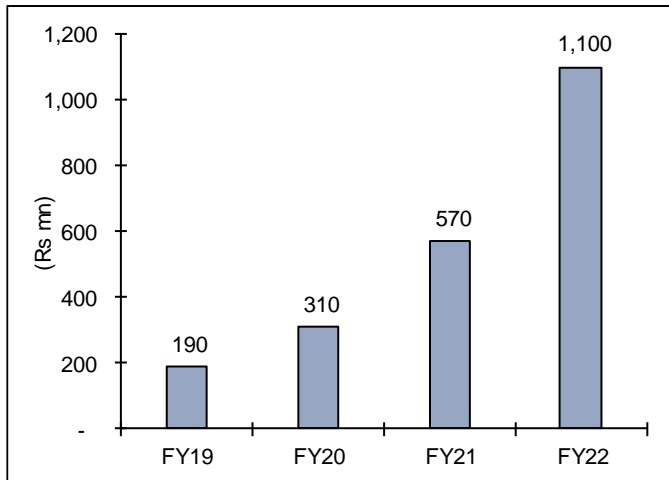
Majority of online business comes through leading e-commerce marketplaces (currently present on 6 Major E-commerce marketplaces). They also market products on various social media platforms, and engage with customer base through home-visits and instant messaging channels such as WhatsApp. With an increase in research driven purchases online, they have set-up an omni-channel experience for customers through online platforms.

Like stores, they also own and operate e-commerce operations, and have invested in an e-commerce specific warehouse management system that integrates store network with online platform. The integrated system streamlines order management, product picking, packaging and shipment, to offer a seamless omni-channel experience to customers.

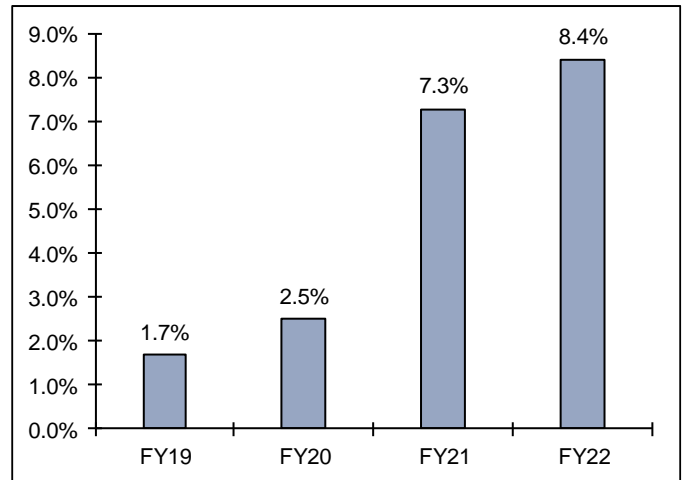
Metro intends to leverage existing capabilities to increase e-commerce operations and integrate omni-channel model as well as apply new technologies to further expand and improve operations to handle individual customer deliveries and enhance customer buying experience with faster dispatches.

Chart 19: E-commerce sales have a CAGR of ~79% over last 4 years

Chart 20: Contribution of online sales to overall

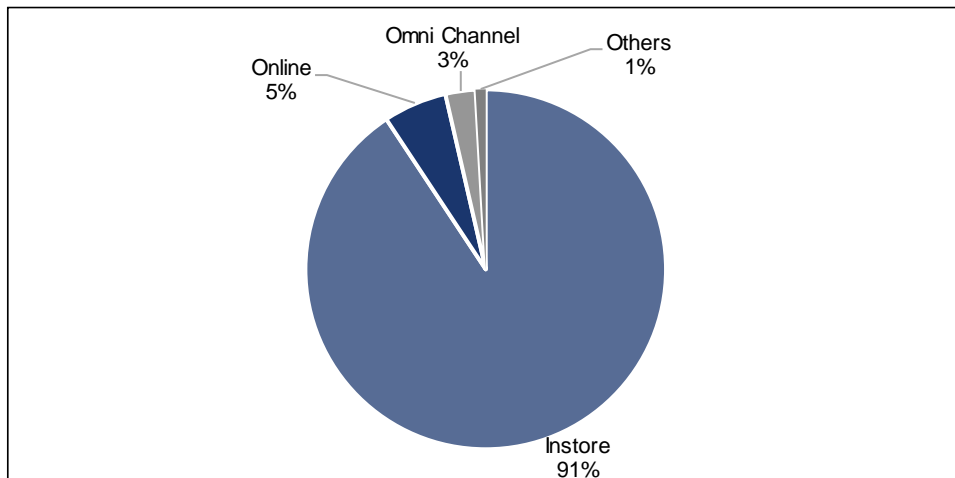


Source: Company data, I-Sec research



Source: Company data, I-Sec research

Chart 21: Contribution to sales across channels



Source: Company Data, I-Sec Research

Asset light business with an efficient operating model leading to sustained profitable growth

As discussed earlier, Metro is amongst few footwear retailers in India to source all of its products outsourcing arrangements without having its own manufacturing facility. This asset light strategy is based on third-party manufacturing by long-standing vendor relationships, and supported by active brand portfolio management, optimum store size and layout, and long-term lease arrangements. This allows the company to focus more on retailing of products rather than manufacturing which sometimes becomes a liability to a retailer as it does not allow it to optimise the brand portfolio.

Further, given the scale of operations and strong supplier network, they are able to leverage strong margins with these vendors and enter into arrangements with third-party brands on terms favorable to Metro. For example, under most of their arrangements for third-party brands, they are required to pay for products once these products are sold by Metro and under certain agreements they are also entitled to return ageing inventory to the brand owner, thereby limiting inventory risk.

Metro also operate stores based on variable cost structures in terms of lease rentals and employee expenses. It operates stores either on a fixed lease basis or revenue share basis with landlords and follow a robust location and store selection process primarily targeting high streets, malls and airports.

The compensation of store managers includes a significant variable pay for performance component to incentivise them by following an entrepreneurial model of operations at an individual store-level. The variable component of store-level employee remuneration is pegged to store-level sales to contain volatility of store-level margins. There is significant amount of flexibility provided to store managers in terms of product portfolio a store carries given that the store manager has better understanding of regional trends and customer expectations. We believe that this flexibility along with higher variable component to store manager provides a competitive edge over other footwear retailers.

Metro also seeks to strengthen Walkway brand using a franchisee model, to further enhance efficiencies as fixed asset costs and recurring rental expenses are borne by the franchisee. They have recently closed down SIS stores in DMart to focus on this strategy.

Peer Comparison

Table 2: Comparison of Key operating metrics across footwear players (FY20)

Companies	Revenue * (Rs bn)	Revenue CAGR#	Operatin g Margin	Gross Margin	Profit Margin	RoE	RoCE	ASP (INR)(1)	Volume (mn)
Metro Brands	12.9	12.4%	27.8%	56.3%	12.5%	21.0%	33.5%	1,328	8.91
Bata India	30.6	7.2%	27.7%	57.5%	10.8%	18.1%	36.2%	619	49.4
Relaxo	24.1	13.9%	17.3%	56.6%	9.4%	19.8%	24.9%	135	179.2
Mirza International	12.6	10.5%	13.6%	44.2%	3.6%	7.4%	10.2%	NA	NA
Khadim India	7.7	8.1%	4.5%	36.2%	-4.0%	-12.0%	-0.4%	400-500**	NA
Liberty Shoes	6.5	9.5%	9.3%	44.2%	1.7%	8.2%	12.8%	380-400	14.9
Campus Activewear (FY18-20)	6.3	25 0%^	11.7%	39.2%	9.5%	23.0%	25.5%	NA	NA

Source: Companies' annual reports, CRISIL Research

*Financials are for Fiscal 2020. Latest available with MCA

**Value mentioned is for Fiscal 2019

Period of FY17-20 considered for growth calculation

^Period of 2018-2020 considered for growth calculation

1: ASP - Average Selling Price ASP per pair is calculated as Operating Revenue/Number or pairs of footwear sold

We compare the key financial metrics of footwear companies. We note that the business models for all the companies are not comparable given that they have different route to market strategy.

- **Revenue growth:** Campus Activewear is the fastest growing company in last few years with a revenue CAGR of 25% over FY18-20. Campus has benefitted from (1) presence in the fast-growing sportswear segment, (2) focus on brand development since initial days and (3) expanding distribution network (focused EBO and e-commerce strategies). Relaxo has grown the second fastest followed by Metro Brands. We note that Metro Brands lacked store expansion (Metro and Mochi stores) during this time period. Other players have mostly grown in single digits during this time period.
- **Gross Margins:** Gross margins for Metro Brands, Bata and Relaxo are similar in the range of 56-57%. We note that Metro Brands is not involved in manufacturing of its products unlike other footwear players. Therefore, gross margins of these players are not completely comparable. Gross margins of other players are lower in the range of 36-44%.
- **Operating Margins:** Metro Brands and Bata have the highest operating margins at ~28%. We note that margins for both of these players are higher due to impact of IND AS 116 (rental costs come below EBITDA).

Table 3: Comparison of Key operating metrics across footwear players (FY21)

Companies	Revenue (Rs bn)	Operating Margin	Gross Margin	Net Profit Margin	RoE	RoCE	ASP* (Rs)	Volume (mn)
Metro Brands	8.0	22.1%	55.0%	8.1%	7.7%	15.7%	1,328	5.9
Bata India	17.1	9.9%	50.9%	5.2%	-4.9%	-0.5%	534.7	31.97
Relaxo	23.6	21.3%	57.2%	12.4%	21.1%	29.1%	123.5	190.7
Mirza International	10.5	11.3%	43.9%	0.8%	1.3%	5.8%	NA	NA
Khadim India	6.3	0.5%	28.8%	-5.3%	-15.2%	-5.5%	423	NA
Liberty Shoes	4.6	11.2%	53.3%	0.1%	0.2%	7.9%	NA	NA
Campus Activewear	7.1	16.4%	47.0%	3.8%	17.2%	42.4%	NA	NA

Source: Companies' annual reports, CRISIL Research

Period of FY18-21 considered for growth calculation

*ASP - Average Selling Price ASP per pair is calculated as Operating Revenue/Number or pairs of footwear sold

Chart 22: Product categories in the footwear and accessories segment for different players

Players	Footwear			Accessories					
	Men	Women	Kids	Bags	Clutches	Wallets	Foot care	Belt	Shoe care
Bata India Ltd	✓	✓	✓	✓	✓	✓	✓	✓	✓
Relaxo Footwear Ltd	✓	✓	✓						✓
Paragon Group (PPPPL)	✓	✓	✓	✓		✓		✓	
Mirza International Ltd	✓	✓	✓	✓	✓	✓		✓	
Metro Brands Ltd	✓	✓	✓	✓	✓	✓	✓	✓	✓
Khadim India Ltd	✓	✓	✓	✓	✓	✓		✓	✓
Liberty Shoes Ltd	✓	✓	✓						
Campus Activewear Pvt. Ltd.	✓	✓	✓						

