

## Disappointing performance; Downgrade to Accumulate

- Metro reported subdued performance during the quarter as the results were below our estimate. The company reported mere 6.1% revenue growth – breaking double digit growth momentum for the first time in recent past.
- Though the revenue growth was below our estimate, the company was able to maintain 3-Yr CAGR at 28%. Barring few hiccups due to slow economic growth and high base, we believe that the company would re-gain lost momentum in the FY25E. Considering penetration opportunity and ongoing brand additions, we expect the growth momentum to remain strong. Further, continuous premiumization is expected to keep ASP higher.
- We have downward revised our FY24/25/26E EPS estimates by 11.2/11.7/11% at Rs 13.5/18.2/22.8 to factor in Q3 performance and muted demand across industry. However, we continue to believe that Metro would outperform peers due to premium brand positioning, higher aspirations, demographic support and low penetration. Valuing the stock at 57x FY26E EPS, TP reduced at Rs 1,301. Downgrade to Accumulate.

## Results below estimate

Revenues grew by 6.1% YoY to Rs 6.4bn in Q3FY24 on account of high base effect (23.8% in Q3FY23) and muted consumer sentiments. GM expanded by 70bps to 59.9%. A 70bps decline in RM cost was fully offset by 120/240bps increase in employee cost/other exp resp. Consequently, EBITDA margin contracted by 300bps to 31.3% in Q3FY24. EBITDA de-grew by 3% YoY to Rs 2.0bn in Q3FY24. Net profit de-grew 12.6% YoY to Rs 978mn in Q3FY24.

## Store addition guidance maintained

Despite muted growth during the quarter, the company has maintained its target to add 200 stores over next couple of years. Further, the company would start adding stores under Foot Locker brand in Q3FY25E. However, EBITDA margins are expected to remain under pressure in the near term due to normalization of marketing expenses and operating deleverage in Fila brand. We expect margins to gradually improve by FY26E with the increase in premium brand contribution from current 48% level. In a long run, Metro targets to maintain 18%+ revenue CAGR driven by 5-6% SSSG and 12-13% growth led by store addition.

## Q3FY24 Result (Rs Mn)

Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Revenue	6,355	5,987	6.1	5,557	14.4
Total Expense	4,365	3,935	10.9	4,003	9.0
EBITDA	1,990	2,052	(3.0)	1,554	28.1
Depreciation	586	504	16.3	572	2.6
EBIT	1,403	1,548	(9.3)	982	42.9
Other Income	160	146	9.0	162	(1.2)
Interest	204	173	18.0	197	3.3
EBT	1,359	1,521	(10.6)	947	43.6
Tax	379	394	(3.8)	275	37.5
RPAT	978	1,120	(12.6)	667	46.7
APAT	978	1,120	(12.6)	667	46.7
			(bps)		(bps)
Gross Margin (%)	59.9	59.2	66	56.8	309
EBITDA Margin (%)	31.3	34.3	(296)	28.0	335
NPM (%)	15.4	18.7	(331)	12.0	339
Tax Rate (%)	27.9	25.9	199	29.1	(124)
EBIT Margin (%)	22.1	25.8	(376)	17.7	441

CMP	Rs 1,166
Target / Upside	Rs 1,301 / 12%
NIFTY	21,622

## Scrip Details

Equity / FV	Rs 1,359mn / Rs 5
Market Cap	Rs 317bn
	USD 3.8bn
52-week High/Low	Rs 1,441/ 736
Avg. Volume (no)	1,33,220
Bloom Code	METROBRA IN

Price Performance	1M	3M	12M
Absolute (%)	(11)	(2)	33
Rel to NIFTY (%)	(12)	(12)	14

## Shareholding Pattern

	Jun'23	Sep'23	Dec'23
Promoters	74.2	74.2	74.2
MF/Banks/FIs	5.7	6.1	6.0
FIs	2.6	2.3	2.7
Public / Others	17.5	17.4	17.2

## Valuation (x)

	FY24E	FY25E	FY26E
P/E	86.5	63.9	51.0
EV/EBITDA	44.0	34.8	28.4
ROE (%)	21.3	23.5	23.6
RoACE (%)	16.7	19.0	20.0

## Estimates (Rs bn)

	FY24E	FY25E	FY26E
Revenue	23.8	28.4	33.5
EBITDA	7.3	9.1	10.9
PAT	3.7	5.0	6.2
EPS (Rs.)	13.5	18.2	22.8

