"Metro Brands Limited
Q4 FY'24 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day and welcome to Metro Brands Limited. Q4 FY24 Earnings Conference Call hosted by Avendus Spark. This conference call may contain forward looking statements about the company which are based on the belief, opinions and expectations of the company as on date of this call.

These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 star then zero on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Tejash Shah. Thank you and over to you.

Tejash Shah: Thank you Yashashri. Good afternoon everyone. On behalf of Avendus Spark, I welcome you all to Metro Brands' Q4 FY24 Earnings Conference Call.

From the management today, we have Mr. Rafique Malik, Chairman, Ms. Farah Malik Bhanji, Managing Director, Mr. Nissan Joseph, CEO and Mr. Kaushal Parekh, CFO. Without taking any further time, I would now like to hand over the call to Mr. Nissan for his opening remarks followed by a Q&A session. Over to you Nissan.

Nissan Joseph: Great, thank you Tejash. Good afternoon everyone. Thank you for joining and welcome to our Q4 FY24 Earnings Call.

As you are aware, for Q4, we reported an 11% standalone year-on-year growth which resulted in a 17% growth in our PAT. Additionally, for the full year of our standalone Metro Brands business, we grew revenues by 11% year-on-year with a 5% growth in our PAT. I am pleased to report that we were able to grow our business in double digits while going against aggressive comparable sales from last year from the post-COVID bump.

The Q4 year-on-year growth in profitability is attributable to our improved growth margins of 80 bps and improved expense controls over last year. In Q4, we demerged the Fila business from its subsidiary company and merged it with Metro Brands Limited. To ensure transparency, we have shared additional information that shows our comparable standalone numbers, the go-forward business with Fila in MBL and the consolidated numbers.

In our business, we continue to see the premiumization of the consumer as our sales of products over INR3,000 now represent half our business. In the quarter, we opened a total of 21 new stores, while also exiting 11 stores, giving us a net addition of 10 new stores that made it 97 net new stores for fiscal 24.

We closed the year with a total of 836 stores, and by the end of Q1, we will have existed all but two of the Fila stores, which we do plan to retain in our go-forward initiative. Going forward, we target to open a total of 225 stores over the next two fiscal years. Our e-commerce business continues to be on track as we grew 33% for the year, while improving key metrics for profitability.

I would like to switch gears for a moment and share the result of one of our key sustainability initiatives. In FY24, we were able to recycle 50% of the shoes we sold. To give some clarity on that, we have set up an ecosystem of partners that collect used and discarded footwear to recycle it for other uses rather than take up space in the garbage landfills.

This is one of the many initiatives implemented by our ESG team, and I'm excited to share that we have set a goal of recycling one pair of shoes for every pair that Metro Brand sells within the next two years. It's an ambitious goal, but one that we are committed to achieve. On the technology front, we're making significant investments to update and upgrade our tech platforms, while also setting us up to adapt to the power and efficiency of gen AI and robotic process automation in multiple departments in the organization.

It is a revolutionary time from a tech standpoint, and as always, Metro Brand remains focused on being relevant and up-to-date on the tech that enhances stakeholder value. While FY24 was an unusual year for like-to-like comparisons, I'm proud of the team for achieving our key metrics in line with our previous guidance. We do see this coming year to finally normalize in demand trends, though we anticipate Q1 to be affected with the lack of marriage dates in May and June of this year, compared to over 20 dates for the same period last year, and also store closures for a day spread over these four weeks to accommodate and support the national elections.

So in closing, as with any retail operation while there'll be fluctuations and shifts of holidays and special occasions we continue to guide to deliver EBITDA around the 30% range and our PAT to deliver at a 15% to 17% range while adding new stores and formats such as Foot Locker to the Metro Brands organization.

I would like to reiterate that the operational rigor and focus of the team continues to position Metro Brands firmly to take advantage of the immense opportunity of the Indian economy. With that, I'd like to turn it back to the operator to open it up for questions.

Moderator: Thank you very much. We will now begin the question and answer session. We'll take our first question from the line of Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy: Yes, thanks. I wanted to check on your key formats. What will be the plan in terms of store opening for FY25? We are seeing some of the retailers expand quite aggressively while some of the players have also taken a more cautious call given the current overall growth slowdown. So, if you could comment on the growth aspects in FY25 and format-wise what's the store opening plan?

Nissan Joseph: Abneesh thank you for your question. We see opportunities in each one of our banners to grow stores. So, we don't see any diminished opportunities in any one of the banners that we have albeit some are a little bit more penetrated than others, especially when you compare Crocs to FitFlop. Crocs has been around for 10 years plus in our organization and then FitFlop is relatively new.

Having said that, how we would like to look at our business is we will open as many stores that make sense. We're not here to hit a target albeit we guided just in my opening comments we are opening 225 over the next 2 years as a directional position. We will capitalize on every opportunity there is out there.

Unfortunately, real estate availability is not totally predictable and neither is it something that you want to do on a certain pace and scale simply because then you'll end up signing some leases that you probably shouldn't have signed and don't forget these are long leases of 9 plus years. So we're not in any hurry to open them, but we will open all the right stores that come our way.

