"METRO BRANDS LIMITED Q1 FY 23 Earnings Conference Call"

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MODERATOR:	**MR. RAJIV BHARATI - DAM CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to Q1 FY '23 Earnings Conference Call of Metro Brands Limited hosted by DAM Capital Advisors 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rajiv Bharati from DAM Capital Advisors. Thank you and over to you sir.

Rajiv Bharati: Good afternoon, everyone representing DAM Capital is our absolute pleasure to host Metro Brands Limited for its Q1 FY '23 results conference call. We have with us, Mr. Rafique Malik, Chairman; Mrs. Farah Malik Bhanji, Managing Director; Mr. Nissan Joseph, Chief Executive Officer; Ms. Alisha Rafique Malik, President eCommerce and CRM; and Mr. Kaushal Parekh, Chief Financial Officer.

I now hand over the call to Mrs. Farah Malik for the opening remarks post which we will open the call for Q&A. Thank you and over to you ma'am.

Farah Malik: Thank you for welcoming us. Good afternoon and welcome to all the investors on the call. The first quarter of FY '23 has been very exciting for Metro Brands Limited. I'm pleased to share with you that this has been the best quarter in Metro Brands history in terms of revenue, EBITDA and PAT. So thank you all for your continued support.

The structural changes in the economy, including formalization and urbanization and significant reinvestments that we have made into our business in terms of people, product and technology have allowed our company, Metro Brands Limited to show strong sustainable growth. Over the last few months, we have definitely seen some trends and opportunities arise out of the current crisis, that make us strongly believe that this is India's decade. These include global supply chain diversification from China, recent government reforms and initiatives, India's increasing cost competitiveness and our strong domestic markets.

We continue to see improvement in consumer sentiments due to the lifting of COVID restrictions and offices opening. I'm glad that consumer footfalls have increased across the country as customers have returned to stores for shopping. Our team at Metro Brands are fully geared to leverage this opportunity by the five pillars of growth identified by us. Having said the above, we are aware of potential risks due to growing inflationary pressure and possible disruptions in the supply chain due to an ongoing geopolitical scenario. During these uncertain times, we continue to hold strong on our values of prudent capital allocation, financial rigor, and strong corporate governance. Once again, thank you for joining us on this call. I will now hand over to Nissan, our CEO to take you through the business update.

Nissan Joseph: Thank you, Farah and good afternoon all. As shared earlier, this has been the best quarter in Metro Brands' history in terms of revenue, EBITDA, and PAT. Given that Q3 is typically our strongest quarter, it is a testament to the efforts of the team to deliver a record setting performance in Q1. Metro Brands has delivered consolidated revenues of INR 508 crore for this quarter, an increase of 287% against the corresponding quarter of the previous year with a PAT of 20.6% and an EBITDA of 36%. I would like to highlight, however that Q1 of FY '22 was impacted by COVID disruptions. Our consolidated gross margins for this quarter stood around 60%, which is the best we have witnessed in recent times. As mentioned by Farah in her opening address, there are concerns around inflation, coupled with expected supply chain disruptions. The company has taken appropriate measures to hedge itself against the rising raw material prices, including but not limited to hedging our inventory.

As we guided in earlier meetings, we expect margins to typically fall in the 55% to 57% range. We continue to monitor the market both in terms of supply and demand and remain alert to any demand erosion or supply challenges. On the growth side, Metro is witnessing a strong growth in terms of volume and value, across all our formats, all our tiers and regions and our price points. Our growth momentum at the same time in eCommerce sales continues as eCommerce sales grew by a 106% in this quarter as compared to Q1 FY '22. We opened a net 20 stores in this quarter across all formats, and I reiterate our goal to open 260 new stores over the next three years.

We anticipate demand to remain robust through the festival and wedding season, and it is exciting to see that offline retail is strong despite the growth of eCommerce at Metro Brands.

With that, I will turn it over to our CFO, Kaushal Parekh to take you through more details of Q1.

Kaushal Parekh: Thank you, Nissan. Good afternoon, everyone and welcome to Q1 earnings call of Metro Brands Limited. As you all know, first quarter of last two financial years, were impacted by COVID. However, we've started this financial year on an exciting note. Pick up in customer sentiment, which begin, from mid of last year, continued in Q1 FY' 23, and this helped us register our best quarter ever in terms of quarterly sales, EBITDA, and PAT. Let me now start with a quick snapshot of financial performance of MBL, starting with revenues. On a year-on-year basis Q1 FY '23 revenue was up by 287%. Even if you compare it with Pre-COVID level, that is with Q1 FY '20, our revenue was up by 63%. Growth in our eCommerce sales channel continues, with eCommerce revenue up by 106% over last year. Moving on to gross margins, at a consolidated level for Q1 FY '23, we delivered strongest ever gross margins of 59.7%.

We achieved higher margins, gross margins, primarily due to low contribution of discounted sales and improvement in overall sales mix. This improvement was also due to effective inventory built up as Nissan mentioned, which we use as one of the tools to hedge against expected price rise. For the full financial year, we expect our gross margins to normalize back to our historical levels, or maybe slightly higher in the range of 55% to 57 odd percent. Lastly, moving on to EBITDA and PAT in Q1 FY '23, we delivered strong EBITDA margin of 36% and PAT margin of 20.8%. With this I'll conclude my financial summary. We are now open to Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Tejas Shah, from Spark Capital. Please go ahead.

Tejas Shah: Hi, thanks for the opportunity and congrats on very good set of numbers. Just few questions from my side. First of all, the demand scenario looks very, very, good at least from the numbers. Just wanted to get some sense on your read on the demand drivers, are there a lot of pent up elements and wedding related tailwinds, which we are seeing in the quarter numbers or this demand momentum is sustainable as we enter into 2Q and the rest of the year?