**VP - Research: Sachin Bobade**  
Tel: +91 22 40969731  
E-mail: sachinb@dolatcapital.com

**Associate: Jyoti Amonkar**  
Tel: +9122 40969622  
E-mail: jyotia@dolatcapital.com

**Associate: Nistha Pala**  
Tel: +9122 40969753  
E-mail: nisthap@dolatcapital.com

**Exhibit 1: 9MFY24 performance**

Particulars (Rs.mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
<b>Net Sales</b>	<b>6,355</b>	<b>5,987</b>	<b>6.1</b>	<b>5,557</b>	<b>14.4</b>	<b>17,737</b>	<b>15,830</b>	<b>12.1</b>
<b>Total Expenditure</b>	<b>4,365</b>	<b>3,935</b>	<b>10.9</b>	<b>4,003</b>	<b>9.0</b>	<b>12,328</b>	<b>10,478</b>	<b>17.7</b>
RM Cost	2,549	2,441	4.4	2,401	6.2	7,333	6,519	12.5
Employee Exp	604	496	21.6	553	9.2	1,689	1,320	27.9
Other Exp	1,213	998	21.5	1,050	15.5	3,306	2,639	25.3
<b>PBIDT (Excl OI)</b>	<b>1,990</b>	<b>2,052</b>	<b>(3.0)</b>	<b>1,554</b>	<b>28.1</b>	<b>5,409</b>	<b>5,352</b>	<b>1.1</b>
Other Income	160	146	9.0	162	(1.2)	465	357	30.3
Depreciation	586	504	16.3	572	2.6	1,701	1,308	30.0
<b>EBIT</b>	<b>1,563</b>	<b>1,694</b>	<b>(7.7)</b>	<b>1,144</b>	<b>36.7</b>	<b>4,174</b>	<b>4,401</b>	<b>(5.2)</b>
Interest	204	173	18.0	197	3.3	586	456	28.6
<b>PBT</b>	<b>1,359</b>	<b>1,521</b>	<b>(10.6)</b>	<b>947</b>	<b>43.6</b>	<b>3,588</b>	<b>3,945</b>	<b>(9.1)</b>
Tax	379	394	(3.8)	275	37.5	1,007	991	1.7
<b>PAT before minority</b>	<b>981</b>	<b>1,128</b>	<b>(13.0)</b>	<b>671</b>	<b>46.1</b>	<b>2,581</b>	<b>2,954</b>	<b>(12.6)</b>
<b>RPAT</b>	<b>978</b>	<b>1,120</b>	<b>(12.6)</b>	<b>667</b>	<b>46.7</b>	<b>2,573</b>	<b>2,930</b>	<b>(12.2)</b>
<b>APAT</b>	<b>978</b>	<b>1,120</b>	<b>(12.6)</b>	<b>667</b>	<b>46.7</b>	<b>2,573.4</b>	<b>2,929.6</b>	<b>(12.2)</b>
EPS	3.6	4.1	(12.8)	2.5	46.7	9.5	10.9	12.1
			<b>bps</b>		<b>bps</b>			
Gross Profit (%)	59.9	59.2	70	56.8	310	58.7	58.8	(20)
Employee Cost (%)	9.5	8.3	120	9.9	(50)	9.5	8.3	120
Ad spends (%)	9.5	8.3	120	9.9	(50)	9.5	8.3	120
Other Exp (%)	19.1	16.7	240	18.9	20	18.6	16.7	200
EBITDA (%)	31.3	34.3	(300)	28.0	340	30.5	33.8	(330)
EBIT (%)	24.6	28.3	(370)	20.6	400	23.5	27.8	(430)
APAT (%)	15.4	18.7	(330)	12.0	340	14.5	18.5	(400)

Source: DART, Company

**Exhibit 2: Actual V/S DART Estimates**

Particulars (Rs mn)	Actual	Estimates	Variance (%)	Comments
Revenue	6,355	6,845	(7.2)	Higher impact of muted demand
EBITDA	1,990	2,158	(7.8)	Cascading effect of lower revenues
EBITDA margin %	31.3	31.5	(20bps)	
APAT	978	1,088	(10.1)	Cascading effect of lower EBITDA

