"Metro Brands Limited Q1 FY-24 Earnings Conference Call"

August 02, 2023

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MODERATOR:	**MR. KAPIL JAGASIA – NUVAMA WEALTH RESEARCH.**

Moderator: Ladies and gentlemen, good day and welcome to the Metro Brands Limited Q1 FY24 Earnings Call hosted by Nuvama Wealth Research.

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 this 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. Kapil Jagasia from Nuvama Wealth Research. Thank you and over to you, sir.

Kapil Jagasia: Thank you Aman. Good afternoon, everyone. On behalf of Nuvama Wealth Research, I welcome you all to Metro Brands Q1 FY24 Earnings Conference Call.

From the management today, we have with us Mr. Rafique Malik – Chairman, Ms. Farah Malik Bhanji – Managing Director, Mr. Nissan Joseph – Chief Executive Officer, Mr. Kaushal Parekh – Chief Financial Officer, and Ms. Alisha Rafique Malik – President, Sports division, e-commerce and CRM.

Without taking any further time, I would now like to hand over the call to Mr. Nissan for his opening comments. Thank you and over to you, sir.

Nissan Joseph: Thank you. Good afternoon and thank you for joining our Q1 Fiscal Year 2024 Earnings Call.

We have finished what I would characterize as a good but more importantly, a normalizing quarter. I will speak more to the term normalizing in a moment. But as we declared in our filing, we had a year-on-year standalone growth of 12%, which is an 82% growth over the pre-COVID era.

To speak a little bit about normalizing. This normalizing applies to many aspects of our business. And I would like to add some granularity to that. For once, this is the first quarter which was not compared to a COVID impacted quarter from last year. On the contrary, we were up against some record-breaking sales, EBITDA and PAT numbers. This was driven last year by a few factors which included pent-up buying, wardrobe refreshes, and a healthy number of auspicious wedding dates, and an overall return to the brick-and-mortar stores to a fully open restriction free environment.

While we were able to capitalize on these market forces last year, I am pleased that we maintain that same level this year, which is a reflection of the operational rigor and consumer focus that we as a company have. To give some color on the consumer. While demand has normalized, it continues to operate within the vectors that indicate strength for us. Some of these points to note are firstly, we were able to meet that spike in sales from last year, despite not having the same conditions of pent-up buying, wedding dates, etc. Secondly, we were able to meet the numbers while keeping our gross margins and PAT on par with last year and our sales of products over Rs.3000 went to an all-time high of 49%. So, it was a premium consumer who continued to shop our stores. The third point to note is that we had a strong growth of 63% in our e-commerce, which did not have any pent-up buying to deal with and is indicative of the strength of the demand that we cater to. On the expense side of the normalized quarter. We're now back to normal rentals after rent waivers that we had received over the period of COVID. Our operations are also back to normal with business travel for store visits, headcount replacements, regional meetings, and other normal and customary expenses being in line with pre COVID activities.

I would now like to go with some additional updates for the quarter. We opened 27 new stores and thereby closed the quarter with a net total of 766 stores not including FILA and Proline. This number puts us well on track with our guidance of new store openings that we shared on our previous call. Our FILA integration is on track and as I mentioned last quarter we are focused on liquidating inventory, rationalizing distribution and leveraging operational synergies between the business unit and our ongoing Metro Brands operations. We believe we will be better positioned by the end of the first half of this fiscal year. As you may be aware, the central government has issued quality control orders for footwear to be covered under the BIS norm effective January 1st. While we are yet to receive full clarity on the closure of these norms, we're closely monitoring and complying with the orders to ensure that we are compliant. We do foresee some potential disruptions in the supply chain and our front loaded inventory to mitigate any potential risks in our supply chain.

In closing, I would like to reiterate that we feel strong about our strategic initiatives of focusing our growth to the affordable premium sector of the Indian consumer. And that demand in our space continues to be solid, obvious with some normalization post COVID. Most importantly, I'm pleased that our numbers last quarter, were very much in line with our continued guidance of the performance targets for PAT and EBITDA that we have shared with you and the tailwind for the Indian economy are very much still in line with our expectations. With that, I'd like to turn it over to the operator to open up for questions.

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

Gaurav Jogani: Sir my first question is with regards to the store openings. If we dissect the store openings, approximately 50% of the store openings incrementally for us is happening in the Tier-2, and Tier-3 cities. Now if we see the throughput for these Tier-2, Tier-3 cities, these are meaningfully lower versus the system average. And yet, we are able to generate the sales growth that we are able to do. So, where is this incremental growth coming from? That is the first question and the second question is regards to the premium segment contribution. Now, if you see the premium segment contribution that has increased meaningfully from this 43% to 49%. So, where is this premium segment growth coming from and is this sustainable?