Abneesh Roy: And in terms of Fila I think the turnaround is taking a bit more time. So, in second half of FY25 should we expect that store addition will start a bit more aggressively?

Nissan Joseph: It's important to note that the turnaround is only taking a little bit more time because of the BIS issues we had. We just wanted to pause to see where that went. We knew that it would be good for us to have those requirements in place, but at the same time we needed some clarity on what that looked like and how that looked like before we went ahead. We're pretty much on pace. I wouldn't say we're tremendously behind pace. We're pretty much on pace.

We're down to three stores in Fila of which two of them we plan on continuing. As far as the new store growth sometime late Q3, early Q4 is when we would say that we would start the growth of Fila stores specifically.

Abneesh Roy: Sure. Thanks. That's all from my side. Thank you.

Moderator: Thank you. We have our next question from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: Hi, Nissan. Thanks for the opportunity, and congratulations for margin recovery. Two questions in the beginning. For FY24 and specifically for quarter 4, would you be able to share the number of pairs or some volumetric number across formats for overall?

Kaushal Parekh: So, on an overall for the full financial year we sold approximately 15 million products. If you take footwear it was around 10 million. I'm just giving you broad numbers for the year.

Shirish Pardeshi: And which particular format has seen a higher growth because I think now we are seeing that 50 percent growth is coming from INR3,000 plus, but any particular format you will see the growth is much higher or ahead of competition?

Nissan Joseph: I think what we see is really as the demand cycles come through or the seasonal cycles come through. For example, there was lots of weddings the previous year, so the wedding business did as well. So, to say that there was pent-up demand for weddings, that also resulted in pent-up demand for wedding shoes, right? So when you see that flatten out a little, it's not necessarily indicative of consumer demand, it's more a cyclical thing, right?

So what we are seeing, though, is that people still want premium products. They have aspirations in mind that we think they'd like to shop in stores in the organized sector. All those indicators look favorable to all our businesses. And when you say who had the bigger growth? In units, they all have different numbers of stores out there, right? It's the base. But overall, we're seeing the trends of casualization of footwear continue.

If I were to pick on trends, that's continuing definitely. We are also seeing the shift to athleisure and athletic-inspired products. So we're seeing those two shifts happening. But it's not necessarily coming at the cost of a particular segment of business. We're just seeing some categories grow slightly better.

Shirish Pardeshi: Okay. That's helpful. On Slide 14, I'm referring the revenue per square feet. Largely, we have remained in the range of about 5,000, 5,100. This quarter, it has come about 4,800. So if I build saying that now the contribution from INR3,000 plus is going to go up, what this number will look like in FY'25?

Nissan Joseph: Let me give you some historical point of references on this one. If you go back to FY'19, and I know you're going, why are we going back that far? But that was the first year without COVID, right? When you go back to that year, we ran at 17,500 for the entire year, right? Last year, we ran at 18,700 for the year, correct? So when you look at that growth over that period of time for square footage, it's considerable, right?

Now, what you have to remember is I'm trying to take out and flatten out the COVID dip and the COVID bump. But this, when you look at this growth, I think it's quite remarkable when you look at the fact that during the last few years, we've accelerated our growth of Metro and Mochi stores as compared to the previous years, where we were very reliant on growing just the Crocs stores.

Crocs stores come at a much higher sales per square foot, whereas Metro and Mochi, while they do much more volume per unit store as a banner, they don't have the same per square foot metrics as Crocs does. So a lot of it has to do with the mix, and then all your new stores don't always come up to your average performance in year one. And we've opened well over 200 stores in the last two years.

When you look at all those factors, that's an admirable record of growth to maintain from 17,500 to 18,700 this year, right? And there's no reason for us to believe that on a long-term basis, so you may not look at it and see it quarter-to-quarter, but on a sustainable long-term basis, that we should be able to continue that growth.

Mind you, we have one of the highest realizations per square foot in the industry, right? So when you're flying at the edge of the atmosphere, it's not like we're going to have a rocket ship take off from there. But we're confident that we're not going to see much erosion in that number, and we think that growth is a -- if you look over the five-year period, that is a pretty reasonable growth trajectory to assume for the next five years.

Shirish Pardeshi: Wonderful. That's really helpful. And one last question on the margin story. You mentioned in the beginning saying that we will especially maintain the margin at 30%. But then, the question here is that with BIS getting settled maybe another one quarter, do you think the inventory correction will happen, and then we will normalize with that inventory, so it's all boiled down to the top-line growth? So if we build a top line growth double digit, do you think this margin guidance is a little reserved?

Nissan Joseph: I think, as retailers, you know, we're very conservative in how we approach our business with a lot of discipline. I would say it would take us probably two quarters to where we'd feel comfortable with all the BIS regulations and our inventory position to get it in line to where we want it to be, at which time we would see that maybe start to help EBITDA.

