"Metro Brands Limited
4QFY22 Post Results Analyst Conference"

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Moderator: Ladies and gentlemen good day and welcome to the 4QFY22 Post Results Analyst Conference. Call of Metro Brands Limited hosted by Ambit Capital. We have with us today, Mr. Rafique A. Malik, Chairman, Mrs. Farah Malik Bhanji, Managing Director, Mr. Nissan Joseph, Chief Executive Officer, Ms. Alisha Rafique Malik, President E-commerce and Marketing, and Mr. Kaushal Parekh, Chief Financial Officer. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touch tone phone. Please note that this conference is being recorded. And I'll hand the conference over to Mrs. Farah Malik Bhanji. Thank you. And over to you, ma'am.

Farah M. Bhanji: Thanks lot for that introduction. Investors, this last week has been exciting for Metro Brands Limited, as we shared our fourth quarter annual FY'22 business results. I'm pleased to share an update with you on the key highlights for our company. Metro Brands Limited announced its fourth quarter financial results delivering consolidated revenue of INR403 crore for the quarter, a year-over-year increase of 26% for the quarter and INR1,343 crore for the year, an increase of 68% over FY'21. This growth is a testament to the underlying strength of the brands that we bring to the market and our passionate team.

All our formats under the new leadership have continued to show strong growth, both in terms of volumes and value. Despite the challenging global operating environment with supply chain disruptions, our brands and our fundamentals are strong, contributing to growth across all regions and channels. The growth has been driven by higher pricing, less discounting and greater volume. Digital channels posted high double-digit growth of 92% for the year.

We look forward to continuing to execute on the long-term vision of all our four brands and now Fitflop added to the mix, makes it five brands and remain extremely confident in our future. As always we thank you for your continued support and investment. I will now hand over to our CEO, Nissan Joseph.

Nissan Joseph: Good afternoon, and thank you Farah. In building on the overview by Farah, here are some key points to share with you. We have the highest Q4 in the history of Metro Brands, both from top line, as well as from a bottom line perspective. This, despite the fact, we had some closures in January related to the omicron impact. For the full year we posted our highest EBITDA, our highest PAT, both in amount and in percentage.

We see robust customer demand, continuing all our concepts of Metro, Mochi, Walkway and Crocs, even though some of them were impacted with supply chain challenges. We also saw a continuation of all categories showing growth in the different tiers that we operate in. While we are pleased to see that the customer is ready again for the offline experience, we are equally pleased to see that they invest in our e-com initiatives continue to perform as our digital business achieved a three year CAGR of 79% and continues to grow both in revenue and in share of business.

On the supply chain front, we anticipated early in the quarter that there would be challenges, and consequently made the decision to hedge on raw materials and inventory with deep rigor and analysis to maximize sales and gross margins, which is reflected in our Q4 performance.

This also allows us a little headroom in the timing of cost and price increases. We continue to monitor the input cost to our sourcing ecosystem and alert for a protracted cost increased environment. On the store opening front we made a strategic decision to exit our Walkway shop-in-shop business in the DMart chain to focus our efforts on opening company-owned company operated along with franchise stores for the Walkway business.

The impact of these closures were minimal to the sales of the company impacting us less than INR5 crores. Moving to the overall store growth numbers for Metro Brands we closed the 21 DMart SIS stores I mentioned we relocated 12 other stores of the chain to better locations and opened 75 new stores in our multiple concepts of Metro, Mochi, Walkway and Crocs through the year. So, 75 new and 12 relocated stores for a total of 87 new stores last year.

Consequently, we ended the year at 624 stores versus 586 for the previous year. In April we also opened the first Fitflop store in India. We are very pleased with the consumer demand and look to open five additional Fitflop stores in this fiscal year. We remain confident of our previous guidance of opening a total of 260 stores by FY'25. I will now hand over to our CFO Kaushal to take you through more details on the quarter and the year.

Kaushal Parekh: Thank you, Nissan. Good afternoon, everyone, and welcome to Q4 earning calls of Metro Brands Limited. The quarter under review saw a phenomenal recovery despite of adverse impact of COVID-19 third wave seen in the month of Jan. Metro Brands delivered its best ever fourth quarter, both in terms of top line and bottom line growth. This was led by higher sales and store count, improved gross margins and overall efficiency in expense management.

Let me now start with a quick snapshot of financial performance of Metro Brands Limited, starting with revenues. On a year-on-year basis Q4 FY'22 revenue was up by 26%. Even if you compare with pre-COVID level, that is with Q4 FY'20, our revenue growth was up by 40%. For a full -- on a full year basis our revenue was up by 68% versus last year. We're happy to confirm and inform that robust sales growth momentum in our eCommerce channel, which includes our omnichannel sales is continuing. Our full year eCommerce revenue was up by 92% over last year.

Moving on to gross margins, at a consolidated level for FY'22, we delivered strong gross margins of 57.9%. We achieved higher gross margins, primarily due to lower contribution of discounted sales and improvement in the overall sales mix. Our in-house sales contribution has increased to 73% versus average of 70% seen over last many years.

Historically over last three years, we've seen gross margins ranging around 55% to 56%, level. Even in this volatile environment, we are confident to maintain or improve on this margins which we have delivered over the last many years.

Lastly, moving on to EBITDA and PAT in Q4 FY'22, we delivered strong EBITDA margin of 32.3% and PAT margin of 17.2%. Similarly for full year, despite adverse impact of COVID-19 second and third wave during the year, during last year, we delivered best ever EBITDA and PAT margin of 30.6% and 15.9% respectively. With this I'll conclude and hand over to our Chairman Mr. Malik for his closing remarks.