Source: DART

**Exhibit 3: Change in estimates**

Particulars (Rs mn)	FY24E			FY25E			FY26E		
	New	Old	Chg. (%)	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenue	23,753	24,674	(3.7)	28,428	29,479	(3.6)	33,474	34,657	(3.4)
EBITDA	7,277	7,900	(7.9)	9,095	9,979	(8.9)	10,926	11,955	(8.6)
EBITDA margin (%)	30.6	32.0	(140bps)	32.0	33.9	(190bps)	32.6	34.5	(190bps)
PAT	3,660	4,123	(11.2)	4,959	5,616	(11.7)	6,205	6,971	(11.0)
EPS (Rs)	13.5	15.2	(11.2)	18.2	20.7	(11.7)	22.8	25.7	(11.0)

Source: DART, Company

We have downward revised our revenue estimates to factor in Q3 performance and slowdown in the domestic market. Further, we have downward revised our margin estimates to factor in anticipated increase in A&P spends and low operating leverage associated with Fila in the initial phase. In line with the revision in EBITDA, we have downward revised our APAT estimates.

## Earnings Call KTAs

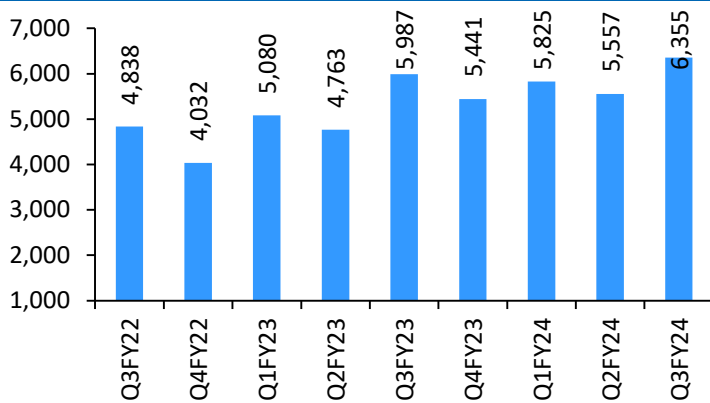
- MBL's revenue grew by mere 6.1% YoY (vs 23.8% in Q3FY23) on account of high base effect. During the quarter, demand faced temporary headwinds due to inflated inventory levels. Moreover, an incremental non-cash expense of ~60bps were incurred due to ESOPs issuance and IND AS 116 of this year.
- During 9MFY24, overall ASP stood at Rs 1,500 (vs Rs 1,450 in 9MFY23). Going ahead, we believe ASP would improve led by positive consumer sentiments.
- During the quarter, 33 new stores were opened, 2 stores were closed and 2 was relocated taking net store addition to 31 stores. Going ahead, over next two years 200 stores are expected to be added. MBL has added 3 new cities in Q3, taking total count to 192 cities.
- During Q3FY24, GM expanded by 70bps to 59.9%. Further, higher A&P spends and other operating cost led to EBITDA margin contraction of 300bps. Going ahead, higher A&P spends would drive overall sales. GM would be maintained at ~55-57 for FY24E.
- During Q3, CBL (Cravatex Brands Limited) posted revenue of Rs 80mn, however loss on PAT was at Rs 150mn - consolidated numbers includes loss towards CBL acquisition. We believe, through acquisition of CBL the company would be able to fill widespace in its product portfolio in the sports and athleisure (S&A) segment. The move is optimistic on the business in the long run, considering S&A has a huge market size and the segment is expected to grow fastest in the footwear space.
- During the quarter, the company has signed an agreement with Footlocker Inc. Further, the company has been working on repositioning initiatives that will be effective from Q1FY25E. MBL is looking forward to have two types of footlocker stores 1) Core stores (3000 sq feet) and 2) Power stores (5000 sq feet). Furthermore, MBL is expecting more revenue from footlocker stores on account of big store sizes (Footlocker-3000 sq feet-2x size of metro stores) and takes it as an opportunity to enter into athletic and sports category.
- MBL has front loaded inventory as BIS is mandated to be implemented by 1st Jan'2024 for most categories (deferred under MSME act) for which the company is well positioned to handle supply chain disruptions with forward bought inventory. Further, this would lead to higher inventory levels till Jun'24. We believe, implementation of BIS for footwear would further aid shift from unorganized to organized sector.
- Athletics segment contributes ~15% in Metro and Mochi. Further, FILA global has initiated global marketing campaign that would lead to aid synergies going ahead.
- E-commerce sales grew by 35% in Q3 to Rs 630mn. In addition, the 4-yr CAGR for online sales stood at 71%. During the quarter, demand in e-com remained subdued due to challenges faced as a result of integration of additional technology platforms to warehouse and order management systems.
- The BOD has declared an interim dividend of Rs 2.75 per equity share in Q3FY24.

