"Metro Brands Limited
Q2 FY'25 Earnings Conference Call"
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MODERATOR:	**MR. GAURAV JOGANI – JM FINANCIAL**

Moderator: Ladies and gentlemen, good day and welcome to Metro Brands Limited Q2 FY '25 Earnings Conference Call hosted by JM Financial. 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 the star, then zero or your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gaurav Jogani from JM Financial. Thank you and over to you, sir.

Gaurav Jogani: Hi, everyone. On behalf of JM Financial, it is my pleasure to welcome you all to Metro Brands' Q2 FY '25 Earnings Conference Call. From the management we have with us today, Mr. Rafique Malik, Chairman; Mrs. Farah Malik Bhanji, Managing Director; Mr. Nissan Joseph, Chief Executive Officer; Mr. Kaushal Parekh, Chief Financial Officer;; Mr. Mohit Dhanjal, Chief Operating Officer; and Ms. Alisha Rafique Malik, President, Sports Division, e-commerce, and CRM.

Thank you. And I will now hand over to the management for their comments and opening remarks.

Nissan Joseph: Thank you, Gaurav. Good afternoon. Thank you for joining, and welcome to our Q2 FY '25 Earnings Call. As we shared in our filings, on a standalone basis, we were up 5.1% with EBITDA and PAT remaining constant to last year. We are pleased to see business improve over the previous quarter, and there were some wins in our portfolio of banners last quarter that I do want to call out.

Sales of Crocs grew well through what is their most important quarter, which is the monsoon period. We're also pleased to see momentum build in our Walkway segment. And while we cleaned up almost all of the Fila inventory, our overall margins still came within our guidance. Our e-comm business continues to run north of 10% of our total sales and our in-house brands continue to represent over 70% of the total business in our MBOs.

The sales of products over INR3,000 represented 53% of our sales as compared to 50% for fiscal year '24, showing the continued demand for premium products. We opened 23 new stores, offset by three closures. And for the first half, we have opened 40 new stores, offset by five closures. We're confident that we are on track to open over 100 stores in this fiscal year.

Last but not least on our Q2 performance. Metro Brands continues to show deep operational rigor and financial discipline as reflected in our stable PAT percent for the quarter. Furthermore, with the stabilization of BIS related supply chain disruption in our core brands, we have seen moderate reduction in net working capital days.

In the quarter, we also announced the signing of a new agreement with New Era, a leader in crafting high-quality headwear and accessories with over 500 licenses globally in its portfolio. We anticipate opening our first New Era kiosk in the next few weeks.

We also just wrapped up an exciting launch of the first Foot Locker store in India at Select Citywalk in Delhi. We're pleased with the support that we received from all the international brands in curating an elevated assortment in the store. We look to open the next few stores in the coming quarters.

On the BIS front, we've been working on aligning with the regulations and changing inspection schedules. I must point out that we've been able to mitigate the risk to our core businesses of Metro Shoes, Mochi and Walkway by moving sourcing to India or have forward bought inventories to such time as we can substitute it with BIS approved India production.

We, however, are still facing challenges in the sports and athleisure segments, which is why we consciously slowed the growth of Fila standalone stores that do require a much wider assortment. Though we are opening more stores for Foot Locker in the next six to eight months, we are moving cautiously till we have a more concrete view of the supply chains with the BIS influence. We have, however, launched our first -- the first of our Fila footwear collections into select Metro and Mochi doors and apparel into Foot Locker, and are pleased with the response on the products.

Looking to the current quarter, October has some shifts in dates of some key festivals and we're seeing the sales results come in line with expectations. Furthermore, we have a strong lineup of wedding dates in November and December and anticipate sales to come through at that time as well.

So, in closing, it appears that most of the normalization of the COVID event are behind us. The consumer continues to respond to the relevant categories and price points, and we're confident that the trajectory of growth we have seen from Q1 to Q2 will continue.

With that, I'd like to turn it over for the Q&A session.

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: Yes. Sir, my first question was on growth. How are you looking at growth in FY '25 versus the previous guidance of 12% to 15%? And especially in the context of urban growth being under stress, which is also something that large FMCG companies highlighted?

Nissan Joseph: Yes. So, I still think we're going to go with our guidance that we provided earlier in the previous quarterly call of about 12% to 15%. Obviously when you have a slightly muted first quarter and second quarter that didn't meet that, it's not going to be the easiest thing in the world. But we have all indications, Videesha, that the business is there and there's no reason we shouldn't come at that guidance range.

Videesha Sheth: Nissan, any particular indications that you'd like to elaborate?

Nissan Joseph: Sure. I really want to -- and I used Crocs as an example for that, right? So, this is the season for Crocs, and this is the time -- the biggest season for Crocs was Q2, and we saw that the Crocs sales were very much in line with expectations. In fact, I must say it was even better than that. We were quite pleased with it. Showing that the consumer is not fatigued, necessarily.

It's just -- as we've come out of the COVID bump, the recovery line has been -- it's not been a straight line, it's been more lumpy and that's what we're seeing. But we also feel that we're able to predict business much better. And that means that we are through that normalization lump that we've gone through.

So, all indications are that we should be selling our products well because it's stuff that should have sold well over the last two quarters, especially last quarter has done well. Don't forget though, Q2 is typically our lowest and probably least exciting quarter in the year. It's occupied by hot season that people don't like to shop. It's occupied by end of season sales, which is not our core business, as you know.

So, there are some things that make it uninteresting and unexciting. But despite that, inside that, we have seen some exciting shoots that give us the confidence to say we think businesses is going to be back on track.

Videesha Sheth: Got it. Second was on Foot Locker. With the first store now being open in the north, any number that you'd like to call out in terms of store addition in FY '25 and FY '26?

Nissan Joseph: Yes. I think in the immediate future, we want to get them up to about three to four stores, just so we can get a read. As you know, when we start opening stores, we try to get into different markets to get a sense for where do we see the upside. And once we get that model down, then we're able to accelerate it.