Rafique A. Malik: Thank you, Kaushal and good afternoon, everyone. I'm very proud of the performance delivered by Metro Brands' team. This has been an exceptional year for our company, and we believe that this is a decade for India. And our team is poised to take advantage of it. Thank you all for your support and interest in Metro Brands Limited. I now hand it over to the operator for question and answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Bhargav Buddhadev from Kotak. Please go ahead.

Bhargav Buddhadev: Yes, good afternoon team, and congrats on a very strong performance. My first question is, is it possible to sort of share what has been the revenue growth on a per square feet basis in FY'22?

Kaushal Parekh: So, you know, as we mentioned our overall growth for the quarter was 26% and for the year fully growth was 68%. So even when you see it on a per square feet basis or last year overall numbers would reflect the similar percentages.

Bhargav Buddhadev: And what has been the SSG like? Is it possible to highlight?

Kaushal Parekh: So, we will. We generally don't give our SSG trends. But as I said even if you compare our growth with FY'20, Q4 of FY'20, our growth was around 40%. And versus last year our growth was around 26%. If we see our ASPs they've grown by around 10%. So broadly you can sort of calculate in terms of what sort of growth we would have seen on an overall basis.

Bhargav Buddhadev: So ASP in FY'22 has grown by 10% Y-o-Y. Is it, is it correct?

Kaushal Parekh: Yes.

Bhargav Buddhadev: And what is the absolute ASP?

Kaushal Parekh: It's 14. Just give me a minute please.

Bhargav Buddhadev: Sure.

Nissan Joseph: It's INR1,450 roughly in FY’22.

Bhargav Buddhadev: Okay. 1,450.

Nissan Joseph: Which is also the highest that we've seen in our history.

Bhargav Buddhadev: Okay. My second question is, if you look at your share of Tier 2 cities in your overall revenue, it has gone up from about 21% in FY’19 to about 27% in FY’22. And despite this the ASP seems to be rising. So, is it that the revenue per square feet or the average realization across both these geographies don't have much of a difference?

Nissan Joseph: Yes, what we are finding is that our Tier 2, Tier 3 cities contribute about the same as our Metro and Tier 1. So, we are able to maintain ASPs as we go into the new tier markets. What's different, however, is in a Tier 2 or Tier 3 market, we may not have all of the brands of Metro, Mochi and Walkway and Crocs. We may only have a Metro, we may only have a Mochi.

Whereas when you get to Tier 1s in metro cities there's this whole influx of a lot of our own concepts not to speak of the competition. So, I mean, our Tier 2 city business, as you rightly said, is about 25% of the business, and that's about also the amount of the number of stores that we have in our Tier 2, Tier 3 cities, Tier 2 cities, sorry, the 25% number is a Tier 2 number.

Farah M. Bhanji: Also to just to add to that, it's important to understand that the ASP increase has not been on account of different merchandising, but because of the supply chain disruptions, raw material price increases. So, it's been standard across the board, across regions, across channels.

Bhargav Buddhadev: Okay. And is it possible to share some of the key markets where we have made in-roads within the Tier 2 cities?

Kaushal Parekh: Yes, so we added to be very precise we added about 9 to 10 cities in the last full year. But as Farah mentioned growth is overall across Tier 1, 2, 3 cities when we see the overall canvas.

Bhargav Buddhadev: And my last question is, is, was there an element of end of season sales in the fourth quarter? And if so, what could be the percentage of revenue coming from full prices sales in FY’22?

Kaushal Parekh: So, yes, in fourth quarter we had our second reduction sale as we always do. And if we see our discounted sales contribution to the overall sales, it was less than 5% in the last year, last financial year. Whereas on an average, we generally see it ranges around 8% to 9%.

Moderator: Thank you. The next question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: Thank you for the opportunity and congratulations on the great store numbers. So, my question is with regards to the online and omnichannel contribution. So, while for full year basis we see the contribution is around 8%, but if you see for Q4 specifically, we see some decline in that. So, do we expect that to get steady stage one, given, as the economy opening and the stores are opening what sort of a standard contribution can we expect from the online and the omnichannel, as a percentage of standalone fees?

Kaushal Parekh: Thanks Gaurav for that question. And if you see Q4 growth in eCommerce revenue was around 41% versus the overall growth that we saw was around 26%. So obviously eCommerce channel is growing at faster pace as compared to offline. Good news is even in spite of strong recovery in the offline channel, growth in online channel continues. And this can be seen from the overall contribution of the eCommerce sales, which used to about less than 2% in FY'19 has now increased to 8.4% in the current year. So, sales is growing, eCommerce sales is growing at a much faster pace as compared to offline.

Gaurav Jogani: Yes, sir, but my question was more like what was the overall economy opens up and all brick and mortar stores are ready to full function. What kind of a steady contribution can be expect from you regarding the office and together?

Nissan Joseph: So I think as we look at our eCom business, we've distorted our investments into the eCom space. We've had high double-digit growth in the eCom space. What we're really excited about is a lot of our growth is coming from the omnichannel business, which is a full price business. eCommerce is one of those businesses that you could do pretty much as much as you would like to, but we are very, very cautious in managing our brands and managing our ASPs and managing our image.

So we are excited that eCommerce is growing at a very strong clip and it's not slowed down as Kaushal mentioned, despite our online, offline business coming on strong and the lifting of all the COVID quarantine measures that we had. The biggest, I don't know if there's a number that we are ready to disclose going forward, but we can see, we don't foresee this slowing down in the near-term future, as far as the growth of our e-commerce business. And the good news is not, can, it doesn't seem to be cannibalistic currently, and it's definitely not discount led.