Source: Companies websites

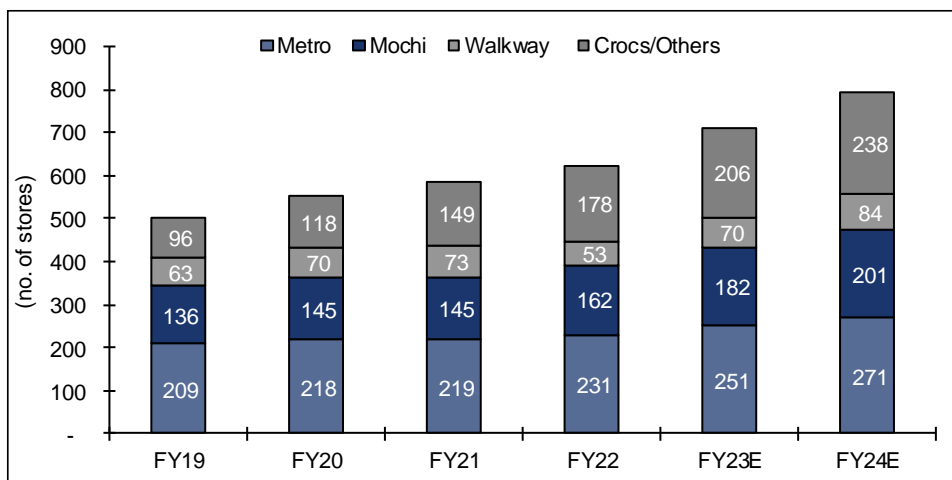
Note: Foot care includes products like foot-care cream, comfort soles, callus (hard skin) remover etc. and shoe care includes shoe polish, shoe polish brush, leather protection solution etc., which are used for footwear.

Financial performance

Estimate 30% revenue CAGR over FY22-24E

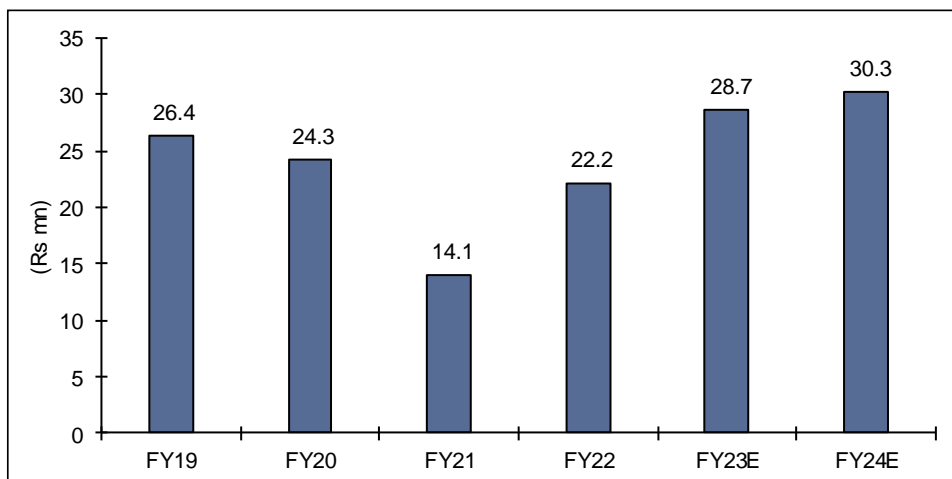
We expect the strong growth performance to continue in the medium term (estimate 30% revenue CAGR over FY22-24E). Revenue growth will be driven by 1) aggressive store expansion (estimate it to open 85 stores each for FY23E and FY24E) and 2) robust growth in revenue per store (Q1FY22 was impacted due to covid).

Chart 23: Aggressive store expansion plans



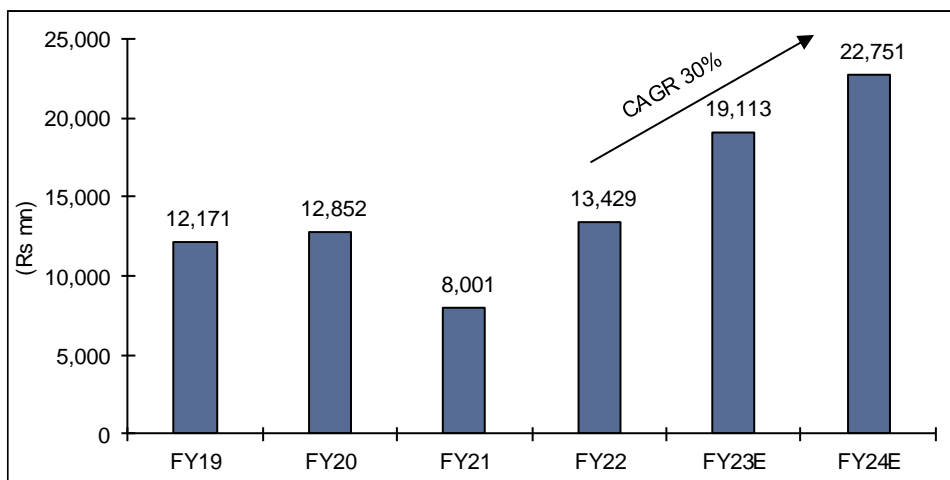
Source: Company, I-Sec research

Chart 24: Improvement in Sales per store (still below pre-covid levels)



Source: Company, I-Sec research

Chart 25: Revenue CAGR of 30% over FY22-24E



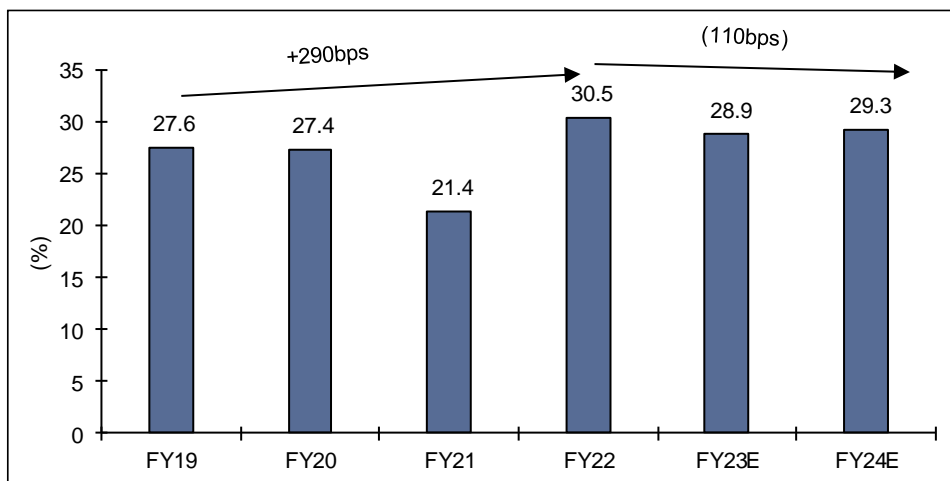
Source: Company, I-Sec research

EBITDA margins

Metro’s EBITDA margin expanded by 290bps to 30.5% from FY19-22. Margin expansion was largely driven by a) favourable brand mix with own brand (having higher margins) contribution increasing from 70% in FY19 to 73% in FY22 and b) higher realisations – contribution of products having price point >Rs3,001 increased from 33% in FY19 to 40% in FY22.

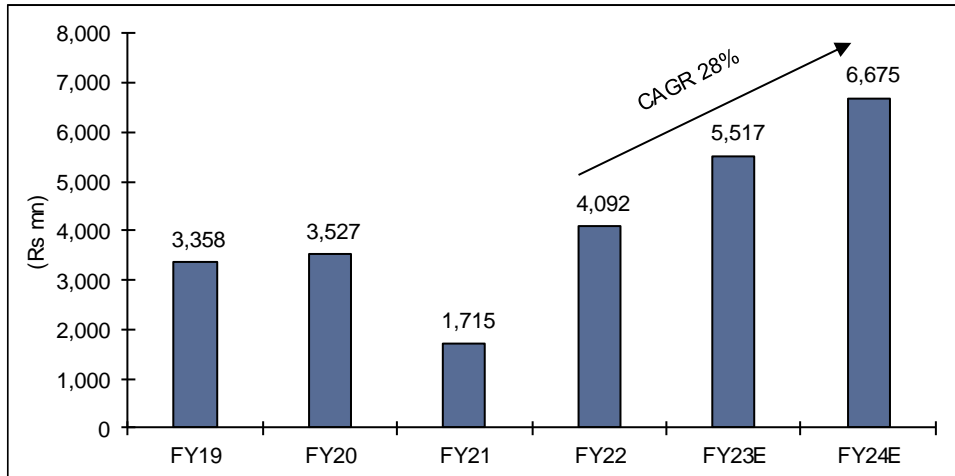
In the medium term, margins are likely to witness some moderation due to 1) steep inflation in raw material prices and 2) normalisation of brand mix. We estimate gross margins to decline by ~170bps to 56.2% by FY24E. We estimate moderation in EBITDA margins by 110bps (lower than gross margins decline due to operating leverage) to 29.3% by FY24E from 30.5% in FY22, resulting in 28% EBITDA CAGR over FY22-24E.

Chart 26: EBITDA margin



Source: Company, I-Sec research

Chart 27: EBITDA and growth rates

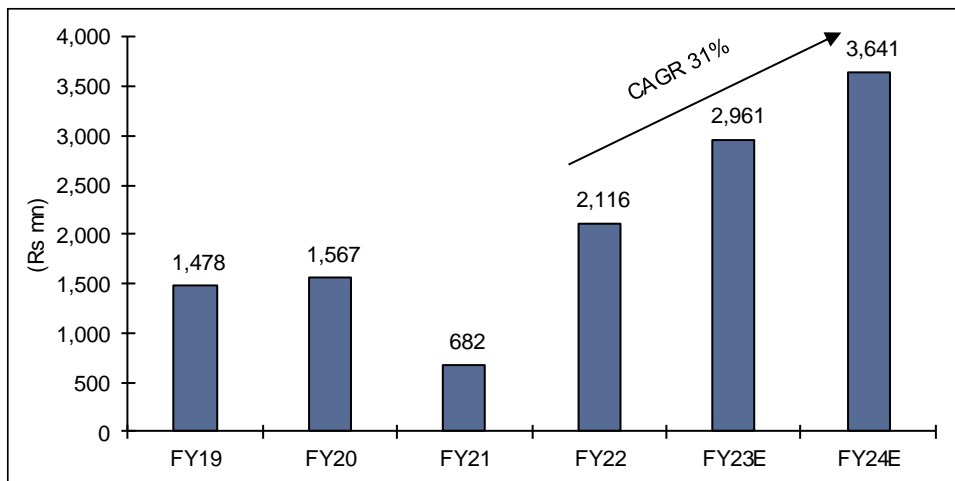


Source: Company, I-Sec research

Expect net profit to grow at 31% CAGR over FY22-24E

We expect net profit growth to mirror EBITDA, growing at 31% CAGR over FY22-24E. We estimate net profit margin to largely remain flattish at ~16%.