Nissan Joseph: If I understood your first question correctly, you're asking about where our incremental growth has come from. So, primarily it has come from new stores last quarter of ours, because we were going up against some very, very big numbers from the last previous year. Some of those conditions have not repeated this year, unfortunately such as pent up demand and wardrobe refreshes. And as you know there were fewer wedding dates in this quarter, which is quite significant to our business simply because we also cater to that consumer considerably. So, that I hope answers your question on the incremental growth. The premium customer is somebody that we've been attracting, and some of it is caused by just our normal day to day, year-on-year price increases that we have as a business. And some of this is also our selection of products is tending to be more along that range. If you also notice that we sell 30% of our products from outside brands such as Crocs, and Fitflop, and other brands. And that also comes with a much higher ASP. So, those are some of the drivers to that growth to 49%.

Gaurav Jogani: So, sir my related question to this is, that the contribution like 49% sustainable, going ahead and if that is the case then are the gross margins stated to even increase from the current levels?

Nissan Joseph: So, first of all, we have cyclical quarters in the business, retail, quarter two and quarter four, will see diminished ASP and also diminished gross margins simply because as we all know, those are the quarters that the end of season sales in India falls in. So, we will see some diminishing. Gaurav we always maintain that our gross margin targets will come between the range of 55 to 57 from quarter-to-quarter we might blip up a little, we might blip down a little, but our business is scheduled and designed to run and produce a 57% annualized gross margin, some quarters are going to be higher, some quarters are going to be lower.

Gaurav Jogani: Sure, sir I understand that. And sir just one bit on the clarification on the first question that was, my question was more with regards to the addition of the stores in the Tier-2 and 3 cities. Now the throughput in these Tier-2 and 3 cities is significantly lower as to what we see in the metro and the Tier-1 towns. So, incrementally if we are opening more stores in the cities, is there no possible impact on the revenue per store that we have or rather the revenue per square feet in that sense, because if we see for this quarter it's meaningfully lower at 12%. Do I understand there is a base impact but if you can shed any light on this?

Nissan Joseph: Gaurav, what's important to us, obviously top line revenue per square foot in our sales revenue is very important. But what's critical to any business sustainability is looking at your gross margins and your profitability contributions on a per store level. So, these stores that you mentioned, typically in Tier-2 and Tier-3 towns, while they may not have the same throughput as a store in a metro city come with a much lower operating cost structure, right from CAPEX to rentals. So, that offsets it to ensure that when it comes to the PAT and the EBITDA levels that they think consistent with what we guide to.

Kaushal Parekh: And Gaurav just to add to what Nissan said you are correct. When we open stores in Tier-2, 3 cities, it will have some impact on the revenue per square feet number that you see. So, only that metrics is not the right way to evaluate, as Nissan mentioned, what we track is profitability per store. So, Tier-3 store, maybe doing say half of say productivity what your Phoenix, in Mumbai may do. But at times, the profitability is equivalent to what a metro city would deliver. So, that's how we sort of review our business.

Nissan Joseph: And we still maintain that we want our cash return cycle within two years.

Gaurav Jogani: So, that is the question. So, in that sense, we are typically adding 100 stores on a base of say 750 or 800 stores now. And, you're typically that comes to around 12%, 13%. But because these stores are now getting added in Tier-2, Tier-3 cities also. So, that will not mean a commensurate increase in the revenue also. So, is that understanding right was largely my question.

Nissan Joseph: You are trying to model out the growth. So, there are a couple of things. One is what you said, obviously that goes to the south side of the equation, but to the north side of the equation we are opening up some Fitflop stores, we're opening more Crocs stores, those stores always come with a higher productivity of sales per square foot. It's not like we've stopped opening into Tier-1 and metro city stores. Our strategy is, we have a threefold retail strategy. One of them is to cluster. So, for those of you in Mumbai in Linking Road, we could open up a store two kilometers from my existing store, and it wouldn't cannibalize the existing store any. So, there's an opportunity to open more stores on Linking Road itself. So, that's a cluster strategy, there's a backfill strategy where we go in and backfill where we only have a Metro or if we have a Metro and a Mochi, we might look and think can we do a Crocs with it. So, that's a backfill strategy. And the third part of this strategy is to go to new cities, we then tend to be of course Tier-2 and Tier-3 cities, but it's only one part of our three-prong strategy for growth. So, it's not like you'll see a distorted amount of openings happening in Tier-3 cities, every new city is going to be a Tier-2, Tier-3 fundamentally because we've already penetrated all the metro cities and Tier-1 cities. But the backfilling Gaurav could happen very much in those metro cities and Tier-1 cities as well.