Having said that, though, we are concerned about the BIS affecting, especially the athleisure segment in India -- sports and athleisure, because the amount of imports while we do -- while all the brands produce a lot of products in India, the vast majority of the products that go to the premium consumer, unfortunately, even today, are being imported.

Until that sorts itself out and every brand is going to figure out a strategy around it and how to come in line with the regulations, until that happens, we just want to not grow Foot Locker extensively, though we are confident it will all work out and Foot Locker will continue to have significant legs in India.

Videesha Sheth: Got it. And my last questions were on Fila. If sales of Fila inventory were to be excluded in 2Q, how would the gross margin performance look like? And what would be the quantum of inventory that you're still sitting on in terms of cost and any impact on margins that you're planning for 3Q? That's all from my side.

Kaushal Parekh: So broadly, the impact would have been around 100 basis points. And as we said, most of the liquidation is done. We will see a small portion of it coming -- going through in Q3. So we might see a small impact in Q3. And post that, I think it should be the normalized margin.

Videesha Sheth: Got it. Thank you, team and Happy Diwali.

Nissan Joseph: Thanks, Videesha.

Kaushal Parekh: Thank you.

Moderator: The next question is from the line of Aditya Khetan from SMIFS Institutional Equities. Please go ahead.

Aditya Khetan: Yes. Thank you, sir, for the opportunity. Sir, my first question, this impact of 100 bps which you have mentioned, this is on gross or in EBITDA?

Kaushal Parekh: It's in the gross margin.

Aditya Khetan: It's in the gross. And also, possible to quantify the absolute value of loss?

Kaushal Parekh: Actual value of -- sorry, come again? If you can repeat your question, please.

Aditya Khetan: If you can quantify the absolute value, so which we -- so, which has been impacted during the quarter?

Kaushal Parekh: So, somewhere close to INR5 crores, INR5.5 crores.

Aditya Khetan: Sir, going by the store addition in H1, so we have achieved -- so 35 store addition. And you have guided for 100 stores addition for full fiscal. So that means like for the next two quarters or per quarter, we would be adding around 30 to 35 stores. Is this understanding correct?

Nissan Joseph: The math would lend itself towards that. I do want to give some color as to why we're at 45 stores for the first half. It's primarily because last year, we saw a lot of retailers opening a lot of stores. And I think we saw rentals going up a little bit more than we'd like to have seen them go up. And these are long-term deals that we sign. These are 9, 10-year leases that we sign.

So we felt it was a good time for us to just maybe slow that down till rent started rationalizing a little bit and we are seeing that. As you probably read in the news, some of the national retailers have a negative store growth in the previous quarter, indicating that they probably should not have signed some leases. And we decided not to because we are not about getting to a number necessarily. We want to get to that number, but we want to get to it in the right way.

Aditya Khetan: So, this number is achievable, so 30 to 35 store per quarter for the next two quarters.

Nissan Joseph: And these stores have a gestation period, right? It's not that we sign today, something today and something opens tomorrow. We have to have an order book of leases that we have visibility of LOIs, agreements and what have you. And we're confident, listen, there could be a little bit of left or right of 100, but we're going to be within that same zip code.

Aditya Khetan: Sir, on Walkway, sir, we have not added any store, like for the last 6 months. So, what is our plan like? So, I believe -- so last quarter also, you had stated that so Walkway, you are so looking into the -- so towards the north and the south segment only. But looking at the demand and all, so why are we not adding any store yet in this segment?

Nissan Joseph: So, just so we speak to the same point, we had said the south and the west, not the north and the west, so north and south, as you said. But it's the south and the west. And that's number one. Number two, we have been putting a lot of effort into the Walkway chain to figure out the right business model. And when you do the testings, these testings take anywhere from 3 months to 8 months to finish a complete test cycle. And then you have to test it a few times to ensure that you're getting the formulation right.

While we do that, we're not in any hurry to open stores on our Walkway chain. I think we are confident that they will be part of the growth story for Metro Brands, so that's not an issue. It's just a question of how and when. And we feel -- we think the green shoots that we see from Walkway on its business are very, very encouraging.

Aditya Khetan: Okay. So sir, you mean to say, so for the next 6 to 8 months, we would...

Nissan Joseph: I'm sorry, can you repeat that question? There's some distortion.

Aditya Khetan: Yes, sir. Sir, my question was, so this target store addition, if you have anything on Walkway for FY '26 and '27.

Nissan Joseph: Absolutely, they will be part of it. Obviously, since they had a slow start, they won't have their fair share, so to speak. But it will show its growth from here on out towards the end of the year. And probably starting off in Q1 of FY '26, we should start seeing some acceleration there. Aditya, don't forget, the rentals went up, right? So we also -- that's not the chain you want to grow when rentals are -- we're hitting a little bit of a peak bump. So, we definitely haven't taken our eye off the opportunity at Walkway.

Aditya Khetan: Thank you, sir. I'll join back in the queue.

Nissan Joseph: Thank you.

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

Sameer Gupta: Firstly on the BIS part. So, you have mentioned that the Fila additions on EBOs, you would start from the second half of FY '26. And there has been a delay due to the BIS. So, just wanted to understand what are the assumptions here? So, are you assuming that by then, you would start assembling products in India if these BIS regulations don't get sort out? Or you are assuming that this current situation regarding imports, it will be resolved at some point of time? And by when do you expect this resolution before it starts to affect these plans again?

Nissan Joseph: Yes. Well, I think there's two forms of resolutions that can happen, right? Form number one is if the government decides they want to look at it slightly differently after recognizing the challenges of production in India overnight, right? So that's one way that could happen. The other resolution that could definitely happen and must happen is production actually moving to India, right? And that's not out of the question.

That's definitely in the cards, for all of the brands that we deal with, including Fila. It's just a matter of we need timing to build up the ecosystem of manufacturing in India and that takes a little time. So, we don't see that as being a long-term problem. It's just -- we just got to figure out the next few steps, the immediate few steps.

