"Metro Brands Limited
Q4 FY'23 Earnings Conference Call"
May 24, 2023

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Moderator: Ladies and gentlemen, good day and welcome to Metro Brands Limited Q4-FY23 Earnings Conference Call hosted by Nuvama Wealth. As a reminder, all participant lines will be in the listen-only mode and there will be no opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kapil Jagasia from Nuvama Wealth. Thank you and over to you, sir.

Kapil Jagasia: Thank you, Neerav. Good afternoon, everyone. On behalf of Nuvama Wealth Research, I welcome you all to Metro Brands Q4 and FY23 Earnings Conference Call. From the management today, we have with us Mr. Rafique Malik, Chairman, Ms. Farah Malik Bhanji, Managing Director, Mr. Nissan Joseph, Chief Executive Officer, Mr. Kaushal Parekh, Chief Financial Officer, and Ms. Alisha Rafique Malik, President, Sports division, e-commerce and CRM. Without taking any further time, I would now like to hand over the call to Mr. Nissan for his opening comments. Thank you and over to you, sir.

Nissan Joseph: Good afternoon and thank you for joining our Q4 FY2023 earnings call. We have closed the year crossing many historic milestones for Metro Brands. As mentioned in our filing, on a standalone basis, our annual performance, we surpassed INR2,000 crores for the year, which was a 56% gain over the previous year, with an annual PAT of 18.2%, which is our highest PAT on record and has translated to our highest EBITDA of 33.2%. We also opened a record 115 net new stores.

This is a net of 29 closed and 13 relocated stores, showing that the investments we have made in strengthening our business development and store construction teams are paying off. We added another 10 new cities to our locations in Q4, bringing the total number of cities that we are now present in to 174. This growth has been between all our concepts, including three new Fitflop stores, a brand we added in January of 2022. The quality of the growth is reflected in our improvements in sales per square foot.

We are also pleased to see a 48% growth in our e-commerce division, despite the reopening and growth of our brick and mortar stores post-COVID. For FY23, we see our strategy of premiumization working well for us as sales of products over INR3,000 rose from 40% in the previous year to 44% this year. As I mentioned in our previous call with regards to FILA, we anticipate the cleanup of inventory, the rationalization of distribution points, stabilization of team and processes, and the reset of products to take most of the first half of this fiscal year.

We will also be de-merging FILA from Cravatex Brands to better leverage costs and operational synergies. We continue to remain excited and optimistic for the future of FILA in India. As you may or may not have heard, the footwear industry is going to come under the purview of the Bureau of Indian Standards, or BIS as it's commonly known, beginning July 1st. As seen in other adjacent industries, we anticipate potential supply chain disruptions, and to mitigate this, we have forward-bought inventory.

Consequently, we expect our inventory levels to be slightly elevated through H1 of FY24. Looking forward, we do anticipate a smoothing of business over the next four months as we offset the fluctuations caused by pent-up demand, wardrobe refreshes, and office reopenings from last year, but we remain confident in our ability to deliver our continued guidance of gross margins in the 55% to 50% range, EBITDA in the 30% range, and PAT north of 15% annually.

Before I turn it over to Kaushal, I would like to reiterate two points. Number one, that our strategic objectives of premiumization and new store growth while maintaining gross margins are on track. And secondly, we believe the tailwinds for the Indian economy still very much in line with our expectations. These tailwinds include the growth of the middle-class segment, the vibrancy of Tier 1 and 2 cities, and the continued affinity for branded premium products with the consumer. With that, I will hand it over to Kaushal Parekh, our CFO, to add more color to our performance.

Kaushal Parekh: Thank you, Nissan. Good afternoon, everyone, and welcome to Q4 Earnings Call of Metro Brands Limited. FY23…

Moderator: Ladies and gentlemen, please stay connected. The line for the management dropped. Participants, please stay connected while we re-join the management back to the call. Ladies and gentlemen, thank you for your patience. We have the line for the management reconnected. Sir, you may go ahead.

Kaushal Parekh: Sure, thank you. Sorry for this inconvenience. Good afternoon, everyone, and welcome to Q4 Earnings Call of Metro Brands Limited. FY23 has been a momentous year for MBL. In the last financial year, we recorded our best-ever revenues, gross margins, EBITDA and PAT. In terms of store openings, we opened 115 net new stores, which again is our highest in any single financial year. I am also happy to inform you that high growth momentum in our e-commerce business is continuing, and we registered 48% growth in e-commerce sales in FY23.

Let me now take you through quarterly standalone performance. In Q4 FY23, on a Y-o-Y basis, our revenue was up by 30%, our EBITDA was up by 19%, and PAT was up by 21%. The slight moderation in profit margins compared to Q4 FY23 that you see is primarily due to normalization of certain expense like marketing, travel, etc., as compared to the last comparable quarter. Q4 FY22, as you all know, was impacted by COVID-19 third wave, where we had put complete freeze on most of the discretionary expenses. Moving on, as you are aware, we have successfully completed acquisition of CBL in Q3 FY23.

Hence, the consolidated result for Q4 and full year FY23 includes 3 and 4 months performance of Cravatex Brands limited, respectively. Slide 14 of our investor presentation provides detailed breakup of consolidated performance on a standalone as well as on a consolidated basis, separately listing numbers from CBL for the quarter. Let me now start with a quick snapshot of consolidated financial performance for MBL. In FY23, our revenue was up by 58%, our gross margin was steady at 58.1%, and we delivered EBITDA and PAT of 32% and 17.2% respectively.

When we see it for Q4 FY23 at a consolidated level, our revenue was up by 35%. We delivered gross margins of 56%, EBITDA of 26.5% and PAT of 12.6%.

As highlighted in our slide 14 of our investor presentation, our consolidated PAT includes loss of INR14 crores on account of CBL consolidation. As we discussed in our last investor call, we have started various initiatives to integrate and streamline overall operations of CBL. These initiatives we feel should help us in turning around overall operations of CBL and consequently we expect moderation of losses from CBL starting from H2 FY24 onwards. With this, I will conclude and hand it over to comments for Q&A session.