But equally, what I found, Shirish, is when one lever comes up, the other one goes down. This is retail. There's 95 levers that we're watching at the same time. So for me to say that one lever is now going to be 100% accretive to our EBITDA, I think that's just putting too much on one lever.

Shirish Pardeshi: That's really helpful. Thanks, Nissan and team. All the best.

Moderator: Thank you. We'll take our next question from the line of Umang Mehta from Kotak Securities. Please go ahead.

Umang Mehta: Hi. Thank you for the opportunity. I just wanted to try to understand how the underlying business on an organic basis has done. So would you be able to share on an annual basis what are the sales or EBITDA of Cravatex brands?

Kaushal Parekh: So, Umang, we have shown numbers without FILA and then after giving effect of FILA demerger. So, if you basically subtract the numbers, it's basically FILA performance that you can sort of identify. You know, for the year, this is not representative of what to expect going forward because obviously, as we have clarified earlier, we are in the phase of liquidating excess inventory that we had with FILA at the time of acquisition.

So, numbers are there but it's not representative of what you will see going forward. Another important point, we are, you know, till last year, growth channels were, a few large format stores, e-commerce and, say, SOR sales directly to the marketplace. We are coming out of some channels and will be predominantly focusing on EBOs selling via Metro Mochi and dot-com websites. So, you will see change in the sales mix and the margin mix as we move ahead over the next two years.

Umang Mehta: Understood. Thank you. And the second question was on Crocs. So, this new agreement, which you signed up, what was the rationale for Crocs not giving right of first refusal in North and East? And will this by any chance hamper your store opening plan in that time?

Nissan Joseph: I think the rationale is very simply this. We have first right of refusal is not as good as an exclusive right, right? So, it means that if we turn something down in any territory, somebody else could take it on because it might make more sense for them. So, from that standpoint, it's much more attractive to have an exclusive territory than just the first right of refusal. So, that's number one.

Number two, equally, I think Crocs also wants to mitigate some of their exposure and just have some more partners run their business. And so, we were able to retain what we believe are the best two growth areas, which is the South and the West of India. For Crocs, as it's summer year round in both those territories. So, we think it's a great win. And you must remember that it's a great partnership. They not only did all that, but they also extended it by an additional three years. So, we have a 12-year agreement with them, albeit with dates and gates.

Umang Mehta: I understood. I understood. That was helpful. And then one last, if I can ask a quick question, what would be the difference between pre and post Ind AS EBITDA margin for full year?

Kaushal Parekh: The delta would be around 8.59%.

Umang Mehta: I got it. Thank you. Thank you so much. Good luck for the rest of the year.

Moderator: Thank you. We have our next question from the line of Abhishek Getam from Alpha Invesco. Please go ahead.

Abhishek Getam: Yes. Hi. Thank you for the opportunity, sir. So, my first question was on Walkway. So, I've seen the presentation that in this quarter we've closed around four stores in Q4. So, I just wanted to understand what has been the update on Walkway. And I see also that most of the stores are concentrated in West and South. So, any strategy to expand in North or East in case of Walkway?

Nissan Joseph: So, just to give you an overall perspective on Walkway, we believe that Walkway has tremendous growth potential in India with the format it offers. So, that's the first thing. The second thing is we wanted to get the concept totally right and make sure that it is set for growth. So, we've taken the last 18 months to reset the business. That reset involves two significant aspects.

One of them is to exit almost all our franchise stores, which is why you've seen the store count go down and also maybe rationalize a couple of stores that we believe didn't have the right location slash precinct for Walkway. Having said that, though, I think that's fundamentally what you saw there. What was the second part of the question there, Abhishek?

Kaushal Parekh: Abhishek, another point, you know, for Walkway, since it's a brand with 65 stores, we would want to follow cluster strategy. And we are focusing on West and South to start with. And obviously, West and South are areas where even currently our presence is slightly better as compared to North and East. So, that's the strategy. And obviously, it's a long journey, right? We would first want to strengthen in West and South and over a period then cover North and entire part of India.

Abhishek Getam: Okay, understood. I was coming to a question in the sense that are we strategizing walkway openings in a sense that we maintain the overall ASPs of the company or walkway strategy is completely different or is non-reliable on what Metro is doing at the overall level?

Nissan Joseph: It has nothing to do with Metro level, right? It will be considerably different than the Metro level in a lot of metrics, including that of ASP, which is why we've been ensuring that we understand that model fully well before we start expanding it. But it's not going to be creative in any way to our ASPs at all.

Abhishek Getam: Understood. So, another question in the opening remarks, you didn't mention the impact of elections. So, if you could go more deeper on what has been the impact you're seeing in Q1 because of elections and heat wave combined?

Nissan Joseph: Well, the only impact I'm referring to is the fact that our stores closed for the day while there's elections. Some of them closed for the full day. Some of them open up late in the evening. That's the only impact I'm referring to.

Abhishek Getam: Okay, but you're not seeing any delayed buying aspects in those areas or anything because of heat waves in North, people not coming out?