Kaushal Parekh: Meanwhile, obviously, we have also started evaluating, getting all the raw materials and getting the production done in India. However, it will not solve problems with respect to high price, high heat article, but that is also something that obviously we are working on.

Nissan Joseph: And the line that we just launched was predominantly made in India, right? Some of which we've gotten right before the BIS regulations close us. But the line that we launched is predominantly made in India. So, there are ways to step up to this. And of course, we are working on all the different opportunities to do that.

Sameer Gupta: Just a follow-up, sir, here. If my understanding is correct, you can still, based on the current regulations, import the, let's say, sub-parts like a sole and an upper and get it assembled in India. Is that understanding correct?

Nissan Joseph: In a simplistic way, you're correct, Sameer. I'll just leave at it. There's a lot of regulations to it, but in a simplistic way you are. But I think the true solution is not about whether you can do something short term, it's about how do we fix the long-term regulates -- be in line with the regulations long term.

Sameer Gupta: Last question from me. The store edition guidance of 100 stores for this year. I'm assuming it's on a net basis after accounting for closures. And just a follow-up on this. So, let's say there is an inherent recovery that is expected in second half. Let's say for whatever reasons it's delayed or it runs below expectations, do we still go ahead and do our 100 stores or we also take a little more cautious view and delay it a little bit? How is that going to happen?

Nissan Joseph: So to answer your first part of the question, it is net that we're talking about. And if there's a -- we don't see a rebound like everyone's anticipating. We are committed to some of these leases, right? So it's not like you can walk away from them. What it may do is impact the ones that come in the first half of the following fiscal year. But for this year, pretty much what you have is locked and loaded. I mean, short of having an event like COVID or something, there's no reason that we would want to hold back our current growth plans.

Kaushal Parekh: In fact, Sameer, if you see there's a pessimism in the market and if you see rentals softening further from here on, we will be a bit aggressive also.

Nissan Joseph: In opening.

Kaushal Parekh: In opening of new stores.

Sameer Gupta: Thanks, and all the best. I wish you all a very Happy Diwali.

Nissan Joseph: Thank you, Sameer.

Moderator: The next question is from the line of Navani Naredi from Naredi Investment. Please go ahead.

Navni Naredi: So, I have got two questions. Sir, my first question is, in this year, we are able to see sequential decrease in revenue per square feet. Can you give some color on whether we will be able to get better figures as compared to last year, given that the range of premium customer has increased on year-on-year basis?

And my second question is, also you mentioned that there is a supply chain disruption in sports and Athleisure footwear segment on account of BIS certification. So, how much percentage effect will be seen on the revenue and margin side? That's all.

Nissan Joseph: So on the square foot part, there's a couple of drivers to the square foot of our base number that you're comparing us to, right? In the base number, Crocs represented a higher percentage of stores than in the current number, right? Because within the last few years, we've really focused on opening Metro, Mochi and Walkway stores. So that comes at a different metric totally.

So while it may look like it's depressed a little bit, it really isn't because it's just a matter of the mix of growth that we're having. So that's one thing that affects sales per square foot. The other thing is, I don't know if you picked up on it, but our Tier 3 penetration has gone up from 15% to 16%. It now represents 10% of our business. So, the Tier 3 cities don't come on as strong immediately. It takes them a little while to mature and get to the same rate of sales as a square foot of our normal business.

Kaushal Parekh: Having said that, we expect our sales per square foot for H2 to be in line with what we saw last year. I'm not saying for the full year, but individually, if you see it for H2, we are expecting our sales per square feet to be better.

Nissan Joseph: And to answer your question on the supply chain disruption, the kind of business we're talking is under 15% of our total business. And even in that 15%, we would have the ability to produce a lot of that domestically as well, right? We also think that there's going to be a little bit of cost impact on BIS, to be BIS compliant. We're not as efficient in operating manufacturing here in India yet. And if you're importing raw materials, because we don't have the ecosystem here in India, there's going to be raw material that you need to import.

So there's multiple nodes of touch points on a production chain, that always adds cost, but we don't see it being significant necessarily. But these are just things we have to consider and work through. But the good news is, for our core brands of Metro, Mochi, Walkway, the BIS effect is minimal. It would only be for expansion brands, which aren't baked into our numbers anyway. They're not.

Navani Naredi: All right. Thank you, and wish you a very Happy Diwali in advance.

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

Umang Mehta: Thanks for the opportunity. Just continuing this question on BIS impact on S&A footwear. Given that this would have impacted other brands as well, and this 15% would have a lot of third-party brands, do you see them prioritizing their own sales? And are you facing any supply shortages on that account?

Nissan Joseph: So, when we talk about the impact on the S&A, let's be honest, we're going to see minimal impact right now in the market because people have forward bought stock, right? When we go forward, the kind of product we're talking about is the high-end product. If I look at that 15% of the product that's not capable of being produced in India by the third-party brands we carry, that percentage is even a fraction of that.

So, it's not a significant impact. And don't forget, if you cannot get it anywhere in the market, then we're not disadvantaged by it. Will they prioritize their own stores over it? I can't speak for what they will or won't do, but all points of sale are important, typically to a brand. And Metro caters to a very unique set of customers, which is why we can co-exist in the malls. Same thing works for Crocs. We co-exist with Crocs in a Metro store and a Crocs store. And that goes for the other brands that we carry as well.

Umang Mehta: Understood. Makes sense. And just the second one, just wanted to get a clarification. So since you maintain the guidance of 12% to 15% for the full year, which implies a second half ask rate which is fairly high. And then Kaushal said that you'll maintain the same-store revenue per square foot on a Y-o-Y basis. Actually, I mean, there's a disconnect, right? You need to grow the same store revenue per square foot significantly to achieve your guidance, right? Am I missing something?

Kaushal Parekh: Umang, what I mentioned was, if you see H2 on a standalone basis, so H2 versus H2 of last year, then our expectation is that our sales per square feet would be around the similar lines as we saw last time, in the last H2. And as Nissan mentioned, for the year, we are still maintaining our guidance. We said 12% to 15%. We are hopeful that it should be in that range of, if not 12% to 15%, at least 10% to 15% should be the range.