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

Gaurav Jogani: Thank you for the opportunity and congratulations on a great year for FY23. My first question is with regards to the comment on the slowdown that we have given. I wanted a clarification on this. Whether it was more to do with the context of the pent-up demand that we have seen in the last year and because of which we are calling a relative slowdown? Or is it that the demand momentum is decelerating on a Q-o-Q basis also from Q4 to Q1?

Nissan Joseph: Thank you, Gaurav. We are not seeing a slowdown in terms of real sales. What we are seeing is a comparative number normalizing. And what I mean by that is if you look at the cadence of business over a 12-month cycle where the sales are dispersed somewhere in the 8% to 12% range per month, that's not what we saw last year. January was COVID impacted. In February, we were coming out of COVID and March, we finally started getting into a beat and then April was also much stronger than our normal April's are. So it's really a normalization of the cadence of business as opposed to a slowdown.

When you look at our metrics of sales per square foot, when you look at the metrics of how we do from a volume perspective per store, all of those metrics are still very sound, including the metric on what we're selling at a premium level.

Gaurav Jogani: Sure, sir. If you can help us, what would be kind of a three year or four year CAGR number, if we were to compare the current quarter versus Q4 FY '20?

Nissan Joseph: Well, our CAGR number annually, Gaurav, we dive to 18%-plus, which is a number we've achieved for many, many years pre-COVID. And I think we're confident that we would be able to hit that number very consistently as a business. So going forward, we see no risk to that growth number going forward. And then FY '23 also, if you add that three-year CAGR, it does come out to about 18%.

Gaurav Jogani: Sorry, this one is at 15% or 18%?

Nissan Joseph: Sorry. 18%. Sorry, if I said 15%, I misspoke. I meant 18%.

Gaurav Jogani: 18%, okay.

Nissan Joseph: Three-year CAGR.

Gaurav Jogani: Okay, sure. And my next question is with regards to this BIS implementation that is expected to happen from July 1, what kind of benefits, A, it can have for the organized segment players, and B, what kind of disruptions are you expecting? Because what we understand is that for the vendors, it's just a licensing thing. For the unorganized players who are having revenues below INR50 crores, they are not mandated under this. So if you can explain how this regulation change can impact us?

Nissan Joseph: Sure. So that is correct. There are some regulations that might help some smaller cottage industries and what have you. Right now, where we stand, Gaurav, is we don't have full visibility of the entire ramifications of BIS. We have bits and pieces of it. Fundamentally, we support any initiative by the center to bring production to a professional level to ensure consumers are getting what they deserve. So we encourage and we support the initiative. What we don't know is the moving parts that are still left fully identified for our business.

As far as unorganized, organized, all of these things, as they happen, makes business get more into the organized frame as opposed to being on the looser frame. So we don't see it being impactful necessarily from a business standpoint. But what we do see it as being disruptive initially simply because when most regulations are resolved, we do see disruption to the supply chain. We also believe that imports will be impacted because of this, because this goes into effect July 1. And that means there could be supply chain issues, which is why we have mitigated against it by ensuring that we bought forward bought inventory to maintain a smooth flow of goods.

Gaurav Jogani: Sure. That's helpful. And if I can just one more question, in terms of the metrics, in terms of the sales of INR3,000 and above products, so that is now reached around 44%. And if I accumulate this with INR1,500 and above, it's approximately 85% or 86%. Now, how much more room do we have here to increase the scope of premiumization for hereon? And also given the fact that our contribution from more brands is also at the upper end at around 70% or 75%. So hereon, what are the incremental tailwinds do you see to the margin going ahead?

Nissan Joseph: So it's not tailwinds to the margin as much as I would say that the opportunity for us to serve the Indian consumer is immense. We are only in 174 cities, number one, out of the potential of probably 300 to 400 cities. That's number one.

Number two, we see a growing middle class that as the incomes rise, so do the aspirations and they aspire for premium products. So we see a good runway of growth in this channel in terms of the total number of units that we can sell there, not necessarily by moving more people or distorting more people into that bracket, necessarily, but definitely selling more in that bracket in total.

Gaurav Jogani: Sure. Thanks. That's all from me, sir.

Nissan Joseph: Thanks, Gaurav.

Moderator: Thank you. Next question is from the line of Kapil Jagasia from Nuvama Wealth. Please go ahead.

Kapil Jagasia: Congratulations on a good set of numbers, especially on the top line front. So my first question is assuming ASP of 1450, volume numbers come at around 1.47 crore pairs and I know that this number would have six months of Cravatex numbers as well. But would my understanding be correct in this that volume growth would have been 40% over the last one year if I apply the similar exercise to FY ’22?

Kaushal Parekh: So you know, the number that you said in terms of total volume for the year, that's correct. That's around 1.41 crores, 1.45 crores pairs a year. So that's correct. In terms of volume growth, see, the overall ASP growth, if you see excluding -- including accessories is has been somewhere around the 3%-odd. If you see if you consider only footwear, then the ASP growth has been somewhere around 7% to 8%.

Kapil Jagasia: Okay. And if you can just help us with the trends like on the volume and realization also, you know what we can look at in FY ‘24 and also beyond that, that would be helpful.

Kaushal Parekh: So ASP growth, if you see on a longer term basis, Kapil has been in in and around inflation has been around 5%-odd. So, we expect it to be around the similar range and basis that you can sort of calculate, balance. Obviously, balance growth would come in from addition of stores, annualization impact and the overall like-to-like growth that comes in.

Kapil Jagasia: And that is helpful. My next question is like one of your competitors who is in mass market segment. It has reduced prices this quarter. So just drawing correlation with your Walkway brand, which is into economy segment, would we also be seeing a price cut in this segment given inflation is slowing down now?