Chart 28: Healthy net profit performance

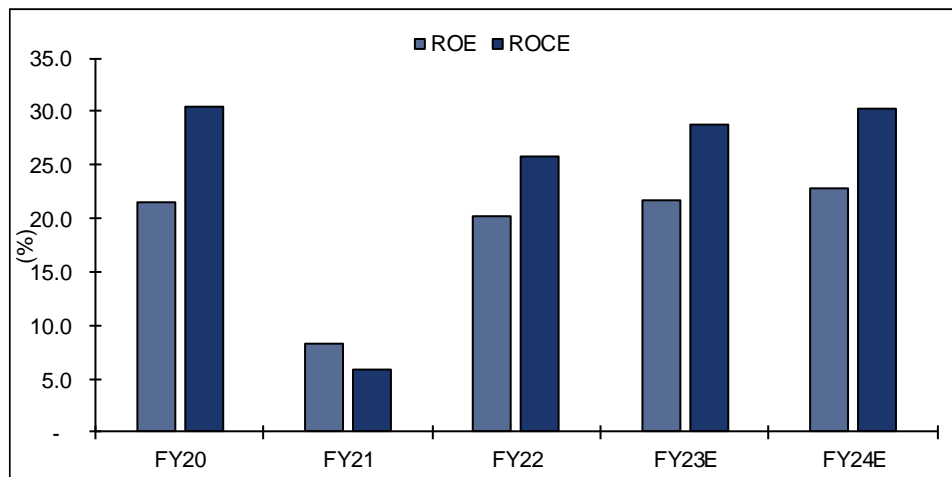


Source: Company data, I-Sec research

Return on Capital Employed to improve to ~30% by FY24E

With similar margins and better fixed asset turns, we expect Metro’s RoCE and RoE to improve to ~30% and ~23%, respectively by FY24E.

Chart 29: Return ratios

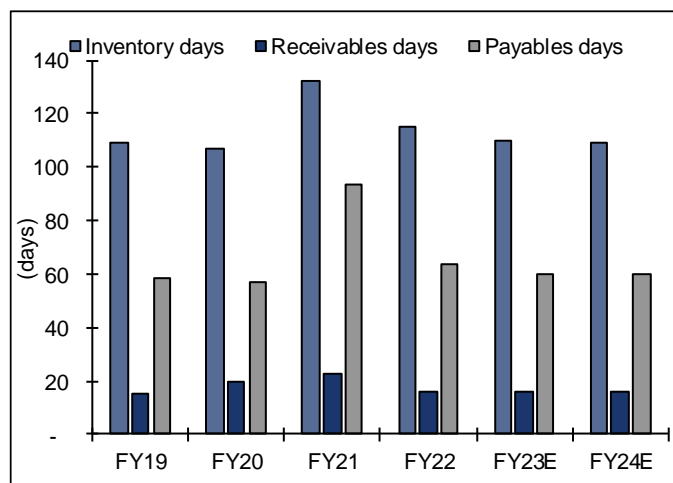


Source: Company data, I-Sec research

FCF generation to improve

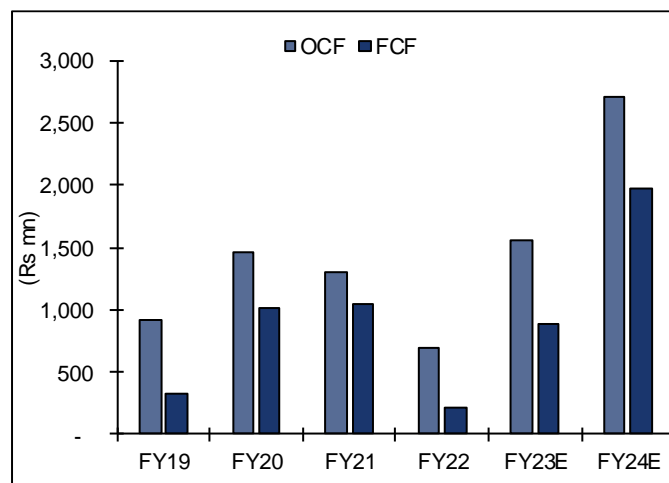
We estimate Metro’s working capital to improve slightly to c.65 days as the company continues to invest behind store expansion. We are modelling capex of Rs1.4bn for the next two years for store expansion.

Chart 30: Working capital days



Source: Company data, I-Sec research

Chart 31: OCF and FCF



Source: Company data, I-Sec research

Valuation

We value Metro Brands on DCF basis with 11% WACC and 6% terminal growth assumptions. We initiate coverage on the stock with a **BUY** rating based on a DCF-based target price of Rs700, which implies 19% potential upside.

DCF assumptions

We value Metro Brands using DCF based on the following three stages:

- **Stage 1 (FY22-FY32E):** During this period, we estimate 18% revenue CAGR and 19% EBITDA CAGR
- **Stage 2 (FY32E-FY42E):** During this period, we estimate 12% FCF CAGR
- **Stage 3 (FY43E onwards):** We assume 6% terminal growth rate

Based on these assumptions, we arrive at a target price of Rs700.

Table 4: DCF calculations

(Rs mn. year ending Mar 31)

PV of FCF for forecasting period (FY22-FY42)	80,084
PV of terminal cashflow	101,431
EV	181,515
Net debt/(cash)	(8,583)
Equity value	190,098
Number of shares (mn)	272
Target price (Rs/ share) – Rounded-off	700

Source: I-Sec research

Table 5: Valuation summary

Company	CMP (Rs)	TP (Rs)	Rating	PE (x)		EV/EBITDA (x)		ADTV (US\$ mn)	Market Cap	
				FY23E	FY24E	FY23E	FY24E		(Rs bn)	(US\$ bn)
Staples										
Adani Wilmar	678	550	HOLD	78	60	39	33	NM	884	11.4
Bajaj Consumer	143	300	BUY	9	9	6	6	1.9	21	0.3
Britannia	3,577	3,350	HOLD	47	41	33	29	15.1	864	11.1
Colgate	1,590	1,800	ADD	38	34	25	23	7.5	433	5.6
Dabur	522	650	BUY	47	41	38	33	14.5	924	11.9
Emami	422	480	ADD	23	20	18	16	2.8	186	2.4
GCPL	769	900	ADD	42	34	31	26	16.8	787	10.2
HUL	2,285	2,450	ADD	56	48	39	34	60.3	5,368	69.3
ITC	274	300	ADD	20	18	15	14	86.4	3,370	43.5
Jyothy Labs	154	180	BUY	23	18	17	14	0.8	56	0.7
Marico	518	550	ADD	46	39	33	28	12.0	672	8.7
Mrs. Bector's Foods	291	380	ADD	23	19	11	9	2.2	17	0.2
Nestle	17,394	19,500	ADD	66	56	43	37	15.7	1,677	21.7
Tata Consumer	758	925	BUY	58	48	35	30	23.4	703	9.1
Varun Beverages	1,139	1,030	HOLD	56	43	27	23	8.7	493	6.4
Discretionary										
Avenue Supermarts	3,857	3,900	BUY	95	73	66	51	22.4	2,499	32.3
Bata	1,844	1,800	HOLD	54	45	39	32	9.9	364	4.7
Burger King India	106	125	ADD	NM	129	36	23	3.8	52	0.7
FSN E-Commerce Ventures	1,472	1,300	HOLD	450	212	186	107	19.4	698	9.0
Go Fashion (India)	1,002	1,300	BUY	61	46	47	35	1.2	54	0.7
Jubilant Foodworks	552	720	BUY	62	45	38	29	47.4	314	4.0
Kalyan Jewellers	61	100	BUY	15	12	8	7	1.0	63	0.8
Metro Brands	588	700	BUY	54	44	28	23	1.3	160	2.1
Page Industries	43,549	46,000	ADD	72	57	50	41	11.7	486	6.3
Sapphire Foods	1,001	1,700	BUY	57	34	13	10	2.3	64	0.8
Sheela Foam	2,939	3,900	BUY	47	35	32	25	1.6	143	1.9
Titan	2,221	2,550	BUY	66	53	45	37	47.3	1,972	25.5
United Spirits	824	940	ADD	63	52	40	36	19.0	600	7.7
Westlife Development	461	600	BUY	77	50	36	26	1.2	72	0.9
Paints										
Akzo Nobel	1,800	1,950	ADD	23	20	15	13	0.3	82	1.1
Asian Paints	2,909	3,200	HOLD	69	58	46	39	56.9	2,790	36.0
Berger Paints	622	530	REDUCE	65	54	40	34	6.2	605	7.8
Indigo Paints	1,580	1,650	HOLD	59	47	40	30	1.5	82	1.1
Kansai Nerolac	412	415	HOLD	40	32	24	20	1.4	223	2.9

Company	EV/ sales (x)		P/B (x)		P/CEPS (x)		RoE (%)		RoCE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Staples										
Adani Wilmar	1.6	1.4	10	9	59	48	13	15	10	11
Bajaj Consumer	1.5	1.4	2	2	9	8	25	26	27	28
Britannia	5.7	5.2	29	23	42	37	60	57	33	37
Colgate	7.7	7.0	24	23	32	29	66	73	83	91
Dabur	7.5	6.7	10	9	41	36	22	23	16	17
Emami	5.3	4.8	8	7	22	19	37	36	44	46
GCPL	6.1	5.5	6	6	38	31	15	17	14	16
HUL	9.4	8.5	11	10	51	44	19	22	15	17
ITC	5.2	4.8	5	5	18	16	27	29	30	33
Jyothy Labs	2.4	2.2	4	3	19	15	16	19	16	19
Marico	6.3	5.7	19	18	42	36	42	47	37	41
Mrs. Bector's Foods	1.5	1.4	3	3	13	11	14	14	15	16
Nestle	10.0	8.9	72	66	56	48	116	124	41	44
Tata Consumer	4.8	4.3	4	4	47	40	8	9	9	10
Varun Beverages	5.1	4.5	10	8	33	27	18	21	18	22
Discretionary										
Avenue Supermarts	5.8	4.6	15	13	81	63	17	19	23	25
Bata	6.8	6.0	16	12	33	29	26	31	38	44
Burger King India	2.7	2.1	7	6	24	17	(0)	5	5	9
FSN E-Commerce Ventures	12.6	9.2	47	38	241	136	10	18	13	22
Go Fashion (India)	8.8	7.0	10	9	32	25	30	32	25	27
Jubilant Foodworks	6.8	5.5	12	10	36	28	24	25	20	21
Kalyan Jewellers	0.6	0.6	2	2	9	8	11	13	11	12
Metro Brands	8.1	6.8	11	9	36	30	20	21	27	28
Page Industries	10.4	8.9	36	29	65	52	56	57	39	40
Sapphire Foods	2.8	2.1	6	5	16	12	10	15	16	23
Sheela Foam	4.2	3.7	8	7	36	28	20	21	17	21
Titan	5.7	4.9	17	14	57	46	29	29	32	33
United Spirits	6.2	5.8	9	8	49	42	17	17	21	20
Westlife Development	3.6	3.0	13	10	30	23	18	23	27	34
Paints										
Akzo Nobel	2.1	1.9	7	7	19	16	28	33	28	33
Asian Paints	8.0	6.9	18	15	56	48	27	28	24	26
Berger Paints	5.9	5.1	13	11	51	43	22	23	18	19
Indigo Paints	6.4	5.1	10	8	46	35	17	18	19	20
Kansai Nerolac	3.0	2.6	5	4	30	25	13	15	12	14