Umang Mehta: Understood. Actually, because your growth in 1H is 2%, the ask rate is fairly high, right? And we know the store growth you'll be doing. So that was the question, but I understood. Got the point. Thank you.

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

Gaurav Jogani: Thank you. Sir, my first question is with regards to the margins bit. If you look at the margins, the Q2 was steadily impacted on account of the liquidation of the FILA's thing. Was there also an additional marketing spend that was done in the quarter which also kind of would have impacted the margins. And given that we are expecting decent revenue acceleration in the second half, so what kind of margin can be expected for FY '25 as a whole?

Kaushal Parekh: Yes, Gaurav, you're right. Q2 marketing cost was higher as compared to last year on account of our new Autumn-Winter campaign that we just launched. So you're correct on that front. And the impact you see it in other expense, which is slightly higher as compared to Q1 of this financial year. For the year as a whole, for H1, our EBITDA margin has been around 29%. H2 generally contributes around 53% of the overall annual business. Q3 is the biggest, and it's a quarter where we generally don't see any end of season sale. So, we are still running for EBITDA margin in that 30% range.

Gaurav Jogani: Sure. For the year that is, right?

Kaushal Parekh: For the year, yes.

Gaurav Jogani: Kaushal, just a question on the regional impacts, if you've seen anything, because given the data that you share in terms of the South, West, North, East, a quick analysis of that data shows that south revenue per store has been consistently declining, while we're seeing good acceleration in the eastern part of these stores. So, any regional thing or demand patterns you would like to call out?

Kaushal Parekh: Gaurav, if you see and frankly, there's no trend here. Our expansion in east, just in terms of overall number of stores, was slightly slower in last six months or so, whereas our expansion in west and south has been good in terms of just the absolute number of new stores that we've opened. So that's what is leading to the percentage variance that you see. Having said that, obviously east, since it's least penetrated just in terms of revenue to store percentage, it is one of our best regions. And that is something that we will be focusing on to increase our penetration from here on.

Nissan Joseph: If you look at the share of business, it's marginally different. I think it's more of a rounding, Gaurav, than it is really a shift in business. There's not even 100 bps, there's a 100 bps movement, but it's really a rounding.

Gaurav Jogani: So a related question to this was even if you look at the tier-wise data, I think the Tier 3 revenue growth actually has been far better versus the Metro or the Tier 1, Tier 2. So, is that a similar thing you have been witnessing in Q3 also? Or it's just a quarterly or a quarter performance kind of a thing?

Nissan Joseph: What we're seeing in Q3, we have Diwali and Durga Puja and Dussehra. Durga Puja and Dussehra come together and Diwali, as you know, follows. Both those festival seasons are coming two weeks earlier, right? So, of course, we would see the East react very positively to a number like that when we get to an early Diwali, the north and the middle of the country would react very well to that.

And what I meant earlier on when I said that we're starting to be able to predict the business much more accurately, indicating that there's a normalization to our business, that's what I meant. We are able to predict these things much more effectively. Whereas in a lumpy business, it's very hard to predict, right? Not saying that I'm perfect at it, but we can tell when we get better at it. And that's what we're talking about.

Gaurav Jogani: Got it, Nissan. Thank you, and that's all from me.

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

Shirish Pardeshi: Hi, good afternoon. Thanks for the opportunity. To start with, Kaushal, will you be able to call out against 5.4% revenue growth, what is the volume growth? And maybe if you can give us, is there any regional variation within Metro, Mochi stores?

Kaushal Parekh: So, on an overall basis, Shirish, they have seen our ASP rise by about 1% in H1. So obviously, balance would be the volume growth that you sort of can see from the number. Sorry, I missed your second question, Shirish.

Shirish Pardeshi: I'm saying is this volume dispersion higher South and West versus North.

Kaushal Parekh: So broadly in terms of regions, we're not seeing any specific trends wherein certain regions are consistently outperforming the other or things like that. As Nissan mentioned, there are regional sensitivities. So, obviously, when Durga Puja comes, east performs the best. So those are the type of trends that we are seeing. Nothing suggesting any permanent trend with respect to any specific regions as such.

Shirish Pardeshi: The reason why I'm asking, we started in the beginning of the year anticipating BIS will create some disruption in the street and the inventory. So we loaded the inventory. So, I was just more curious if the Diwali and Dussehra and festive season has come up about two weeks early. Is the channel inventories under control, or will have some impact because we have taken much more time than anticipated to liquidate Fila inventory? So -- this question is in general not for Fila.

Nissan Joseph: Well, yes, I was going to say that's two different buckets that we need to be talking about. Let's talk about the Metro, Mochi, Walkway core business that generates most of our revenue and profits. We've actually seen inventories decline Q-on-Q, but nothing significant because we had to still forward buy, right? We don't have any concerns about inventory levels for Q3 and Q4 of this year at all.

Shirish Pardeshi: Yes. The reason why I'm asking, Nissan, while visiting Delhi and around Karol Bagh, the Chinese supplies are still dominating there. So, even if we see -- we become positive saying that because of the BIS norm, the imports will come down, but there is enough inventory which is happening. So it should not happen that when the market is really picking up, we either have excess inventory or we will not have the inventory. I understand you would have taken a conscious view on building the inventory.

Nissan Joseph: Well, just -- I mean, Shirish -- in all honesty, Shirish, we -- less than 15% of our production comes from outside of the country in our normal times. And out of that, it's shared between China and Brazil, right? So, I'm surprised about your comment that you saw a huge penetration of Chinese made goods, unless you were referring to other retailers which is common in Karol Bagh.

And I think that's the other thing too. How many other -- how does it affect the other retailers that would have a positive impact on Metro because we're able to source products domestically, but the exposure is minimal in the sense that we've forward bought enough and anything at all we've swapped the production to India and or we're going to get certified in certain factories to make products internationally.