Nissan Joseph: Elections are nationwide. So, you know, I don't see any difference anywhere else. It's just the fact that I wanted to call out that we will lose 836 shopping days in our company because we have to support it, right? It's a national thing that we want to support and stores will be closed somewhere up to a day. No more than a day though, but up to a day they might close to support it.

Abhishek Getam: Understood. Thank you. Just one last question. So, earlier when having a conversation with the participant, you mentioned that until FY'19, we were sort of opening a lot of Crocs stores and now the openings are filled on Mochi and Metro side. And even in that case also, we've been able to grow our per square feet realization. So, I just wanted to know, okay, now going ahead, we'll be opening a couple of Fila stores and also Foot Locker stores. So, that should also give to per square feet realization, right? And I mean, in FY'26 or '27 sort of.

Nissan Joseph: Correct. We see Foot Locker and Fila being accretive to certain metrics, especially that of ASP in both those cases to the rest of our business. You know, there's other metrics that may not be as accretive, but overall we see them as great additions to the Metro Brands portfolio. And to answer your question we actually, as I said earlier on in the call today, we see growth opportunity for each of our banners.

So, it's not like we feel that some of them have limited opening capacities or the other, but don't forget every banner has different reach into India, right? Foot Locker is not going to be in 500 cities. It's just not the way that works. Neither is Fitflop. Metro is going to be more than 500 cities someday.

Abhishek Getam: Thank you, sir. That's all.

Nissan Joseph: Thanks.

Moderator: Thank you. We have our next question from the line of Videesha Sheth from Ambit Capital. Please go ahead.

Videesha Sheth: Hi, good afternoon. Thank you for the opportunity. My first question was on the online channel. Last quarter, you'd mentioned that online sales mix was impacted due to some transitionary issue related to the warehouse and order management system. Wanted to understand the reason for further reduction in online sales contribution from 8, 8.5% in 3Q to 7% in 4Q. And just as a follow up to this question, is this lower mix from online in any way contributing to improvement in growth margin?

Nissan Joseph: Okay. So, first of all, when you look at FY'23, the omni-channel business and the e-com business was 7.9% of our business. When you look at last year, it had actually grown to 9.5% of business. Or when you look at it over a period of a year, right? We did have a tough quarter three because of the tech issues that we've now through Q4 have been able to get past most of them. But let me remind you, we were up 25% in e-commerce in Q4 and 33% up on the year.

So, these are strong numbers on e-commerce on a business where we've invested in it. And just as a point of reference also, 9.5% makes it the highest year of e-com business, higher than that of the COVID year, right? So, I just don't see what you're quite seeing, Videesha. But to answer your other question, we do want to continue to improve our margins slash reduce our discounts and improve our operating efficiencies.

But I think that everybody that's in the e-com space should be trying to do that, shouldn't be unique to us.

Videesha Sheth: Okay. So, going forward, the mix from this channel should largely be in the existing range of 9% to 10%. We don't see further improvement from there.

Nissan Joseph: Correct, for two reasons. There's a couple of reasons for this. First of all, you can wear a shirt a little bit loose, but it's very hard for you to wear a shoe a little bit loose or a little bit tight, right? So the need to go to store and try on shoes is quite high in our business. The second part is that we are growing the rest of our business as well. If the rest of the business was stagnant, then I think you'd see e-commerce starting to take a bigger piece of the pie.

But the rest of the business is as robust and growing. So, overall, we think it's going to tick along at that rate. And to be quite honest with you, we're quite happy with that rate. We might want to, as Kaushal mentioned earlier on, for Fila, we might look at how we go about it. But overall, that's about the range you can kind of forecast for us going forward.

Videesha Sheth: Understood. Thank you. And the second question was on the excess inventory of Fila. Last earnings call, you'd mentioned that there was approximately INR30 crores worth of inventory pertaining to Fila. What would the value be as of now? And do you believe any kind of provisioning would be required for the same in the future?

Kaushal Parekh: Videesha, the number is around INR17 crores. And we have made all the provisions that is needed to ensure that we are carrying that inventory at the right value. We expect to realize more than the value at which we are carrying the inventory in our books.

Videesha Sheth: Got it. And lastly, what was the revenue share for end of season sale for 4Q and FY'24?

Kaushal Parekh: For the full year, it's around 7.9%, so around 8%, whereas our long-term range is around 9%, 9.5%.

Videesha Sheth: Okay. And for 4Q, it would be higher than 8%?

Kaushal Parekh: Yes, because obviously EOSS comes in Q2 and Q4. For Q4, it was around 12%.

Videesha Sheth: Understood. That's all from my side. Thank you.

Moderator: Thank you. We have a next question from the line of Saurabh Kundan from Goldman Sachs. Please go ahead.

Saurabh Kundan: Yes. So my question was around Fila. Could you please provide us any updates on that business, on Sports SBU actually, what kind of team you're putting together? And since you're opening some stores towards the second half of this financial year, would you give us an idea of what are the store sizes, merchandise mix, and maybe the kind of locations that you're targeting?

And the second part to the question is, have there been any learnings yet on the acceptance of the brand? I'm asking this because I believe there is some, has there been some new merchandise also that's launched, at least online? And how are the consumers reacting to it?