Nissan Joseph: Thanks for your question. I think the way I would answer that is we are seeing demand across all formats, all tiers of cities and all our categories of products that we sell. That would indicate that the demand is pretty robust. We don't see this as necessarily being pent up demand, when you try to look at the fact that Q3, we posted our best quarter ever last year, best quarter ever in the history of Metro Brands, and then you turn around again in Q1 and do it. It definitely is impacted by the fact that we had no COVID closures at all, but overall, we don't see it as a diminishing demand going forward. This wedding season, this festive season looks as promising, and as much of a celebration, provided, there are no surprises on closures, but, you know, overall the demand remain robust.

Tejas Shah: Sure. And, there's one interesting comment made on your presentation that there was adequate inventory which helped us to avoid any loss of sales. So is it that, because of our prudent stocking policy, we would've gained market share and some competitors would've lost market share because of them going under going out of stock or is this a very general comment to accept it?

Nissan Joseph: What we did, and I can't speak to what our competitors did or didn't do, but what we did was ensure that we anticipated not only short-term supply disruptions, but also protracted challenging times for our supply chain. So we took a decision at that time to hedge our inventory and to forward by more than we normally would, more than what we would consider a good inventory operating number, which is come to pay off itself. The fact that we were able to generate the high margins that we did, shows that not only were we able to pick the right product to hedge our inventory in, but we were also able to meet consumer demand in that space. So, and then we also talked, you want to speak to reducing payments.

Kaushal Parekh: Right. We also Tejas, this is going back six to nine months when we were expecting the supply chain disruptions to happen. We sort of decided to pay our vendors slightly earlier.

And this made sure that, we get, adequate priority in terms of, whatever orders that we place. And we get our orders on time. And I think that has worked well for us.

Tejas Shah: Understood. And if you can help with price increases that grew up and if you can share three year CAGR, if it's possible.

Kaushal Parekh: So, Tejas price increases, if you see if you correlate that with our ASPs, we have seen highest increase over the last three and a half years come in last, six to nine months. So if I compare, for current quarter versus last year, our average ASP increase is about 7%. And if I were to extrapolate it to last, three years, CAGR, it would be in that range of 12% to 14% for three and a half years, taken together. So if I compare say if compare say FY '19, ASP versus, now overall growth would be somewhere around 13% to 15%, obviously this has an element of mix as well.

Tejas Shah: Sure. And last one on store expansion plan. So looking at the robust demand that we are witnessing, would you like to accelerate our growth, store expansion plan or kind of prepone it or you believe that the current run rate is actually keeping in line volatility, which will come in between?

Nissan Joseph: Well, it's neither. What we try to do is maintain our financial discipline and operational rigor as we open stores. It is not about being opportunistic as a company. We are very, very planned and thoughtful, Tejas, in how we go about our store openings. Having said that, looking at our numbers, what I can leave you with is that we are absolutely confident that we will achieve, meet or exceed our goal that we set forth in our RHP very confidently. But, we as a company, tend to be very, very measured in how we do things. We have deep financial discipline as reflected in our numbers. So you're not going to see a spike and then crater, we would rather keep a very steady, reliable growth pattern going for the company and thereby also securing, value and safety for our shareholders.

Moderator: Thank you. The next question is from the line of Vinayak Mohta from Stallion Asset. Please go ahead.

Vinayak Mohta: Hi, good evening. Congratulations on a great set of numbers. The first question I have regarding the margins, you said that it'll fall back to the 55% to 56% range. But right in this quarter, if the margins are higher on the back of lower discounts and product mix. So you are just trying to understand what would lead to the gross margins coming down. Would it be relatively higher -- relatively higher discount or would it be the product mix shifting back to the normalized range. If you could just help us understand what is this product mix that is aiding the margins in a positive way, which you expect to come back or is there some other reason, because I believe that raw materials would also be at a relative higher end right now, given your hedging and everything. So how will the positive impact of the raw material that is coming down aid to negative margins? So you trying to, add up these, positives and negatives together.

Kaushal Parekh: Thanks Vinayak, Thanks for asking this question. As you're aware in our industry, we have two reduction sales, two end of season sales as we call it. One is in the quarter two, generally starting around July and August and second in quarter, in the last quarter, it starts around Jan and Feb. Okay, so this quarter, this was in fact a quarter where we did not had, but we rather had a very, very small amount of, discounted sales or EOSS sales, hence you're seeing a very strong margin. As we move to next quarter, we'll see some normalization happening on account of EOSS sales and that impact, coming onto gross margins. See historically, if we see, we have maintained discounted sales, product which are so sold on discount in that range of 7% to 9%, we are pretty confident that it would remain in that range, but due to normalization and due to this EOSS discount, gross margins would sort of get normalized. Also if you see third party contribution, if you see our in house contribution to third party brands, historically it has been in that 70% - 30% range for 70% for in house and 30% for outside brand. In the current quarter, we have seen that ratio or to be 75% to 25%. We expect it to normalize around and between these numbers. So both these numbers, EOSS hit coming in, slight normalization in this ratio, and the outside brand would lead to slight normalization of margin. Having said that, we are still very carefully evaluating this inflation scenario. It is not completely behind us. We are keeping our eyes and ears open to make sure that we protect our gross margins adequately without increasing our MRP's significantly.