So it's not like it's become totally void. There's a lot of moving parts to this. What I want you to rest assured is that we are on top of it to ensure that when business comes like it is, we will have what the customer wants in our stores.

Shirish Pardeshi: My second and last question on New Era part of the business. I was more curious. Assume that we have about 800-odd stores and out of that, even if I say that 30% is sitting into the Metro, so I would assume that 200 stores you will put the product in for New Era. So, more curious, what kind of range, what kind of SKUs, and is it that Metro focus you will do in next two quarters?

Nissan Joseph: Yes. So, the New Era -- the reason we got New Era is we think it fits very well with the Foot Locker chain, number one, right? And number two, we think it's a market that's huge globally. It's a very well-known brand globally. And therefore, bringing it to India is a great idea. We are more optimistic about the channels of e-comm and Foot Locker and our own kiosk. And as of now, we don't have any intention of making Metro, Mochi stores a big part of that at all.

Shirish Pardeshi: So, if I pick up your thoughts, largely it will be e-commerce-led experiment?

Nissan Joseph: Well, I think it's a matter of when you say it, but initially, it's going to be e-commerce and Foot Locker and a couple of kiosks. And then, as you know, everything Metro does, we look at what's happening, we measure what makes the most sense and then we push the throttle on whatever makes the most sense. But we're confident that the brand will resonate in India. We've already seen some good results out of our first week of the Foot Locker store on New Era.

Moderator: The next question is from the line of Devanshu Bansal from Emkay Global.

Devanshu Bansal: Yes, sir. Hi. Thanks for taking my question. Sir, I wanted to better understand the thought process behind Metro going for a celebrity-led marketing campaign, which I guess we have not done before. So, could you share some thoughts on this, please?

Nissan Joseph: Sure. We have done celebrity-led advertising and marketing in the past. The last few years, we've gone more of an influencer route of marketing which is also another very good form of marketing. And I think what's important is that you keep having campaigns that appeal to different segments yet in the same class of customer you want because we all consume information differently.

Some consume it better if it's a celebrity giving it. Some consume it better if it's a key opinion leader. Some consume it better on print, some consume it better on digital. So, as a marketing thing, you don't want to be all things to all people. You can't afford it. So, you have to pick and choose which one you're going to pick for this season, which one you're going to pick for the following season. And I think we've picked four outstanding celebrities for Metro.

Devanshu Bansal: And second question, wanted to understand the inventory sort of situation as of now. So, over the last 12 months, we have added about 75 to 80-odd stores. But working capital encouragingly has actually reduced by about INR50 crores-odd between September '23 and '24. So, I guess such network expansion should have actually led to an increase in inventory by about INR50 crores-odd.

So overall it's a INR100 crores kind of an optimization that has happened in the business. So, first, I wanted to understand what has driven this kind of working capital optimization. And second, further to previous participant question, are we sort of comfortable with this current level of inventory, or do we plan to sort of increase the inventory in this?

Kaushal Parekh: Devanshu, in fact, we have guided that our inventory would go down from here on. And as Nissan touched upon the point that because of BIS implementation, we had front-loaded our inventory buying. So we were high on inventory vis-a-vis our normal levels. And that is what is becoming visible now.

We have improved our working capital cycle over last one year, and we further expect to optimize it by a bit by end of March this year in spite of adding new stores. So, this is just a factor of inventory front-loaded on account of BIS implementation, which is now getting liquidated and we will move back to our normal working capital cycle.

To answer your second question, I think Nissan answered it in the earlier -- with respect to the earlier question, we feel extremely confident with the level of inventory that we have, and we don't anticipate a scenario of either a stock out or stock excess on an overall basis. We should be just fine with our overall inventory level being aligned with the kind of sales traction that we see.

Devanshu Bansal: Yes, sir. Lastly, wanted to check on this observation that I had specifically. It may be anecdotal, but EOSS period-end discounting sort of seemed to be higher this time around in Q2 versus prior periods. So, wanted to check is this a correct observation? Your thoughts here too.

Nissan Joseph: I think your observation is correct if you look at the market, but it's not correct for us. We did not have as much inventory that were aged and we felt was distressed to put on sales. So overall, in all three brands of Metro, Mochi and Walkway, we had considerably -- and even Crocs, we had considerably less End of season products to take care. And having said that, though, we had enough to meet the quotas that we had to, right?

It wasn't like, we missed some sales on end of season sale, but there were some challenges for us because we did not have as much old season stock. And I think you would have seen that reflect our gross margins, if we hadn't spent some of our money getting rid of Fila inventory that we needed to discard or sell through.

Kaushal Parekh: In fact, Devanshu, just to share a number, our overall end of season sale contribution was sub-9%, and in line with what we -- what the number was in last year.

Moderator: The next question is from the line of Tejas Shah from Avendus Spark Institutional Equities.

Tejas Shah: Thanks for the opportunity. My first question pertains to BIS-led disruption that you spoke about. Now in past, we've observed in various industries that MNCs often take longer to adapt to such changes compared to local companies. So, over here, do we see an opportunity for us to gain a competitive advantage during this period, or is that very ambitious or perhaps not applicable to our industry?

Nissan Joseph: Yes. So I would say, it's not as applicable. To say that there are no opportunities would not be a true statement, but it's not as applicable because it's not like these multinationals were not producing in India. They were producing significant portion of their business in India. And don't forget, if I was to compete with them, you would have to compete and pick up on an opportunity it would have to be with India production. So now, all of a sudden, we're on a level playing field again. I don't have an advantage because I have production, they don't.

So, where the delta comes, where the difficulty comes is in higher tech product. Now of course, Metro sells some of those higher tech products, but I don't think it creates an opportunity because if they're struggling to bring in technology-driven products into the country because of BIS, we'd be just as challenged to do that, right. So there's not a distinct advantage.

Having said that, I think our dependence on that product is significantly lower than that of those multinational brands. So, our exposure is significantly less and so we didn't feel we had to mitigate that risk because it's not as much of a risk for us that we couldn't mitigate. So that's it in a nutshell, Tejas.