Source: Bloomberg, Company data, I-Sec research

Key risks

- The current and continuing impact of the **ongoing COVID-19 pandemic** on business and operations has been significant. The impact of the pandemic on operations in the future, including its effect on the ability or desire of customers to visit stores, is uncertain and may be significant and continue to have an adverse effect on business.
- **Inability to identify customer demand accurately** and maintain an optimal level of inventory in stores may impact operations adversely.
- If company is **unable to effectively manage or expand retail network** and operations or pursue growth strategy, new stores may not achieve expected level of profitability which may adversely affect business prospects, financial condition and results of operations.
- **Dependency on third-parties for the manufacturing of products** it sells. 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 reputation, business and financial condition.
- **Inability to promptly identify and respond to changing customer preferences or evolving trends** may decrease the demand for products among customers, which may adversely affect business, profitability and results of operations.
- **Unsuccessful in maintaining and enhancing awareness of brands.** Any deterioration in public perception of brands could affect customer footfall and consequently adversely impact business, financial condition, cash flows and results of operations.
- **Operation of Crocs EBOs** depends on their material agreements with Crocs, which impose certain restrictions, limitations and other obligations on operations that could adversely affect business, results of operations and financial condition.
- **Both warehouses are located in Bhiwandi, Maharashtra**, and any adverse development affecting such region may have an adverse effect on business, prospects, financial condition and results of operations.
- **Technology failures** could disrupt operations and adversely affect business operations and financial performance.
- **Growth of online retailers** may create pricing pressures, increase competition, and adversely affect business, results of operations and financial condition.
- Company operates in a **competitive market and any increase in competition** may adversely affect business and financial condition.
- Business is subject to **seasonality**. Lower revenues in the festive period of any Fiscal may adversely affect business, financial condition, results of operations and prospects.
- Inability to successfully develop and integrate any **future brand acquisitions**, it could have a material adverse effect on business, financial condition, results of operations and prospects.

Financial summary

Table 6: Profit and Loss statement

(Rs mn. year ending Mar 31)

	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Revenue	12,171	12,852	8,001	13,429	19,113	22,751
Less:						
Cost of goods sold	5,487	5,707	3,605	5,659	8,410	9,965
Employee cost	1,121	1,268	1,026	1,212	1,816	2,139
Other expenses	2,204	2,351	1,655	2,466	3,371	3,972
Total operating expenses	8,813	9,325	6,285	9,338	13,597	16,075
EBITDA	3,358	3,527	1,715	4,092	5,517	6,675
Less: D&A	936	1,206	1,218	1,342	1,526	1,768
EBIT	2,422	2,321	497	2,749	3,990	4,907
Less: Gross Interest	339	395	437	504	590	661
Add: Other Income	198	259	785	586	577	642
Recurring PBT	2,281	2,184	845	2,831	3,977	4,888
Less: Taxes	769	587	193	702	1,001	1,230
Less: Minority Interest	(34)	(30)	30	(14)	(15)	(17)
Net Income (Reported)	1,478	1,567	682	2,116	2,961	3,641
Extraordinary items	-	-	-	-	-	-
Recurring Net Income	1,478	1,567	682	2,116	2,961	3,641

Source: Company data, I-Sec research

Table 7: Balance sheet*(Rs mn, year ending Mar 31)*

	FY19	FY20	FY21	FY22	FY23E	FY24E
ASSETS						
Current Assets, Loans & Advances						
Inventories	3,646	3,761	2,898	4,242	5,760	6,810
Sundry debtors	519	701	506	577	838	991
Cash and bank balances	121	109	879	4,350	5,042	6,588
Other current assets	303	251	223	765	1,089	1,296
Loans and advances	34	90	150	206	293	349
Total Current Assets	4,624	4,912	4,655	10,140	13,022	16,033
Current Liabilities & Provisions						
Current Liabilities	1,939	2,015	2,047	2,343	3,142	3,752
Provisions and other liabilities	332	356	397	998	1,421	1,691
Total Current Liabilities & Provisions	2,271	2,370	2,444	3,342	4,563	5,444
Net Current Assets	2,353	2,542	2,212	6,798	8,460	10,590
Investments	2,099	3,484	3,997	3,625	3,625	3,625
Fixed assets						
Gross block	3,048	3,260	3,466	3,963	4,628	5,361
Less: Accumulated depreciation	870	1,054	1,265	1,613	2,011	2,469
Net Block	2,178	2,206	2,200	2,350	2,616	2,892
CWIP	41	130	45	62	62	62
Right of use assets	3,702	4,825	4,996	6,096	6,926	7,757
Intangible assets	50	50	40	32	32	32
Other non-current assets	522	568	660	837	1,097	1,263
Total Assets	10,944	13,804	14,150	19,800	22,818	26,221
LIABILITIES AND SHAREHOLDERS' EQUITY						
Shareholders' fund						
Equity share capital	1,328	1,328	1,328	1,358	1,358	1,358
Reserves and surplus	5,171	6,745	6,948	11,289	13,362	15,820
Total Shareholders Fund	6,499	8,073	8,276	12,647	14,719	17,177
Borrowings	99	115	14	-	-	-
Lease Liability	4,146	5,376	5,655	6,922	7,865	8,808
Minority Interest	195	235	199	224	224	224
LT Provisions	6	6	6	6	9	11
Total Liabilities and shareholders' equity	10,944	13,804	14,150	19,800	22,818	26,221

Source: Company data, I-Sec research

Table 8: Cashflow statement*(Rs mn, year ending Mar 31)*

	FY19	FY20	FY21	FY22	FY23E	FY24E
Cashflow from operating activities						
PBT	2,281	2,184	845	2,834	3,977	4,888
Add: Depreciation	226	324	293	348	398	458
Add: Interest	6	8	6	(13)	-	-
Add: Other Operating activities	(162)	(204)	(730)	(494)	(592)	(658)
CFO before change in NWC	2,352	2,312	415	2,675	3,783	4,688
(Inc)/dec in debtors	(134)	(192)	197	(75)	(261)	(153)
(Inc)/dec in inventories	(852)	(115)	864	(1,344)	(1,518)	(1,049)
(Inc)/dec in other current assets	(178)	(16)	4	(633)	(671)	(429)
Inc/(dec) in trade payables	512	74	(31)	278	799	610
Inc/(dec) in current liabilities/provisions	17	7	52	513	423	270
Change in NWC	(635)	(243)	1,086	(1,262)	(1,229)	(751)
Less: Taxes Paid	803	608	204	715	1,001	1,230
Net Cashflow from Operating Activities	914	1,461	1,297	699	1,553	2,706
Capital Commitments	(588)	(442)	(251)	(479)	(664)	(733)
Free Cashflow	326	1,019	1,046	220	889	1,973
Cashflow from Investing Activities						
Purchase of Investments	(140)	(1,243)	(329)	538	-	-
Other non-operating income	54	58	24	68	577	642
Others	1	1	(668)	(3,136)	(828)	(829)
Net Cashflow from Investing Activities	(86)	(1,184)	(973)	(2,530)	(251)	(187)
Cashflow from Financing Activities						
Increase in reserves	7	-	-	2,924	-	-
Inc (Dec) in Borrowings	39	17	(101)	(14)	-	-
Interest Paid	(6)	(8)	(6)	(1)	-	-
Payment of Lease Liability	130	146	690	460	(186)	(368)
Dividend paid including tax and others	(446)	-	(498)	(706)	(888)	(1,183)
Others	-	-	-	-	1,129	1,311
Net Cashflow from Financing Activities (e)	(277)	155	85	2,663	55	(241)
Total Increase / (Decrease) in Cash	(37)	(10)	158	352	693	1,545
Opening Cash and Bank balance	152	115	105	263	615	1,308
Closing Cash and Bank balance	115	105	263	615	1,308	2,853
Increase / (Decrease) in Cash and Bank balance	(37)	(10)	158	352	693	1,545

Source: Company data, I-Sec research

Table 9: Key ratios*(year ending Mar 31)*

	FY19	FY20	FY21	FY22	FY23E	FY24E
Per Share Data (Rs)						
EPS	5.6	5.9	2.6	7.8	10.9	13.4
Cash EPS	9.1	10.4	7.2	12.7	16.5	19.9
Dividend per share (DPS)	1.2	1.5	0.4	2.0	3.3	4.4
Book Value per share (BV)	24.5	30.4	31.2	46.6	54.2	63.3
Growth (%)						
Net Sales		5.6	(37.7)	67.9	42.3	19.0
EBITDA		5.0	(51.4)	138.6	34.8	21.0
PAT		6.0	(56.5)	210.3	39.9	23.0
DPS		25.0	(75.0)	433.3	63.6	33.2
Valuation Ratios (x)						
P/E	105.7	99.7	229.0	75.5	53.9	43.9
P/CEPS	64.7	56.3	82.2	46.2	35.6	29.5
P/BV	24.0	19.3	18.9	12.6	10.8	9.3
EV / EBITDA	45.1	42.9	88.3	37.8	28.1	23.2
EV / Sales	12.4	11.8	18.9	11.5	8.1	6.8
Operating Ratios						
Raw Material / Sales (%)	45.1	44.4	45.1	42.1	44.0	43.8
Employee cost / Sales (%)	9.2	9.9	12.8	9.0	9.5	9.4
Other exps / Sales (%)	18.1	18.3	20.7	18.4	17.6	17.5
Other Income / PBT (%)	8.7	11.9	92.9	20.7	14.5	13.1
Effective Tax Rate (%)	33.7	26.9	22.8	24.8	25.2	25.2
Working Capital (days)	78.2	81.6	83.0	83.1	81.8	80.7
Inventory Turnover (days)	109.3	106.8	132.2	115.3	110.0	109.3
Receivables (days)	15.6	19.9	23.1	15.7	16.0	15.9
Payables (days)	58.2	57.2	93.4	63.7	60.0	60.2
Net D/E (x)	(0.3)	(0.4)	(0.6)	(0.6)	(0.6)	(0.6)
Profitability Ratios (%)						
Net Income Margins	12.1	12.2	8.5	15.8	15.5	16.0
RoACE		30.5	5.9	25.7	28.7	30.3
RoAE		21.5	8.3	20.2	21.6	22.8
Dividend Payout	26.0	25.4	14.6	25.7	30.0	32.5
Dividend Yield	0.2	0.3	0.1	0.3	0.6	0.7
EBITDA Margins	27.6	27.4	21.4	30.5	28.9	29.3

Source: Company data, I-Sec research

Appendix 1: About the Company

Business

Metro opened 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 March 31, 2022, Company operated 624 Stores across 142 cities spread across 30 states in India. Company targets the economy, mid and premium segments in the footwear market.