#### Exhibit 4: Year wise store addition

Year wise store addition	FY20	FY21	FY22	FY23	Q1FY24	Q2FY24	Q3FY24
Metro	218	219	231	278	289	299	313
Mochi	145	145	162	199	211	223	229
Walkway	70	73	53	63	66	69	70
Crocs	118	149	178	195	195	197	206
Fitflop	-	-	-	4	5	7	8
<b>Total Stores</b>	<b>551</b>	<b>586</b>	<b>624</b>	<b>739</b>	<b>766</b>	<b>795</b>	<b>826</b>

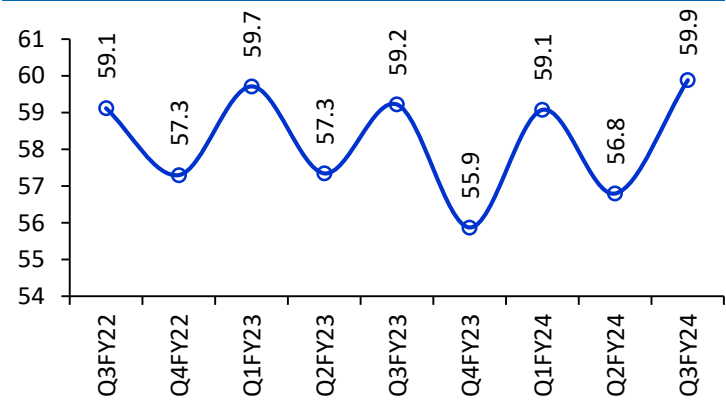
Source: Company, DART

#### Exhibit 5: Revenue Trend



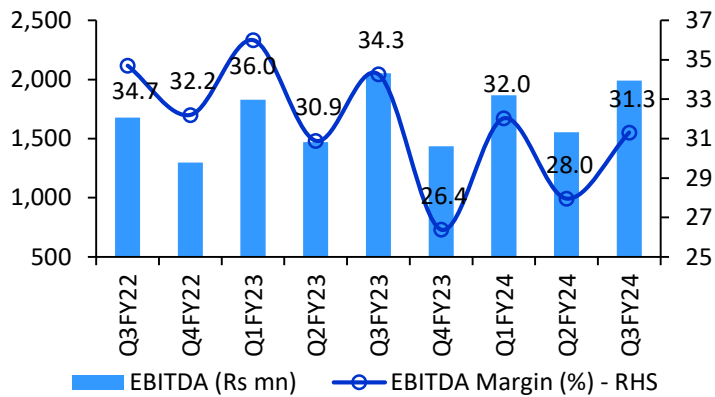
Source: Company, DART

#### Exhibit 6: Gross margin Trend (%)



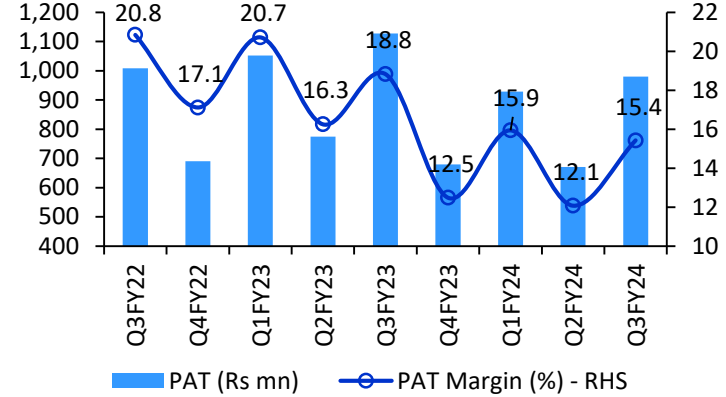
Source: Company, DART

#### Exhibit 7: EBITDA Trend (%)



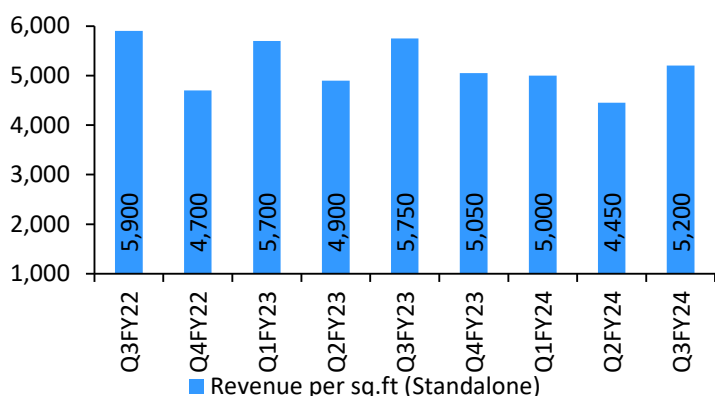
Source: Company, DART

#### Exhibit 8: Net profit trend (%)



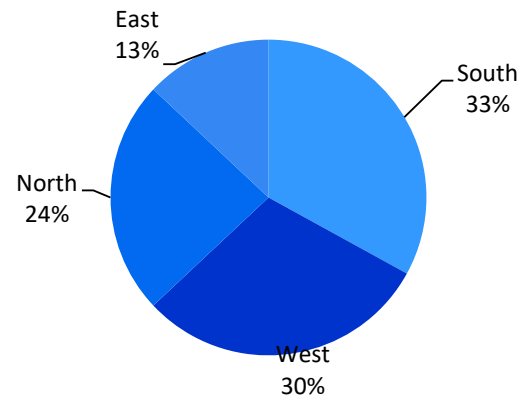
Source: Company, DART

#### Exhibit 9: Revenue per sq.ft



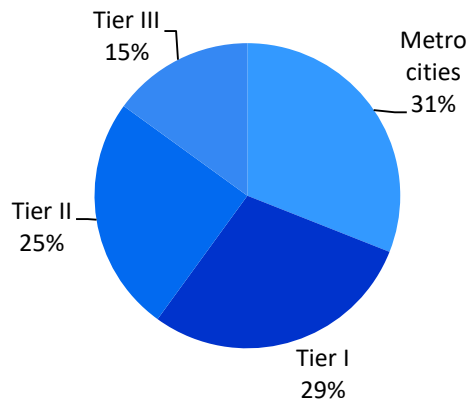
Source: Company, DART

#### Exhibit 10: Zone wise breakup – Dec'23



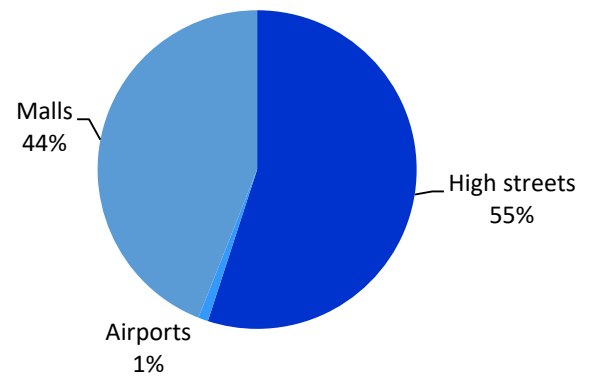
