“Metro Brands Limited

Q1 FY’25 Earnings Conference Call”

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MODERATOR: **MR. TANMAY GUPTA – MOTILAL OSWAL FINANCIAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Metro Brands Limited Q1 FY '25 Earnings Conference Call, hosted by Motilal Oswal Financial Services Limited. 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 touchtone phone. Please note that this conference call is being recorded.

I now hand the conference over to Mr. Tanmay Gupta. Thank you. And over to you, sir.

Tanmay Gupta Yes. Thank you, Sejal. On behalf of Motilal Oswal, it's our absolute pleasure to host Metro Brands 1Q earnings conference call. From the management team, we have Mr. Rafique Malik, Chairman; Ms. Farah Malik Bhanji, Managing Director; Mr. Nissan Joseph, CEO; Mr. Kaushal Parekh, CFO; Mr. Mohit Dhanjal, COO; and Ms. Alisha Rafique Malik, President, Sports Division, E-commerce, and CRM.

I will now hand over the call to the management. Over to you, sir.

Nissan Joseph Thank you, Tanmay. Good afternoon, everyone, and thank you for joining and welcome to our Q1 FY '25 earnings call. Q1, as you all know, had some industry headwinds that muted demand in certain segments of our business. While we listed some of these events in our earlier release, I also wanted to point out that Q1 after COVID has seen double-digit increases for us. In Q1 of FY '23, we came out of COVID and had a 294% increase. And more importantly, last year, Q1 had a 12% growth over that performance as well.

While I'm not pleased with the overall sales for the quarter, I am proud of the team for the operational discipline as we maintained our gross margins at 60% and our PAT at 16.4% for the standalone business and 16% for the consolidated numbers. Along with that, we had a standalone EBITDA of 32% for the quarter. All three metrics of PAT, gross margin and EBITDA been well at or above the ranges that we have guided to.

We believe that consumption continues to track well, although there is a dispersion of the discretionary income into other consumable and travel experiences. Our percentage of premium products continues to perform as we achieved 54% of goods over INR3,000 compared to 49% in Q1 of the previous year.

As some of the headwinds of Q1 start to get in line, we are pleased to see that sales in this quarter are starting to trend back up once we clear the end-of-season sales period. Our Fila liquidations continue to be on track, and we will be launching some of our new offerings into the channels once the clearance sales finish in the market. Consequently, we have managed to diminish the losses from our clean-up efforts in this brand as mentioned in our filings.

For the quarter, we also opened a total of 17 new stores while exiting two stores, giving us a net addition of 15 new stores. We closed the year with a total of 851 stores. And given our lease agreements pipeline, we are confident of achieving the approximately 100 new stores for the year and approximately 225 over the next two years combined. Further, in FY '26 post stabilizing our Fila operations, we will restart opening new Fila exclusive brand stores.

On the BIS front, as extension has come to an end, we are prepared to be in line with the compliances laid out for our core business units. However, with regards to the sports business, there is still some flux and changes that we're waiting for official confirmations on. India is not yet fully equipped for the production of high-end technical footwear. This is an evolution that we are hopeful the center will consider prior to their final circular. We are closely monitoring the notifications on this front.

I'm also pleased to announce the addition of Mohit Dhanjal as COO to our organization. Mohit brings with him almost 30 years of domestic and international retail experience. We are excited about his addition and look to enhance operational efficiency and increase management bandwidth for growth. We also announced the signing of an exclusive distribution agreement for New Era. This world-leading headwear and accessory brand will be sold in our Foot Locker stores, on the brand website, at key pinnacle retailers in the country and we look forward to opening standalone kiosks and stores over the coming quarters. I'm proud that though Q1 was muted for various reasons we mentioned, the team was able to continue to hit the numbers we have guided to in the EBITDA and PAT range.

So in closing, as with any retail operation, while there will be fluctuations and shifts of holidays and special occasions, we continue to deliver EBITDA around 30% range and our PAT to deliver somewhere between 15% and 17%, while adding new stores and formats such as Foot Locker to the Metro Brands organization. Along with the talent and brand additions that we continue to invest in, I'm confident that Metro Brands is well positioned to take advantage of the immense opportunity of the Indian economy.

With that, I'd like to turn it back to the operator and open it up for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Videesha Sheth from Ambit Capital. Please go ahead.