So with all this moving parts, we feel our historical range and I covered this in my comments, our historical range of gross margins were guided at 55% to 56%, but we feel that, with the first quarter numbers that we have seen for the full financial year, we expect this to be in the range of 55% to 57%. So a slightly better than our historical average, but we would want to keep that range open for us because of this moving variables that we just discussed.

Vinayak Mohta: Understood. So the second question is majorly, I wanted to understand, what kind of growth are we envisaging for the next two to three years, maybe from an internal point of view, and can we expect any more international brand tie ups coming through in the current year as well? And lastly, how are you seeing the traction on Fitflop, given your opened an EBO and you plan to open, three to five more in the current year. Thank you.

Nissan Joseph: Okay. There's a lot of questions in one there, but let me try and answer them. So as we look to the forward, I think the best way to evaluate our performance is to look at our past history for the last 10 years. We've been a very stable, profitable and growing company. We've had a CAGR growth over the last 10 years of 18%. Our profits have kept up the same. So I think going forward, we'd be safe to say that would be a good benchmark. And of course, if there is ups that come in the market, we're well poised to take advantage of that, right. So that's the first point. As far as external brands, it has been identified as one of our pillars of growth that we will continue to evaluate and add brands that make sense to our portfolio. We're very keen that we add brands that add value to the customer journey in our stores. Everything we do is customer backwards. So we're not going to add a brand for the sake of adding a brand. We're going to be very choosy. We're going to be very selective in how we add brands from a global portfolio. Good evidence of that is when you look at the two brands that we do have of Crocs and FitFlop, they're definitely unique brands in the market, and command a certain consumer that we know is impossible to get otherwise. So that will continue to happen. We will continue to evaluate global brands as we go forward. We did announce that we formed a partnership with the Canadian brand called Biion, that we are introducing here in the next few months that we've already started the introduction. And these are brands that we incubate. Some of these brands are big, the day we bring them in, some of them take a few years to incubate, and we're okay with that, if it brings something unique to our customers. So that's the second point. The third point is, we're quite pleased, with the performance of our FitFlop store that we opened in, Express Avenue in Chennai. And we believe that, our early direction that we would open five stores in the next, 9 to 12 month is something that we can and will execute towards. The 260 number that I mentioned earlier on does not include FitFlop stores. So this would be in addition to the 260, and we will evaluate this very closely as time goes on, and we'll probably give further guidance on where we see FitFlop go, but we are very -- we feel very positive about the performance of FitFlop, not only in the mono branded store that we opened, but also in the hundred odd door that we are selling it currently, in our own Metro, Mochi stores.

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, and congratulations on a very strong set of numbers. My first question is with regards to the gross margins again, I mean, I need to on this matter again, but given the fact that we have already done, almost to 60% gross margin in Q1, and even considering that we would have a EOSS sale in Q2 and there would be some inflation that would also hitting up, but still don't you think that the guidance, for the gross margins to go low as, 56% odd for the entire year seems to be very low and on a very conservative side.

Nissan Joseph: Well, here's the thing, Gaurav, thank you for that question. Here's the thing that you need to know. We're very financially disciplined as a company, right? And one of the things we maintain and often -- well, we're one of the few companies that sell them to the stock write off if ever. And the reason we're able to do that is we will ensure that the product is sold in a season or within a realm of seasons within two or three seasons. So we don't have to carry it forward and write it off at some point. As I mentioned before, we've hedged some of our inventory, while the hedging for Q1 looks extremely good, thanks to our merchants. This is a fickle business at some parts, and we would rather guide to the way we've trended that we are very comfortable guiding to than try to say, we're going to stretch a number and given the supply chain challenges that exist out there, given the volatility of a few events that may or may not happen in the near future, we don't want to commit to that number yet. We feel

comfortable doing business the way we've always done it, in the 55% to 57% range, ensuring that we don't carry any old stock over, ensuring that we have enough product for our growth trajectory. And I think it's an astute way to run a business.

Gaurav Jogani: Sure. So just follow up on this is, if you see the contribution from the products that are price above 3000 and above, they have seen a steady increase in, the contribution and now they contribute about 43% odd, and, this has been continuing. So this, is this trend very much sustainable, how do you look at this then, in that light, in the premiumization?

Nissan Joseph: Yes. So twofold, one is inflation is a way of life, for us in India, as you well know, running about 7% a year on an average. So it's not something that you're going to see us go backwards. And just to keep up with inflation to ensure that we are keeping market share with the units we sell as well. So that's number one. The other thing is when it comes to the pricing, we are premiumising our product, we are trying to cater to an affordable premium consumer. We always stated that that's the space we play in the pyramid. And, it's just proved to us that we're doing well in that pyramid space. And the other reason you also see a strong ASP is, this is -- the monsoon is typically Crocs' season, and Crocs launched some new footwear at a slightly higher price point than last year that is doing extremely well the LiteRide too. So there are factors that we hope will continue, and we hope we can see more of those opportunities for us to raise our ASPs. Costs are going up constantly. All our input costs, whether it's salaries, wages, fuel, rent, they're all going up constantly and it's critical that we continue to improve our ASPs so we can keep pace with our profit CAGR, as well as our growth CAGR.

Kaushal Parekh: Gaurav, just wanted to add one point, the number that you see on slide 19, increase in products about 3000, from 40% to 43%, that will normalize slightly, in this quarter, when the EOSS impact comes in. So this is just a first quarter where we don't see any discounts. So, it would slightly come back to the numbers for full year that we saw in last year. So it would, say 40% for products above 3000.

Gaurav Jogani: Okay, sure. And just one last question from my end is in terms of, the other expenses line item. So if you see, while their revenues have -- are above 65% odd versus Q3 FY '22, however, the other expenses line item, is actually lower in totality. So is there anything that you need to call out or is just the cost savings that we see there?