Metro retails footwear under own brands of Metro, Mochi Walkway, Da Vinci and J. Fontini, as well as certain third-party brands such as Crocs, Skechers, Clarks, Florsheim, and Fitflop, which complement in-house brands. It also offers accessories such as belts, bags, socks, masks and wallets, at stores. It also retails footcare and shoe-care products at stores through joint venture, M. V. Shoe Care Private Limited, making it a 'one-stop-shop' for all footwear and related accessories to customers.

Retail operations are carried out through own stores and distributors as well as through online channels. It primarily follows the "company owned and company operated" ("COCO") model of retailing through own Multi Brand Outlets ("MBOs") and Exclusive Brand Outlets ("EBOs"), to better manage customer experience at stores. It operates Metro, Mochi and Walkway branded MBOs and Crocs branded EBOs. Company and Subsidiary Metmill also operate shop-in-shops ("SIS") in major departmental stores across India. They also distribute products of third-party brands through MetMill and retail products through franchisees. In addition to physical Stores, it provides an omni-channel experience to customers through websites, online marketplaces, as well as, social media platforms. All of their brands are listed and are sold across various leading marketplaces for B2C and B2B operations.

Company strives to optimize mix of in-house brands and third-party brands in MBOs to drive customer footfalls, improve sales density and gross margins. Revenue from sale of in-house brands and third-party brands in MBO stores represented ~73% and ~27% of Company's revenue from MBOs in FY22, respectively. It leverages strong understanding of the retail footwear market and apply data analytics to develop and launch margin accretive in-house brands to meet evolving consumer trends. It carefully curates merchandise keeping in mind regional preferences. Wide range of brands allows it to operate across the economy (Rs501 to Rs1,000), mid (Rs1,001 to 3,000) and premium (more than Rs3,001) segments. Diversified business model provides it with synergies by spanning consumer segments, categories and distribution channels.

Company endeavours to drive sales through a strong focus on product assortment – a Theory-of-Constraints ("TOC") method for supply chain, offering greater availability and reducing stock-outs. This is coupled with an incentive-based remuneration system for front-end and backend sales staff. It operates on an asset light model with third-party manufacturing through long-standing vendor relationships, optimum store size and layout, and long-term lease arrangements. It introduces new designs frequently through vendor engagements based on combined understanding of prevailing trends and regional sensitivity. To efficiently manage inventory for wide range of products, it follows a pull model for product availability at stores where product placement is led by a demand driven inventory replenishment method. This helps it ensure optimum

inventory management and accessibility to the latest products. Business is consumer-centric and it has loyalty programs for customers, including Club Metro, My Mochi, and Crocs Club. Loyalty programmes have given it insights into customer preferences and trends over the years, further enabling it to tailor product offerings to customers' preferences. As of March 31, 2019, 2020, 2021 and 2022, Club Metro had more than 3.8mn, 4.5mn, and 4.9mn and 5.6mn members, respectively, and My Mochi had more than 2.4mn, 3.0mn, and 3.3mn and 3.9mn members, respectively. The loyalty program for Crocs was launched in Fiscal 2020, and had more than 0.2mn, 0.4mn and 0.8mn members as of March 31, 2020, 2021 and 2022, respectively.

Acquisitions and Joint Venture

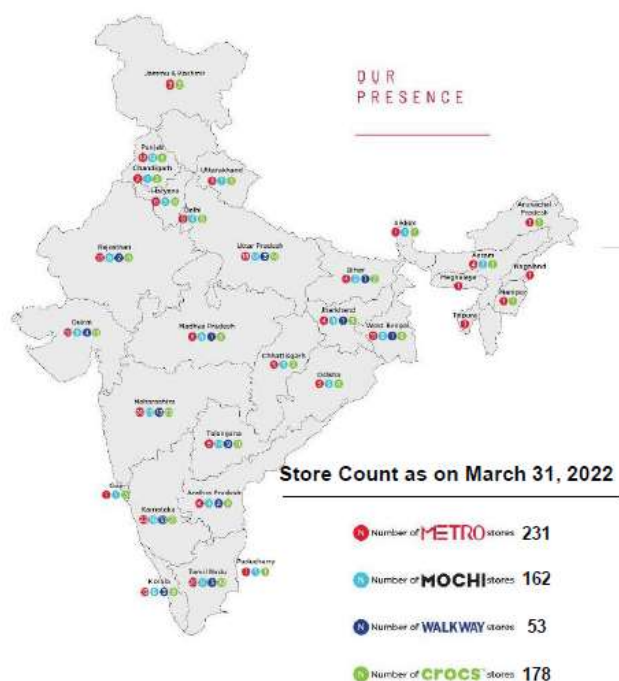
Company entered into a shareholders agreement in August 2009 and a letter of amendment in September 2014 to acquire a 51.00% stake in Metmill. Metmill manages SIS counters and distribution of international brands like Vento, Modare and Scholl. It also manages SIS counters in Shoppers Stop for its own brands (Lemon & Pepper) and Shopper Stop's brands like Haute Curry. Metmill has exclusive rights in India to manage international brands like Vento and Modare that are managed through distribution, ecommerce and SIS channels.

It also entered into a joint venture and share subscription and purchase agreement in August 2016 under which it acquired a 49.00% stake in M.V. Shoe Care Private Limited. It is engaged in manufacturing and sale of shoe care and foot care products under its own brand "PRO". It also supplies the PRO branded accessories to Company on a sale or return basis.

Retail Stores

As of March 31, 2022, our Company operated 624 Stores across 142 cities spread across 30 states in India.

Chart 32: Store Network



Source: Company Data

Company primarily have two formats for retail stores: MBOs and EBOs.

Multi-Brand Outlets (“MBOs”)

The average size of Metro MBOs was 1,601 sq. ft., of Mochi MBOs was 1,520 sq. ft., and of Walkway MBOs was 1,348 sq. ft., in FY22. It operates MBOs for Metro, Mochi and Walkway brands, and also sell other brands in these MBOs including DaVinci, J Fontini, Princess, Activ and others. It also sells certain third-party brands at MBOs, including Crocs, Skechers and Fitflop.

Exclusive Brand Outlets (“EBOs”)

As of March 31, 2022, it retailed products through 178 EBOs. The average size of EBOs in FY21 was 596 sq. ft.

It operates EBOs for third-party brands such as Crocs in India. It endeavours to ensure that customers at EBOs of third-party brands are able to experience levels of customer service while complying with fit-outs and outlet specifications set out in arrangements.

Other Channels

It retails certain brands such as Walkway, Lemon & Pepper, and Haute Curry, through Shop-in-Shops, i.e. kiosks operated in larger format stores. Through MetMill, it also entered into a master distribution arrangement for distribution of Vento, a brand from Vietnam catering to the mass market.

E-commerce and Omni-channel

Retail stores are supported by company-owned e-commerce business in India, through websites, and business accounts on social media platforms and instant messaging channels such as WhatsApp. These virtual storefronts are designed with the intention of providing customers a positive shopping and brand experience, showcasing products in an easy-to-navigate format, allowing consumers to browse selection of products. These virtual stores provide a convenient, alternative shopping environment and brand experience, and are an additional efficient and effective retail distribution channel, which has improved customer service. They enable consumers to shop, browse, find store locations, socially interact, post a review, photo, video or question, and immerse themselves in brands. Websites are built as a progressive ‘web application’, i.e. with an app feel for mobile users, which is more sustainable as users do not incur app download acquisition costs.

Vendor Engagement and Procurement

In FY21, it procured approximately a majority of in-house products from various Indian vendors, primarily from Mumbai, Agra, Chennai, Delhi, Kanpur and other cities in India. The remaining products are imported from various countries including Brazil and China. In FY19, FY20 and FY21, top 50 vendors contributed 69.95%, 71.26%, and 75.27%, of total in-house products. In-house product vendors are mainly craftsmen from all over India who provide exclusivity of the designs supplied and are able to supply goods in required quantities within the prescribed period. It has a team of experienced employees who continuously engage in product research, identify new potential vendors and invite samples from them. Any new vendor can also approach

directly with their samples. The samples are then reviewed and shortlisted by team for review and selection.

Product Design and Development

Company believes that products' success is related to ability to recognise trends in the footwear markets, to introduce products that accommodate consumers' evolving preferences, and remain sensitive to regional preferences.

Lifestyle trend information is compiled and analysed by buying-cum-design team in various ways, including reviewing and analysing culture, clothing, and trend-setting media; obtaining feedback from store managers, consulting with retail and e-commerce customers for information on current retail selling trends; participating in major footwear trade shows to stay abreast of popular brands, fashions and styles; and subscribing to various fashion and colour information services.

The design process is a continuous process that takes place throughout the year. Products are designed and developed primarily by in-house merchandising and design team that comprised 50 personnel as of March 31, 2021. Many of vendors, particularly those with long-standing relationships, also develop products, while the costing and inputs on styling are provided by the merchandising and design team. The design process is collaborative, as members of the merchandising and design staff frequently meet with the heads of retail, category managers, regional / area and store managers to further refine products to meet the particular needs of the target market.

Inventory and Supply Chain Management

Overall supply chain management system is based on TOC principles. To ensure availability of the appropriate products at the relevant stores, it has developed a process to replenish stock, on a priority based system. It follows a pull versus a push model for product availability at stores, to ensure optimum inventory management, working capital requirements and accessibility to the latest products. Real-time communication channel between store front staff and wide vendor base, through warehouse managers and merchandising teams, helps ensure availability of relevant inventory at the stores. Based on understanding of the markets it is present in and consistent feedback from managers at outlets, it identifies products for distribution and stock these products appropriately depending on location of the outlet within India (i.e. north, east, south or west), and on the market in which it is situated (cities or town, urban or rural areas). It also leverages inventory at warehouses and across store locations to efficiently meet online orders.