Nissan Joseph: You know what? We were fortunate we did not have to take the price increases previously. I think we guided about a year ago that we forced we were concerned that there would be raw material hikes. So we forward bought inventory at that point, too. Consequently, we did not have to react and raise prices as and when raw materials rose. And subsequently, we don't see the need for lowering prices in our Walkway business currently either.

Kapil Jagasia: Okay, okay, okay. And just a last question from my side. This would be on FILA. So how have the new stores performed so far and what is the outlook for this brand expansion for FY ’21? And also the store metrics if you can help us with for this brand as compared to other brands?

Nissan Joseph: Yes, so Kapil, first of all, we've been in the process of rationalizing our distribution points, which included actually closing a lot of the FILA stores that we have currently operational. Because that's not where we want to see the brand grow. So right now, the FILA metrics for stores are not something that we are saying this is the metric for the new store. So we see that going forward. Once we reposition the brand and clean out inventory, that's when we will start investing in our new store fit outs. Having said that, we see no reason to believe that the metrics of FILA will not match our Metro Brand's overall metrics in terms of sales per square foot productivity and the rest of the metrics.

Kapil Jagasia: Sure, sir. That helps. I'll join back in the question queue for further questions. Thank you so much.

Nissan Joseph: Thanks, Kapil.

Moderator: Thank you. Next question is from the line of Aliasgar from Motilal Oswal. Please go ahead.

Aliasgar: Yes, thank you so much for the opportunity. I have a couple of questions. So just first question on FILA. So if you have crystallized your strategy, wanted to understand we are currently on 25 stores. So what is the scale we should see in the next three to five years? And secondly, given that global footwear brands have very high share of non-footwear and digital sales. So, what are the categories, channels we are looking to target beyond the conventional footwear and conventional store driven growth? Thank you.

Nissan Joseph: So when you look at the store opportunity size, first of all, I wanted -- I think the reason we feel excited about FILA is it plays well to different genres of consumers. It plays well to sports. It plays well to music. It plays well to street lifestyle. So that appeal is very broad appeal and we believe we can capitalize on that. To give you a directional point of view, the competitors for FILA today in India have anywhere between 300 and 500 mono brand stores.

The additional help that we have being Metro Brands is we have an additional 400 distribution points today as we speak on our multi-branded side. So the ability for us to put FILA and penetrate the Indian market is high. And so we feel very confident that we don't see any reason why we shouldn't be playing in line with the rest of the field in the next three to five years. So that was your first question.

The second question, I believe, was Ali, what was your second question?

Aliasgar: The second question was on the non-footwear and digital channels which have been a very key factor of growth for other peers in the footwear.

Nissan Joseph: So let me tackle the digital channels first. As you know, our e-commerce business has grown leaps and bounds and amazingly it continues to grow very strongly despite the fact we opened up our brick and mortars and you saw the performance of our brick and mortar stores. So we are digitally capable and enabled to ensure that FILA gets its fair presence in the digital space. So that's number one.

As far as non-footwear goes, we have sold a lot of accessory items in our stores and we will be selling FILA apparel as well. The good news when you work with a global brand is you're able to get your hands held a little bit through that journey. So I think it's a great progression for us to get into categories that are adjacencies to footwear but we will always be a footwear focused, footwear led company. But from time to time there will be adjacencies that we have to go into and we are quite excited about the opportunity of entering some of those spaces.

Aliasgar: This is very useful. Sorry, I just missed, you mentioned some 300-plus mono brands. Were you referring to FILA?

Nissan Joseph: No, I was referring to similar brands in that space, Ali. Today, in the Indian market they have anywhere between 300 to 500 stores. I'm just giving a directional point of view, not saying that that is or not. That is not what FILA will be, right?

Aliasgar: Got it. And second and last question is on your margin. So you've been very clear in communicating your gross margin and EBITDA margin guidance and we have seen some normalization in this quarter. Is this attributed to the increase in third party sales as well as normalization of the discount that we run during the EOSS? And we are still at the higher end of that margin bracket. So we should see further rebates from here in '24-'25?

Nissan Joseph: So in the retail business things always have a little bit up, a little bit down. And in Q4, as you rightly mentioned, the biggest influencer of that margin number is the end of season sale. So if you were compared to Q4 of last year, you will see it's very much in line with that. And it's typical for this quarter. What we want to do is manage our business and give you the outlook on an annual basis. In that area, we continue to feel strongly that we can achieve our 55% to 57% margins that we've guided through, Ali, and all the drop downs that come from it.

Aliasgar: Understood. Got it. This is very helpful. Thank you.

Nissan Joseph: Thanks.

Moderator: Thank you. Next question is from the line of Chirag Lodaya from ValueQuest Investment Advisors. Please go ahead.

Chirag Lodaya: Yes. Thank you for the opportunity and congratulations on a great set of numbers. My first question was on this cautionary commentary on relative demand, which we have seen a very good pent-up, etcetera. So what exactly you are trying to say, is it to do with revenue metrics being normalizing going ahead or it is to do with profitability? So just trying to understand that ADS or sales per square foot of 19,500 might normalize a bit or a margin which is at a higher band, you expect it to normalize because of higher other expenses. So if you can just help us understand what exactly you are trying to say?

Kaushal Parekh: So Chirag, as Nissan also explained, the comment -- if we compare our sales with last quarter, it is more or less in line. What we were referring to was between October '21 to June '22, we saw various openings post COVID. And that is where we saw significant quantum of pent-up demand leading to very strong numbers in Q3, Q4 and Q1, of this financial year. What we are referring to is now, for the current year, when we compare numbers to those numbers, we see moderation of sales growth. Obviously, because the numbers that, we are comparing with, were significantly high on account of pent-up demand that, we saw during that period. Otherwise, if we compare it on a normal steady state basis, we see strong customer traction and we see strong demand metrics being played out.