Kaushal Parekh: So it's a combination Gaurav, as you would know, there's other expense would have, some expense which are variable in nature, and some which are semi-variable, some which are fully fixed. So with this high quarters in which we see higher revenue, obviously we see better absorption of fixed cost, and that leads to, some sort of efficiency getting reflected in the numbers that you see. Having said that obviously, initiatives that we took in and around the COVID period, we are building on to the same. So, some bit of it would continue and in a big quarter like this, you will generally see, expense, other expense trending in a better way as compared to revenue.

Moderator: Thank you. The next question is from the line of Rahul Jain from PhillipCapital. Please go ahead.

Ankit: This is Ankit here, just a couple of questions from my side. First is on, revenue per square feet. This quarter we have done around 5,700 revenue per square feet -- since we don't have the pre-COVID numbers, should we annualize this number going forward? How's the seasonality in the business, we should look at revenue per square feet.

Kaushal Parekh: Ankit, let me answer that question. if you see seasonality wise, Q1 generally is about 25% of the full year revenue. Quarter two is slightly lower than 25%. Quarter three is by far the biggest, around 27% to 28%. And again, Q4 would be in the range of 25%. So, as you said, we have shown our historical sales per square feet in FY '20. This, that was around 17,500. For this quarter, it's about 5,700. So I don't want to give any forward looking guidance, but I just gave you numbers, which can be sort of, correlated.

Ankit: Sure. my second question is regarding Walkway. We have seen the steepest price increase in Walkway, which is a value fashion brand. How is the, customer response for Walkway? Are

we seeing the growth in Walkway, equal to the company average growth, or there are some pain points in Walkway today.

Nissan Joseph: So part of that price increase, just so is driven by the fact that we had the GST increases, right from 5% to 12% in goods under INR 1000. Fortunately, as Metro Brands, we had roughly about only 13% of our inventory at the time the GST was implemented in that price range. Walkway obviously had a substantially higher sum. We've been able to increase pricing in Walkway really well. They have performed extremely well across the cities they operate in. If there was anywhere they did not do as well, it was probably the tier one cities they did well, but not as well, but they did extremely well in the tier three cities, which is where we think we would've felt inflationary pressures and price sensitivity, but we're very pleased to see that the Walkway stores, despite us raising their prices, had a good run good increase in tier three cities.

Ankit: Sure. And my last question is on the gross margins, just wanted to understand how much is a low cost inventory still remaining in the system for us. And along with that, if you can just give a breakup between the gross margin expansion because of the premiumization and on the low cost and hedging.

Nissan Joseph: I wouldn't say we have low cost inventory. When you lose the most money in margins is the retailers when you sell it at a discount. So it's not about having low cost inventory. It is all relative to the sales price. So if you're able to sell more of your goods at full price, you're more likely Ankit, to have a better gross margin. As Kaushal mentioned earlier on Q1, we hardly see any discounts, Q2, we run into an end of season sale. So the gross margin improvement that you see are not because we have low cost inventory, having said that though, we do have hedged inventory for the future at the same rate that we planned on running our business. And a lot of it will be dependent on if the consumer responds to it. The other reason we've seen an increase in our gross margins is also, though it's small, but it's significant, 25% of our offline -- of our online business, 25% to 35% of our online business comes from the omnichannel sales and all those omnichannel sales are predominant, like 97% of it is done at full price. So we are able to offer up products to a much wider range of consumers because of the omnichannel initiative that we have taken in place. So you're seeing a number of factors play into our gross margin improvements. And I don't think we should take it as just low cost inventory. There's a number of operational rigor items that we do that create the opportunity for us to constantly maintain our margins at industry high standards.

Ankit: And, so if I can just squeeze in one more, does Crocs help increase our takeaways in the inflationary environment or a takeaway with Crocs remain the same.

Nissan Joseph: I'm sorry. What is the takeaway in your description Ankit?

Kaushal Parekh: Ankit, margins remains the same.

Moderator: Thank you. The next question is from the line of Nikunj Gala from Sundaram AMC. Please go ahead.

Nikunj Gala: My first question is to Kaushal. What was the working capital in this quarter, if you can help me with in terms of number of days?

Kaushal Parekh: So approximately around 60 days.

Nikunj Gala: Then Kaushal, if I look at your FY '22 working capital days in earlier years, this number looks lower if I look at your comment on the early payment to the vendors, increase in the inventory on account of the anticipation that you saw, that there is some at our end in that case, this working capital number should have been higher. Right.

Kaushal Parekh: But we also need to see it in light of the sales that we've generated. Since we've registered the best quarter in terms of sales that is helping, although on an absolute term, you would've seen increase in inventory, say payables would've remained around the same range because we are

building up for the season, period coming up in Q2 and Q3. So, from that because, because of that increase in sales that days, sort of needs to be seen in that light.

Nikunj Gala: Okay. Then is it fair to assume that large part of gross margin improvement is purely on account of lower, like negligible discounted sales, large proportion, I'm seeing improvement in the margins?

Kaushal Parekh: Two main element, discount lower proportion of discounted sales is certainly a very important pointer, even improvement in the overall mix. As I said, 75% in house and 25% outside brand, that is also one of the reason that led to -- sort of, improvement in the margins that we sort of see. Also as Nissan mentioned, a slight inventory built up, what effectively that helped us was we could moderate our MRP increases just to maintain gross margins, we were not forced to take aggressive or say higher price rise. And, if you see our ASPs, they have increased around, 7% to 8%, which is predominantly on account of that inventory hedging that worked for us.