Gaurav Jogani: Sure. And my last question with regards to the discount thing that you've you mentioned that during the year this was just 5%, less than 5% vis-a-vis 8% to 9%, is previous year. So, a positive function of conscious strategy from the company then? And do we expect this to remain plus 5% in the future as well?

Nissan Joseph: I'm sorry, Gaurav. I'm not sure I even understood your question. All I heard was 8% to 9%.

Gaurav Jogani: Yes, so I'll repeat Nissan. What my question was that the discounted sales for FY'22, as Kaushal mentioned that it was some 5%, and in the previous years it was 8% to 9%. So, is there a conscious strategy by the company to lower the discounted sales. And can we expect the same range going ahead?

Nissan Joseph: Well, no, I don't think it's as much of a conscious effort. We obviously we don't want to sell anything at a discounted price. Gaurav, I think a lot has to do with how we plan our inventory. We would like to, I think that we would be more comfortable guiding to a range there as opposed to a number to say, that's going to go down. We're already one of the most enviably lowest numbers in the, in our industry.

I don't see a lot of upside to it, but it's going to be somewhere between 5% and 10% on an average month, depending on the season, depending on the type of year we've had, depending on what we see with trends going on in the marketplace. But the key thing is obviously to sell as much as we can at full price. And that's why you've seen our margins steadily hold. We are comfortable thinking our margins will hold somewhere between the 56% range going forward.

Moderator: Thank you. The next question is from the line of Devanshu Bansal from Emkay Global Financial Services. Please go ahead.

Devanshu Bansal: Hi, congrats on a good set of numbers and thanks for the opportunity. Sir, our standalone revenues have grown by about 24%. If I look at retail space addition, that's about 10% in my estimate. ASP you indicated another sort of 10% and there is some contribution from lower discounts as well. So, what I enquire here is that volume growth was lastly flattish. Is this a current inference.

Nissan Joseph: Volume as in quantity?

Devanshu Bansal: Yes.

Kaushal Parekh: So, you know, they're not guided on the volume, but on an overall basis obviously our volumes, volume growth has increased significantly as compared to what we saw in the last year. Broadly, as you broke out if you compare Q4, our growth was 26% and our ASP has grown by around 8% to 10%. So balance is on account of obviously volume and few stores that got added during that period.

Devanshu Bansal: Sure. And if I look at can you quantify the amount of price hikes that you have taken? And when was this taken?

Nissan Joseph: So it is not been once swelled price hike, we're very cautious and thoughtful in how we raise our prices, Devanshu. So, we we've been raising prices steadily as needed through Q4. I would say we've averaged in and around the 5% area. We've guided that we would be raising it somewhere up to 15%, but that's really a guidance. And it's more of an alertness on our part and being prudent in saying, we need to be prepared for these kind of price hikes, but it's not something we hope to actually achieve.

But having said that, I think there's some volatility in the input and the supply chain out there that we are very cognizant of. We are very alert to it and we're going to do everything we can to mitigate it through our deep relationships with our suppliers onto the operational rigor that we have in managing our inventory across the country.

Kaushal Parekh: Also, I would just like to add Devanshu over here. Since our average price points are upward of INR 1400, 15% inflation or say higher cost does not translate into the same percentage increase in MRP even if we were to pass 100% to the customers. So, say if with 15% increase in cost may translate into say 5% in MRP growth, if we were to transfer 100% then, and we are relatively comfortable with that.

Devanshu Bansal: Sure. That's helpful. Secondly, I wanted to check in terms of operating, other operating expenses that's down about 22% sequentially. Was there a one-off in Q3?

Kaushal Parekh: No, there were no one-offs.

Devanshu Bansal: Sir, what is the reason for this 22% drop in Q4 versus Q3?

Kaushal Parekh: No. So, it's also proportional to the sales that you see. Because our other, other expense includes rentals and various other expense -- that we pay, which are also which also aligned to the sales that we hit in the store. So, if you see versus Q3 revenue, the Q3 obviously is a seasonal quarter and it's a best quarter for us as a retailer. And if you see that reduction in expense that is in line with the sales trend that you see.

Devanshu Bansal: Okay. Lastly, I wanted to check our unit metrics for Fitflop similar to Crocs in terms of store size, revenue for square feet, margins, etc.

Nissan Joseph: Yes. So, the, the store size is about the same. The average ASP is considerably higher for Fitflop. One of the amazing things about the Fitflop brand is that it's able to command a INR 7,000 ASP. So that helps in terms of matching Crocs stores in terms of productivity, overall productivity, but it obviously comes with smaller, lower units sold. But overall the metrics are very similar to that of Crocs.

Devanshu Bansal: Sure. I have last one book-keeping question. So both our other current assets and other current liabilities have grown by INR50 crore. So, what is the reason for that, if you can elaborate?

Kaushal Parekh: Devanshu, it includes certain portion of IPO entries, which are, which would get concluded in the coming quarters. Because as, as you would be aware we listed in December. We have made provisions for all the expenses, which are related to IPO but we are still in the process of getting all the final invoices from the bankers and the banks and other people that are involved.

So, these numbers include a portion of some impact of IPO-related numbers, which should get settled in the coming quarter.

Moderator: Thank you. The next question is from the line of Vidisha Seth from Ambit Capital. Please go ahead.