Tejas Shah: Got it. And the second part to the question is that we have seen it in many other industries post-COVID to give an example, luggage where four years back we could not have envisaged India actually becoming competitive there, but somehow at a scale players are now showing that economies of scale are coming through. Do you see both in terms of quality that you spoke about initially and in terms of pricing, Indian players or brands who have some manufacturing facilities which can be used now, do you think that we can actually tap those capacities to meet both the ends on quality and on pricing?

Nissan Joseph: So, first of all, I do want to say that the quality of Indian manufacturing is not substandard necessarily. What it is, is they produce a different type of product totally. That obviously is not as highly technical, that's not as highly complex to produce and hence comes at a lower price point, but price point to price point, India can produce those goods just equally as well. So, it's not like there's an opportunity that's vacant sitting there. The challenge is to build the high tech manufacturing. And that has two challenges. One is obviously capital because molds and dies require a lot of money to be invested. That's number one.

And number two is the technical knowhow. If you've never done it, you need to import the technical knowhow for the first so many months, so many seasons. So you get people trained in India or you go send your people abroad to get trained. One of those two things has to happen. That takes time. That's where the challenge is, Tejas.

Tejas Shah: Got it. And last question, Nissan, you mentioned that October is progressing as expected and with the rest of second half relying on strong wedding calendar. Last year also, the consumer sector not only our industry, but the consumer sector at large was similarly optimistic about the wedding season, but somehow it did not come through and it fell short. So, just wanted to know what indicators you are monitoring so that we don't fall under the same trap that industry actually fell last year.

Nissan Joseph: Yes. What we're looking at is the run-up to Diwali and Durga Puja. That's coming up very well, number one. Number two, you're right. I think we were quite hopeful, but the year before that there was a lot of catchup weddings that happened as well. So, the quantum of weddings that got squeezed into those dates, the previous Q3 was significant. So when you look at the growth over a period of time, that quarter actually was right in line with the normal expectations.

And like I said at the opening remarks, recovery tends to be lumpy and I'm not talking recovery from something bad. Really, we're recovering from the COVID bump-up. That's going to be a little lumpy. I think you've heard other retailers say we had a good September, but July was tough. These are lumpy behaviors of a consumer market that really are driven by comparables rather than demand. We're seeing a little bit more evening out of that and that's what I referred to.

Tejas Shah: Great. Very clear. Thanks and all the best. And Happy Diwali in advance to the team.

Nissan Joseph: Thanks, Tejas.

Kaushal Parekh: Thank you, Tejas.

Moderator: The next question is from the line of Mansi Desai from Dalal and Broacha. Please go ahead.

Mansi Desai: Hello, sir. My first question would be, what are our expectations in terms of the store throughput that we would expect from Foot Locker since we opened our first store? So are there any internal targets that we have that this store should be doing this much revenue, etc.?

Nissan Joseph: Yes. So, I don't think we want to share that on a public forum to be quite honest, Mansi. These are all competitive advantages and secrets that we keep in our trade. What we do want to assure you though is that the targets we set ensure two things. One is that the store is profitable in operation. And number two, that is -- that number is consequently exciting enough for us to scale the retail up.

So, those are the kind of metrics we use and say, okay, if it meets these two numbers then -- these two initiatives or desires then we'll start scaling forward, but you can rest assured, given the financial discipline that Metro has that's going to be the driving force for it.

Mansi Desai: Okay. And this year, you were talking about four to five stores for Foot Locker and next year if we meet our targets that we have, how many stores could we see for Foot Locker in the next year?

Nissan Joseph: Well, so I think Foot Locker, if it hits the expectations that we have, has the potential to be in every big metro city in India to start with. And don't forget by the time we get that done, India will be at a different place because there will be a few years from now. So, it's really a question of a rolling incremental number as opposed to a static number. And once you hit that number and that's where it's going to stop. It's going to be an evolutionary number as India evolves, as we evolve our penetration in India as well.

Mansi Desai: Okay. Sir, my second question would be with respect to our contribution from more than INR3,000 price point has gone up significantly versus last year. Is this because we've opened lesser stores on Walkway or is it that even in the current Metro and Mochi stores, the lower-end like less than INR1,000 or INR1,500 products are somewhere where we're not -- are not picking up?

Nissan Joseph: So that's a good call. So part of it is that, but don't forget it's offset by the fact that we didn't open as many Crocs store who does a significant amount of business over the INR3,000 range. And when I say didn't open as many, not as many as we've opened in the past, we still open our fair share of Crocs stores. But so, the Walkway effect is offset by the Crocs effect. The reality of it is our ASPs in our Metro, Mochi business are growing in the sense that consumers preferring premium products. And we find that when we have products in the Fitflop range, it sells very well which is an INR8,000 slipper or chappal as we might say.

So, we are seeing the consumer gravitate to the right products at that price point. As I mentioned before, we had a terrific monsoon season with Crocs and that's a high ASP item too. So, these are all indications of a consumer that likes premium products and not an offset of something else.

Mansi Desai: Okay sir. Thank you so much and Happy Diwali.

Nissan Joseph: Thanks, Mansi.

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

Saurabh Kundan: Hi. Thank you. My question is again on BIS. So, you must have been in discussion with -- you or certain bodies must have been in discussion with the regulator or the government on this. Clearly, a disruptive situation for all of you and as you said that the production in India will eventually happen for these sports brands, but it's going to take time. So what's the possibility that you see that there could be some relaxation from the governments-end even if temporary to allow imports in case brands have plans to sort of start producing in India?

Nissan Joseph: Hi Saurabh I really can't comment on -- I have no knowledge of it. What I can tell you is that these brands produce significant numbers of pairs in India for export, not just for India consumption, but for export. And I think if anybody has a chance of getting some kind of acknowledgement of that, it would be them because they are huge exporters of footwear. So it's not like we've been importing all our lives, we want to continue importing a little bit more.

They've been importing and exporting and some of these brands export far more than they import. So, what the center sees value in that or doesn't see I can't speak for that, but I'm just giving you the framework that exists. So if you want to put some odds on it and put a betting scheme on it, you can do so.