This enables it to maintain complete visibility over inventory at all levels and manage orders and procurement against actual sales, which prevents stock outs and dead stock. It manages inventory by tracking sales in our outlets and warehouses in real time which helps us monitor the quantum of inventory at our retail stores and warehouses and identify the fast and slow moving stock better.

Store Closures and Net Additions

Store closures are primarily due to store relocations and other commercial reasons, including closure of under-performing stores or unsuccessful rental negotiations or waivers sought from landlords/ lessors. In FY19, FY20 and FY21, it closed / relocated 44 Stores.

Table 10: Total number of Stores in network

	FY19	FY20	FY21	FY22
Number of Stores at the beginning of the period	419	504	551	586
Number of Stores opened during the period	95	57	59	87
Number of Stores closed during the period	10	10	24	49*
Number of Stores at the end of the period	504	551	586	624

Source: Company Data

*12 stores which were relocated to better locations and 21 Walkway Shop in Shops (SIS) closed in Q4.

Appendix 2: Company history

Chart 33: Company history



Source: Company

Appendix 3: Promoters and management profile

Table 11: Board of directors

Name	Designation	Experience	Description
Rafique A. Malik	Chairman of the board	He has over 50 years of experience in the field of footwear retail	<ul style="list-style-type: none"> • He holds a bachelor's degree in commerce from Siddharth College of Commerce and Economics, University of Bombay • He has attended the Owner/President Management Program at the Harvard Graduate School of Business. He has secured 1st position in the 'Ladies Shoes' category and the 3rd position in the 'Gents Dress Shoes' category at the All India Fashion Parade and Design Competition for Leather, Leathergoods and Footwear, 1970, organized by the Indian Leather Technologists' Association
Farah Malik Bhanji	Managing Director	She has over 20 years of experience in the field of footwear retail	<ul style="list-style-type: none"> • She holds a bachelor's degree in arts and a bachelor's degree in business administration from the University of Texas at Austin • She is presently attending the Owner/President Management Program at the Harvard Graduate School of Business
Mohammad Iqbal Hasanally Dossani	Whole time director		<ul style="list-style-type: none"> • He holds a bachelor's degree in commerce, in Financial Accounting and Auditing (Special) from Smt. Mithibai Motiram Kundnani College of Commerce and Economics, University of Mumbai • He has also successfully completed 'AESTHINT15: Rhetoric: The Art of Persuasive Writing and Public Speaking', a course of study offered by HarvardX, an online learning initiative of Harvard University.
Utpal Hemendra Sheth	Non-Executive Director (Nominee director)		<ul style="list-style-type: none"> • He holds a bachelor's degree in commerce from Sydenham College of Commerce and Economics, University of Bombay. • He has also been awarded a certificate of merit by the Institute of Chartered Financial Analysts of India. He was first appointed as an alternate director in the Company on March 14, • He has been working with Rare Enterprises since 2003 and is currently the chief executive officer of Rare Enterprises, a proprietary asset management firm, and is responsible for investment and risk management
Manoj Kumar Maheshwari	Independent Director		<ul style="list-style-type: none"> • He holds a bachelor's degree in science from the University of Bombay. He has been associated with the Company as an Independent Director since July 24, 2009 • He is the chairman and director of Maheshwari Investors Private Limited and is a director on the board of directors of Mahindra CIE Automotive Limited, R.J Investment Private Limited and RPG Life Sciences Limited
Aruna Bhagwan Advani	Independent Director		<ul style="list-style-type: none"> • She holds a bachelor's degree in science from University of Sussex. She has been awarded the craft certificate in women's light clothing manufacture by the London College of Fashion • She has been associated with the Company as an Independent Director since July 27, 2010. Prior to joining the Company, she was working as the executive chairman of Ador Welding Limited for more than ten years.
Arvind Kumar Singhal	Independent Director		<ul style="list-style-type: none"> • He holds a bachelor's degree in electronics and communication engineering from University of Roorkee and a master's degree in business administration from University of California • He has been associated with the Company as an Independent Director since August 12, 2016. He has been associated with Technopak Advisors Private Limited since 1994 and is presently its managing director.
Vikas Vijaykumar Khemani	Independent Director		<ul style="list-style-type: none"> • He has been associated with the Company as an Independent Director since March 12, 2019. • He is an associate of the Institute of Chartered Accountants of India and has passed the final examination held by the Institute of Company Secretaries of India
Srikanth Velamakanni	Independent Director		<ul style="list-style-type: none"> • He holds a bachelor's degree in Electrical Engineering from the Indian Institute of Technology, Delhi and has completed the two year post-graduate programme in management from Indian Institute of Management, Ahmedabad • He is a whole time director of Fractal Analytics Private Limited. He has been associated with the Company as an Independent Director since March 25, 2021

Source: Company

Table 12: Management profile

Name	Designation	Experience	Description
Nissan Joseph	Chief Executive Officer		He holds a master's degree in business administration from the University of Western Sydney. He has in the past worked with Payless Shoes Pty Ltd and Hickory Brands, Inc. He has also spent over five years in key roles in Crocs, where he also worked with the Company. Prior to joining the Company, he was associated with MAP Active & Planet Sports Inc. in the Philippines, a lifestyle retailer in Southeast Asia, where he was chief executive officer since March 2020. He has been appointed as the Chief Executive Officer on July 1, 2021
Alisha Rafique Malik	President, E-Commerce and Marketing		She holds a bachelor's degree in Arts (Finance) from University of Northumbria conducted at Welinkar Institute of Management Development and Research. She has been associated with the Company since July 1, 2009
Kaushal Khodidas Parekh	Chief Financial Officer		He holds a bachelor's of commerce degree in Financial Accounting and Auditing (Special) from University of Mumbai and is a qualified chartered accountant. He has previously served as Associate Vice President, Ernst & Young Private Limited. He has been associated with the Company since March 28, 2012.
Sohel Jalaludin Kamdar	Chief Operating Officer		He holds a bachelor's degree of commerce in in Financial Accounting and Auditing (Special) from Sydenham College of Commerce and Economics, University of Mumbai. He has been associated with the Company since February 16, 2005. He is a member of the Institute of Chartered Accountants of India. Prior to his joining the Company, he was associated with Jamani Investments Limited
Tarannum Yasinhusein Bhanpurwala	Company Secretary and Compliance Officer		She holds a bachelor's degree in commerce from K.J. Somaiya College of Science and Commerce, University of Mumbai and a master's degree of commerce (external) from University of Mumbai She also holds a bachelor's degree in law (general) from the Habib Educational & Welfare Society's M.S. College of Law and is an associate of the Institute of Company Secretaries of India

Source: Company

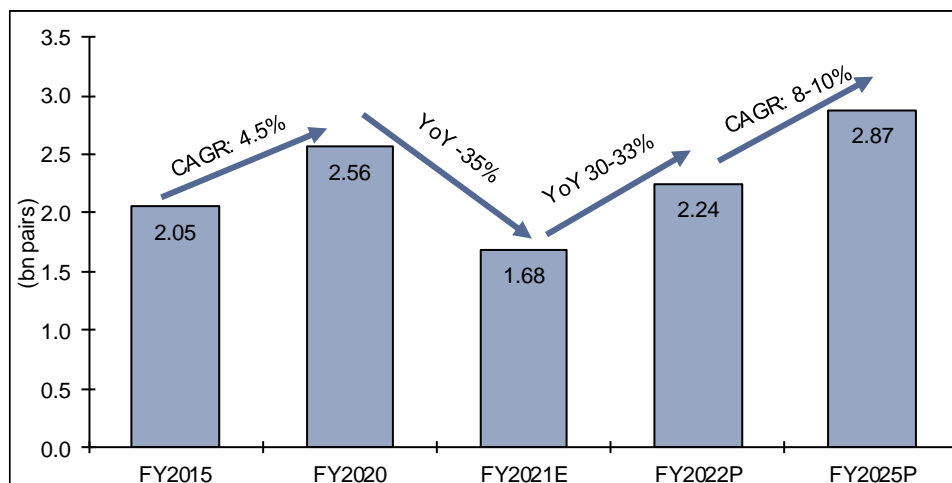
Appendix 4: Industry Overview

India Footwear Market Overview

The Indian footwear consumption has grown from 2.05bn pairs in FY15 to 2.56bn pairs in FY20, at CAGR of 4.5%. The volume growth has been supported by rise in disposable incomes, urbanisation levels and greater availability of footwear due to growth of shopping formats. In recent years, the tendency to consider footwear as fashion attire and own multiple pairs based on usage and occasion have also been on the rise. There was a decline of ~35% in footwear consumption in FY21 when compared with FY20 on account of the lockdown restrictions imposed due to the ongoing pandemic.

Going forward, Indian footwear consumption in volume terms is expected to grow at a CAGR of 8% to 10% between FY22-25 with total footwear consumption estimated at approximately 2.9bn pairs by FY25, driven by stabilised economies and release of pent-up consumer demand. Volume is expected to remain moderate as slowdown in overall population growth is expected to be countered by increase in urbanisation levels, rise in disposable incomes and trends such as increased outdoor activities and increase in brand consciousness.

Chart 34: Indian footwear market size (in volume)



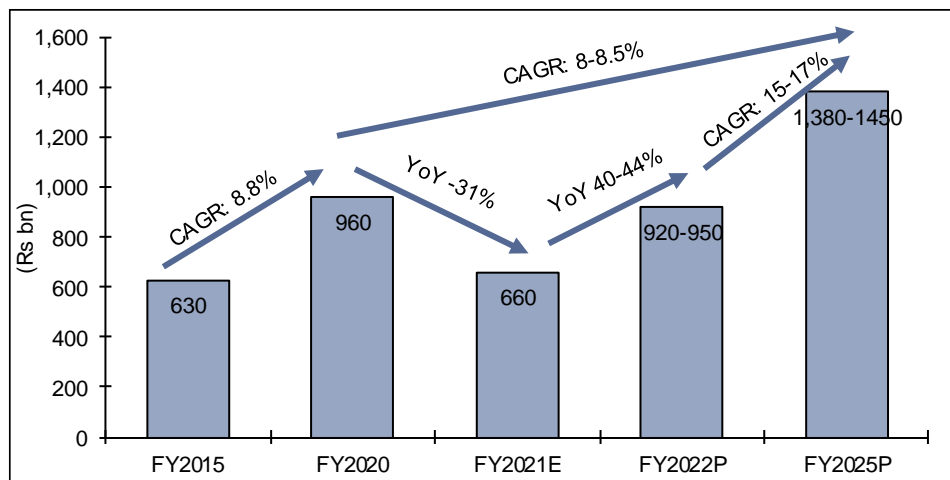
Source: CRISIL Research Note: P: Projected

Shift towards high-value products has led overall value growth

Over last few years, Indian retail has seen healthy growth with rise in disposable income, increased consumer spending and modernisation 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 urbanisation. 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% to 17% between FY22 and FY25.