Vidisha Seth: You have given an overall store opening guidance of 260 stores by FY‘25. So, could you also give some sense as to what would the broader mix look like between all your four to five brands?

Nissan Joseph: Yes. So just to confirm that I heard you right, our guidance was 260 stores by FY‘25. So that's a total guidance that is net of closures that we would have. Every year we do close stores that are either the mall has died, the street is not performing. So, we do prune our stores from time to time. It's a very small number, but there is net of closures. The 260 stores, loosely the target is to open them pretty much evenly across the four concepts of Metro, Mochi, Walkway and Crocs. The Fitflop is, was actually not included in that number, which is an additional five.

But the I would say that there's not a single chain, that we would see a big growth in as a percent of the chain. It probably might be a Walkway business because it is our smallest number of stores.

Moderator: Thank you. The next question is from the line of Ankit Kedia from Philip Capital. Please go ahead.

Ankit Kedia: Sir, in January, we had experimented one store or Miss Metro, given that 50% of our volumes come from women's store. Just wanted to know how is the traction in that store and what is the game plan to have dedicated women inventory stores?

Nissan Joseph: Yes. So, the women's business is very important for Metro. In terms of units, we sell more women than men's. In terms of volume, of course, it tends to be just a tad less. However the Miss Metro was a test. We are quite excited by it. We still continue to evaluate it. I think I've said it many times we don't operate on vanity metrics, we operate on financial metrics. So, we are really careful at how we proceed with the Miss Metro concept. But needless to say, women's is a big part of our business. And it's also part of the business that we see as important for the future. So, we would watch that and see how we grow with it.

Ankit Kedia: Sure. Sir, my second question is regarding our inventory. Our inventory days continue to be higher than pre-COVID levels, which used to be around 105-odd, which allow 117 days on sale. So how much excess inventory are we carrying because of increase? And going forward, when do you think with the inflation, we need to take another round of price increase?

Kaushal Parekh: So, Ankit, correctly pointed out. And in fact this is one of the point that we highlighted in our business update. We as a team were expecting to see some sort of supply chain disruptions and inflation rearing its head in the coming months. So, we had in fact front loaded our inventory buying to a certain extent, just to make sure that in the upcoming strong season, we don't sort of lose out sales.

This has worked out very well for us. With this a slightly higher inventory, we were able to ensure that we don't see any disruption in our supply chain that is from our warehouses to stores and this helped us avoid any loss of sales. This number we expect this will normalize over next 4 to 8 months.

This will also sort of in a way, hedge us to a certain extent with respect to the inflation risk that we are seeing. So, it is played well for us, and we expect this slightly higher inventory to normalize over next 4 to 6 months.

Ankit Kedia: And do you think, you need to take further price increases or this inventory cushions you to not take price increases given the RM inflation?

Nissan Joseph: No, I don't think we're immune to price increases. The reality is our business has done very well in Q4, which means, that the product is selling, which means you have to rebuy. And that means that we will at some point bump into price increases. Now we have a little headroom left because of our inventory situation, but in certain products, certain styles we're going to have to take price increases almost on a constant weekly basis, we evaluate everything very closely.

Having said that we, what you do need to know is, we don't do a blanket price increase, right. We're very, very methodical and we are very, very analytical on how we do it. And then once we do raise the price, we watch it very carefully to ensure that there is no demand erosion. At the same time we, if we see the price increase getting too much that we think is not right for the market, we would work very closely with our supply chain and our ecosystem to see how we can mitigate some of those cost increases.

So it, it is not a swoop of a pen, it takes a lot of work behind before we make price increases, but at the same time, we are acutely aware that we as a business have the need to be relevant to what's going on in the market.

Kaushal Parekh: Ankit, I would just want to add one point, reiterating what I said earlier, but, there is slight distinction. Because of our higher price point, quantum of price increase that we might have to take even if we were to cover a 100% on the cost inflation, it may not be significant. So, the percentage that you see at say 2000 MRP versus percentage that you, that you may see at say 200 MRP or at a 700 MRP, it would be significantly different. So, for us there will be slight increase, but we don't see that as a significant challenge in terms of managing it effectively.

Ankit Kedia: Sure. And my last question is on Crocs. Crocs is the only brand where our ASP Y-o-Y has actually declined by 2%. So, is it a mix change or the procurement something different in Crocs? Uh, why has our ASP for Crocs declined?

Nissan Joseph: Well, it's very simple. What it is, is the Crocs business has seen a tremendous uptick in the personalization quotient, which comes in the form of this little plastic piece called Jibbitz that goes inside the Crocs. We've seen consumers not only in India, but globally respond very well to this Jibbitz piece. The retail on that is INR250.

On an average, we would sell about 1.5 to 2 Jibbitz per, per Croc shoe that we sold that has been bringing down our ASPs on the Crocs business. Overall if I were to pull out just the shoes, the shoes continue to show ASP increases, but the mix of goods is what's causing that to, to look like it's declining.

Moderator: Thank you. The next question is from the line of Aliasgar Shakir from Motilal Oswal Financial Services. Please go ahead.

Aliasgar Shakir: If you could share what's the share of sportswear and the growth we have seen there, against our overall 26% growth. And if it's possible to just, help us understand what is the contribution of in-house there?

Nissan Joseph: Okay. Just to make sure I understood your question. You're asking about the growth in the different categories?

Aliasgar Shakir: Particularly sportswear.