Moderator: Thank you. The next question is from the line of Nihal Mahesh Jham from Nuvama Institutional Equities. Please go ahead.

Nihal Mahesh Jham: My first question was that you did mention about the base impact last quarter because of the pent up demand and the various other factors, just to get a better sense by any chance, is it possible to get the revenue per square feet number for the first quarter of FY20 that would be a more like to like comparable number?

Kaushal Parekh: Nihal it's there in our presentation, it was 5700 in Q1 last year.

Nihal Mahesh Jham: Not last year, I was looking for Q1 FY20?

Kaushal Parekh: Q1 FY20. I don't have that number ready, but Nihal if I could just give you a comparison of sales, Q1 versus Q1 of FY20, our revenue is up by 82%. And during that period, if you see our store growth that is close about 48%, 49%, 50%. So, obviously the balance growth is the organic growth coming from the stores that were existing at that point in time.

Nihal Mahesh Jham: No, because I'm guessing the store and the square foot age growth wouldn't be too different.

Kaushal Parekh: Yes, in FY20, I have an annual number readily available, it was around 16,800, it's an annual number for FY20.

Nihal Mahesh Jham: That's helpful. The second question was on the gross margin bit. So, while you did mention about the fact that the premium share or 3000 above was at 49% versus say 43 last year, but we did see that the share of own brands this year 4%, 5% drop. So, is it right to say that the impact of the premium segment irrespective of being an own brand or a third party on gross margin, more or less negated the mixed impact because of our own brands being lower?

Nissan Joseph: Own brands and our outside brands run about the same margin, especially when you come to below the line. But on the front side, when we say outside brands, we mean brands also like Crocs, and Fitflop, where we enjoy very healthy margins.

Kaushal Parekh: And Nihal, if you if you see though the contribution of outside brands increased. But it did not have any adverse impact on our gross margins, because the lion share of growth came from brands with whom we have a strategic relationship like Crocs and Fitflop.

Nihal Mahesh Jham: Sure, that's helpful. My final question for now was that, second quarter in a row the number of Crocs stores have been stable and other stores are seeing robust expansion, any specific comments on that, that you want to highlight?

Nissan Joseph: So, we definitely plan on continuing to grow our Crocs stores. There were some malls that we've actually built stores, and they're sitting there in the dark because the mall hasn't opened. So, when you roll out your plan, you assume you going to open up some Crocs stores in Q1 and they don't open because the mall doesn't open. But we remain committed to the growth on Crocs. Having said that, though when you look at our growth rate over the last four years, you'll see that it's distorted to growth in Crocs. So, it's not so much a slowdown in Crocs as much as we're trying to catch up the other banners that we have of Metro, Mochi and Walkway for their growth as well. And there's a certain amount of stores we do want to open and not go much beyond that because we feel we don't want to get the business out of sync in terms of how much focus and bandwidth we can put towards it. So, it's actually controlled growth, but you're right about your observation of Crocs, but it is not a reflection of stopping growth in Crocs.

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

Kapil Jagasia: Sir just going by the realization of your four, five brands, Walkway brand has seen a good increase in realization by around 25% over the last one year. So, could you give us some sense on how has the growth panned out in this brand, vis-à-vis company average and also on the outlook of store openings here as this brand particularly has added a lower number of stores if we compare that to our other in-house brands?

Nissan Joseph: So, I've shared in previous calls, that we're trying to ensure that we have the right formula for Walkway that matches our expectations especially from a ROCE standpoint. So, we're trying to get that we identified the South and the West as growth avenues for us for Walkway, we're confident that the Walkway channel the Walkway brand has considerable legs, in the Indian economy, and we will continue to grow it as and when we feel we're totally ready and right to grow it.

Kapil Jagasia: Okay. And sir similarly on the realization front Crocs, realization has spiked up by 25% in Q3 of last fiscal year. So, would we be expecting another hike during this year too and what would be the counter just a ballpark number would help?

Kaushal Parekh: So, Kapil, it's a normal MRP increase that we see in most of the brands including Crocs. Q3 last year, I'm not very sure if you did see a very significant spike, it would be a normal organic spike that we generally see. Also, the number that you see is inclusive of Jibbitz so excluding Jibbitz the ASP has grown for Crocs from around Rs.2900 to around Rs.3000 if you just consider Crocs footwear.

Kapil Jagasia: That helps. My second question is on Cravatex. We're just looking at the last two quarters run rate of Cravatex, this quarter revenue numbers for Cravatex seems to be a bit lower. So, should we interpret that bulk of the inventory liquidation would have happened over the last six months or is there a season effect linked to it just trying to understand the quarterly run rate for this Cravatex?