Videesha Sheth: Hi, team. Thank you for the opportunity. My first question was on the consumption environment. With 40 days into the quarter, can you elaborate on how has the consumption environment or footfall trend till date been like when we compare it to the first quarter and the base quarter? And you mentioned briefly in your opening comments that there is some sequential uptick, but when do you see the trends normalizing from? And also, as a follow-up to this, are you witnessing any change in consumption patterns in metro, tier 1 cities versus tier two, tier three cities? That would be my first question.

Nissan Joseph: Right. Thank you. Thank you, Videesha. To answer your first question, there are a lot of factors that go into retail environment as it goes through ebbs and flows, right? So one of them is that when we finish Q1, we go into clearance quarter, which has a whole different cadence and heartbeat to that as opposed to the Q1 quarter, right. So you're not going to see an overall quick turn in there, because now the EOSS takes over, and that depends on how much of an EOSS lag you're carrying.

Overall, though, we are pleased to see that business has turned. That's not saying it's back to the net levels we expect it to, but it has turned. So that's number one. The consumption patterns that we are seeing for categories that we expect to be unaffected by the influences, the headwinds that we had in Q1 continue to perform, whether it be our casual footwear, our athletic footwear, the Crocs range, those continue to perform. So we are able to discern that it is strictly the headwinds that we are facing, but you don't come out of those headwinds overnight. So that's number one.

From a tiering standpoint, we're not seeing anything distinctly different. From a tier standpoint, there are geographies that sometimes do a little bit better than others, but we're not seeing any difference, from a tiering standpoint, in performance.

Videesha Sheth: Nissan, just one quick clarification over there. When you said that overall business has turned, are you referring or alluding to the footfall?

Nissan Joseph: I'm referring to actual sales conversions that happen in stores, which is also not necessarily an increase in footfalls. A lot different. So a big comparative is how we do -- how we track them against the previous quarter, Videesha. So that's what we compare against first and foremost in retail. And from there, we're seeing a definite turn in trend.

Videesha Sheth: Got it. Got it. Thank you. And the second question was on the New Era tie up, given that the following of American sports is pretty niche in India and, when we look at the product portfolio, it largely comprises of headgear, so what kind of opportunity size are you looking at with the New Era tie up over the long term?

Nissan Joseph: So I think when you look at this, these are lifestyle objects, these are lifestyle products, right? So basketball is not big in India, but Jordans are huge in India, right? So it's not necessarily the uptake of that particular sport or that particular team. It is the lifestyle imagery that goes with it and the products that cater to it. So this brand caters very much to that trendy sneaker maven that we're continuing to attract to our Foot Locker -- that we will be attracting to our Foot Locker stores. It plays very well.

It is a niche play. It is not for everybody. It is a premium play. The caps range somewhere in the INR3,000 to INR4,000 range. So it's not cheap. So it is a premium play. So it's not going to have the exposure of stores, neither does it have the product assortment of a Crocs. So it's not going to have that those kind of legs. Having said that, though, it augments our business very well, which is why we're excited about it.

Videesha Sheth: Thank you. And just one more last question, if I may. On the Walkway format, we see value retailers either taking a relook at their merchandise or even successful value retailers rapidly expanding their presence. And they're getting nearly 8%, 10% of their sales from footwear. So for the Walkway, have we kept an internal threshold in terms of how many years are we willing to wait for this format to turn around? And also, what initiatives are we taking internally to improve the unit economics? That will be all for myself. Thank you.

Nissan Joseph: So thank you. That's a good question. We have been working very hard at the Walkway business, and I'm pleased to say that we are making considerable headway in it. The performance of walkway, as I mentioned earlier on, was not as affected by the headwinds that we had, showing that it is a different customer, it's a different business proposition, which excites us, because it's not cannibalistic in any way. I think in the near future, somewhere in FY '20 -- late FY '26 - - late FY '25, early FY '26, we should be poised to take advantage of the value footwear opportunity.

Videesha Sheth: Thank you. That's all for myself.

Nissan Joseph: Thanks. Videesha.

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

Gaurav Jogani: Thank you for the opportunity, sir. My first question is with regards to New Era. Just a clarification needed on this that because we have an exclusive distribution agreement, will we be buying out the inventory and then selling it or it will be just passed by an arrangement here?

Nissan Joseph: Gaurav, there's minimal inventory in the country right now, which is one of the reasons we're excited about it as well. We hope to launch our first kiosk sometime in the next few months. We think the market is pretty clean. The retailers that used to sell it -- the pinnacle retailers in the country that used to sell it are quite excited by it. So we think it definitely is a clean start, unlike what we had to deal with on the Foot Lock -- Fila side, sorry.