Nissan Joseph: Yes. Okay. So, sports has continued to match our growth in the categories. As we've grown, we don't see it being accelerated at the same time we don't see it in any way, slowing down. Don't forget we've had significant growth in FY'22. So, it has kept up with it. The casual business equally has, if I were to compare it to, if I were to compare the casual and the sports business, as a percent of our business, going back to 2019 I would say there's a good 300 to 500 basis point improvement. But that's combined between the two. Between the two, between casual and sportswear we do almost 60% of our business in that category.

Aliasgar Shakir: Got it. That's very interesting. Could you also share how much is the share in-house there, sportswear?

Nissan Joseph: In sportswear, I would say, the share of in-house is considerably smaller. Because what we do is, we do, do outside brands where we see a reason for it to be -- to elevate our stores at the same time, complete the consumer journey. In the sportswear category, specifically the outside brands would probably be somewhere in the 70% range outside brands, but as a total, the outside brands are less than 30% of our total business.

Aliasgar Shakir: Understood. So, just one to one understand, given that, I mean Metro is known to kind of position itself as a large in-house brand portfolio where sports, we may be slightly lower. Do we continue -- plan to continue this way or I mean, do we plan to kind of leverage this opportunity in sportswear through any other in-house or partnership program that way we have done in Fitflops Crocs?

Nissan Joseph: Yes. So, I think the, the athletic opportunity is big. I think it is an opportunity that like many other opportunities Metro will consider very, very closely. We think we are poised to take advantage of such opportunities in the footwear space .Our breadth of 624 odd stores pan India presence makes us a good puts us in a good position to leverage any such endeavour we would do. So I can just leave it at that without any future looking statements that we will not be in any rush to do the right thing or the wrong thing, but we will at the same time, not drag our feet where we see opportunity.

Moderator: Thank you. Next question is from the line of Nikunj Gala from Sundaram Asset Management. Please go ahead.

Nikunj Gala: The 21 stores, which you have closed with DMart in FY'19 or 20?

Nissan Joseph: I'm sorry. The stores that we've closed at DMart?

Nikunj Gala: Yes. Which you have mentioned in the presentation that approximately INR4.5 crore contribution in FY'22. What was the contribution in 2020 or FY'19?

Kaushal Parekh: Nikunj this was in FY'21, it was similar, less than INR5 crore. And year before that, the number was around INR8-odd crore. So, that number was not significant even then.

Nikunj Gala: Okay. Okay. So, the -- I just want to understand even from the footfall or in the DMart perspective, they are pretty robust in that way. So the poor performance itself is the reason or is there more to it?

Nissan Joseph: Well, I think it's a combination of factors, not the least of it. We believe we are very good at operating company-owned company operated stores and at potential franchise model for our Walkway business. When we looked at it, it was just another node that we had on our processes that did not make much sense. So, I think DMart has been a great partner to us at the same time that's strategically not where we saw how and where to grow Walkway business. We see opportunity in a lot of other avenues for Walkway.

Nikunj Gala: And, and from the inventory perspective is it possible to channelize this inventory in your EBO stores?

Nissan Joseph: Yes, it, it has been very easy to simply because as I mentioned before, the supply chain disruptions that we anticipated and we've had our share of it, all it did was meaning we had to throttle down a little bit on our other buys and we were fine. There was no issue with the inventory from the DMart stores closures.

Nikunj Gala: Okay. Sure. And this shopping shop, is it possible to give some number to other brands? Like in the Crocs are there any similar concept out there into the other LFS format?

Nissan Joseph: We don't operate any LFS outside as Metro Brands as a standalone entity our partner does, but those brands are so varied. And I'm not, I don't, wouldn't feel comfortable guiding to a number one way or the other. I'm not sure what you're asking, but, the reality is that we believe we are very strong store operators. We believe we know how to operate stores and we want to stay focused to that.

Nikunj Gala: So are there any shop-in- shop, concepts in Crocs, Metro or Mochi?

Nissan Joseph: There are shop in shop concepts and Crocs that we do not operate, it's operated by somebody else. Today we have no Metro, Mochi shop in shop concepts.

Nikunj Gala: Okay. Thank you for that. Now secondly, just want to understand in the employee line item, employee expense line item so is there any variable part into this employee expense or the whatever commission which we give to employees is captured in the other expense?

Kaushal Parekh: So, Nikunj, in the employee benefit cost, it predominantly covers costs for employees that are on payroll, and the commission part goes into the other expense line item.

Nikunj Gala: Okay. Sure. So , if I just compare our employee cost of 22 versus 20 it's, marginally lower than that. So, is it a fair assumption that are we working with lower number of employees in FY'22 versus FY'20?

Nissan Joseph: I'm trying to. We've, go ahead.

Kaushal Parekh: If we don't see which numbers are you referring because the numbers are not lower as compared to a FY'20.

Nikunj Gala: The full year. I'm saying say the employee expense of INR121 crore in FY'22 was INR127 crore in FY'20 right?

Kaushal Parekh: Nikunj. Let us, yes, let us get back on this because we don't see the number going down. There could be some impact of reclassification that happens once the accounts get audited. But let me recheck the numbers because I'm the numbers have not gone down it's gone up slightly.

Nissan Joseph: But as a percent of business that would've gone down, right?

Nikunj Gala: Not as a percentage, but absolute I was asking. I'll get back on that. I just, I want to understand, is there any pressure you are facing from the wage inflation on the employee side going forward?

Nissan Joseph: So, I think India is going through an entire talent shuffle and that is raising our human capital cost. So, we definitely anticipate that to be part of the mix. However, we also think since most of our workforce is on a variable pay linked to sales. And one would assume that sales would go up with inflation, which means their incomes would also go up with that inflation that it would be covered at least most of our employees would be covered in line with inflation, so to speak. So, we think it gets a way to mitigate it.