Nissan Joseph: Thanks, Saurabh. Let me answer the two questions you asked. We've put together an outstanding team for Fila. I don't know if we've announced this before specifically, but Alisha Malik, one of our promoters, now is President of our Sports Division and is responsible directly for the Fila business and has been for the last seven to 10 months in that business. And behind that, we have a team for Fila already in place, right? So that's number one.

Number two, as far as the acceptance of the brand, what we liked about Fila is the awareness of Fila in India is very, very high. What we knew to be a challenge was the relevance of Fila, right? So what you will see with the new product, I don't want to make a blanket comment yet, but it's on pace with how we want to test products, right? So you want to test and see what resonates, what doesn't resonate. So all I can tell you is the little that we've tested, we believe it's getting us on track to do the repositioning for Fila this year.

Saurabh Kundan: Right. Thank you. The last question is actually around the base. So last quarter, you were on a high base for the overall business. And do you think you have lapped that now? I mean, the 11% growth that you had this quarter, is it despite the high base or is it the underlying growth that's there in the market right now?

Nissan Joseph: No, it's really despite the high base, right? Because we could tell when I saw -- when I looked at the FY'24 numbers on growth, any week where we had a high growth last year, we had muted growth this year, right? So that's number one. And we're able to track it literally by categories. And as I alluded to it, if we see any base issues, it will be from shifts of holidays and wedding dates, right?

So May has zero wedding dates compared to I believe there were 11 wedding dates last year. And June had an additional 11 or 13 wedding dates. And this year, we have zero again. So you will see that shift in that business, but overall we are seeing, as I mentioned earlier the growth of athleisure, the growth of casual footwear, that continues to be right on pace as we'd expect for an economy that's growing the way we are.

And it continues to be right on pace when it comes to the selection of premium products versus the not so premium products. So all of those indicators stay intact and we have to read through the little fluctuations of the cyclicality or the seasonality of our business.

Saurabh Kundan: Sure, sure. Thank you. That's all.

Nissan Joseph: Thanks Saurabh.

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

Gaurav Jogani: Thank you for the opportunity. So my first question is with regards to the discounting because the discounting this year was around 7.9% to 8% and which has been higher versus I think the 5% to 6% we are doing in the last couple of years prior to this. So do you think some bit of the premium contribution that we are seeing is also getting masked because of the higher EOSS contribution this year?

Kaushal Parekh: Gaurav, can you please repeat your question, the second half of it? Sorry, there wase some disturbance in the line.

Gaurav Jogani: Yes. So what I was trying to ask is, you know, given that the discounting at approximately 8% this year was higher versus the 5 to 6% we have seen in the prior 2 years and the contribution for the premium segment has been now 50% plus. So do you think the premium contribution is somehow masked by this EOSS sales?

Nissan Joseph: No, I would say let me give you some historical data there, Gaurav. First of all in FY19 the number was 6.68%. So you can't look at just one year, but we're not seeing that because it's premium product. We've also hedged a lot of inventory from time to time. We've anticipated price hikes on raw materials sometimes your costs go up.

So you have to take increases, but that's not a reason that we are seeing the discounts and I hate to tell you this, but most retailers would give their right arm to run that kind of a discount rate. So when you're operating on very thin numbers I think you might be trying to read too much into a fluctuation in that number.

Gaurav Jogani: No Nissan what I was trying to ask is given that your premium contribution is increased, I mean the products that are INR2,000, INR3,000 and above their contribution is increased. So ideally that should benefit the gross margins and I'm saying the entire benefit of that is not reflecting maybe just because of the couple of percentage points increase in the EOSS on a Y-o-Y basis.

Nissan Joseph: Our gross margins, I think the way to measure that Gaurav is to look at the gross margins. Our gross margins for Q4 were 58% compared to 57.2 last year. If you look at it overall, we stay in a range and that's what I'm trying to say. In that range, there's a mix of because we improved gross margins then you take a couple more in discounts.

That's not necessarily related to the premiumization of product is what I'm trying to say it's a balance. And then again, it's very hard to just pull one lever and say, is this the lever that drove it or is this the cause of it in retail? It's seldom is that, but unequivocally I can tell you that I would not look at our data from last year and say it was because we sell premium products that our discount rate blipped up a little bit last quarter.

Kaushal Parekh: It's a combination of many factors and then generally, the way we work is our gross margin doesn't significantly change with MRP. On certain products, it may be high, on certain products, it may be low. So it's a mix change as well that impacts the overall gross margin that you see.

Gaurav Jogani: Okay, sure. And the second and the last question is with regards to if you look at the revenue per square feet though that has kind of on a Y-o-Y basis been lower despite that we have seen good margin expansion and to an extent we don't see any impact on the margins. So what would you allude this it is more the variability nature of our model or it is more operational efficiencies that we are driving in?

Nissan Joseph: Well, there's three things that I would say. First of all, is the mix of stores. So like I keep saying, it just depends on the mix of stores you open, if you open a high number of Crocs stores one year, and not so many the following year, you're going to see a degradation, but that doesn't mean you're less productive in the format that you open. So that's number one.