Kaushal Parekh: And Gaurav, just to add to what Nissan said, it's a pure -- we'll buy at a particular price, at a particular margin from them. After that, the inventory risk would be on us and there is no royalty or anything we pay to them.

Gaurav Jogani: Okay, yes, that is what I was looking for. And Nissan, my other question is with regards to, again, the Q1 performance. We -- while we agree that there were multiple headwinds in Q1 because of the weddings and all, but generally in normal scenario, we generally find that the performance kind of ebbs in Q2 and then picks up in Q3. So would be the same trend be expected? Because last year also had this inauspicious period of Adhik Maas for one month and, this time, it's not there, so probably the Q2 would have a favorable base because of this. So anything that you are seeing on this front?

Nissan Joseph: Well, we're not seeing any negative things, any headwinds that we're facing, Gaurav. Whether things turn to positive or not is a different question totally when you look to the future. We're not seeing the headwinds. Q2 is a clearance quarter for most retailers, and we battle that. And I say we battle that because, as you know Metro is not very heavy into it. And so that's just -- but it's historically been the case. Q3 is our largest quarter by far, and I think all the indications are that we -- because there's not the headwinds of disproportionate marriage days this year to last year, albeit it doesn't start till November, so we start seeing the first marriage date this year, all the indications are that we should be right on track with our guidance of growth.

Gaurav Jogani: Okay. I think Nissan, the earlier guidance on growth was that 15% plus is what should you'd be doing. And given what the Q1 performance has been, up around minus 1%, at least for this year, do we maintain that same rate or there will be some correction to that number?

Nissan Joseph: Yes. It's a little hard to have that perfect crystal ball, which is why I think we've always guided, Gaurav, to a CAGR of 12% to 15% because we know, in retail, there are ups and there are downs, and some of them are within our controls and a lot of them are not in our controls necessarily. But overall, a good retailer will be able to achieve those numbers over a sustained period of time, but not every single quarter. So we're hopeful that if you were to look at this quarter and say, it was a tough quarter, there's some gains coming later on in the year as well that would offset it. So it's a little hard to predict, but we're very comfortable at a CAGR rate to be between 12% and 15%.

Gaurav Jogani: Awesome. And the last question is with regards to the BIS implementation now. So we do understand that there is a period of one year that will be allowed for the vendors to sell their old -- the old product. So in this interim, do you think it will be possible for you to also launch the new Fila range? Because I think now since the BIS has been launched, only those products which are BIS marked would only be imported. So what kind of challenges you could face because of this in your Fila launch?

Nissan Joseph: Yes. So let me take those questions one at a time, Gaurav. The sell-off period that we have is actually two years. So that's the sell-off period that we as retailers have. So that's number one. And number two, as I mentioned, there's still not clarity on the sports piece of the business. But this year for Fila was a repositioning year coming up, right? So this was not the accelerate year. So if you remember, FY '24 was cleanup, FY '25 is reposition the brand, and FY '26 is accelerated. We're confident that we will be able to do the testing of the products and the product lines and the designs that we want to do in this coming year, positioning us for the acceleration year in FY '26.

Gaurav Jogani: Sure. Thanks. Nissan, for answering for answering my question.

Nissan Joseph: Thanks, Gaurav.

Moderator: Thank you. The next question is from the line of Umang Mehta from Kotak Securities. Please go ahead.

Umang Mehta: Hi. Thank you, sir, for the opportunity. Just wanted to understand the rationale behind this New Era tie up. Because from whatever we understand and what you also maintained in past is that your expertise lies in footwear retail. Even during Fila, you had said that your first priority will always be in footwear. So if you can just help us understand more on the rationale and thinking behind this partnership.

Nissan Joseph: Yes. So as you're aware, Umang, we've taken on the Foot Locker license, which now, in a way, pushes us to explore certain categories that give the consumer a complete offering, right? And when you look at a complete offering, most of the brands sell accessories. So it's not like we could go out and get another brand and just for the accessories. However, we found New Era to be very unique that it absolutely owns the headwear space. All the NY caps and the LA caps that you see people wearing, whether it's on -- whether it's at the country club or at the nightclub, are New Era. And if you're in that market, if you're in that consumer segment, you notice those things. So we find that brand to be very unique.