Nikunj Gala: Okay. And at any point of time, like in normal environment, what proportion of your portfolio you comes under your discounted sales or end of season sales, or it's the entire portfolio goes into the discounted sales.

Kaushal Parekh: So not sure if I got your question right, but, historically if you see not more than 7% to 9% of our realized sales have come from discounted sales, so we obviously evaluate our entire portfolio, just to make sure that, anything that is, old or slow moving is taken out. We have an internal threshold of ensuring that any inventory above 18 months has taken out in the end of season sale. And for this evaluation, we see entire inventory that is there in our ecosystem.

Nissan Joseph: But to answer, I think your question is also about format, let me try and answer Nikunj. By format, what percentage of the stores come under the sale? Is that what you're asking?

Nikunj Gala: No, Sir. If you have a hundred unit in any particular store hundred unit, as a goods, in terms of finished goods inventory out of this hundred unit, how much per, proportion would be under discount, because there will be a few articles where you don't want to give the discounts to the consumer, right?

Kaushal Parekh: So around 15% to 18% of this goods will come under reduction sale. We start our EOSS with 50% and aggressively increase it to flush this inventory out quickly. So average realization would range between 40% to 50%, of the MRP of that product. So if you see it in terms of volume, say 15% to 18% of the inventory will get covered in EOSS sale. And if you see it in terms of realized price, around 7% to 9% of the sales would come from EOSS sales.

Nikunj Gala: Okay. Sure. And lastly, what would be the ASP for this quarter, as you mentioned, I think the 15% on, if I come consider three year ago, your ASP there was increase of 15% in this quarter. So what is the absolute ASP for this quarter?

Kaushal Parekh: So, we have given 1500 exact number is 1494 is the average selling price, for the current quarter.

Nikunj Gala: At the company realization level, right?

Kaushal Parekh: Yes. This is company realization level. If I see this number for FY '19 FY '20, it was in that range of 1320 to 1340.

Nikunj Gala: Okay. Okay, sure. Thank you.

Kaushal Parekh: As I said earlier, this element of ASP it's the impact of both the mix, as well as the absolute price.

Moderator: Thank you. The next question is from the line of Vicky Punjabi from UTI Mutual Fund. Please go ahead.

Vicky Punjabi: Thanks for taking my question. So just one of the aspects that I was trying to understand here was the huge sharp increase in revenue per store, if I analyze for the quarter, it looks like greater than INR 3 crore I mean, which was I think around INR 2.6 crore , INR 2.7 crore previously. I mean, one of the aspects I just found interesting was that your mix has changed a lot. I mean, if I compared to 2019 FY '19 versus FY '22 the Unisex and the accessories, they have moved from 6% to 9% and 9% to 10%. I mean, now 9% to 11% in this quarter, is there anything related to addition of categories or changing assortment that's really helping revenues throughputs in stores and how sustainable are these throughputs?

Nissan Joseph: Yes. So one of the things that we see with the Unisex growing is most of our Crocs product falls underneath the unisex range, and Crocs has done a very good job growing their unisex range, both in their mono branded Ebo stores, but also in our Metro, Mochi stores. So we carry Crocs in almost 300 of our Metro, Mochi. So anytime you see a category get focused and do well that impacts 300 of your mono branded stores. I mean, 300 of your multi-brand stores and 180 odd mono branded stores. It is going to shift the needle right. As from where we sit today, that Crocs remains committed to growing their e-commerce -- to growing their unisex business. So we don't see any reason why you should see any significant shifts from those that category split.

Vicky Punjabi: Okay. And secondly, just onto that Crocs thing, I mean, the number of store expansion, I think in Crocs in this quarter was a little weaker at 3, I mean, the expectations was much sharp. Is this just as quarterly phenomenon or are we seeing some kind of, moderation in terms of store openings for Crocs?

Nissan Joseph: No. So I think, what you're seeing is, we had massive focus and expansion in Crocs in the last three years. I think what is really exciting about our 20 store growth in this quarter is that it's across all formats, Vicky, as opposed to being focused on any singular format. All the formats that we carry today, have legs to grow in India. All the formats that we carry today are profitable and have opportunities to grow across many tiers. So we are not looking at opening just one of those concepts and growing it, we're looking at opening all of them. So the way I would see it is not a lack of focus on Crocs. I would see it as we are being focused on growing our Metro, Mochi, Walkway stores as well and as we opened up a new FitFlop store last quarter.

Vicky Punjabi: Okay. Sure, sure. Thanks. Okay. Just on, just lastly, on this FitFlop, I wanted to understand how, I mean, when I look at the variety, I mean, of course in fashion element, it could be very different, but looks more on the comfort range like Crocs. So how different could be the opportunity for FitFlop versus Crocs and, can this also scale up to that kind of levels?

Nissan Joseph: I think the opportunity is very different, in the sense that, one is averages INR 7,000, for footwear whereas Crocs average is close to INR 3,500 to 4,000. So that's two different price points that you are speaking to. FitFlop has a huge market share in women's, but in certain markets they are also very strong in men's, whereas Crocs is more across the board. Overall though, I don't think FitFlop has the same legs as a Crocs, but that's not to say it doesn't have big legs left to go yet. Especially after we've seen the performance of the first store and the performance of FitFlop in our own multi-brand stores, now that we've taken control of the distribution and are able to somewhat stabilize our inventory positions, which has always been an issue in the past. So we see a long, good runway for FitFlop going forward and I think compared these two and saying the way alike is probably, from a footwear space, we don't see that we see there's two different consumers. We see a need for a person to wear a FitFlop and also wear a Crocs, depending on who they are.