We also open new stores and our new stores don't always, a lot of times don't come to the full average revenue per square foot at that rate, they take a while for them to mature. So that would be the second driver to when you look at it fundamentally and then the third, but not the least also was the year you're comparing it to was the COVID bump year. If you compare it to the COVID dip year it would look amazing. If you compare it to the COVID bump year, it doesn't look as amazing.

So you've got to look at it over a period of time, which is why at the start of the call, I made it a point to point out that, we've grown at a good rate from 2019. Despite opening a number of new stores, despite opening a lot of stores that were not Crocs in that period of time. So you've got to look at things a little bit at a broader range. You know, like we do at Metro, we look at things for the next five years, as opposed to the next five weeks.

Kaushal Parekh: And Gaurav, just adding to what Nissan said, which he had mentioned in his opening remarks, better flow through to EBITDA is also an account of slightly better gross margin, around eight basis points, and improvement in overall, efficiency in cost management, which is around 0.5% to 0.6%. basis point sorry?

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

Tejash Shah: Hi. So, Nissan, in most retail acquisitions, inventory led surprises are common. So would you say that the delay in liquidating Fila's inventory is a kind of indication of what we encountered on inventory quality versus what we anticipated during the due diligence?

Nissan Joseph: You know, you always think you leave enough provisions for that. But to your point, Tejash, there's always a little bit. I think everyone is a little more optimistic and then the truth is not always quite optimistic. But I would say the larger part of that has been because we decided that we were going to exit some channels of business sooner than later because they were extremely unprofitable to do it.

So that slowed down our liquidations. But at the same time, had we continued that, it would have come at a much higher cost to profit than it would be to that product and take another quarter to liquidate it, as Kaushal mentioned earlier on, at a price higher than your cost price on your books. So I think that was the primary driver to it.

Tejash Shah: Sure. And these channels that you are referring to are large format stores?

Nissan Joseph: You know, we don't like to call out any channels in particular, but there are some channels that we know are less profitable than others. So going forward, we want to focus on our own EBO Fila stores and of course, our Metro Mochi multi-branded stores and the e-commerce channel, our own dot-com sites, because as anybody would tell you, those tend to be your most profitable channels. So, everybody else comes under various grades of not as profitable.

Tejash Shah: Yes. Nissan, you spoke about how this quarter is devoid of any marriage date. But just wanted to understand, we had Eid also in this quarter and we had perhaps 11 days prior to Eid also in this quarter. So how does Eid play out and does it compensate to some extent loss of marriage days not being there in this quarter?

Nissan Joseph: Yes. So first of all, Eid was very early in the quarter. So the impact of Eid was really felt might have gone more into the previous quarter for those stores that do get a lift from it. Right. So the lack of marriage dates I'm really speaking to is in Q1 of this fiscal year. So we're not going to see the uptick from Eid because it was I think it was 11 days off slightly earlier. So the bulk of it, if anything, would have gone a little bit more in favor of Q4 as opposed to being in favor of Q1.

Moderator: Thank you. We'll take our next question from the line of Jasmine Surana from VT Capital. Please go ahead.

Jasmine Surana: Hi. Congratulations on a good set of numbers. When we're studying another company in the footwear sector itself, they mentioned that they are seeing some revival in the rural sector with open footwear picking up. I understand that we're not playing in that segment, but do you see any changes in the premium end of the footwear segment? Are there any changes in terms of buying behavior or trends which are visible?

Nissan Joseph: You know what? We're not seeing anything. As you said, Jasmine, we don't play in the rural sector. But when it comes to open footwear, we are seeing the customers being more discerning. When you look at my stores that are in Tier 3 cities, 15% of the stores do 9% of the business. If I look at it from a year-on-year comparison, it's up 100 basis points in terms of percentage of business, but it's also up 100 basis points in terms of share of store count. So I wouldn't say that I would be reading that as a distinct growth happening there, for us at least.

Jasmine Surana: Thank you for answers my question.

Moderator: Thank you. The next question is from the line of Saurabh Kundan from Goldman Sachs. Please go ahead. Mr. Kundan, can you please unmute your line?

Saurabh Kundan: Thank you for giving me the opportunity again. I think I missed one question earlier on, FILA, which is I wanted to know the two stores that you are retaining. What made you decide to retain those two stores? Is it the location? Is it something else? Also, I think a part of my question earlier was, the stores that you're going to open, could you give us an idea of the size and merchandise in terms of at least footwear and non-footwear in those stores?

Nissan Joseph: Right. So the two stores that we are going to retain are in the Mumbai area, Saurabh, because they become your test platforms, your test tube babies right close to you. You're able to test a lot of things. They also have a variety of consumers between the two malls, so we're able to see which consumer is resonating with which product. What we want to do there is test our footwear and apparel. And because we don't sell apparel in Metro Brand stores, we needed the lab of two stores to be able to test apparel and see how it does with consumers.