Kaushal Parekh: So, Kapil, we have mentioned this in our presentation, we actually implemented the SAP S/4HANA the same ERP that we have in Metro Brands, in Cravatex as well. In the initial months, we saw some teething issues there and that led to some loss of sales and hence you're seeing a slight dip in the sales, vis-à-vis what you saw in Q4 of last year. Having said that, our losses on a lower sales base, the loss is restricted to 14 crores. This is predominantly on account of the improvement in gross margins that we saw in Q1, and also some cost savings and rationalization, which is underway.

Kapil Jagasia: So, how the month of July panned out, is it in line with the previous quarter or we are seeing some improvement over here?

Nissan Joseph: We typically don't give forward looking statements Kapill. But, what I can speak to is last year we saw this pent up demand spike last for about four and a half months. So, it goes well into this quarter a little bit but in our sales that was appropriately responding because that pent-up demand that tapered down as we get closer to Diwali. But we're seeing that, we continue to see the demand for our product continue to stay strong.

Moderator: Thank you. The next question is from the line of Samyak Jain from Marcellus Investment Managers. Please go ahead. Can you hear me?

Samyak Jain: So, Nissan could you take us through your buying process, what sort of buying systems and processes do you have in place, what sort of reach, how do you capture the regionality element, what sort of data do you track when you're buying and how does that play into the art part of the buying?

Nissan Joseph: So, India is a unique geographical conglomeration of different tastes and, and festivals, and so on and so forth. So, it's quite complex as to how we have to decipher that code. And the peak seasons for that are driven by festivals vary not only between state-to-state, but also from year-to-year because some of those festivals have a tendency to move in dates. There's not literally looking one day to the previous days but understanding the season that leads up to that date of festival so that's number one. Number two, we've spent a lot of time understanding the regional tastes of India over the last 50 odd years. So, we have a good sense for that. When we look at our business like most businesses, you start off with your base from last year to say, this is my base, what were the drivers to it, what are the misses to it, what were the ones that we missed both, we didn't have enough and what were the ones that we had too much, they both misses in our mind. Now, the question is how does that translate to the next season coming up. And that's where you need a team of buyers that are constantly out in markets, both domestic but also international market looking at fashion feels and trend that come through as to how we can go through the whole process. The key thing is to keep constant freshness in our inventory and assortment and sometimes it's just a matter of refreshing core items but often it's also a matter of bringing in styles that we think will resonate with the customer. Another key opportunity for us is to work with our vendors directly. Because they also in their particular segment of specialization have a deeper understanding of the Indian market maybe than we do, because that's all they dabble in that one little category that they make for us. So, we have a very open line of communication with them, we share our data openly with them, so they can also guide us. And then, we also ensure that when all the buy is placed that we are focused on making sure what we call the head items or the NOOS, which means never out of stock items are focused or not. As you rightly said, it is an art and for an art to work you need multiple points of view that you look at. So, I wish I could give you an even shorter answer. And I don't think I've answered it in full because it is quite a lengthy and detailed process on how we go about selecting our product to ensure that we're relevant to the consumer that comes into our stores.

Samyak Jain: So, Nissan, how much of your inventory today would you call core inventory which will have slight changes maybe a shade darker or a shade lighter versus fashion inventory, which you are experimenting with. Secondly, how much of your inventory is in-house designed where your buying team is bringing in the designs and asking the manufacturers to do it versus how much is purchased from outside manufacturers, their designs which largely won't be exclusive to you.

Nissan Joseph: First of all it's all 70% of our stuff is either core or core refreshes we call it. So, most of our inventory is core business, number one. The second thing is, all our designs, our collaborations, all our designs are either our own or the collaborations with our vendors, so they also study the trends. So, it's a collaborative effort when it comes to that and if we do get a style, we insist that it comes only to Metro, because we don't want those styles anywhere else. So, there might be tweaks to it or there might be material downgrades from it that you might find at a cheaper price somewhere else. But fundamentally, you're not going to find the same shoe somewhere else which is branded Metro, branded Mochi.

Samyak Jain: All right, got it. My second question was on the e-commerce site. Last four years we've seen phenomenal growth in e-commerce. Of course, some of it was tailwind, but just trying to understand what were the inputs that were done, undertaken into a company which you think have led to a decent chunk of growth being contributed from that and if you can quantify how much in your assessment is a tailwind growth in the last four years, versus how much is something which you all have brought in organically?