In terms of our profitability metrics, we are sticking to the numbers and guidance we have provided earlier. Gross margins broadly in the range of 55% to 57%, EBITDA broadly in that range of 30% to 33%, and PAT broadly in the range of 15% to 17%. All the numbers that I am referring to, are for standalone performance. I have already clarified on what we expect for CBL to come through.

Chirag Lodaya: Very clear. Just a second question to this. In terms of store addition going ahead, if you would like to give some comments there and on top of it, if I look at store addition this year, Metro and Mochi store addition has been far, far ahead compared to Crocs, etcetera. And even if I look at last three years, four years' performance, this has been the highest store addition for Metro and Mochi. So going ahead, do you see similar kind of mix between store addition or we should expect something else?

Kaushal Parekh: We have updated our guidance, Chirag. Last year we opened 115 net new stores. We have guided for opening of 200 stores in next two financial years. So broadly, you can say about 100 stores in a year is what we are targeting, to open in next two financial years. Your comment on format-wise store openings, you are absolutely right and we referred this in our last investor call. During COVID, we had worked on our overall structure, wherein we created an SBU structure for all our brand formats and that we are seeing playing out very well now, with all the brands. Now growth is not led by any particular format or a brand.

We are seeing growth all across, all the five brands that we have listed. So we feel similar traction to continue going forward. Crocs, we have added about 15, around 15 odd stores in last year, slightly lower than the overall average but we don't see anything specific there. We should be back on track with the normal store addition that you have otherwise seen for Crocs over the last three years, four years.

Chirag Lodaya: And then just lastly, what kind of investment you are looking to do behind Cravatex in 2024? Some ballpark numbers? Just trying to understand, what kind of investments you are going to do towards Cravatex if you would like to call out something. Like Q4, we saw around INR10 crores kind of investment behind Cravatex. So will it be in a similar ballpark or some qualitative comments?

Kaushal Parekh: So Chirag, if you, once the detailed financials are out, you will see, we have invested around INR145 crores in terms, in form of ICDs in CBL. This includes initial INR105 crores, which was used to pay off the debt that had come, that was part of that 202 consideration that, we paid for the brand. So over and above that, we have seen investment of around INR30 crores to INR35 crores odd in Cravatex, which is primarily on account of cash flow mismatches that, we have seen.

Based on all the corrective actions and initiatives that we have initiated, we feel, we will see the company turning around slowly and we should be able to moderate our losses from H2 FY '24 onwards. So we will see this number come down and hopefully in FY '25 is when, we feel the company should be able to fund its own growth plans.

Chirag Lodaya: Okay, got it. Thank you and all the best.

Kaushal Parekh: Thank you.

Moderator: Thank you. Next question is from the line of Nihal Jham from Nuvama Wealth. Please go ahead. Nihal, may I request you to un-mute your line from your side and go ahead with your question please?

Nihal Jham: Good evening to the management. I have two questions from my side. First is that, if we compare our share of stores in tier 2 and 3 cities, there has been a significant increase. I wanted to understand, what is the difference in productivity versus say metro Tier 1 versus these two cities and maybe after that, I will just ask the follow-up question.

Nissan Joseph: Okay. So there is definitely a difference in terms of sales per square foot and top line productivity. However, one of the things, we also know is that, these stores from a profitability standpoint, are on par with the rest of the business and that is primarily because the rentals in these stores, Nihal, are cheaper and as you know in retail, your first two cost are, the cost of goods and the cost of rental for space, right? So that tends to normalize the profitability of these stores. From all other senses, we expect them to meet our metric of being profitable from day one, being cash neutral within two years and hitting our – being accretive to our numbers in total.

Nihal Jham: Thanks, Nissan. Nissan, then the follow-up was that despite the lower productivity, if I compare our revenue per square feet versus FY '19, there is a good 3% CAGR. Would it be fair to say that, for the existing stores in Metro and tier 1 city, there would have been a high single digit growth in productivity, which would have partially been offset by the mix of Tier 2 and Tier 3 cities?

Nissan Joseph: No. The growth comes across our chain of stores, across our fleet of stores, right? So we don't see –there's always anomalies of stores here and stores there in both – in all the tiers of our performing. But we don't see a trend that says that, it is a Tier 3 or a Tier 2 city that is slowing down versus a tier 1 or doing worse than a tier 1. We don't see that, in our business, Nihal. We see business pretty much staying very stable for most of it.

There was a little bit of a blip up for Tier 3 cities and Tier 2 cities during COVID. There was not much of a blip in general, but there was a little bit of a blip primarily because a lot of people had, moved – offices were closed. You could work from home and a lot of them moved back to their hometowns. But apart from that, we are not seeing any blip or demand erosion specifically coming from – we're not seeing any demand erosion to begin with, but we're not seeing any disproportionate demand trends out of the tier 2 and tier 3 cities.

Nihal Jham: Another question. The second question was on the quality control order, the regulation change that you highlighted. While you said there's limited clarity, at least what, we understand that, there will be a requirement of a lot of testing. I don't know, what is the kind of revenue threshold, a big part of our 250 vendors are at, but in case there is a requirement for implementation, are we going to assist to see to it that, this is smoothened out or this is totally a prerogative and we are hoping in six months, they get the time until we have the inventory with us?

Nissan Joseph: Well, obviously we are hoping that, we have time to come to the norms – expect to follow through on the norms expected. But from a cost perspective, it's minuscule, the cost of a test to get certified. That is not the core issue. The core issue is just having clarity on, what needs to be tested. Do understand that, there are numerous regulations around the world, and we are an export country, that require all kinds of testing to be done. So, it's not like testing is new to our environment.

And if you're under INR50 crores and you're not an export house, you would be exempt anyway from our understanding of the BIS rules. So we don't see this being impactful. And we are collaborating with our vendors to walk them through this journey, where we feel, they may not have the wherewithal or the capacity to do it, and if that includes pointing them towards or forming testing centers. We're doing all of that because we've always been partners with our vendors in the supply chain.