So that's to answer why those two stores and why we want the lab stores to exist and why they exist the way they do. As far as the store size for these kind of EBOs go, the ideal size is somewhere between 1,200 and 1,800 square foot because it carries footwear and apparel. So that's about the range. And like with any brand, you want to start off with your Tier 1 metro cities and then work your way through the country. The good news is when we look at people in the same space, they have upwards of 300 stores across Tier 1, 2, and 3 cities. So at some point, that would be something we would want to do with FILA as well.

Saurabh Kundan: Thank you.

Moderator: Thank you. We'll take our next question from the line of Tejash Shah from Avendus Spark, please go ahead.

Tejash Shah: Yes, a couple of follows up from my side. So Nissan on BIS, how should we think about growth or profitability getting impacted? And more importantly, inventory levels and getting impacted in FY '25 from this?

Nissan Joseph: So, from a profitability standpoint, it's not impacting at all, right? Because as much as people think it's going to add more complexity to it, it really doesn't, right? It's just a matter of ensuring that you're following certain processes and doing some certain testing as well, right? So we don't see that impacting profitability or costs or input costs to the product, right? That's number one.

Number two, I don't think it's going to clear out in total for the next 12 months in the sense that there will still be some remnants to be, some loose ends to be tied up. It's a massive project that the government has undertaken and it's a massive project with massive benefits, but it's not going to be done and dusted in a matter of X amount of weeks. So I think it's evolutionary, Tejash and we just need to watch where it goes. I would like to tell you that, as I mentioned earlier, in the two quarters from now, we would be past it.

But at the same time, we're monitoring closely because what we need to ensure is that we have the right product in our system to make the sale. So we keep monitoring it, because there are additions to this BIS, or I shouldn't say additions, clarifications probably is a better word for the BIS, every so often. So we just watch the next one and we base our decisions based on what we see there.

Tejash Shah: Sure. And the last one from my side, when you look at the inventory at the system level, not only with us, but at a very broader industry level basis, do you worry that we might enter into a very hyper discounting year if the growth does not turn out to be the way industry is anticipating today?

Nissan Joseph: I think we've seen that in the past, right, with a lot of retailers that are overstretched. And the reason why retailers do that is you are overstretched in inventory and you're short on cash, right? We try not to do both of those, right? So anytime we hedge our inventory for BIS or for raw material hikes, we do that very, very carefully. And it's reflective on our gross margins that we've been able to maintain our gross margins in the sales of the business. So I don't foresee that to be an issue for us. We just got to continue to keep monitoring it.

Tejash Shah: Great. Thanks and all the best. I'm done.

Moderator: Thank you. We'll take our next question from the line of Anushka Chhajed from SMIFS. Please go ahead.

Anushka Chhajed: Hello. Thank you for the opportunity. I have two questions. One, I wanted to know the reason for 10 store openings in Q4, which is relatively lower than our past record of quarterly store openings. And the 225 store guidance that we have, does that include Fila and Foot Locker?

Nissan Joseph: Let me take the easy one first or the simpler one to explain. First, the 225 does not include Fila, but it does include Foot Locker. Okay. So that's part B. Part A, I do want to put in perspective that number. We opened actually 21 new stores in the quarter. And we guided to 100 stores for the year. So it was right in line with our guidance. So that's number one.

Unfortunately, as timing would happen, we closed 11 stores in the quarter. And that is an unusual number of stores to close because for the whole year, we only closed 21 stores, closed or relocated 21 stores. So out of 21 stores, we did most of those, over 50% of that in Q4. So that's why you're seeing the net 10 store growth. I would like to still point out though, that for the year, we opened 97 stores.

So we were aware of these store closures. It's not that we were unaware of it, but you don't predict all the new store openings. You know, we would have definitely, not that it makes a difference between 97 and 100, but we would have exceeded it, except we had a couple of malls that are still not open on time that was scheduled to open on February. We had a few malls that will now only open in Q1 and some of them as late as Q2. So it's really a timing issue. It is not a matter of us trying to in any way, look at store openings differently at all.

Anushka Chhajed: Okay. Thank you. I have just one more question on the BIS standards. So we hear that companies are unable to import certain high-end international brands as well. So will that cause any difficulty for us in acquiring inventory for Foot Lockers?

Nissan Joseph: You did hear correctly. And you know, that is one of the reasons that even our Fila repositioning is taking a little bit longer. Yes, that is an issue. I think it's an issue that we can resolve at some point, some way, shape or form. It's not that that's going to be the permanent position on it. What it requires is some steps for that to happen.

And those steps are taking time. So it's not a permanent outcome of BIS. It is one of those things that will be rectified when all the parts of the BIS, including factory inspections, are being done as scheduled, right, as the schedule demands, I should say. So yes, and that could potentially, in some way, have a little bit of an issue with Foot Locker openings. But you know, there's plenty of opportunity for us to grow that business.

Anushka Chhajed: Okay. Any timeline for the close to six months, 12 months? How much time it may take for the issues to clear?