Nissan Joseph: That's a pretty detailed question but let me give you some broad strokes to what you are asking, we think a lot of growth come from our omni channel initiative first and foremost. Is about as linking up more and more stores onto the marketplaces so inventory is more readily available and the more your inventory is readily available, the higher it shows up on a search when you're on a marketplace, so that we feel has been instrumental in helping drive our growth, we also have a select line of SMU products, special makeup products just for e-commerce, we do that, because we want to be able for people in zip codes where we do not exist to be able to have access to our brands. So, when we are only in 184 cities out of the hundreds of cities in India, it is critical that we let people have access to our products through an e-commerce site. Those are the two biggest avenues of growth; we continue to tap the issue of our own.com site. But as you know, attracting people to the.com sites is rather an expensive proposition, not an impossible proposition but definitely an expensive proposition and being that we like profitability, we take it a little bit slower on that. And we also know that there is regional sensitivities in this country that we can cater to with e-commerce and e-commerce is a younger consumer overall. So, we're able to curate ranges for them and SMU that we may not be able to definitely make sense sitting in a store across the 400 metro stores.

Samyak Jain: All right. So, you're saying that 25% to 30% contribution, which is from your omni channel is largely something which is just opportunity cost, which was captured through availability, and the rest some organic efforts like coming up with an exclusive line, which has led to more visibility on these market places?

Nissan Joseph: Correct.

Samyak Jain: Final questions from my end is on the FILA part. From a customer propositioning point of view, how are you planning to position FILA, like planning EBOs but is your target customer or what sort of customer, it's not the age group, but the characteristic of that customer is where you want to position FILA?

Nissan Joseph: So, FILA it really has the ability to play to a premium level first and foremost, that doesn't mean we will only play to a premium level. But it does have the ability to play to a premium level. So, that's one vector to consider. The other vector to consider is, one thing we like about FILA specifically, is that it plays very well to both function and fashion. And the fashion side of it, goes over multiple genres of music, of sport of extreme sport. So, FILA has this broad positioning that is valid in all those positions, we think we can unlock the potential of FILA by obviously providing a premium assortment in our EBO's, that will be a significant channel of growth for us as we go forward. And then of course, we can have the takedowns from that or the other translations of that product that work well in our Metro Mochi segment that we could also use to continue to grow that and then we will be very selective about our distribution. We're working really hard to rationalize that distribution right now, but we would be very selective in our distribution on where we take that out to. We don't want this to be elaborate everywhere and hope it sales, we want to be very curated and purposeful in how we launch this brand, because we think it has an opportunity to play. So, it's like the more premium segment.

Samyak Jain: And on the functional piece of looking do we have in-house talent who can cater to these extreme sports or if the technological transfer will come in from the parent company of FILA?

Nissan Joseph: One of the advantages of taking a license is you're able to piggy back on the technology and the expertise of the global providers. So, we have access to all the technologies and designs that FILA produces globally. And we also have the ability to make it domestically we so choose to, so that's the flexibility that we love about FILA. And we fully plan on capitalizing that, where we feel there's a gap. We do have design houses that work with us here, both here and actually in the Orient, to help us pass that gap.

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

Manish Poddar: I have three questions, so pardon me for that. So, first one is on the FILA side of the business. If assuming that you didn't purchase any fresh inventory after the acquisition, shouldn't and the inventory amount was about roughly 50 crores to my knowledge, shouldn't this inventory get liquidated by Q2, or let's say Q3 max, and you should be on redesigning the mode by Diwali, shouldn't that be the case?

Nissan Joseph: We do have more orders that were placed with dealer prior to our acquisition, in shoe business worth anywhere from three to nine months out. So, it's not like when we acquired it, they were no orders and outs, we already had orders and out that we have to honor so there's a small amount of shipments that have come in subsequent to our merger with Cravatex. And then the other point is, yes, by Q3 we should be all wrapped up with the existing inventory. And we should be able to start our march towards the new position of FILA.

Manish Poddar: Okay, and second one is, let's say in terms of organic pricing have you taken organic pricing any bit on any product or is it largely led by mix, and basket size and stuff like that?

Nissan Joseph: It's an iterative process, and it's not like we sit and say, we're going to have a 5% increase across the board, what we do is we look and see what is the price that delivered landed into our DC, and that price moves a bit every now and then. And then we know the kind of margins we need to make Manish. So, then we market to that price and typically what we do is, if there's a price decrease, we're passing on the same to the consumer. Our goal is to be affordable premium, not just charging what you can premium. So, if there is a price decrease in anything, we will pass it on to the consumer. But equally, if there's a price increase, when that shipment comes in, that product will have a new price. Unfortunately, we're not an FMCG business, where you see this repeat item coming over and over again. So, it's not like four biscuits cost Rs.20 last season, now it's going to cost Rs.22, shoe does iterate and change and similar to that in sync with that our prices also iterate and change.