Moderator: Thank you. The next question is from the line of Bhargav Buddhadev from Kotak Mutual Fund. Please go ahead.

Bhargav Buddhadev: Yes. Evening team. And, thank you for the opportunity. So I have two questions. First is, is it possible to highlight, what has been the SSG over the last three years first store which are more than two years old? That's my first question.

Nissan Joseph: Well, as we don't guide to SSG. We don't disclose our SSG numbers, but I think you're capable of putting, a calculator going. Our SSGs are strong. And let me reiterate and answer your question this way. We have not seen a decline of growth outside of what we would

expect from any aging of stores. Having said that we expect our stores two years and older to grow at a slightly lower pace than our stores that are -- let's say at just a year and a half old, that's normal in retail. As stores open up, they start to hit a certain velocity. Then they grow and grow for a couple of years and then of course the comp stores slows down a little bit. All of that has been within our -- actually it's been beyond our expectations because this quarter was quite spectacular, but nothing has stood out as causing a concern from an aging of stores and their performance.

Bhargav Buddhadev: Okay. The second question is, how much of the management bandwidth is, spent on achieving success for the Walkway brand and given that the DNA for success here in is very different from the other brands where Metro is strong.

Nissan Joseph: Yes, you're absolutely correct. Walkway is a different business, which is why we have been, not as quick to grow it. Having said that, it is not a matter of bandwidth. It is a matter of two things, one is it's finding the formula for it that's appropriate and works well. And the geographies where it might do really well that's number one. And then also having focused leadership managing the business. So I think we shared in the past that all our concepts are individual standalone with P&L business units. So we call them our strategic, our strategic business units. The question really comes down to, do we have the resources in the SBU leadership to manage that business. And today we feel very confident about that leadership, being able to take us and grow that chain but like everything Metro does, we're not going to rush and do things we believe, that Walkway is showing some very good RoCE numbers. and it's going to be a slightly different game than a Metro, Mochi. Absolutely. But that doesn't mean that it's taken up a lot of bandwidth or in any way distracting. All businesses take a bandwidth, no doubt, but having said that, we believe we have capable leadership leading all our different SBUs, all our different concepts to lead them, to capitalize on the opportunity in India.

Bhargav Buddhadev: Okay. And would we also consider getting into the distribution mode for the pushing Walkway or will continue with, opening own stores?

Nissan Joseph: We are very focused. I think I we've shared our vision in the past to be the largest specialty footwear and retail chain in India. And that does not include having distribution as one of our core, strategic initiatives today. We believe that the runway for a strong retailer in India is immense. We believe that we would take up all our energies and investments to capitalize on that opportunity. We believe that that's the way we want to play the game and we believe it has a lot of opportunity for us to continue our 10 year performance of CAGR and profitability. So, as of today, retailing is our prime focus.

Bhargav Buddhadev: No, it was more Walkway as a brand in terms of pushing into the distribution channel.

Nissan Joseph: Well, Metro is a great brand. Mochi is a great brand. Walkway is a great brand, but our play is to continue to build it, we have the capital, we have the resources to grow as much as we want to directly. A lot of times when you start distribution, controlling your pricing, controlling your distribution, controlling how your brand comes to life can be challenging, and we don't want to get into that space. We want to protect our brands.

Moderator: Thank you. The next question is from the line of Gopal Nawandhar from SBI Life Insurance. Please, go ahead.

Gopal Nawandhar: Thanks a lot for the opportunity, sir. I wanted to understand, what is the, frequency for, repricing for our contract vendors in terms of their convergent charges and the pass through of raw material.

Nissan Joseph: So, in the footwear business, we're constantly, iterating and, evolving our product, right? So it's not a matter of, how many times do they have a chance to reprice their goods? Every time we design a new collection that has its own set of input costs that we evaluate. And when we get those input costs, we see if the multiplier of margin makes that price point meaningful and attractive to our consumer, that we believe we closely understand. And if it does, then we go ahead with the product. If it doesn't, we see if we can, re-engineer the product to meet those price points without in any way diminishing the quality or the premiumness of that product. So there's multiple factors that go in. It's just -- we're not an FMCG business where

we have a contract manufacturer. We say you're locked in for prices for two years, and you're making the same thing for two years, right? It's a fashion business and it's understanding the inputs of cost as we go to design products, as we go to develop products, as we also deciding what does that fashion going to play out as in the coming quarter? So to answer your question, it's not a contract manufacturing set pricing, at any given point. The other thing is we have close relationships with suppliers, right? If in case there was a supply, there was a raw material price hike right in between, sourcing it, of course we would work to them to see how we could mitigate that for them, how we could take other costs out of the production to maintain a price that we think is good for our consumers. And that's why we don't see much demand erosion as we change our pricing.

Gopal Nawandhar: Okay. So, so when we say that we have planned our inventory well, or, we have, what ahead of, because of volatility on the pricing side, what do we mean, do we mean, on the raw material side or we are saying all the finished good inventory we procured ahead.

Nissan Joseph: On the finished goods as reflected on our inventory holdings that we've shared. It is on the finished goods side.

Gopal Nawandhar: Sure. Second question was on the employee cost, we see only sequential increase of 12% and whereas the sales are up 20% plus. So what I understand there are some incentives also, which are based on the sales. So we did not see corresponding impact of those in the employee cost. Is there any change in the incentive structure or reclassification of heads between employee cost and other expenses?

Kaushal Parekh: Gopal, a portion of our variable commission that we pay to the sales team also goes into the other expense, where you would see that increase going up. So, employee benefit expense predominantly has backend and fixed salary costs. And other expense has a portion of commission that we pay to our store managers and our backend sales team. And staff are on commission.