Moderator: Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Hi. Thanks guys I maybe have couple of questions. You spoke about business model of the store to your decisions or opening decisions not aligned to any vanity metric. So in that regard just wanted to understand what are the top three financial metric that you monitor to decide on the store closure? And what is threshold of that decision or triggers that decision?

Nissan Joseph: Sure. So obviously it's really not singular, but it's probably the con the vector between sales volume, the rent that we pay and the margin/employee cost that we run in that store. So, that's the first brush if that vectoring comes to a positive place, we are willing to consider. And if it's negative with the question, is, is it because that mall, that street hasn't matured. Do we see a future?

We also ask ourselves, are we doing something wrong in there? So, we put it on what we call an infant store program to ensure that it has every chance of being successful. So, there's many things we do before we close the store. When we close the store, we are pretty much convinced that there's no way that we can do business in that store and make it profitable.

So those are the three broad numbers we look at when it comes to it. The other thing too is sometimes we close the store because we remodel in that same mall. We relocate in that same mall, so that's number one or that street in a particular town has now become a different type of zone for shopping. And the shopping zone that would be relevant to us might have moved over a couple of streets. So, closing a store is not just for a singular reason, there's multitude of reasons, but the bottom line is we look at those three factors where sales meet gross margins, meets expenses. If that's not comfortable, then we have to take it to the next level.

Kaushal Parekh: Just adding to what Nissan said. We internally track all the stores which are doing say operating profit less than 5% at the store level. So all these stores, are sort of considered as infant store and then we plan for specific action be it in terms of reviewing the merchandise that goes into the store or say reviewing human resource that may not adequate or appropriate for that particular catchment. Then mostly what we have seen is between this two and marketing push, we are able to make sure we get that store out from the infant list to the normal list. In spite of all this action, if it -- if the store doesn't come up and if we conclude that maybe it was the wrong selection that's, when we decide to sort of close.

Any new store, we would give a time limit of at least one year to two year to make sure, we evaluate all the avenues before we sort of take the decision to close the store.

Tejas Shah: Thanks for the input. Just a couple of follow ups on the same. Usually what is the store closure cost that we incur per store?

Kaushal Parekh: So generally say our fit out cost is about INR50 lakhs. I'm just giving a broad average for Metro, Mochi it ranges around INR 50 lakhs. For Crocs and Walkway this should be around INR30 lakhs. We also invest just in terms of cash flow in terms of inventory and security deposit, but those are fungible. So, if you decide to close the store those will get back our security deposit and that inventory can be routed to any other store.

So technically speaking, exposure would be around INR50 lakhs for Metro, Mochi and INR30 lakhs for broadly INR30 lakhs for Walkway and Crocs. And, generally, obviously if we see written down value, as I said, we would make sure we take about around two years time to sort of decide if a new store has a concern. So basically if you look at written down value, it would be lower than this numbers.

Tejas Shah: Sure. And, and the last one on the same. Since we don't have a like to like comparison in the industry. There's only one another listed similar model format available. Is our closure rate in line with the industry rate better than industry rate a? And usually over a period of time, what interventions as a management team you can make to improve the strike rate care of reducing the two closures?

Nissan Joseph: So I just want to make sure we know we closed I think in 24 stores over the whole year, last year. Don't forget that's coming out of a COVID year, right? So, there's a lot of communities. There were a lot of streets, there were a lot of shopping zones impacted by it. 24 stores on a base of 600 stores, is less than 5%. Now, I don't know what the industry average is, and I'm not going to speak to an industry average because it depends who you talk to when you talk to them. But the reality is it's not a significant number when you have a 95% success rate.

And I think, I'm giving you probably one of our highest numbers simply because we had a lot of disruptions. As I mentioned the whole COVID closures caused a lot of shopping zones to disappear.

So, I think a 95% can be improved? Absolutely. Is there a lot of low hanging fruit there or is there a lot of tail headroom there to go get after it? I think it's, a matter of you are going to make mistakes if you're an aggressive retailer, right. I mean, as prudent as we are as financially disciplined as we are, we are going to make mistakes.

And I think we would, we're okay with that as long as they were all made after careful evaluation of site and we followed our processes well, and we are okay. We're quite alright with that.

Moderator: Thank you. The next question is from the line of Priyam Khimawat from BSK Investment Managers. Please go ahead.

Priyam Khimawat: Yes. Hi team. Thanks for the opportunity. You highlighted that most of the rentals, which we pay are aligned to our store revenues. So, two questions here. Firstly, what was the total rental which we paid in FY'22 as a percentage of revenues? And if you could please break that up into variable and fixed.

Kaushal Parekh: So, broadly I'll just give you a ballpark range that we sort of see for our rentals. You know, we are comfortable with rentals ranging between 12.5% to 14% 14-odd percent and that's, that's the broad range that we sort of see. With IndAS 116, obviously all those classifications have changed when I am just giving you a ballpark number in terms of what average rental cost that we sort of see in our business.

In terms of pure revenue share broadly 15% of our stores would be on a pure, pure revenue share model. Others are a mix of fixed rent as well as fixed plus minimum guarantee predominantly with malls.

Priyam Khimawat: Okay. Then my second question is on ASP. You alluded to an average ASP of INR1,450 for FY'22. I just wanted to understand what would this number be in say FY'19 or FY'20? And what part of the ASP growth during the last two, three years has been due to pricing increases? And how much is due to mix improvement or say low discounting?