And we think when you look at our consumer, when we want to give them a head to toe as we move into Foot Locker, that doesn't mean we're going to go disproportionately in the apparel, but it's something that we can't avoid doing. We might as well go ahead and get a brand that we feel confident we can distribute and bring to life in India very successfully. It'll differentiate us from all the other offerings that we've done or that has been in the marketplace because the supply here has not been very consistent. So it creates a point of differentiation, it creates a point of completeness for the consumer. So it has multiple advantages. And to the fact that when you take on a distributor brand, it typically tends not to be margin dilutive. So those are some advantages that we saw with it.

Umang Mehta: Understood. And the second question was on the guidance range, which you mentioned. In past, Nissan, you all have mentioned about 14% to 18% kind of CAGR. I heard you mentioned 12% to 15% today. So is there some kind of moderation in terms of aspirations going forward or just was trying to get some more sense on that?

Kaushal Parekh: Umang, let me take that question. In a 12% to 14% -- 12% to 15% that Nissan mentioned was factoring Q1 that we already had for the year. However, if you look at our long-term horizon, we stick to the number that we have mentioned earlier, which should be somewhere in that range of 15% to 18%, plus or minus 3 percentage points.

Umang Mehta: Perfect. Perfect. Understood. Thanks a lot for the clarification and good luck for the rest of the day.

Nissan Joseph: Thank you.

Moderator: Thank you. The next question is from the line of Navni Naredi from Naredi Investment Private Limited. Please go ahead.

Navni Naredi: Yes. So thanks for the opportunity. So my first question is regarding in the last quarter, you accounted the loss of INR11 crores from Fila business. Since you mentioned that you have managed to reduce the loss from Fila, can you please state how much loss you have booked on account of Fila business in this quarter?

Kaushal Parekh: So we have been able to reduce the loss by approximately 45%. So if we see for this quarter, loss is somewhere in that range of INR6 crores.

Navni Naredi: All right. And my second question is also in the last con call, you mentioned about the two lab stores of Fila to test the response of the customers for footwear and apparels. So can you please guide us if you are able to see some traction for apparels and footwear and what's your strategy moving forward?

Nissan Joseph: Yes. So we have kept those two stores alive, Navni, to ensure that we have a test module to do it. Right now, as I mentioned, we're still in the EOSS clearance phase. So we don't want to launch it yet simply because the consumer that's coming to malls right now is inundated with deals. And there's a lot of noise regarding that. We want to launch it when there's some clarity on it. So we are going to launch it probably in late August, early September, and we do have those two options still with us.

Navni Naredi: All right. And my last question is about how much cost is being saved in processing of old and discarded footwear and how much does it affect on EBITDA margin?

Nissan Joseph: So our target, Navni, is get to 100% recycling of all footwear, number one. Number two, the way we do it is we use our CSR funds to drive that business. So while it is -- costs us money, it's part of our CSR program that we have to do. It's negligible as far as the impact goes. And don't forget, we're required by law to do it as well, right? So by the way, this quarter we hope to achieve the 100% mark that we set out to do. So we're right on track and excited about that.

Navni Naredi: All right. Thank you and all the best for future.

Nissan Joseph: Thank you, Navni.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking Limited. Please go ahead.

Shirish Pardeshi: Hi. Good afternoon, Nissan, and team. Thanks for taking...

Moderator: Sorry to interrupt you, sir. May I request you to please use your handset?

Shirish Pardeshi: I am indeed using handset. Am I loud and clear now?

Moderator: Can you come near to the mic and speak, please?

Shirish Pardeshi: Okay. Hi Nissan. Good afternoon. Thanks for the opportunity. I have three questions. Starting from the per square feet, we have come down to 4,500. I understand this quarter is weak, but then on an average we were doing around 5,000. So what are the levers and what are the areas or what are the measures we are trying today to improve this? And maybe if you can help me, what are the number of pieces we have sold in this quarter or maybe some indication on the same-store sales growth?

Kaushal Parekh: So Shirish, obviously, this quarter has been tough in terms of SSGs. But over the period, if you see, if I'm taking a slightly longer-term horizon, SSGs generally that we target and our actual SSGs has been -- have been in the range of around mid- to high-single-digit. That is -- SSG is covering the inflation. If we are able to maintain that you will see that -- you will see this sales per square feet sort of rising. Having said that, it is also impacted with the number of new store additions. That's because the sales doesn't come in, but the denominator would have the new store that comes in.