Saurabh Kundan: Sure. My next question is on your -- you said that you've launched a new FILA range which you've got manufactured in India. Did I get that right?

Nissan Joseph: Most of it. Some of it was pre-closure, yes.

Saurabh Kundan: Okay. Couple of questions on that. What's the price range for the footwear that you've launched in this new range? And secondly, where do you get it manufactured?

Nissan Joseph: So, a majority was manufactured in India, right? So that's number one. So, we did that right in India. And rather than say, what is the price range, because that may not be indicative of what the true selling prices are, I would say we're selling in the INR8,000 -- our best is coming around the INR8,000 range, right? So that's where we are with it, though it ranges from INR5,000 to INR12,000.

Saurabh Kundan: Right. And one last question. If you strip off the Fila sales from the second quarter reported consolidated sales number and from the base also, what is the sales growth that you have? Basically, what's the sales growth in your core business ex-Fila…

Nissan Joseph: It wasn't -- I don't have that number handy, but Saurabh, we can get it to you at some point, but the reality is, it didn't add much because it didn't throw much down to the bottom line either, right? It would not be significant erosion when it comes to the top line on sales.

Moderator: The next question is from the line of Sourav Mondal from RK Advisory. Please go ahead.

Sourav Mondal: My first question is the purchase of a stock in trade, which is, if I look at the percentage as a -- percentage of sales, it is 47%; and in the previous quarter, it was 35%; and previous year same quarter, it was 37%. So what is the reason for that?

Kaushal Parekh: So Sourav, it's a function of -- you've seen the decline because obviously we had front loaded the inventory. So obviously, purchase -- new purchase in the current quarter is lower than the kind of sales that we have registered. If you look -- if you take two lines purchase of stock in trade and changes in inventories, that is the right way to see, both this taken together will give you understanding of the total cost of sales and the result in gross margins.

Sourav Mondal: And my second question is like, with the new BIS norms, increasing cost in the market, while big ticket items may not be significantly impacted, the bulk of industry volume comes from INR499 to INR999 range, if you include the unorganized market as well. So, what is your perspective on the effect of the BIS regulation on small manufacturers? And how do you see this impacting Walkway, given that it also operates in this price category?

Nissan Joseph: Saurabh, there's no impact to that price point. The impact that you have is when you're moving production of a significant nature that you cannot replicate in India from an outside India country, that's when the costs come in, right? Because if you want to do it differently, if you need to set up factories and lines that are specialized for it, all that product you're talking about, that's between INR499 and INR999 is easily available and manufactured in India today. It wasn't the case when people started sourcing it, which is why they just stuck to their legacy sourcing methods. But that exists in India today. That's not where you've seen the impact.

Kaushal Parekh: And Saurabh, MSME vendors are exempted from BIS, so though some component like soles, etcetera, would have to pass the BIS test and there you might see slight increase in the cost, but the overall ecosystem, since MSME vendors are out of BIS purview, it shouldn't have significant impact.

Sourav Mondal: So I have another question on BIS. I don't know, is it right or wrong that the size of the foot, it was -- we used to manufacture US and UK size. Now they have something, I don't know the name, it's three-letter something new for only India. Is it right that if that is implemented, then I think everybody has to change?

Nissan Joseph: Yes. India has -- first of all, to answer your question on that, that's been under discussion. We don't have any clarity on what's happening with that. But India has some very strict regulations when it comes to labeling anyway that we've all managed with, right? So once we get a clear picture of what that regulation is, we'll all put it. I mean, this has some unique regulations in India on what needs to go on the label, and we're able to do that on all our footwear. So that's not an issue. Even if it were to come, it's not a challenge.

Sourav Mondal: And my third question is Foot Locker carries popular brands such as Puma, Nike, Adidas, New Balance. Does Foot Locker hold exclusive distribution rights for this brand in certain region, or do they offer a unique product line and style that are available exclusively through Foot locker?

Nissan Joseph: Yes. So, to answer your first question, Foot Locker does not have any exclusive distribution agreement in any country that I'm aware of, but I'm not a Foot Locker spokesperson. So that's my caveat to that, number one. Number two, somewhere between 10% to 20% of Foot Locker's range can be exclusive for Foot Locker. They do have some styles. But what's really unique about Foot Locker is not about necessarily the exclusives, but having a store with the entire elevated curated range, so the consumer has a unique shopping experience.

And also the experience with the Stripers, which is what we call our employees of the Foot Locker store. That experience is totally unique. So it is the CX of the store also, not just the exclusive product, that makes Foot Locker uniquely different.

Sourav Mondal: So I want to ask another question. So...

Moderator: Sorry to interrupt sir. Could you please fall back in the question queue for further questions?

Sourav Mondal: Okay. Thank you.

Nissan Joseph: Thank you.

Moderator: The next question is from the line of Priyank Chheda from Vallum Capital.

Priyank Chheda: My question is on the sports and athleisure footwear category, which you have mentioned, has seen -- particularly you have mentioned that that category has seen a supply chain disruption because of the BIS regulations. And we have taken a cautious approach on that. So, wanted to -- if you can elaborate more, what's exactly going because this is a category which was growing in double-digits and had seen a trend shift after COVID? So, what exactly is problem on the demand side as well as on the supply side for this category?

Nissan Joseph: So, I can't speak to the demand side on this category. Demand will remain consistent, it is my best guess. But when you look at the supply side, first of all, they haven't already been disrupted. There could be a disruption, if they don't solve for the problem, Priyank, right? So that's number one. It's also -- I would, every brand has different levels of manufacturing in India relative to their needs, right?

So, there are brands that are fulfilling 60%, 70% of their needs from India and there are brands that are fulfilling 10% of their needs. So, if you're a brand getting 10% of your products in India, this is going to be a big challenge for you to accelerate the opening of factories in India. If you're a brand that's already at 60%, 70%, moving to 90%, it's not going to be much of an issue. So, it just depends from brand to brand. I really can't speak as a blanket statement.