Nissan Joseph: Okay. So back in 2019 the ASP was INR1321 and in 22, it's INR1456 just to give you the, the, the spread of it. So, the growth has been a little bit erratic because of COVID, but otherwise the trend is overall the same. The, it's obviously a combination of price increases and the mix increases, but, it's not so much the mix increases as it is the price increases because our casual business has grown. Our sports business is grown and they're not significantly different on an ASP model.

Priyam Khimawat: Okay. Sir, so going ahead, how should I try and look at this ASP? Because we've already highlighted that price increases will not be very swift and high going ahead, as we want to try and stay relevant to the consumer. So, is there more scope for ASP improvement on account of mix change or most of that has already been captured?

Nissan Joseph: No, I think it'll continue. You'll see the same trend continue. You know, I think if you, well, we've probably averaged out the 5%, 7% of ASP increases. We're going to keep bringing on brands like Fitflop that has a high ASP, but they're not enough to move the needle overnight. So, I think you can model it out at somewhere between the 5% to 7% range. I mean, unless there's a serious blip in the supply chain, which we would still keep it in line with inflation is what we feel.

Priyam Khimawat: Fair enough. Sir, one last question on the Crocs SIS part, which you mentioned that it is being managed by some other entity. So, how is the pricing and other elements of this control between you two?

Nissan Joseph: So, Crocs actually controls the pricing. We all adhere to it. There are different assortments that we get compared to those smaller SISs or multi-brand stores. So, there are lines that Crocs delivers only for the exclusive brand stores that cannot be found anywhere else in India. And so, we benefit from that. But the pricing on a similar item would be identical in an SIS or a multi-brand or any exclusive brand store.

Priyam Khimawat: That's very helpful. Thank you, sir, that's all from my side.

Moderator: Thank you. The next question is from the line of Anuj Sehgal from Manas Asian Equities Value Fund. Please go ahead.

Anuj Sehgal: Yes. I have two questions. My first question is as a single category retailer, why is it that we don't disclose same-store sales growth and volume growth? And my second question is your EBITDA margins were in the 27.5% range pre-COVID now they're at 30.6%. So how should we think about sustainable EBITDA margins for the business for the next several years?

Kaushal Parekh: So, let me take the second question first. As you said that historically if you see last three years our EBITDA margin has been consistent around 27%, 27.5% odd. As I mentioned earlier during the current year, despite of COVID-19 second and third wave's impact we delivered EBITDA margin of about 30%.

I would avoid giving any forward-looking statement, but this is the range and, inference can be drawn in terms of where the numbers should lie. We will obviously try our best to , make sure that the number is strong and consistent as we go on.

Kaushal Parekh: Yes. In terms of same store growth, it's just a call that the company has taken because last many years India was impacted on account of various speed bumps as we call it, be it, the GST, be it demonetization and various other impact. COVID now that has started coming in. So, we feel that number may not be relevant to see because of all this underlying disruptions that have happened over the years, and hence those numbers have not been disclosed.

We've disclosed our overall sales number, our overall ASP, our overall store growth. So, from a, if you connect all the dots broadly we will come to know in terms of what sort of growth the company is experiencing.

Anuj Sehgal: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Akhil Parekh from Centrum Broking. Please go ahead.

Akhil Parekh: Hi. Thanks for opportunity. My first question is on the office footwear category. So has the category been back to the pre-COVID level or it is still below that FY'19 levels?

Nissan Joseph: Yes, no, we've actually seen it fine compared to the pre-COVID level. However, because our over it hasn't kept pace with the rest of the business, it is a slight, it has declined as a sheer business, but in absolute value, it has grown and come back to pre-COVID levels for us.

Akhil Parekh: Okay. And this is on a like-to-like, basis. Not uh, including the store expansion work we have done because we have added stores over the last two years or three years.

Nissan Joseph: Correct.

Akhil Parekh: Okay. So, at store level office category has grown business.

Nissan Joseph: Correct.

Akhil Parekh: Okay. Second question. Is it possible to share what would be our segmentation upon open versus closed footwear?

Nissan Joseph: So, we don't break it out quite like that. But like I mentioned sports and casual form about 60% of our business. Formals technically would be somewhere in the range. I'm just trying to make sure I give you a good number is about a quarter of our business. The other is made up between kids and accessories.

Farah M. Bhanji: But roughly it would be 40-60 open being about 40 and close being about 60. Again, seasonal, given the fact that in summer, obviously the number will be skewed towards open and winter towards closed.

Akhil Parekh: Got it. And my last question is on the store opening front. So just to clarify 260 new stores, what we are saying is that a level, not at a gross level.

Nissan Joseph: Correct.

Akhil Parekh: Okay. So, that implies four every four days they have to open one store, basically. If I just divide it by 3 and divide by 365. So, does that do you think this is a feasible I mean, is it feasible or viable basically to open one for every four days by next three years?

Nissan Joseph: Yes, let me answer that question two ways. So, can the market bear it is the first question, right? So we are at about 140 odd cities today in India. Just as a point of reference Raymonds is in 500 cities, Titan I think is north of 300 cities. If you were to assume that we could at least be in half of Raymond cities, that would say we had a possibility of going into 250 cities, which we're at 140 today. So that's about a 70%, 80% growth of just cities.

Now with that 70%, 80% growth of cities, don't forget some of them will be able to take multiple concepts from us of Metro, Mochi, Walkway, Crocs, Fitflop. So, when you look at the market the market definitely exists for us to be able to shoulder that kind of growth and has the space and appetite for that kind of growth.