Gopal Nawandhar: So this has been like this or that has been reclassification.

Kaushal Parekh: No, this has been like this since, many, many years.

Moderator: Thank you. The next question is from the line of Manish Poddar from Motilal Oswal Asset Management. Please go ahead.

Manish Poddar: Just two questions. First one is you mentioned 62% growth vs Q1 FY 20 Can you just help for the three formats?

Kaushal Parekh: So Manish, we are not disclosing numbers, by formats. Unfortunately we'll not be able to give you the numbers, but as you likely said, about 63%, overall growth versus Q1 FY '20. If I have to further dissect that number, in terms of number of stores increase, we have increased from 510 stores to 644 stores now. So around 26% growth in terms of number of stores, versus say Q1 '20. So basically, this will help you sort of tie up, overall growth scenario that we are looking.

Manish Poddar: So pricing actually would be similar across the brand. Is that how it is?

Nissan Joseph: Across the brand course, the concepts you mean, right?

Manish Poddar: Yes.

Nissan Joseph: Yes, no, we are seeing growth across the concepts.

Manish Poddar: Okay. So one more data point which you can help me, FY19 overall, in other expenses, Advertising & Sales promotion and Commission on Sales that number is 88 odd crore. What is this cumulative number in Q1 FY '23?

Nissan Joseph: I'm sorry, I don't think I understood your question. I apologize. Manish, can you ask that question again, please?

Manish Poddar: So I'm just trying to understand, there are two line items in DRHP advertising and commission on sales. These two items together was roughly about 88 crore in FY ‘19, which was a full year. I'm just trying understand what is this two number in FY ’23?

Kaushal Parekh: Let me come back to you. we don't have FY ‘19 numbers handy, but if you are in the queue, we'll come back to you after we answer other question.

Moderator: Thank you. The next question from the line of Abhishek Maheshwari from SkyRidge Wealth Management. Please go ahead.

Abhishek Maheshwari: Yes. Couple of questions you mentioned that Q3 is your best quarter, but this already in Q1 you have the best quarter, so do you see the shopping traction continue.

Nissan Joseph: Oh, so sorry, your question is about future growth, right then, because Q1 is typically not as strong as Q3, is that right?

Abhishek Maheshwari: Right. So I was just generally asking this is the new normal sort of thing, or, do you expect exuberance to reduce in Q3 in Q2 soon?

Nissan Joseph: I understand, sorry. I apologize. I wasn't able to understand your question the first time around. We've seen growth in our business, starting in Q3 of last year, continued in Q4. And as Q1 has shown nothing but growth, from where we sit today we feel confident that growth, demand has no reason borrowing any kind of significantly negative event happening. We don't see that as happening. So the growth demand should continue through the quarters. Having said that though, we start lapping some strong numbers in Q3, but that doesn't mean we can't exceed those numbers either. And our plan is to continue as I mentioned before, we have a CAGR of 18% over 10 years and we plan on continuing that CAGR for the next 10 years to come.

Abhishek Maheshwari: Great. Great. And if you could just know how many store you plan to open this financial year and the capex budgeted for it..

Kaushal Parekh: So, as we guided in our DRHP we plan to open about, 260 stores in next three years, that is till by FY ‘25. That brings us to about 80, 85 stores, for the current year. Overall Capex for it broadly would be in the range of, INR 50 crore to INR 60 crore, because the numbers sort of vary by format, for Metro, Mochi overall, overall investment that we do in terms of fitout, inventory and security deposit to our landlord, that ranges between INR 1 crore to INR 1.1 crore INR 1.2 crore for Metro, Mochi. For Walkway and Crocs, this number would range, between INR 70 to INR 80 Lakhs, INR 65 to INR 80 Lakhs. So broadly, for 80 stores, or we expect that Capex to be range of 50 to 60 crore.

Moderator: Thank you. The next question is from the line of Akshay Kothari from Envision Capital. Please go ahead.

Akshay Kothari: Yes, thanks for the opportunity. I just had questions on the loyalty points. So, the loyalty points are available on three brands Mochi, Crocs, and, Metro, right?

Nissan Joseph: Well, the loyalty program is available on the three brands. The loyalty points are differently done, on for Metro and Mochi compared to Crocs has a little bit more gamification, but those three brands are available for our loyalty program.

Akshay Kothari: Okay. And could you give, what were the loyalty points outstanding as on 31st March and as on 30th, June?

Kaushal Parekh: So the total loyalty-- you are saying absolute amount of loyalty points.

Akshay Kothari: Yes.

Kaushal Parekh: It's in that range of around 40 to 50 crore points, closing points, obviously, redemption that we see out of that, is factored as per the applicable Ind AS. And that is shown as deferred revenue which is reduced from the revenue.

Akshay Kothari: Okay. So, ideally we have done much revenue. Only thing is as per Ind AS 115, we have accounted for it. We'll be doing it later.

Kaushal Parekh: So as required by Ind AS, what it says is based on your historical redemption trend, you need to make deferred revenue provision which gets reduced from sales. This was implemented four, five years back, and we have been accounting it, as required by Ind AS.

Akshay Kothari: Okay. So what will be our redemption rate50 50% because you have given 53%, that that will be it.

Kaushal Parekh: So 53% is the total contribution of, out of our total sales, sales which are done to loyalty our loyal members. So that is that number that would be net of the discounts that they burn to make that sale.

Akshay Kothari: Okay. But what I'm asking is out of INR 40 crore or INR 50 crore, how many of them would go unredeemed, as per your Ind AS projections

Kaushal Parekh: Broadly, if you see a redemption rate, it would be in that range of 15% to 18%. And it is provided for as per the requirement of, Ind AS.