Nihal Jham: Could I just ask one more question? I'll go ahead on that. Versus last year to now, Walkway has been one format, which has seen stable expansion because we've always maintained that, that is still something we are trying to figure out. Anything over the last one year, which makes us more confident or still a work in progress format?

Nissan Joseph: No, we had shared that, we were going to focus on the south and the west. And the new store openings that we've done in Walkway that meet the parameters of how, we wanted to test that store, are performing relatively well. You have to understand that's, a totally different metric game than the premium business that we run in our Metro, Mochi, and our Crocs stores, right? So in its space, we feel quite good about what it's doing.

Nihal Jham: Fair enough. Thank you so much. I wish you all the best.

Nissan Joseph: Thanks. Nihal.

Moderator: Thank you. Next question is from the line of Alok Shah from Ambit Capital. Please go ahead

Alok Shah: Yes. Hi, good evening and thanks for the opportunity. Some part of the question could be of follow on because partly it's been asked. The first is on the city presence potential for Crocs so. Crocs is currently number 89 cities that is Metro is around 150 cities. So do you think Crocs can travel to all those 150 cities, where Metro is currently present.

Nissan Joseph: Okay. So today the answer is 'no,' but you know, you have to remember the country, we are fortunate to live in. It's a country that is growing, it's a country where tier and cities are getting vibrant and energetic enough to support different types of product. It also is a very well connected consumer and they're getting their cues digitally from global influences, all of this creates demand for that kind of product. So long term, while Metro will always probably be Metro shoes will probably be a few more city, quite a few more cities ahead of Crocs, we don't believe that Crocs has reached its plateau in a number of cities, it can go to today.

Alok Shah: Okay perfect. This is helpful. Secondly is, in terms of the FILA integration and scale up from there on, can you explain us, what sort of initiatives, we may be a team level or capability built up, that Metro has already done and what incrementally Metro will need to do, for the FILA scale up from here on?

Nissan Joseph: So we have hired a team of management for FILA. It's run separately by a head of FILA business. We also have taken that, their entire sports business as you know, it has it comes with Proline as well and we've appointed Alisha Malik as President of our Sports Division. So we are distorting talent and resources to ensure that, this business has all the support and the bandwidth needed to position and capitalize and unlock the opportunity that presents itself.

Alok Shah: Okay, perfect. So the team is already in place if I got it right.

Nissan Joseph: It's an evolution right so because right now, we're already working on Spring Summer 23. So, we have to get that Spring Summer 24, so we have to get that team in place and as the business grows, we definitely are not hesitant in any way shape or form to add the resources, if requires.

Alok Shah: Perfect.

Nissan Joseph: And but again that's no different than our Metro business right. We do the same for a Metro business, we've done the same for Crocs, we're doing the same for FitFlop. So, it's just we're we have a process, where we are able to distort investments and attention to ensure that, brands take off.

Alok Shah: Got it and just a follow up to this. From a success perspective, from a team building perspective from a success of the FILA scale up, who would be the key manager position, would it be merchandise or would it. So would could that, that key man be position be?

Nissan Joseph: Yes, so you know by, in a world of branded product, product is king, right. And that, that's where it starts because that's what the consumer is looking for their experience, the consumer experience and interaction with the product. The relevance and meaningfulness of the product is absolutely critical. So that's number one. Having said that, though, one of our additional strengths as Metro and Mochi has always been our people that, we have on the sales store and they're focused on customer service and their willingness to go the extra mile, to please the customer.

That completes the package. So you have great product and you have great store staff, you now have a winning strategy and of course I don't want to in any way, marketing that goes with it. You have to let the world know and in today's world, you have to be very digitally savvy to and be able to connect with your consumers 24x7 in all points of India.

Alok Shah: Perfect. This is really helpful. And lastly just a follow on to, what Nihal asked on the BIS regulation. So just wanted to check and this could be more theoretical but if assuming Metro were to approach new set of vendors because of this norm, etcetera. Theoretically, the whole theory of constraints that, that Metro uh deployed in terms of, to ensure the supply is seamless. How easy would it be to implement the theory of constraint along with the new sort of vendor or it is pretty easy to replicate because this is something that you've been doing for pan-India now.

Nissan Joseph: So, one, we don't see immediately, the need for any new vendors but having said that, though we have 250 vendors in our database and we constantly are adding or deleting, not deleting but maybe we're, what not doing as much business with vendors. So the vendor base is an evolving, dynamic group of our business and it's not TOC is designed to bring them on and take them off just as easily and seamlessly. So, we don't see that, in any way a constraint or an added help.

Alok Shah: Perfect. Thank you. This is very helpful. Thank you very much.

Nissan Joseph: Thanks Alok.

Moderator: Thank you. Next question is from the line of Akshay Thakur from Pico Capital. Please go ahead.

Akshay Thakur: Thank you for the opportunity. My question is again on FILA. Will the supply chain be integrated for FILA. My question is majorly in context to the quality aspect of the product and one more question on same. Any plans on the average store size for FILA?

Nissan Joseph: Akshay, when you say integrated, what do you mean by the word integrated?

Akshay Thakur: About the vendors, who will be the vendor and will there be any change in the quality of the product or all such things.

Nissan Joseph: So, we have to adhere to the quality standards, the global quality standards regardless of what vendors, we choose or don't choose. We will buy products. Some products from other vendors globally that, FILA provides also. So, it's a matter of, we have clear directions and clear guidelines that, we have to follow. Just integrating them into our system, it's not that hard because we're constantly bringing in and taking vendors out. So, that's not an issue either. So, it's we don't see that, in any way of being challenged there.

Akshay Thakur: Okay and on the store size for FILA. Any plans on that?

Nissan Joseph: Yes, so in a typical sports store brand runs between anywhere between 15 to 2500 square feet right and then some are bigger and some are a little bit smaller depending on your locality and geographies and the number of categories, you may or may not want to do in a certain geography. So, there's no reason that, we believe that FILA will be any different and globally, we see that true of most FILA stores globally as well. So, the global footprint, the global plan, the template for stores matches the Indian template. So, we don't see any dissonance there either.