Chart 35: Indian footwear market size (in value)



Source: CRISIL Research Note: P: Projected

Changing customer behavior to drive growth ahead

CRISIL Research expects the footwear market to grow at CAGR of 15% to 17% from Rs920-950bn in FY22 to Rs1,380-1,450bn in FY25. Rise in income levels, standard of living, footwear as fashion statement, footwear volumes in urban areas with different footwear purchased for different occasions, women workforce participation, and brand awareness will contribute to the growth of footwear market.

Growth of the footwear market is estimated to be driven by value, with average selling price (ASP) of footwear to increase by 5% to 7% CAGR between FY22 and FY25. The growth in volume terms is estimated to be around 2% to 3% CAGR during the same period.

Other Key Trends in the Indian Footwear Market

Organised footwear industry to reach Rs530-550 bn by FY25

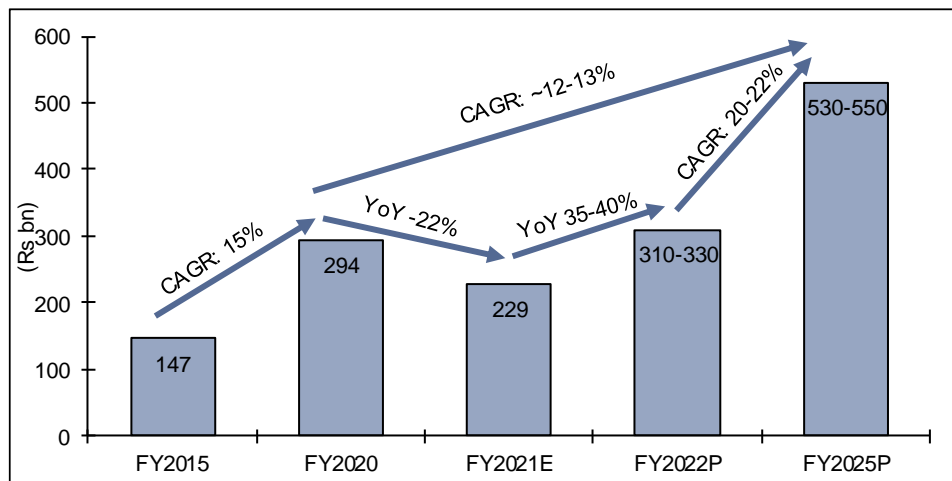
The Indian footwear industry remains largely unorganised, with approximately 69.4% share of the total footwear industry as of FY20. CRISIL Research estimates the share of organised players at approximately 30.6% as of Fiscal 2020, translating to a market size of Rs294bn. The organised players' share has grown at CAGR of approximately 15% in past 5 years, largely on account of rise in urbanisation levels and increasing acceptance of brands and modern retail formats by the Indian consumer. The urban shopping landscape has evolved from traditional and clustered shopping areas in the older and traditional parts of the city to experience-based shopping in large, spacious stores, high streets and retail malls in the newer areas of the city.

Additionally, initiatives by footwear players such as enhancing the overall customer experience via increased frequency of designs, advertising and promotional activities to raise brand awareness as well as increased geographical reach has also aided

growth of the organised segment. Further, the implementation of GST in FY18 has spawned structural changes in the supply chain and logistics network in India.

Companies have started migrating from the current strategy of 'multiple warehousing' to the 'hub and spoke' model as tax treatment across India will be uniform. GST has also driven the market share gains for organised players, as tax arbitrage which used to help unorganised players has been reduced. Industry interactions also reveal that the organised players have adjusted better to the COVID-19 pandemic compared to their unorganised counterparts.

Chart 36: Indian organised footwear market size (in value)



Source: CRISIL Research Note: P: Projected

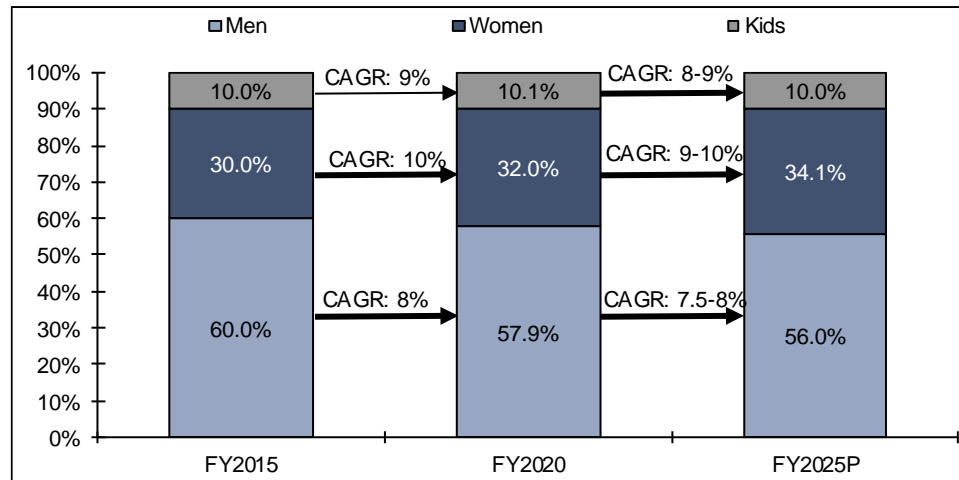
Women's category to see faster growth while men's category will remain dominant

The Indian footwear industry can also be classified based on gender, namely men, women and kids' footwear. Traditionally, men's footwear segment has enjoyed majority share of total footwear industry, although in terms of growth, women's and kids categories have fared marginally better with approximately 10% and approximately 9% CAGR respectively between FY15-20. The men's footwear category grew at 8% CAGR during the same period.

Women's footwear as a category has started gaining significant traction, especially as branded players are offering comparatively more designs and choices in this segment as compared to the men's or kids segments. Also, a key factor for growth is increasing participation of women in the workforce. With more women joining the corporate workplace, and a corresponding increase in discretionary spending on footwear, demand for women formals and comfort-wear has increased. Consequently, their share in total footwear industry has improved marginally from 30% in FY15 to approximately 32% in FY20.

The kids' segment's share is low at approximately 10% as of Fiscal 2020. Due to change in shoe sizes as the child grows up, the frequency of footwear purchase is higher in kids segments as compared to men's or women's segment. On the other hand, the tendency to spend on branded shoes for this segment is typically lower as compared to men's or women's segments.

Chart 37: Gender-wise breakup of footwear industry



Source: CRISIL Research Note: P: Projected

Likely shift in favour of economy, mid and premium-priced segments

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 to by unorganised 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 organised players in the market.

Chart 38: Segment-wise brands in the Indian Footwear Market



Source: CRISIL Research
 Note: The categorization is done as follows:

- Mass segment is priced below Rs500 a pair
 - Economy segment is priced between Rs501 to Rs1,000 per pair
 - Mid-segment is priced between Rs1,001 to Rs3,000 per pair
 - Premium segment is priced at Rs3,001 per pair and above
- There will be certain overlaps for certain SKUs for each brand, and the current classification is based on ASP and majority price range. Please note the above image is for illustration purposes only.

This decline in market share has been captured by economy, mid, and premium price-range segments, which have grown at CAGR of approximately 12%, approximately 12.5% and approximately 12% respectively during FY15-20. Typically, these segments are catered to by organised players with national, regional and international

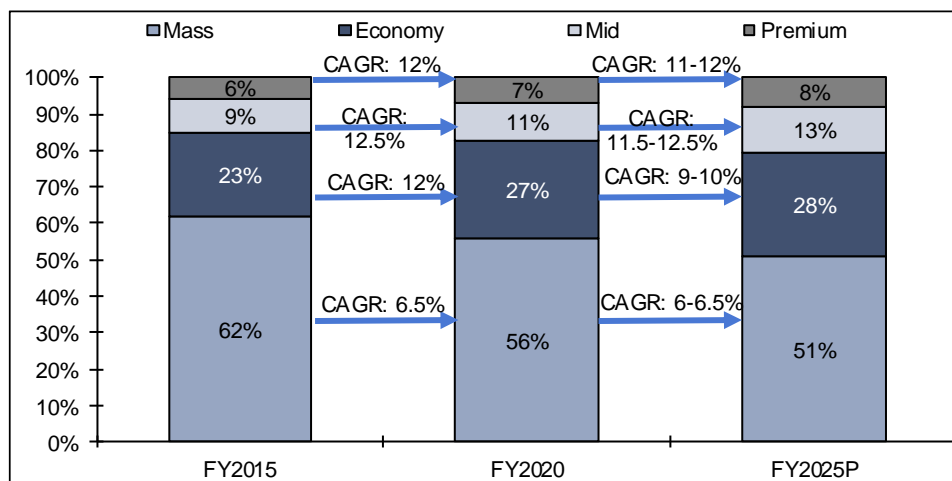
brands and their growth in the overall footwear industry has led to an increase in their respective shares. Moreover, factors like higher penetration of modern retail formats, rising income levels, and growing brand awareness have aided the growth of the mid and premium price segments.

Premium segments seeing stronger growth

Going forward, CRISIL Research expects the Indian footwear market 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% to ~6.5% CAGR between FY20-25. On the other hand, the other three segments are expected much better growth (~11% to ~12% CAGR for premium, ~11.5% to ~12.5% CAGR for mid segments and ~9% to ~10% CAGR for economy segment) during the same period. Compared to the total footwear industry's growth rate of 8% to 8.5% CAGR between FY20-25, the economy, mid and premium sections are together expected to grow at a comparatively higher rate of 10% to 11% CAGR during the same period.

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.