Moderator: Thank you. The next question is from the line of Sabyasachi Mukerji from Centrum PMS. Please go ahead.

Sabyasachi Mukerji: Yes. Hi, thanks for the opportunity, and congratulations on a very strong set of numbers, if you can help me with the volume numbers, for Q1 FY ’23 and also Q1 FY ‘22 and the Q1 FY ‘20 quarter.

Kaushal Parekh: We have not disclosed our volume numbers, but I can just broadly tell you our monthly, overall volume is about 10 lakh units, month on month. So, we have not, we have not given numbers for historical periods, unfortunately, and not been able to share, further details on this. We've given average price points. So, broadly leads you to the number.

Sabyasachi Mukerji: Okay, so 1494 is the ASP you quoted for Q1 FY ‘23. Derived number volume number is somewhere around 3.4 million. Okay. I got it. 10 lakhs units per month. Secondly, you have closed down and shut down five stores this quarter, reason behind it. And do we expect more closing or shut stores and coming quarters?

Nissan Joseph: Okay. So we're constantly evaluating all our stores. Here are some of the reasons we closed stores. If a store is underperforming and we figured there's no way it can be profitable. We have a lot of reasons to close it, and we'll move on. But let me point out for you that out of the five stores that we closed, three were actually relocations. So we feel good about the business that we want to relocate it to a better location and expand our stores. In net, the true closures in that number is only two. So if you look at it, for a 640 store chain, two stores closing a quarter, it's just normal business because malls die, high streets die, traffic shifts, cities change. So that happens a lot.

Sabyasachi Mukerji: I'm sorry, but the FY ‘22 end, store count number was 624. And if there is a net closure of only two stores and you added 25, okay then, how can we,

Nissan Joseph: We relocated three stores, right? So out of the five closures, out of the five closures, three were relocated. So the counting as new stores, we count them as a closed store. The minute we relocated a store, the old store closed. So it goes in our closing stores and there's a new store open. So five are closed, but three of the five that closed were actually relocated to new spots.

Sabyasachi Mukerji: Okay. I got that, last question, on the slide that has presented that we have been increasing our presence in tier two, three cities, there I can see that the store count contribution, has been, kind of going down for metro cities and it has been going up for tier two, three cities. But if I look at the revenue contribution, which is mapped just beside the number of store count contribution, I see that, the tier two, three contribution is lower, than, than a Metro store contribution, which means a throughput of a tier two, three cities of course, lower than,

than a similar, Metro tier one store. So how does the store economic stack up, for a Metro tier one store vis-a-vis tier two, three store?

Kaushal Parekh: So, you are correct, obviously sales throughput in say tier two, three, would be slightly lower as compared to what you see in Metro cities, prime Metro cities, like say Mumbai, Delhi and others. However, what we do is evaluate any store from an overall store profitability and store RoCE point of view. When we move to tier two, three towns, obviously as you know rentals and all other expenses are significantly lower when compared to say Metro cities. So just to give you an example in Metro city, a store doing 40 lakhs sales per month may generate 10% PAT, whereas a store in tier, two or three, generating say INR 15 lakhs, INR 20 lakhs, sales per store per month may generate higher PAT. So it's all depends on a specific store wise details. And also if you see historically we have given trends for last three years as well. The trend has remained the same. As we obviously increase our penetration logically we will grow much faster in tier two, three towns as compared to say Metro cities, where we penetrated slightly earlier than them.

Sabyasachi Mukerji: Essentially you mean to say that even if you, increase your presence in tier two and three cities, store economics doesn't get impacted and your ROCEs remain intact.

Kaushal Parekh: Yes, correct? So that's the endeavor. The sales per store per month may be lower, but we see each store in terms of specific store profitability. What is the PAT percentage? What is ROCE?

Sabyasachi Mukerji: Any broad ballpark number, how much the throughput is lower percentage wise?

Kaushal Parekh: It all depends, we see tier three cities. Some of them surprising us positively and they do sales as good as say some of the Metro cities. So it's very difficult to give a number, but logically on a -- if you see a trend line, logically Metro cities, would have higher sales throughput, tier two, three cities would have slightly lower sales throughput. However, as we said, we see each store profitability to make sure, whether we want to go ahead with them -- with that particular store or not.

Sabyasachi Mukerji: Okay. Lastly, if I can squeeze, on the demand scenario, one of the previous participants also asked, how has been the -- we have been hearing that, urban and semi urban markets have been very good in terms of demand. but the rural has been, kind of struggling, due to this inflation and affordability issue. How has been your experience, in terms of urban and rural demand?

Nissan Joseph: Well, so the most rural we get is a tier three town, right? So I want to make sure we qualify that sentence but we're not seeing, as I mentioned earlier on in my opening remarks, we're not seeing any change of demand and any change of performance, depending on the tiers of cities, all our tiers of cities that we operate in are showing good growth.

Moderator: Thank you, ladies and gentlemen, due to time constraints. That was the last question for today. I now hand a conference over to the management for closing comment.

Nissan Joseph: Well, thank you all for joining us for this call. As I mentioned before, we are very excited that we've finished our most exciting quarter in the history of Metro Brands. Metro Brands continues to operate with great financial discipline and operational rigor ensuring that we continue to add value and perform for all our shareholders and our employees. Thank you for your support of Metro Brands. We'll talk to you next quarter.

Moderator: Thank you. On behalf of DAM Capital Advisors Limited that concludes this conference. Thank you for joining us and you may now disconnect your line.