Akshay Thakur: Okay. One more question, if I could just ask. Do you have any plans to introduce any innovative product brands like Allbirds from US, any sustainably co-friendly product?

Nissan Joseph: We have an amazingly innovative brand called Metro, we have another one called Mochi, we have another one called Davinci and Fontini, right now. Listen, what we try to do is ensure that, we are responding to a customer's needs and we believe that, we have strong brand equity in our brand in India. From time to time, if there's a unique offering from an outside brand that, we don't believe will, we can fulfill and we believe will enhance the consumer journey, then we will bring it in. Otherwise, our focus is not whether we bring in a brand or not, our focus is, are we taking care of a consumer's needs and ensuring that they have a great consumer journey in our stores.

Akshay Thakur: But do you have any opinion on whether such products have any market in India, eco-friendly products.

Nissan Joseph: Well, we've seen that the consumer is becoming extremely savvy and sensible about sustainability. Equally, what we've seen is, they see it as a hygiene factor. They expect us, to be from a standpoint of sustainability to be responsible. They expect us, to take that ownership and they will trust that, we will do. I am also sure, if we don't do it, they will not like it much. But as far as saying, I'm going to choose you because you are sustainable. That's not the voice they have. I'm going to choose you because I trust you, you will be sustainable.

Akshay Thakur: Okay. Thank you. Thank you, so much. That is, that was very helpful.

Moderator: Thank you, Next question is from the line of Manish Poddar from Motilal Oswal. Please go ahead.

Manish Poddar: Hi, congrats on the number. Just two questions in terms of, one is you mentioned earlier that, you remove FILA from the Cravatex subsidiary. So just can you elaborate what are the benefits and what do you intend to do.

Kaushal Parekh: Manish. We took approval for demerging FILA from CBL. We are in the process of filing the application. FILA obviously, it's Nissan mentioned, it's predominantly footwear and it is within our domain and what we see, once it comes within MBL overall ecosystem, we would be able to synergize and take benefit of all operations efficiency much better. That's the logic for demerging FILA from CBL to MBL.

Manish Poddar: Can you just elaborate, just trying to understand, are there any tax or depreciation advantages or just from common association of cost and stuff like that?

Kaushal Parekh: So Manish, we will be taking advice from our tax advisors in terms of all the benefits that would flow through post-demerger. Nothing specific that we have at this point in time to inform.

Manish Poddar: Okay. And just the second one, so in the slide deck of this repeat customers, repeat fields of members to loyalty programs. So where does this number settle when? Right now you're at 55%, just, if you can -- probably two parts. One is, is this number different across the three formats, like Mochi and Crocs, material difference? And where does this number is very good in value, but where does this number settle?

Nissan Joseph: So first of all, we don't divulge breakout numbers like that. I mean, we have a competitive business, as you can imagine, Manish, but we're quite pleased with the number. It's a double-edged sword. If you have a high number of repeat customers, it means you're not acquiring enough new customers. So it's a balance between the two as we look at that number. We're comfortable with the range that it is. Our focus is not to meet that number -- get that number to a certain point. Our focus is to ensure that we are communicating with the customers in a relevant way to increase the RFM, as you know, recency, frequency, and monetization in the best way possible. So that's number one.

Number two, we also place a big importance on this because this gives us our NPS scores. When they finish the journey, they're able to give a rating on their experience, and we're constantly able to evaluate how we're performing in the eyes of the customer. We also know that these are opportunities that exist. We have 12 million-plus customers in our database, which is a number to be enviable on. And we approach them differently. We have the highest loyalty points reward that we give out in the Metro Mochi system, and the Crocs system is based on a gamification model. Again, we try to tailor the loyalty programs to the customer, and when that repeat business hits about 55% to 60%, we feel that that's the number we can move on with because we are getting good new customer bases in, too.

Kaushal Parekh: And Manish, if you see on that slide, over the last five years, that number has been in that range of 50% to 56%-odd. So it is in that range over the last four years.

Manish Poddar: Just one small point. Would this be similar across categories? That's just three brands in that ballpark, 50% to 56%?

Kaushal Parekh: Broadly in and around that ballpark number.

Manish Poddar: Got it. Great. Thank you so much. All the best, guys.

Nissan Joseph: Thanks, Manish.

Kaushal Parekh: Thank you.

Moderator: Thank you. Next question is from the line of Jasmine Surana from VT Capital Markets. Please go ahead.

Jasmine Surana: Thank you for the question -- thank you for the opportunity. I just wanted to ask about our Biofoot stores. We started sometime this quarter itself. And how are those stores doing? And do we plan on scaling up those stores?

Nissan Joseph: We're very excited about Biofoot. The catering to India's foot wellness is a category we feel is vastly underserved in India. Having said that, we also know that we need to improve the awareness for consumers to know that they don't have to live with foot issues and problems. And whether you have diabetes or whether you have plantar fasciitis, we believe that there are ways to mitigate or cure or at least aid your journey in life despite having those disabilities of sorts. So we are quite pleased on how it's gaining traction. But it is more of a neighborhood model. It is not a model of where you can advertise nationally and you hope you drive customers in. It is really driven also by trust in your doctor's or your healthcare provider's recommendations.

And what we're finding is, it is continuing to grow because more-and-more healthcare physicians are A, learning about it and B, recommending it and then the consumers are coming and getting satisfied. We're also learning that it requires some unique brands in that store that caters to that clientele. So there's a lot of learning going on. We're quite pleased with it as we look down the road. We are unfortunately a nation that has a high percentage of diabetes. We have a lot of people that do have foot problems such as plantar fasciitis and a host of other issues. So we see that opportunity and that market size to be considerably large. But like everything we do, we grow with a lot of discipline. We grow with a lot of thought out and thoughtful steps.