Chart 39: Segment-wise break-up and growth in the Indian Footwear Market



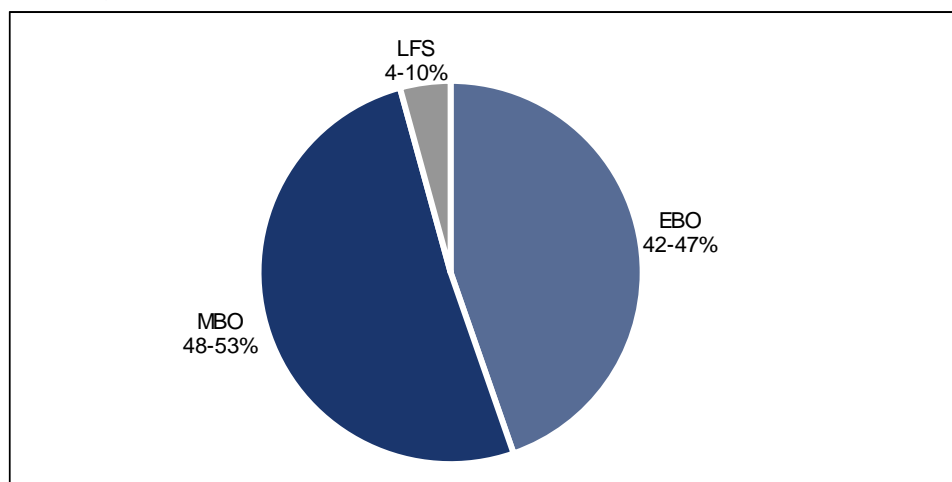
Source: CRISIL Research

Note: P: Projected

Organised retailing of footwear dominated by offline channel

Indian consumers prefer the specialty stores (EBOs and MBOs) format when it comes to the footwear category, on account of wide variety, service offered and brand loyalty developed over a long period. This is also reflected in their share in the organised footwear industry, where EBOs and MBOs enjoy a higher share (42% to 47% for EBOs and 48% to 53% for MBOs as of Fiscal 2021 in traditional offline organised retail) as compared to the large department and lifestyle stores (LFS). Online retail of footwear is yet in its nascent stages as evident from its share of 7-8% in overall retail as of Fiscal 2021, with nearly half contributed by organised segment and rest by unorganised segment. However, industry interactions indicate that players have started augmenting their online presence via own websites or via marketplace websites and the format is expected to gain traction in the medium to long term.

Chart 40: Broad split of traditional offline formats for organised footwear industry (FY21)



Source: CRISIL Research

Note: Certain MBOs also have their own footwear brands along with other footwear brands

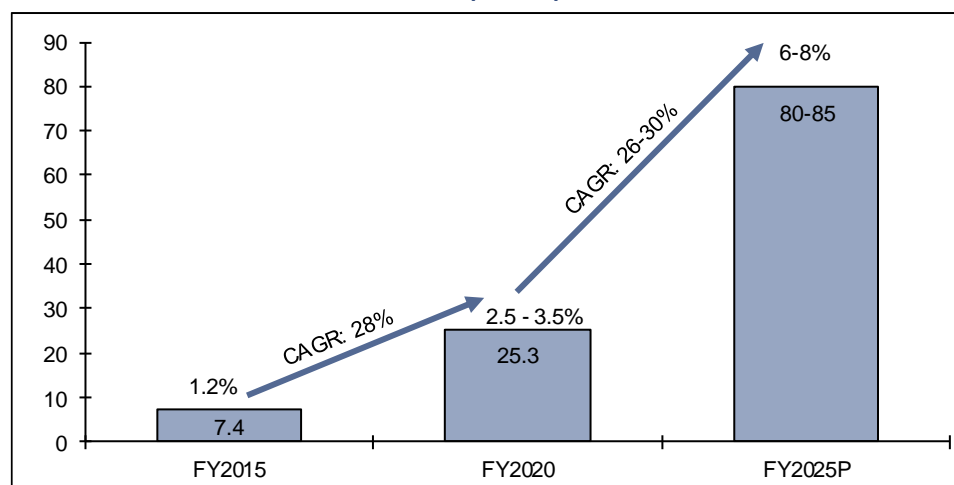
E-commerce in footwear

Shift to e-commerce has helped key players tackle space and inventory issues. The online platform offers ease of display of variety to customers at their comfort and convenience without the need to physically visit the store. The probability of new customers viewing product range online is higher than he/she visiting stores. E-retail also allows players to display wide variety of design which the user can sort easily as per preference; otherwise for offline stores, maintaining the right product mix with limited space is a key concern. This can also act as a limiting factor – if a customer views a collection online and decides to visit the store, only to find the same design is not available in the store, this can generate inconvenience and negative customer experience.

Prominent players have launched their own e-retail websites or many brands have tied up with e-commerce platforms to showcase their product range, others are following the trend. Myntra, Amazon, Flipkart, etc. are some of the leading e-commerce marketplaces for footwear in India.

CRISIL Research estimates that online retailing of footwear contributes 2.5%-3.5% share in total Indian footwear industry as of FY20. Online retailing of footwear grew from ~Rs7.4bn in FY15 to ~Rs25.3bn in FY20, marking a CAGR of approximately 28%, given its nascent stage and low base effect. Going forward, CRISIL Research expects the share to grow from 2.5% to 3.5% in FY20 to 6% to 8% in FY25 at a CAGR of -26%-30%. In absolute terms, the online footwear sales are expected to grow from ~Rs25 bn in FY20 to ~Rs80 bn to Rs85 bn in FY25.

Chart 41: E-retail footwear market (Rs bn)



Source: CRISIL Research

Note: P: Projected

The numbers on top of bar represent the penetration of E-retail in total footwear market

Growth drivers and challenges of footwear industry

Footwear from utility to fashion statement

Footwear has evolved from being just being a mere necessity as cover and protection for feet to an important part of the fashion outfit. Footwear is considered an integral part of attire that makes one stand out. Even for regular wear, the young generation is paying increasing attention to sport a footwear that goes well with the clothing and occasion. Along with clothing, a right pair of footwear is needed to complete one's appearance and good looks. Comprehensibly, the simple footwear is seeing increase in stylisation over the years.

Footwear for every occasion

Consumer demand different design and styles of footwear as per changing fashion trends, tastes and preference to own variety of footwear to match outfit and occasions. Thus, designing and introducing different styles of footwear become critical for brands on stay relevant with fashion trends. Players in the industry have introduced new designs and trends in their product portfolio to stay ahead of the rising demand. Individuals also own footwear for different purposes, such as athletic shoes for fitness and adventure activities, casuals for daily commute and everyday use, formals for office wear, party wear footwear for special occasions, etc.

Health and fitness awareness

Increasing health and fitness awareness is creating higher demand for athletic footwear. The youth and middle-aged consumers are increasingly adopting an active lifestyle by participating and engaging in activities such as running, working out in the gym, and sports such as tennis, cricket, badminton, football, trekking, etc. This had led to a rise in the demand for activity-specific athletic sportswear.

CRISIL expects that the casual sports footwear will play an important role in recovery of the overall footwear industry post the pandemic. As the ASP of sports footwear is 75% to 150% higher than casual footwear, the increased demand has created a growth potential for the footwear industry.

Women segment to rise with rise in women workforce

With an increase in the women workforce, the demand for women's footwear has expanded. The share of women's footwear has risen from approximately 30% in FY15 to ~32% in FY20, comprising the fastest-growing segment at approximately 10% CAGR. Women's footwear has more variety and styles as compared with men's footwear. In India, women tend to place greater emphasis on fashion than men and consequently purchase footwear more frequently as compared to men. Thus, the rise in women's participation in the economy will increase the consumption of footwear.

Spending will rise as the new-age generation enters prime years

This generation has more exposure to fashion and brands than the previous demographics. As they are entering their prime age of consumption and earning, they will tend to spend more on aspirational purchases and brands than their previous generations, which will drive growth for premium and branded products.

Also, given digital media penetration, the new generation is more fashion and brand conscious, thus boosting demand for branded casual and formal footwear.

Rising in disposable income has led to consumer shifting to higher price segments

The average selling price in the Indian footwear industry has increased owing to premiumisation over the past decade. The mass market constituted approximately 62% of the total industry size in FY15, which has declined to 56% in FY20 owing to a shift in consumer preference towards high-priced products. The average selling price of footwear has grown at approximately 4% CAGR from Rs308 per pair in FY15 to Rs376 per pair in FY20. Brand consciousness, rising income levels, increase in the standard of living, and demand for fashionable footwear have led consumers shifting to higher price points.

Rise in urbanisation

As per United Nations population estimates, the share of the urban population is expected to increase from 34% in 2018 to 35.9% in 2022, and increase further to 37.4% by 2025. Also, urban conglomerates with populations of more than 0.3mn would likely grow at approximately 2.6% by 2025. The rise in urbanisation will help increase the share of the organised retail segment by boosting the demand for modern retail formats and high-value footwear units.

Increase in brand consciousness

Exposure to global trends and fashions have increased overall brand consciousness among Indian consumers, especially the younger generation in urban areas. Aspiration levels have also improved over time with an increase in disposable incomes, leading to a greater awareness and appreciation of branded products across segments.

Brand endorsements by celebrities and eminent personalities in sports and cinema have led to an increase in brand awareness among the Indian youth. Brand promotion spends, one of the key metrics for retailers, have risen over the past few years to generate awareness and increase reach.

The footwear retail market in India is dominated by unorganised players and domestic / well-established Indian brands

The footwear market in India is fragmented, with organised players having a lower share as compared with unorganised players. The organised industry contributes to approximately 35% of the total footwear industry. This approximately 35% of the industry valued at Rs229bn in FY21 (Rs294bn in FY20) consists of players such as Bata India, Metro Brands, Mirza International, Paragon, Relaxo, Inc 5., Action footwear, and International brands such as Reebok, Nike, Puma, Adidas, Fila, Asics, Skechers, Clarks, and others. The largest player among all is Bata India with revenue of Rs17 bn in FY21 and Rs30.6 bn in FY20. Bata India though an international brand, is considered an Indian brand on account of its presence since 1931 and penetration across India.

With the presence of so many players in the organised Indian footwear market, there is a need among brands to innovate and stay ahead of fashion. A large set of Indian customers still prefer Indian brands due to the price-sensitivity factor as compared with international brands.

Impact of Covid-19 pandemic on Indian Footwear Industry

Rising importance of E-commerce & Deep discounting offers

As with most apparel categories, E-commerce gained significant importance for footwear sales during the pandemic as most retail stores remained closed by government directives and also since people remained fearful of shopping offline due to risk of being exposed to virus. Also, since most brick & mortar and online stores were prohibited from selling non-essentials during the initial stages of the first lockdown, most players in the industry resorted to deep discounting pricing strategies to maintain market share.

Sports footwear expected to develop further

The already prominent health & wellness trend received a boost during the pandemic the trend is expected to maintain significant momentum, driven by an increased awareness about healthy living amongst the growing urban population. CRISIL expects that the sports footwear will play an important role in recovery of the overall footwear industry post the pandemic.

Rising raw material prices hit the unorganised sector drastically

Industry sources reveal that the prices for chemicals, leather and some other raw materials used in footwear manufacturing have been seeing a rising trend since the lockdown post the first wave of the pandemic. Although, a lot of the major players were able to maintain their cost prices due to their long-standing ties with suppliers and by managing inventory, the players in the unorganised sector as well as the smaller organised players were unable to absorb the rising costs and thus their margins took a drastic hit.

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