Source: Company, DART

**Exhibit 11: Tier wise break up – Dec'23**



Source: Company, DART

**Exhibit 12: Location wise breakup – Dec'23**



Source: Company, DART

## Financial Performance

### Profit and Loss Account

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>21,271</b>	<b>23,753</b>	<b>28,428</b>	<b>33,474</b>
<b>Total Expense</b>	<b>14,484</b>	<b>16,476</b>	<b>19,333</b>	<b>22,548</b>
COGS	8,920	9,788	11,357	13,318
Employees Cost	1,843	2,261	2,586	2,905
Other expenses	3,720	4,427	5,390	6,325
<b>EBIDTA</b>	<b>6,787</b>	<b>7,277</b>	<b>9,095</b>	<b>10,926</b>
Depreciation	1,810	2,145	2,320	2,613
<b>EBIT</b>	<b>4,977</b>	<b>5,132</b>	<b>6,775</b>	<b>8,313</b>
Interest	631	788	821	861
Other Income	544	670	816	987
Exc. / E.O. items	(19)	0	0	0
<b>EBT</b>	<b>4,871</b>	<b>5,014</b>	<b>6,770</b>	<b>8,438</b>
Tax	1,257	1,336	1,794	2,215
RPAT	3,595	3,660	4,959	6,205
Minority Interest	19	18	17	18
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>3,614</b>	<b>3,660</b>	<b>4,959</b>	<b>6,205</b>