Jasmine Surana: Thank you so much for that. Another question would be on the FILA business. Now, what price points are we looking at playing and how much of the market share do we aim to capture with FILA?

Nissan Joseph: Well, we believe that the sweet spot for FILA could be somewhere between INR5,000 to INR8,000 range. And that's the sweet spot. That doesn't mean there won't be products that we're selling that's over INR7,000 to INR10,000 as well. When you do a brand positioning, it's all about identifying what are the three or four categories you want to own and play in and then playing to those categories with the right price point that makes sense for your brand.

Jasmine Surana: And in terms of the market share?

Nissan Joseph: You know, the market share is a journey. And I think the fortunate part for us being in the economy that we are, the market is rapidly growing. So even if you don't gain market share, you typically will have growth. So, the market share question is not how we approach it. We look and see what is the opportunity relative to our customers, what is the opportunity relative to unmet needs, what's the opportunity relative to how we can position the brand better.

Jasmine Surana: All right, that's helpful. My last question would be on the e-commerce contribution target for, let's say, next quarter or the next year.

Nissan Joseph: So, we definitely want e-commerce to stay on pace with our growth. As you know, Metro Brands, brick and mortar stores are experiencing some very solid growth rates. We want, and also not only from a comparable basis, but also from a new store addition base. And we want e-commerce to keep that rate, the current rate of business at where it is.

The one thing that we are very cognizant of is we don't want to grow e-commerce because of discounts. We don't want it to grow because we're able to discount product. We want it to grow selling full price products. And that's why we are very comfortable with where it is. We are making a lot of investments in technology to ensure that we're capable in multiple ways to capitalize on that market as it grows. But today what we're finding also is that the consumers like to do a lot of research online and shop in-store.

Jasmine Surana: Okay, thank you so much. That was very helpful.

Moderator: Thank you. Next question is from the line of Ankit Kedia from PhilipCapital. Please go ahead.

Ankit Kedia: Sir, two questions from my side. First is on the FILA business. How much of the old inventory of FILA is still there with us? And why is the inventory liquidation taking time? You know, because discounting continues to be high on the marketplaces. And even on the gross margins, what we see this quarter also, we can see the gross margins lower than quarter 3. So why can't the new launch be ahead of December month?

Kaushal Parekh: So Ankit, if you see the inventory levels at cost for total inventory at CBL is around INR50 crores. This is at cost obviously MRP will be significantly higher. It's a process, right, getting rid of the excess inventory. It's not like that you can liquidate everything at one go. There are various channels, various initiatives that are currently on. And as we explained earlier on the call, we expect good amount of liquidation to sort of happen over the next six to nine months. We will also take benefit of end of season sale that is going to start in Q2. That's somewhere around July, August period. So that's the progress. We feel over next six to nine months, we should be able to liquidate a good amount of excess inventory that we have within the ecosystem of CBL.

Ankit Kedia: Sure. And that's why the buying for the next season, the fresh positioning will come only from quarter 4 if you see that, new fresh launch happening.

Nissan Joseph: No, we will be interspersing product into the system as early as Q2, freshness in the product. So brand people don't shop without seeing some freshness. Having said that, what we are talking about for Q4 is actually a repositioned brand, clean of all inventory, clean of products that do not make sense for where the brand is headed. That's the positioning we're talking about in Q4. But you know, we still have to buy products. We have about 25 FILA stores that are currently open and operating that we have to provide freshness and product to.

Ankit Kedia: Sure. My second question is regarding A&P spends. You know, given that some of these global brands, other footwear brands have high A&P spends if you study their financials. Metro standalone business has around 3-3.5% A&P spends. Do you think FILA with that kind of A&P spends can grow to your aspirations or the A&P spends in in-between couple of years could be much higher for FILA business?

Kaushal Parekh: So Ankit, you know, since it's a new brand, initially it may be slightly higher, but we expect it to be in and around 3% to 5% range. Also, one important point that I want to highlight, Ankit, is once we have the repositioned FILA product in, we will be selling FILA from Metro Mochi ecosystem as well. So it's also a natural marketing that happens for any product that is listed on Metro Mochi MBO platform. So, we'll be leveraging all avenues, online, dot-com website, e-commerce sales, digital marketing, sales via our MBO network. So we feel we should be comfortable with its spend in and around that range. Obviously, over a period of time, we'll understand, but as of now, we feel that much, that range is the range that I mentioned is comfortable.

Ankit Kedia: Understood. And my last question is, you know, for Proline, given that we also have license for Proline with us today, and we have spoken a lot on FILA, what is the roadmap for that? Is Proline giving you a helping hand to understand the actual business which can be launched in FILA or that will have a separate business unit to take care of and the growth will have its own trajectory for Proline?

Nissan Joseph: So first of all, we actually own the Proline brand as opposed to licenses. So in that acquisition with Cravatex, Proline came along with it, but we own that as an ownership of the brand. So we fully own the brand. We're capable of licensing and sub-licensing it and doing any category we want that the trademark is protected in. So that's number one.

Number two, like every business we do, we've appointed a business head. It has its own design team, sourcing team, store ops team, marketing team, and we will continue to evaluate how best to leverage Proline. Our focus right now is to get FILA on its feet quickly.

Ankit Kedia: Understood. Thank you and all the best, sir.

Nissan Joseph: Thank you.

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

Akhil Parekh: Yes, thanks for the opportunity. The first question is, if you can throw some light on the like-for-like growth across our Metro and Mochi stores, because we've added almost 8% to 10% of standard store additions from FY '19 to FY '23. So would it be fair to assume that our SSG growth would be somewhere ballpark around mid-single digit?

Kaushal Parekh: Akhil, so we don't disclose SSG's growth separately, but just to give you some perspective, if we see for Q4, our overall growth on a standalone business was around 29%. Between last year to this year, we've seen store growth of around 18%. So broadly, stores that you open, obviously you don't get 12 months revenue. So logically, you will assume that on an average, six months revenue would have come. So that brings down that 18% number to 9%. And balanced logically would be all organic growth that you got from the existing store network.