Nissan Joseph: And one other thing, don't forget, we have to close all our stores in the entire country, not on the same day, but on the days that we had to close to support the election. So that also impacts it. There's a number of factors that impact this.

Kaushal Parekh: And then as Nissan mentioned, we expect H2 to be relatively stronger as compared to H1. And hence, we are saying that we expect the overall sales growth for the year to be in that range of 12% to 15%. If that happens, obviously, we'll see this number reaching that 18,000, 19,000 mark for the year.

Shirish Pardeshi: That's helpful, Kaushal. I was just more curious because in the initial comment, you said that INR3,000 plus is 54%. So maybe in the volume terms, if you can tell me, spell it out, what is the total volume we have done? And if that 54% value is there, INR3,000 plus, what is the volume share for INR3,000 plus point?

Kaushal Parekh: Unfortunately, we are not sharing the volume numbers, but the numbers that you see is based on the sales and that is what is reflective in the increase in percentage from 49% to 54% this year. Having said that, our overall ASPs have remained flat, which is predominantly on account of higher sales of accessories, which is one of the examples are Jibbitz in Crocs. These are items which are sold at around INR300 average ASP.

Shirish Pardeshi: Okay. My second question on the omnichannel slide, the quick commerce -- the e-commerce business is now contributing about 10%, which has come down when I look at over three, four years. So there's two sub-questions here. What is the average you would be happy? I mean, what run rate you should be okay that because to my understanding, it's a double-edged sword? You can do more volumes, but there is a discounting. So maybe if you can highlight something over next two, three years where you want to settle down this business.

Nissan Joseph: So Shirish, just to level set the numbers, right, FY '22, Q1 was INR18 crores, and they went to INR38 crores, Last year was INR61 crores and this quarter was INR68 crores. It's really been growing quite steadily over the few years. What you're referring to probably is the percentage of business. Of course, when we had the COVID hit and brick and mortar was not open, it played a much larger role.

But if you looked in FY '23, it was 7.9% of our business. FY '24 was 9.5% and this year we're trending at 10.4%. So there's been a constant steady uptick. This, at the same time, Metro has been growing its business as well in its brick and mortar. So it's definitely keeping pace and it's actually going a little bit faster.

And you're 100% right. We want to control this. We want to control this too where we're taking care of the consumer that wants to shop our full price sales, wants to be able to have access to our products and zip codes we don't serve. It's not -- I would rather let the customer dictate to me what that number should be, because if I come up with a 20% number, I can achieve it tomorrow.

And then three years later, we dont have a brand because we discounted it. We're going to grow that business as long as the consumer finds it meaningful. Don't forget shoes are not a great e-commerce-friendly item because of fit. You can wear a shirt a little bit loose, a little bit tight. You cannot wear a shoe a little bit loose, a little bit tight.

And also, the quality of a shoe often only comes through when you actually see it, touch it, and wear it, right? And people -- consumers are smart. They're savvy. They know this, which is why the footwear business also runs one of the highest return rates in the industry of all consumer goods out there. So there are multiple reasons that create friction for this space.

Having said that, we understand that the consumer today, more and more, is starting the journey of shoe exploration digitally and then moving that on to an offline environment. So we will continue to invest heavily in the e-commerce digital space, and we will take whatever sales come that are meaningful and correct for the business, but we're not going to try and push to a number.

If you look at it globally, I don't know anywhere in the world, a mature market or not, e-commerce does not dominate retailers sales, and we are not too far off the range. So I think at the max, I've seen good retailers is about to 20%. But that's the max I've seen in retail. Don't confuse brands versus retailers, right? And Metro is unique because we're both a retailer and a brand, but we're predominantly first and foremost a retailer.

Shirish Pardeshi: That's really helpful. My last question on the margin front. I understand the things that are very volatile, yes, will happen at some point of time. So maybe Kaushal, if you can highlight what are the cost parameters you are looking at this time. Is there any inflation which you'll build in for next two to three quarters? And I'm not saying guidance, but what are the levers more importantly of this 54%? Are you happy with that? Or this 54% contribution can look more than 2% addition in next two to three quarters?