Priyank Chheda: So, our cautious approach is because we are not 100% or not even crossed 60% in terms of manufacturing locally. And that is what the basic strategy of cautious approach is that, right? Is that understanding correct?

Nissan Joseph: Are you talking about our cautious approach on Foot Locker?

Priyank Chheda: No, I'm talking on the sports and Athleisure category where we have mentioned that we have taken a cautious call?

Nissan Joseph: Well, cautious is not stopping. Cautious is being alert and aware of what's going on and monitoring it closely. We're not walking away from the category by any means. And we don't feel that there's no way we can even survive in that category. Of course, we are going to play in that category. We're just keeping a very alert eye on it to see how we move fast forward.

Listen, when there's disruption in any industry, you got to be cautious about how you make decisions as opposed to if you don't predict disruption. Similarly if you knew there's a war coming, you'd think differently than if there was no war coming, right? So we -- not that this is a war, but this is disruptive like a war can be. And you just got be conscious of the decisions you make. You cannot live on the same assumptions that you lived on and got to this point. And that's all we're saying.

Priyank Chheda: Just a clarification, how much would be our local manufacturing? If you can share it on an overall level or maybe for sports and Athleisure category, that would be helpful? Thank you.

Nissan Joseph: Well, so it depends -- so what I can tell you is that less than 15% of the products that we sell in a Metro, Mochi are sourced internationally. And I can assure you that we've mitigated that risk.

Moderator: Thank you. The next question is from the line of Aditya Khetan from SMIFS Institutional Equities. Please go ahead.

Aditya Khetan: Yes. Thank you, sir, for the follow-up. Sir, my question was onto the Foot Locker. Sir, is there any sense like how is the store format like, very large or mid-sized stores and also possible to quantify what would be the average size per square feet for these stores?

Nissan Joseph: So, the stores range, Aditya, from 4,000 square feet to 7,000 square feet, typically, right? But as you know, prime real estate in India can be quite challenging to get. So, sometimes it is not a matter of what we want, it is a matter of what's available at the right location. And real estate is all about location. So, sometimes you're willing to give up size to get the right location. Sometimes you think your size gives you a better location. So it's an art. It's not a science that I can just tell you. But the ranges of ideal Foot Locker store should be somewhere between 4,000 square feet and 7,000 square feet.

Aditya Khetan: Okay. Sir, my second question was onto the demand, so which we are witnessing pre-festive season. So, just a week, left for the Diwali. So how is the footfall across the stores and how much conversion ratio are we achieving as of now?

Nissan Joseph: So, the footfalls are in line with our expectations of this. And the problem you have is, when you compare to the Diwali period last year, it was in the middle of November, which means it had the -- also the tailwind or the effect of the marriage. There were full-blown wedding season going on in November. So, when you pull back those numbers, you have to be able to delineate between what was Diwali for Diwali last year and what was wedding for wedding last year. And then you pull the Diwali numbers and layer it onto your numbers this year. Listen, retail is a very tricky business. That's why I said, being predictive on it is not always easy. But we feel that where Diwali is headed right now is right on track.

Aditya Khetan: Sir, just one last question. Sir, is there any volumetric guidance we can give for FY '25? Like, for FY '24, we have achieved almost a 15 million pair. So similar, how much growth are we anticipating for '25 and '26?

Kaushal Parekh: Yes. So, Aditya, if you see, historically, we have achieved ASP growth of around 3%, plus or minus 1% or 2%, whatever, right? So, I'm just saying, hypothetically, if we achieve sales growth of 12%, then volume, if you want to arrive -- if we do an ASP of 3%, then the volume growth would be around 9%. So, simplistically, that is how it would sort of work.

Aditya Khetan: Thank you, sir.

Nissan Joseph: Thanks, Aditya. I think we have time for one more question.

Moderator: The next question is from the line of Bhumika Jain.

Bhumika Jain: So your total sales in the fourth quarter of FY '24 was INR583 crores. And in this quarter, total sales is INR567 crores. So there is a decline in the total sales. But there is 40% rise in the credit sales from the March 2024 that can we know the reason for the rise or how is the company taking this forward or not?

Kaushal Parekh: Sorry, Bhumika. Not sure if I got your question right. But generally, if you see in our industry, Q2 is the smallest quarter. Q1 generally contributes around 24%, 25%. Q2 is around 22%, 23%. Q3 is around 27% to 28% and Q4 is around 25%, 26%. So logical way to compare sales is not with immediate last quarter but with last year same quarter. So that's how ideally you would see. And if you see Q2 over last year, we have grown by around 5%-odd.

Bhumika Jain: Okay, okay sir. Sir, I have a colleague, he also wants to ask you a question.

Nissan Joseph: I am sorry, was there a question there?

Mridul: Hi everyone, this is Mridul from Desvelado Advisory. I just want to double check here since BIS is has posed a little bit of a concern among all of the analysts here. I just want to look at the flip side here. Are we looking at any incentives from the government since we are going to bring the production to India? Are we looking at any incentives that might help ease the suppression of margins that have been showing up a little bit in the previous quarters by a few basis points or so?

Nissan Joseph: Well, there are PLIs from the government, right? So that's not an issue. It's not like the government is walking away from it with no help and no assistance. But the reality is not a question of ability for India, it's a question of timing. And it's not even a question of capital because there are companies willing to invest that kind of capital. It really is a matter of timing. But in all honesty, whether that happens or not, we don't see any significant risk to price hikes coming up, number one. And we're not manufacturing, so, we get less affected by all this.

Mridul: So, that's pretty much it from my side on this issue. That's all I wanted to ask.

Nissan Joseph: Thanks. I think we've come to the end.

Moderator: Thank you. That was the last question for today's conference call. I would now like to hand the conference over to the management for their closing comments.

Nissan Joseph: I just want to thank you all for being on the call with us. And we all are -- feel the growth that we've had Q2 over Q1 will continue in Q3 over Q2 as well. Thank you all.

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