So I hope that that sort of answers the kind of growth that we have seen in last year. Even if you see versus FY '20, we have seen growth, Q4 growth was around 80%-81% above that quarter's number. Though that quarter was slightly impacted on account of COVID starting in the second fortnight of March, but still it's a strong growth, the number of 80% growth that we've seen versus FY '20 quarter, Q4 of FY '20.

Akhil Parekh: But it's fair to assume that we have a decent, healthy SSG growth even as compared to the pre-pandemic period?

Kaushal Parekh: Yes.

Akhil Parekh: Yes. Okay. My second last question is again on the FILA part. Some of the international brands have a very high sales of apparel into the total sales. So how does the current contribution for apparel in FILA stand at and do we intend to change it if at all.

Nissan Joseph: So you're right. There are some athletic brands that have a high portion of apparel sales. We anticipate that FILA would be more in line with a normal brand. And what I mean by normal brand is something that we would have between 20%-25% in apparel. There'd be another 5%-10% in accessories and the rest would be footwear.

Akhil Parekh: Okay. And do we have the ecosystem around apparel or we will be developing it?

Nissan Joseph: We absolutely have the ecosystem around apparel. We just haven't done it before, but we're doing it right now. We have the talent, we have the warehouse that can pick and pack apparel pieces. So we do have that all built out.

Akhil Parekh: Okay. Got it. That's all from my side and best wishes for company.

Nissan Joseph: Thanks.

Moderator: Thank you. Next question is from the line of Vikas from Equirus Securities. Please go ahead.

Vikas: Thank you so much for the opportunity. So one question with respect to our marketing spends. Can you quantify what was the amount of marketing spend for the full year FY '23?

Kaushal Parekh: It was around 3% of our revenue. So broadly around INR55 crores to INR60 crores on an annual basis in and around that number.

Vikas: And I believe the last part of it will be in H2 only, correct? That is mentioned in our presentation.

Kaushal Parekh: Yes, H2 was slightly higher.

Vikas: Okay. Sir, one question with respect to FILA. While we are definitely into the correction phase of inventory and others, why have not we commenting with respect to store addition of the FILA side-by-side in FY '24 itself…

Nissan Joseph: I can't hear your question because with regards to the stores, what?

Vikas: Sir, I'm saying that while we are definitely into the supply chain corrections position for the FILA side, but why are we not talking about this more stores addition for the FILA from the current 25 number that we have?

Nissan Joseph: So you know, you got to get things right in order, correct? That's the absolute magic on how you can do things. We first have to liquidate old inventory. We have to close unprofitable stores, number two. And then we will grow FILA in the new avatar. I don't know if you remember this, but when we took Crocs, we went down to three stores, I believe. We acquired 12 and we went down to three stores and today we are at 200 stores with Crocs roughly. So you typically want to close the underperforming stores, get rid of the inventory, then start opening stores both in terms of appearance and in product that are where you want to take the brand.

Vikas: Understood. And so one last question with respect to only the gross margins for FILA, would that be significantly lower than our gross margins for our core brands?

Nissan Joseph: No, Vikas. We fully expect FILA to be at or above gross margin perspective.

Vikas: Sure, sir. Understood. Thank you so much, sir.

Nissan Joseph: Thanks, Vikas.

Moderator: Thank you. Next question is from the line of Sabyasachi Mukherjee from Bajaj Finserv Asset Management. Please go ahead.

Sabyasachi Mukherjee: Yes, thanks for the opportunity. So my first question is a book-keeping one. So Kaushal, can you give the rent number for FY '23?

Kaushal Parekh: It is around 12% to 13% on an overall basis.

Sabyasachi Mukherjee: Okay. Okay. So second question is a little on the revenue and EBITDA growth. So basically 18% revenue growth on a three year CAGR that we have done in FY '20 to FY '23. We expect to maintain similar pace, but with normalization of certain cost items as you highlighted and also some losses probably in FY '24 from the FILA business. Is it fair to say that EBITDA growth or PAT growth will lag the revenue growth in the near term at least?

Nissan Joseph: In the near term, that would have the implication, but in the long term, over an annualized period, like we said, we don't see any risk to the three numbers that we've shared, the gross margin, the EBITDA and PAT.

Kaushal Parekh: Also, just to highlight, if you see on a longer 10 year CAGR basis, our revenue growth was somewhere around 14%, 15% and our PAT CAGR has been somewhere close to 20%.

Sabyasachi Mukherjee: So FY '24 will probably be a reset year and then FY '25 onwards will kind of have that operating leverage play out and everything will fall into place. That is the broad idea?

Nissan Joseph: I wouldn't call it a reset year for the corporation. I would call it a reset year for FILA, which of course will have an implication to us in the consolidated numbers, but we believe very strongly in our core business of Metro, Mochi and Walkway, number one.

Number two, FILA today is a very strong business and we can quickly, and when I say quick, in retail moving through things in three to four months is pretty fast because there is a long lead time for product in some of these cases. So whether it's real estate or whether it's product, there is some lag time. We would move through it very quickly and of course it would continue to be diluted to our business for the first two quarters of this year, but we have every aspiration to get that back right in line with the business.

Sabyasachi Mukherjee: Got it. Thank you. That's all from my side and all the best.

Nissan Joseph: Thanks.

Moderator: Thank you very much. As there are no further questions, I now hand the conference over to the management for closing comments.

Nissan Joseph: Thank you, Kapil. Thank you all for joining us today. We want to assure you that we are very excited about FILA. We are excited about our last year performance. We also understand our business well enough to know that it is on a steady state and will continue to perform and meet the expectations that we have. Thanks everyone.

Moderator: Thank you very much. On behalf of Nuvama Wealth, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you. Thank you.