Kaushal Parekh: So in terms of margin guidance, Shirish, we are still maintaining the overall guidance that we have given for gross margin, and I'm talking not about immediate year or a quarter, but slightly longer term just to set things right. In terms of gross margins, our long-term range is around 55% to 57%. We are 100% confident of achieving that. Our EBITDA range that we have guided is 30% to 33% and PAT around 15% to 17%. These are numbers that we sort of track, and we feel extremely confident that we should be able to achieve these numbers over a longer-term period.

I heard you saying -- mentioning BIS in your conversation. We expect maybe slight increase in cost, but over the period, we have been able to pass on any inflation driven or any cost that comes into our product to the customer over a period of time, and it is covered in that 2% to 3% to 5% ASP increase that we see on an average year on year. So we don't see any significant concerns with respect to product inflation as such. And we feel the gross margin range that we have guided, we should be able to achieve.

Shirish Pardeshi: The reason, Kaushal, why I'm asking, our revenue is flat and our employee cost has gone up by 11.5%. I understand there is a store opening cost which is attached to it, but I'm just more curious that if there is another cost line item which can come as a surprise in next two to three quarters.

Nissan Joseph: I don't think it's a surprise. I mean, what happens every Q1 is people expect raises all across the globe, right? So that's something we planned on. I think the other thing is I don't foresee. I honestly believe the team has done a great job controlling expenses, because if you look at it from the consolidated numbers is 1% down in revenue, 1% down in profits roughly, right, which is hard to do, as you and I know, because you deleverage a lot when you go down or worse if you don't grow. So I don't believe there's any additional surprises coming in an expense, and that to us wasn't a surprise by the way.

Kaushal Parekh: And Shirish, just specifically on the manpower cost, should also see this in light with all the tie-ups that we have announced, starting with Fila, Foot Locker and now with New Era. I think, as we mentioned in our earlier call, although we have not started with Foot Locker store, but our team, who is dedicatedly working on Foot Locker, is to a certain extent in place. So these are also investments that we have done for which revenues will start flowing from H2 and subsequent period onwards. These are all good expenses if I may term it that way.

Shirish Pardeshi: All right. Thank you and all the best to you.

Moderator: Thank you. The next question is from the line of Saurabh Kundan from Goldman Sachs. Please go ahead.

Saurabh Kundan: Yes. Thank you. My question is that footfall was understandably subdued during the quarter, but do you have any observational trends on the footfall -- on the conversion compared to last year that you can share with us?

Nissan Joseph: Yes. So the conversions remain flat or gone up just a tad, Saurabh, across our different divisions. Some geographies go left and right. But as an average, we track conversion on a weekly basis and we're not seeing anything distinctly different in conversion, which is good. But also, like I reiterated, the categories that we didn't expect to be impacted by the headwinds were not impacted.

Obviously, when a store is closed, every category -- for a day, every category is impacted for that day. But overall, we're not seeing a shift in conversions. We're actually seeing also that the average items were billed had stayed constant and actually gone up just a smidgen. So it's not like the consumer is -- or they're not trading down in ASPs. So we're not seeing anything that indicates that they're not willing to buy. It's just that we have some industry seasonal headwinds going on.

Saurabh Kundan: Great. Thanks. Thanks, Nissan. That's good to know. My last question is you made some comments on BIS related challenges in your opening remarks, especially on the high-end sports footwear side. Does that in any way also affect your plans on the Foot Locker side? I read in the media that the first store is going to be up soon. So I'm assuming the inventory for that would be ordered. But how confident are you of replenishing that once that starts?

Nissan Joseph: Yes. So I think it's a moving target right now. And as it happens, Saurabh, it may, it may not impact it. What we need to create is a nimbleness and an agility in here to deal with it. The center has not come out with the final circular on how it's all going to play out yet, right? We're working very closely with all the major brands that supply the Foot Locker.

We are in constant communication with them. They also have mitigation plans that they have in place. Overall, I think it's a little bit of a wait and see, but it's not going to be forever thing either, right? So we're building agility into our plans just to make sure that we don't get surprised by it. And we don't like surprises and neither do you.

Having said that, though, when it comes to the biggest bulk part of my business, which is Metro, Mochi, Walkway, we are 100% secure, right? So that's the good news to it that even if this were to be some fluctuations in the sports end of the business, that's on the fringe of our business. That's not our core business.

Saurabh Kundan: Right. Thank you very much. Thanks.

Moderator: Thank you. The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.