Nissan Joseph: You know, I think optimistically, I would say in this fiscal year, sometime it should be cleared. But as I mentioned before, it's a huge project that has been undertaken with huge benefits, and huge projects that involve multiple levels of the supply chain take a while to execute, especially where everyone's trying to do it the best way possible.

Anushka Chhajed: Okay. Thank you so much. Just one more follow up question on a Foot Locker. So I believe we will have Nike products in our Foot Locker store?

Nissan Joseph: That's correct.

Anushka Chhajed: Okay. Thank you so much. And good luck.

Nissan Joseph: One other thing Anushka, Kaushal wanted to add.

Kaushal Parekh: Anushka, I just wanted to add to what Nissan said, you know, this non-clarity on BIS to a certain extent is also one of the reason for, FILA repositioning, the delay of around two quarters that we have seen, because of confusion in terms of the vendors need to get, you know, registered under BIS and it's taking longer, initially it was implemented on 1st and now it is the implementation is deferred till 1st of August.

Moderator: We'll take our next question from the line of Videesha Sheth from Ambit Capital. Please go ahead.

Videesha Sheth: My questions have been answered. Thank you.

Moderator: Thank you. The next question is from the line of Rajiv Bharati from DAM Capital. Please go ahead.

Rajiv Bharati: Yes, good afternoon, sir. Thanks for the opportunity. So this is regarding this, some footwear parks being set up in Southern India. And we do import some of these stuff. So in case of, let's say you, instead of importing, you insource it from, I mean, from domestic thing, the eventual landed price, will that get. I mean, is there a case of that getting reduced?

Nissan Joseph: Yes and no. In some cases, yes, it might get reduced. In some cases, you're still buying raw materials and other pieces from abroad. But now all of a sudden you have a supply chain that has a much longer lead time, a much longer issue. So it's up and down. But the fundamental thing, Rajiv is yes, you're right. There's a lot of shoe manufacturing and PLIs for shoe manufacturing happening in Southern India. And the fundamental thing is it's nothing as significant that we can see today in terms of costs. Either way, up or down.

Rajiv Bharati: So particularly, for example, for Crocs, let's say, does it accrue to us or, let's say, Crocs India, I mean, the effective price for us remains the same?

Nissan Joseph: The effective price for us is the same with Crocs, but with almost all of the brands, well, obviously in our own brands, it flows directly through to us or certain licensed brands. So all the Fila licensed products we make will flow through to us. Just one other thing, Rajiv, just to add the reason why I'm not in any way thinking that there'll be spikes in profitability or spikes in pricing is because the footwear ecosystem takes a long time to set up, right, before you're able to get efficiency to scale.

So while you might save on some duties on imports you're still importing a lot and you're double touching things because you're buying from 10 different sources because the ecosystem has not been set up and it takes a while to set up.

Rajiv Bharati: So the duty arbitrage is not good enough, for example, purely in terms of pricing it more sharply in India? I mean, is there a case for that?

Nissan Joseph: So, no, I mean, it isn't. It's really about ensuring that we have the capabilities to do it. So if you don't have the capabilities to do it, you're importing it. It's not like we're making luxury cars cheaper in India. Because of duty arbitrage. By the time you bring it all in, I'm guessing. I'm not in the car business. But you get my point. It's not as simple as that. And the duty arbitrage from China is significant. The duty arbitrage from Vietnam is not at all significant. It's 5%. So it's barely the cost of freight.

Rajiv Bharati: Sure. And with regard to this discounting which you mentioned, close to 9%. Now, this is for, I mean, for all your brands barring your, I mean, Indian brand plus Skechers, Crocs, Fitflop, right? Because everything else is SOR.

Nissan Joseph: Yes. Well, no. When you say everything else is SOR almost 85% of everything I sell in the ecosystem of Metro brands is not SOR. It's my business, right? So even Crocs, though it's an international brand, it's not SOR. I have to take care of the discounts, right? Fitflop, same thing. Fila, same thing. Metro, Mochi, Walkway, same thing, right? So it is significant. I think what you would see is that number is reflective of the discipline of our business.

Rajiv Bharati: Great. That's all from my side. Thanks a lot.

Moderator: Thank you. We'll take our next question from the line of Sunny, an individual investor. Please go ahead.

Sunny: Yes. So just maybe a difficult question, but when do you expect to return to your normal long-term 10-year growth rate of around 18% by FY '25 or even further?

Nissan Joseph: So I think if you aggregate, first of all, Sunny, thank you for that question. If you aggregate the last couple of years, we are there including this year, right? Now, just because this year, that one year we didn't, what we've always guided to is on a long-term basis, we are confident that we can grow to 18%. This year, as we get past the COVID bump, as we get past some of the fluctuations of business, we should be able to get right back on track with that revenue growth of 14% to 18%.

Sunny: Okay, sir. And lastly, when do you plan to open your first footlocker store in India?

Nissan Joseph: So we're targeting, if all things go well, to open in late October, early November.

Sunny: Okay, sir. That's it. Thank you, sir. All the best.

Nissan Joseph: Thank you, Sunny.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. On behalf of Avendus Spark, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.