### Balance Sheet

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
<b>Sources of Funds</b>				
Equity Capital	1,359	1,359	1,359	1,359
Minority Interest	264	303	343	384
Reserves & Surplus	14,119	17,507	22,058	27,720
<b>Net Worth</b>	<b>15,477</b>	<b>18,866</b>	<b>23,417</b>	<b>29,079</b>
Total Debt	9,430	9,185	8,990	8,834
Net Deferred Tax Liability	(49)	(49)	(49)	(49)
<b>Total Capital Employed</b>	<b>25,122</b>	<b>28,305</b>	<b>32,701</b>	<b>38,248</b>

### Applications of Funds

Net Block	<b>13,021</b>	<b>12,326</b>	<b>11,456</b>	<b>10,293</b>
CWIP	178	178	178	178
Investments	4,776	4,976	5,176	5,376
<b>Current Assets, Loans &amp; Advances</b>	<b>11,248</b>	<b>15,071</b>	<b>20,755</b>	<b>27,688</b>
Inventories	6,458	6,488	7,878	9,165
Receivables	1,261	1,142	1,448	1,481
Cash and Bank Balances	1,985	5,764	9,649	15,136
Loans and Advances	875	1,008	1,111	1,236
Other Current Assets	669	669	669	669
<b>Less: Current Liabilities &amp; Provisions</b>	<b>4,102</b>	<b>4,245</b>	<b>4,864</b>	<b>5,288</b>
Payables	2,813	2,937	3,375	3,683
Other Current Liabilities	1,288	1,308	1,490	1,605
<i>sub total</i>				
Net Current Assets	7,146	10,825	15,890	22,400
<b>Total Assets</b>	<b>25,122</b>	<b>28,305</b>	<b>32,701</b>	<b>38,248</b>

E – Estimates

### Important Ratios

Particulars	FY23A	FY24E	FY25E	FY26E
<b>(A) Margins (%)</b>				
Gross Profit Margin	58.1	58.8	60.1	60.2
EBIDTA Margin	31.9	30.6	32.0	32.6
EBIT Margin	23.4	21.6	23.8	24.8
Tax rate	25.8	26.6	26.5	26.2
Net Profit Margin	16.9	15.4	17.4	18.5
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	41.9	41.2	39.9	39.8
Employee	8.7	9.5	9.1	8.7
Other	17.5	18.6	19.0	18.9
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.6	0.5	0.4	0.3
Interest Coverage	7.9	6.5	8.3	9.7
Inventory days	111	100	101	100
Debtors days	22	18	19	16
Average Cost of Debt	7.7	8.5	9.0	9.7
Payable days	48	45	43	40
Working Capital days	123	166	204	244
FA T/O	1.6	1.9	2.5	3.3
<b>(D) Measures of Investment</b>				
AEPS (Rs)	13.3	13.5	18.2	22.8
CEPS (Rs)	20.0	21.4	26.8	32.5
DPS (Rs)	3.2	1.0	1.5	2.0
Dividend Payout (%)	24.4	7.4	8.2	8.8
BVPS (Rs)	57.0	69.4	86.2	107.0
RoANW (%)	25.6	21.3	23.5	23.6
RoACE (%)	19.1	16.7	19.0	20.0
RoAIC (%)	26.0	22.5	29.7	36.0
<b>(E) Valuation Ratios</b>				
CMP (Rs)	1166	1166	1166	1166
P/E	87.6	86.5	63.9	51.0
Mcap (Rs Mn)	3,16,754	3,16,754	3,16,754	3,16,754
MCap/ Sales	14.9	13.3	11.1	9.5
EV	3,24,198	3,20,175	3,16,095	3,10,451
EV/Sales	15.2	13.5	11.1	9.3
EV/EBITDA	47.8	44.0	34.8	28.4
P/BV	20.5	16.8	13.5	10.9
Dividend Yield (%)	0.3	0.1	0.1	0.2
<b>(F) Growth Rate (%)</b>				
Revenue	58.4	11.7	19.7	17.8
EBITDA	65.9	7.2	25.0	20.1
EBIT	81.0	3.1	32.0	22.7
PBT	71.8	2.9	35.0	24.6
APAT	70.8	1.3	35.5	25.1
EPS	70.8	1.3	35.5	25.1