Manish Poddar: Got it. And the last bit is on this online business. So, any sense, would you have got let's say if 100 is the incremental sales, would you have got new customers, or it is existing customers, because we are getting basic data of customers in terms of name and number?

Nissan Joseph: Actually, we don't get basic data of customers because most of the incremental sales came through omni, where the marketplace would have that customer information, we don't know that. And then the second part is that it came through our SMU that we give it to them, and they sell it so special makeups that we give to them that they sell. So, we really don't have visibility. But, it's something that we would track in our own stores, in our own store 30% of our business comes from new customers, where 70% comes are repeat, and we got to assume that ECOM is along those same lines as well.

Manish Poddar: So, Nissan, how do you get sense on demand is what I'm trying to understand looking at what is happening on Omni or online, that number seems to be really doing well. Whereas, if I look at SSG in some form and that's down. So, I understand this and obviously base was stiff, but I'm just trying to understand like the numbers also how is the broader demand environment in your view?

Nissan Joseph: E-commerce is just one small data point of demand understanding demand, don't forget out of 766 stores that I can look at and figure out demand very quickly. We can always figure out what it is that selling and what it is not selling very quickly and why, is it a demand issue or is it a product issue. So, we've not seen anything there and we do get information from marketplaces on our ranking. It's quite collaborative so they are able to also tell us, is the demand specific to Metro or is the demand overall growth in the market?

Manish Poddar: So, the outcome you are saying is perfectly fine, of both the interventions in terms of let's say, your ranking versus the peers online, and you are tracking the offline indicators?

Nissan Joseph: Correct. We make our conclusions based on the data we have Manish. And, typically we have enough data to at least point directionally and earlier in my comment, I said we were quite pleased with the demand metrics that we've seen, when I am able to wash away any effect of the lack of wedding days or the lack of pent up buying, it shows demand is strong.

Moderator: Thank you. The next question is from the line of Jay Gandhi from HDFC Securities.

Jay Gandhi: So, this might be a little complicated way of trying to do where I'm trying to get at. But the reason for the +3000 sales being higher, otherwise I presume Crocs sells more in the first quarter because gross margins are broadly similar. But the +3000 sales has meaningfully jumped so is it just a seasonality part?

Kaushal Parekh: Yes, Jay to a certain extent, yes for Crocs first quarter is like Diwali for all other brands. So, obviously, this did contribute to higher ASP, and as we clarified earlier there is some part of seasonality, because in Q1 you generally see only full price sales we don't have our EOSS running which typically starts in Q2 and Q4 of every financial year. So, for the full year as a whole last year if you see upward of 1500, it was around 86%, we would hover around that percentage even for this financial year, up or down.

Jay Gandhi: Right. So, sir I'm just looking at the productivity of two major costs. One is the Metro plus Mochi and the other is Crocs, Crocs you have not added much this time, which means the productivity sales density of each store has meaningfully jumped. Now, the balance which is Metro plus Mochi, if I look at it your area addition is about +20% Y-o-Y, but if I X out the online sales and the Croc sales, my growth in Metro plus Mochi, kind of is probably low single digits, sorry at least mid-single digits. So, is my understanding, correct, broadly direction is right?

Nissan Joseph: You are in the right on pin code**.**

Jay Gandhi: Okay, fair enough. And just one thing, has our share of discounted sale still hits significantly low versus pre pandemic it was 8%, 9%, which came down to 5%?

Kaushal Parekh: Yes, so in quarter one it was sub 5%. So, we will actually come to know only once Q2 happens, we'll have the initial trends, and then Q4, but we don't expect it to go beyond that historical run rate that they've seen for so many years. For last two years it was sub five for the full year as a whole. But as we normalize it should be around that percentage.

Moderator: Thank you. The next question is from the line of Varun Singh from ICICI Securities. Please go ahead.

Varun Singh: What is the reason for underperformance in men's footwear? And also, at the value price point, which is like between 500 to, 1500 to 3000 price point. That's my first question.

Nissan Joseph: So, to answer your first question on man, we do sell a lot of Crocs in Q1 which typically it goes into unisex for us, but it's predominantly men driven and as Kaushal just mentioned, Q1 is pretty much Diwali for Crocs because of the monsoon. So, that's the biggest driver for it. Nothing significant otherwise.

Kaushal Parekh: If you see that unisex percentage in FY20, it was 7% and now it has moved to 12% and you see similar equivalent drop in men's, it is slight reclassification of product under that category. And hence you see that movement in percentage.