Sameer Gupta: Hi, sir. Thanks for taking my question. Firstly, when I see the performance this quarter, I understand there are specific factors, and other retailers or brands have also alluded to the same. But over the last three quarters, if I look at, the growth has been around 6%, 7% in second half of FY '24. And is it just external environment or base issue? Or would you like to call out if there are any other factors which have led to such weak performance versus our own expectations?

Is it a new entrant that has entered, competition, unorganized, coming back, any other factor that you are feeling? And in this context, the second half, you have alluded that the company is very confident. What is the driver here? Is it just a base normalizing? Or is it a real pickup in consumption that you're envisaging? Anything on those lines, sir?

Nissan Joseph: Yes. Sameer, I think you nailed it on the head when you said it's just the base normalizing, right? We've gone through two years of somewhat crazy growth. I think the growth that we had just coming out of COVID was unsustainable, was absolutely unsustainable. We had 294% growth, but I know that's on a low base. But even if you look at the sheer quantum of number that represents, it was significant, right?

We had record-breaking quarters if you remember right. Going against those numbers, we still had a 12% growth last year, right? So people are ask -- or wondering, is this a sign of demand shifting? It really is normalizing. Like you said, it really is a normalizing of demand more than anything else. We're not seeing anything that would indicate to us that the consumer is not buying footwear, they're preferring to buy their footwear elsewhere, that there's new competition that we should be aware of, that the e-commerce business is eating into it more disproportionately.

We obviously look for all these signals in the market and we're not sensing any of those signals, because if I were to just dissect what the headwinds would have impacted us by, we've got a healthy business on top of a healthy business from the year before and the year before that. So some of it is base, some of it is headwinds.

And I say the base, especially for the quarter preceding this one, and we have talked about it that it's normalizing. But as things normalize, I compare it similar to the wobble on a bike. If the bike wobbles, you don't get right back to the center line. You wobble to the right, then you wobble to the left and the oscillations become less and then you normalize. And that's what we're going through right now.

Sameer Gupta: Got it, sir. And based on your assumptions, estimates, 3Q is the quarter where things will be absolutely normal going forward? Is that a right interpretation?

Nissan Joseph: We remain convinced that the business is solid, the company is solid. The operational efficiencies and the rigor that we have continued to prove themselves out over and over again. The future inventories that we have coming in are in tune with what the customer wants. So we have all the indications that we're ready for Q3.

Sameer Gupta: Got it sir. Second question and last from me. Implication of BIS and the recently announced PLI for manufacturing footwear in India. Are there any implications for Metro in the near term versus other competitors who are more into manufacturing products?

Nissan Joseph: We don't have a disadvantage because we don't manufacture it. So if anybody else manufactures and sells it's not a distinct advantage to them yet. We think that PLI is a great thing for the country. We think five years from now, it is going to be an amazing thing. It's just that as you walk through that journey, it's always a little bit rocky.

But we weathered many other storms 10 times tougher than this one. And like I mentioned before, Saurabh, we keep making sure that we're staying nimble and agile to what's going to happen because the rulings come out -- the circulars has come out and notifications come out succeedingly at a pretty rapid pace. So we just keep watching what's going on.

Sameer Gupta: And let's say in future, it comes out that there is some sort of disadvantage. Would the company also explore into getting into manufacturing meaningfully?

Nissan Joseph: It's hard to say looking at all those things. As you know, we're well capitalized and we have capital at our disposal. If there's ever an opportunity that we see would give us a competitive advantage, then we would definitely consider it like we do all other good opportunities, right? I just want to let you know there's a small company called Nike that has zero manufacturing and seems to have done well for many, many years, right? And so manufacturing is not necessarily the forte that we want to develop. But like I said, if it's a great opportunity and the correct capital deployment, we would definitely consider it.

Sameer Gupta: Got it, sir. Just a follow-up on this, it's a skill set that probably -- I mean, we have a different skill set in terms of retailing and branding. It may be very difficult to make a skill set out of manufacturing also in a short period of time, so.

Nissan Joseph: So you're absolutely correct about that. And the fundamental guiding light, that North Star that we use here at Metro is wherever we play, we want to play to win. And if we don't believe we have the right skill set to do that, we will not play that game. If we feel we do, we will consider it.

Sameer Gupta: Great, sir. That answers my question. Thanks all, and I'll come back in the queue for any follow-ups. Thanks.

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

Nissan Joseph: Thanks, everyone, for attending the call. And we appreciate your time and interest in Metro Brands. Thank you.

Moderator: On behalf of Motilal Oswal Financial Services limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.