If you look at it internally, we made significant adjustments to our corporate structure here over the COVID years to be better suited for it. We've absolutely revamped and expanded our business development team. Today we have, we, what used to be a team of roughly four people is now 12 people in-house. There's also an additional 32 people out in the field, not full-time, but who also have a responsibility of delivering real estate to us. So, when I look at both those factors working in our favor. The other thing too is, we, we've been very pleased with the Tier 3 cities we've opened, but there's a lot of cities that are also going from Tier 3 to Tier 2, Tier 4, to Tier 3. So, the market seems to be able to bear that kind of growth. In fact, we probably wouldn't even be scratching the surface at that point still. We, as a company have invested resources both at the office and out in the field to ensure that we have that kind of growth. We've also made sure that we've revamped our manager training programs because you need managers to run these stores, and at the same time, we are implementing various programs with our key suppliers to ensure that they're able to grow and deliver product as we grow.

Kaushal Parekh: And then, and just to, just to add even historically we've added more than 80, 90 stores in a particular financial year. So, we don't see this as a challenge at all.

Akhil Parekh: Got it. And if we can just, squeeze in one more question in terms of brand equity are there any specific geographies where we are weak if at all?

Nissan Joseph: Well, I don't have, the word would be weak. I, I think the word I would use is, where we are maybe a little under penetrated. So today the east has the lowest penetration of Metro the Metro Brand stores. However, that does not in any way, imply that when we open a store out in the east, that we're not extremely in line in performance with the rest of it. So, it's not a question of brand equity, fortunately for us I think we are well known in most geographies throughout India, but from a penetration standpoint, the east is where is our least penetration.

From a success standpoint we are probably the most successful in the south in terms of penetration and sales, which goes hand in hand, but it's also a big open footwear market, so that, that also tends to drive multiple usage and multiple occasion wear.

Moderator: Next question is from the line of Madhu Babu from Canara HSBC. Please go ahead.

Madhu Babu: Yes. Hi sir. Sir just an online, how do you create over two three perspective. And currently, I mean, any incremental thoughts on which are the subsequent where you're seeing good traction on online consumer segment? And second on the D2C brands. I mean, though, too early, how do you see that being a threat if not all for us?

Nissan Joseph: Okay. So, as far as the growth in the e-commerce space, as I mentioned before, we are extremely excited that of two things. One is we don't see it as being cannibalistic to our brick and mortar business. In fact, we see it as being an additive. Number two, the biggest growth is coming from a omnichannel segment, which is full price, um, full price sales, which also helps our, our inventory get liquidated throughout the country, so it's not locked up in stores once it gets shipped.

So, from that standpoint, we are very excited to see the growth in eCommerce. A lot of it is curated by us and push to that. The eCommerce can pull you into that discount vacuum really quickly, but we are very disciplined about how we come across on eCommerce. So, it's not like there's not discounted products out there, but we keep it to a minimal.

The second thing is, we are a D2C brand we are a direct-to-consumer brand ourselves. We were direct to consumer before the term was coined, but 70% of what we sell today is our own home brands. It's sold under three different labels of Metro, Mochi and Walkway, but it is our own brands. We are a D2C brand. We only bring brands in when they complete the customer journey first and foremost. So, they give a consumer a better experience in our stores and number 2, they're able to elevate our stores and the consumer experience. So that's the only reason we bring outside brands in. But everything else, 70%, as I mentioned, roughly, is our own brands.

Madhu Babu: No, sir, I meant to say the online direct online D2C brands, which are launching though, they are very small on the footwear as well. But do you see that as a, I mean, it's, it's more like a long-term question that can be threat or something. I mean, there are some footwear brands, which are directly coming online without having physical stores.

Nissan Joseph: Absolutely. And I think it's always good when that happens, because it increases awareness of categories. It increases awareness of materials. It increases awareness of technologies in footwear. So, in general, those kind of things are good because they expand the market. And it also captures people moving into the aspirational segment of footwear buying. As incomes grow in India, we're going to give get more and aspiration buyers. We've not seen anyone get scale there yet. Not saying it couldn't happen, but scale what we are finding is very hard for an exclusive digital native brand to get without a brick and mortar's presence.

So, you know, it's not -- it's easy to do the first so many crore online, but once you do that, you hit some kind of a point where now you got to figure out how you're going to do the next set of crore, where you need a combination of online and offline. The consumer wants that they've shown that they, they prefer that. And it's also shown by people that were online only starting to try and open stores. So, we're not threatened by it, but I think it's actually exciting that they do that because innovation, creativity helps the industry. But, and, and like I said, I've yet to see one of them get scale of any sort in the footwear space.

Madhu Babu: So last one, what is the ex-IndAS margin? 32% is the reported margin, but adjusted for IndAS?

Kaushal Parekh: So you can reduce broadly 8% to 8.5%, 9% to arrive at Pre- IndAS margins

Madhu Babu: 21%, 22% is the more realistic, sustainable margin. I mean, pre-IndAS post taking the rent out.

Kaushal Parekh: Yes. Broadly that range.

Moderator: Thank you, Ladies gentlemen, this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Nissan Joseph: All right. Thank you very much for your interest and participating in the call today. We remain excited about our future. We remain confident that we will be able to execute against the things we mentioned in our DRHP. I think a big thanks to the Metro Brands' team for a stellar quarter and an absolutely stellar year. And I thank you all. And we look forward to speaking with you more closely in the future. Have a great evening.

Moderator: Thank you. On behalf of Ambit Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.