Varun Singh: Okay, understood. I asked this question because assuming that it would be Diwali even last year and assuming not much retail expansion in Crocs. And so the year-on-year growth rate, just wanted to understand your view on that, but as you mentioned that it was a reclassification. So, I'm assuming that it's more to do with reclassification than to do with seasonality given we are doing Y-o-Y comparison?

Kaushal Parekh: Yes, that's correct. It's predominantly on account of the reclassification.

Varun Singh: Got it. And sir my second question is, our overall retail expansion, in terms of million square feet is very aggressive at 27%. Looking at all other retail companies, which has reported their numbers so far. So, this is quite a great execution. So, just wanted to have your view and understanding that how should we be looking at the store addition, and hence retail expansion going forward?

Nissan Joseph: Thank you for that comment Varun, but we believe that the opportunity for growth exists in India, we guided that last quarter that we would open 200 stores in the coming two years. And we feel very good about meeting that number. Rentals continue to increase in India so it's not like we want to blow up expansion. We are very cautious and financially disciplined as we expand. But we feel confident we can hit the 200 store number over the next two years.

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

Bhargav Buddhadev: My first question is, is it fair to say that the revenue growth in this quarter was primarily realization driven which could also be a factor of portfolio premiumization?

Nissan Joseph: As we said we our non-in-house brand grew to 30% and that was predominantly driven by Crocs and Fitflop. So, that comes at a premium, so you're right some of it was to do with the mix of goods as much as it was to do with the overall sales. However, that mix of good sales lends itself to where we want to play, Bhargav which is what's exciting for us that it is along the lines of affordable premium that we want to play in. So, that's why we feel reassured about the demand in that space.

Bhargav Buddhadev: And just wanted to know if there's any volume growth in the below 3000 MRP category?

Nissan Joseph: We try not to give too much granularity on certain things. But, we're not seeing a lack of growth in any category, per se. But when you have growth in one category, it's going to come at the cost of another category from a percent of business standpoint. But we're not seeing anything significant. Long time ago, we had that under 1000 categories, because that kind of started to get diminished because of the GST increases. But that's been over a year and a half ago, but we're not seeing anything significant in our business, in any particular price point per se.

Bhargav Buddhadev: And the last question is, what's the price point at which FILA is selling now and what is the expected range which you plan to do once the old inventory gets liquidated?

Nissan Joseph: FILA is on sale right now. And if I were you, I would use this time to go grab some FILA regards some very good prices out there, at prices you may never see again. But the idea is, we think the sweet spot for an Indian premium brand is between Rs.4000 and Rs.6000. So, that's the sweet spot for the brand. And we're not going to play too far away from that plus or minus, because we believe that's where the sweet spot is. We're not trying to be outliers by any means Bhargav but at the same time, we want to capitalize on the premium position of FILA.

Bhargav Buddhadev: But, fair to say, it would be 2x of what the current price point is in terms of range?

Nissan Joseph: Obviously, price categorically yes. But the range, to be more clear, I know what you're trying to ask me. I don't know if 2x is the answer because I don't know, there was a different mix of products and different mix this time in the Cravatex series, in the Cravatex timeline of operation so it's hard for me to gauge what you're using as a base to say 1x or 2x or 3x. But what we really need to know is that our EBO's will be positioned more premium our multi brand stores of Metro and Mochi will be positioned more to cater to the consumer that shop there at affordable premium range. It's important to point out, as I mentioned, we think the sweet spot is somewhere between Rs.4000 and Rs.6000. So, we are going to play in and around that space as far as where the sweet spot is. But we will have items about that obviously, to create the halo effect for the brand.

Bhargav Buddhadev: I am saying Nike has had a tough time selling at that price point. So, that is where I was coming from.

Nissan Joseph: Which price point, do you mean the Rs.4000 to Rs.6000?

Bhargav Buddhadev: Yes.

Nissan Joseph: That's a sweet spot. Actually higher than that, to be honest with you.

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

Aliasgar Shakir: A few questions, firstly on FILA. So, you did give a lot of detail in terms of where we are in terms of the inventory cleanup. So, you have in terms of store additions if you could share some light you did provide about 200 store addition, adding that is excluding FILA and FILA of course we have a very low base of store addition. So, now that we may have kind of reached some situation of cleanup of inventory and rejigging of operations. From when do we expect the acceleration of store addition happening here in FILA. Please share some light on that?

Nissan Joseph: Previous comment on this hasn't changed. When we look at that landscape of brands, similar to FILA, we see between 300 to 500 EBO's of brands that have been matured in the country, at that same space with that same level of consumer that they cater to. And we don't see any reason why FILA should not be looking at those as a direction on where we would like to get to and so that hasn't changed at all. And then we also know that we have the potential to sell FILA in our Metro and Mochi stores. We know today, the number close to 300 Metro stores and 200 Mochi stores so that's already 500 stores, and that can number continue to grow. So, when you look at it, and you add select distribution on top of that, that's the kind of store presence that FILA can have once we get the ball rolling.