E – Estimates



## Cash Flow

Particulars	FY23A	FY24E	FY25E	FY26E
<b>Profit before tax</b>	<b>4,891</b>	<b>5,014</b>	<b>6,770</b>	<b>8,438</b>
Depreciation & w.o.	1,810	2,145	2,320	2,613
Net Interest Exp	0	0	0	0
Direct taxes paid	(1,412)	(1,336)	(1,794)	(2,215)
Change in Working Capital	(1,727)	100	(1,180)	(1,023)
Non Cash	(818)	21	22	24
<b>(A) CF from Operating Activities</b>	<b>2,744</b>	<b>5,945</b>	<b>6,138</b>	<b>7,837</b>
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(915)	(1,450)	(1,450)	(1,450)
<b>Free Cash Flow</b>	<b>1,829</b>	<b>4,495</b>	<b>4,688</b>	<b>6,387</b>
(Inc.)/ Dec. in Investments	(607)	(200)	(200)	(200)
Other	0	0	0	0
<b>(B) CF from Investing Activities</b>	<b>(1,522)</b>	<b>(1,650)</b>	<b>(1,650)</b>	<b>(1,650)</b>
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	(2,732)	(244)	(195)	(156)
Interest exp net	0	0	0	0
Dividend Paid (Incl. Tax)	(883)	(272)	(408)	(543)
Other	28	0	0	0
<b>(C) CF from Financing</b>	<b>(3,587)</b>	<b>(516)</b>	<b>(603)</b>	<b>(700)</b>
Net Change in Cash	(2,365)	3,779	3,885	5,487
<b>Opening Cash balances</b>	<b>4,350</b>	<b>1,985</b>	<b>5,764</b>	<b>9,649</b>
<b>Closing Cash balances</b>	<b>1,985</b>	<b>5,764</b>	<b>9,649</b>	<b>15,136</b>

E – Estimates

## Notes

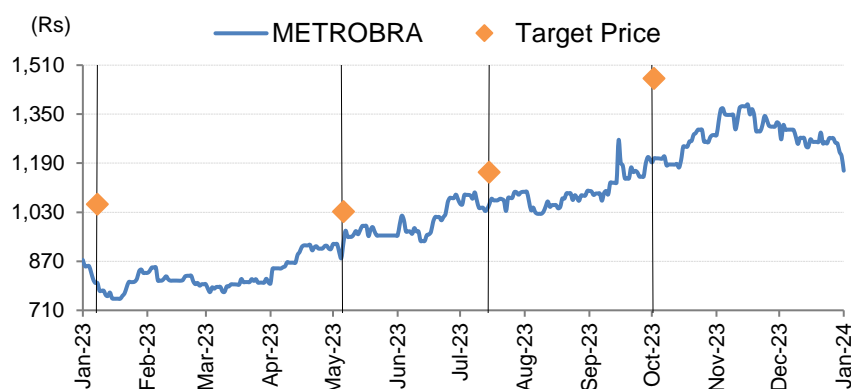


## DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

## Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jan-23	BUY	1,056	799
May-23	Accumulate	1,032	930
Aug-23	Accumulate	1,160	1,056
Oct-23	BUY	1,466	1,206

\*Price as on recommendation date

## DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
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Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
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## CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Jubbin Shah	VP - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Girish Raj Sankunny	VP - Equity Sales	girishr@dolatcapital.com	+9122 4096 9625
Pratik Shroff	AVP - Equity Sales	pratiks@dolatcapital.com	+9122 4096 9621
Rajeev Lala	AVP - Equity Sales	rajeevl@dolatcapital.com	+9122 4096 9767
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

**Dolat Capital Market Private Limited.**

Naman Midtown, A-1203, 12th Floor, Senapati Bapat Marg, Prabhadevi, Mumbai 400013

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Regd. office: 1401-1409, Dalal Street Commercial, Block 53 (Bldg. No.53E) Zone-5, Road-5E, Gift City, Sector 9, Gandhinagar-382355 Gujarat, India.

Board: +9122 40969700 | Fax: +9122 22651278 | Email: [research@dolatcapital.com](mailto:research@dolatcapital.com) | [www.dolatresearch.com](http://www.dolatresearch.com)