Aliasgar Shakir: Got it. This is very helpful, but would you be able to share from when do we expect acceleration of that store addition to start will it be from FY25 almost or do you think we have reached closer to that end of and we should start?

Nissan Joseph: It's interesting, and I guess I can anecdotally go back to how we grew Crocs. When we took on Crocs for the first year, we actually shut most of the stores and took it down to three, so that for the first nine to 15 months, we were in the process of just repositioning the brand. Subsequent to that we've opened up 200 stores in the last four or five years. So, FILA has the same if not greater legs, somewhere between the end of 2024 fiscal and the start of 2025 you'll definitely see us get into that same mode of expansion like we did with Crocs.

Aliasgar Shakir: Got it and the 100 store addition run rate of yearly doesn't include that, right?

Kaushal Parekh: Yes, it doesn't include that.

Aliasgar Shakir: Got it. Second question and I just clubbed them both from our revenue and margin point of view. So, you mentioned that actually, the impact in this quarter has mainly been because of the wardrobe refresh and high base of last year. So, does that imply that we are not seeing any impact because of any weak outlook, because when we talk to other retailers, and all channel checks also indicate that overall, in the premium category as well, volumes have been pretty soft. So, that's point one, #A part of the question. Second is also discounting, as we have seen, in this year going up and you mentioned that rebase will happen. So, from a full year point of view we should see some rebase of that gross margin EBITDA margin as well from your current, rather 23 numbers of +58% to your guidance of 55% to 57%?

Nissan Joseph: So, first of all, I see premium actually doing quite well in India. So, not to pick on Scotch and luxury watches but both of those categories are having very good growth rates. So, when you say we are not seeing premium grow in India, that's not the data that I'm seeing number one. And we're not seeing that in our own business . Crocs had some significant price increases, and I would position as close to a premium product for its category. And we're not seeing any slowdown there. So, I don't see that from where we sit in our business than from the products that we sell, and the consumers that we cater to, we can cater to that same consumer even in a Tier-2 town, mind you. It's not like we go to Tier-2 town, and that consumer doesn't exist, we are catering to them there. As far as the discounting goes, yes we do go into a discount mode in Q2 and Q4. And that's why we continue to guide that our gross margins will come in between 55% to 57%, despite the fact that we were at 60% last quarter, because it'll normalize down a little bit. But we're going to be, sometimes we are going to by that number, sometimes we are going to be in that number. So, that's why I would leave it at the discounting part.

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

Gaurav Jogani: Sir my question again is with regards to the FILA thing, so FILA today in the media interaction said that we will largely see it getting breakeven by Q4. So, what kind of profitability can we expect once the rationalization of the distribution channel also happens then you find the time for this. Will it be in lying with your existing company products or will it be higher than that even?

Nissan Joseph: Adding to the long list of things I love about FILA and the whole acquisition of the FILA brand apart from it being a brand that parlays into fashion and function apart from its parlaying from the fact that we can take global styles and produce them locally, both in footwear and apparel. One of the things we absolutely love about FILA is that we know it'll be margin accretive to our existing business. And potentially even all the other aspects of our business, mind just a low base to start with for the first few years. So, it's not like it's going to significantly move our numbers. But as and when we feel the time is right to move our numbers, which as I mentioned before it will be accretive to us, we will be sure to share that with you.

Gaurav Jogani: Okay. And sir just one bookkeeping question, if you can highlight how much was the price increase on a Y-o-Y basis on an overall basis for us?

Kaushal Parekh: So, Gaurav as you see e-com contribution has gone up. And that's why if you see our ASPs on an overall basis, they don't show a significant increase. However, if you were to see that store level including all accessories the growth is around 3%. And if you were to see only footwear growth is around 6% to 7% in ASPs.

Moderator: Thank you. The next question is from the line of Prerana Amanna from SHOME Partnership. Please go ahead.

Prerana Amanna: So, my questions are almost covered. I just want to understand like, we've been telling that, there's been pent up demand and going forward the growth will be normalized. So, I understand that but having said that could you please like throw some light or some range as to let what would be the growth or the guidance you could give for FY24?

Nissan Joseph: So, when we look at our CAGR for the last 10 years, we run about an 18% growth CAGR, we see no reason to deviate from that as a business. However, we will now have more of accelerated growth compared to the last 10 years as a percentage of our business. So, you could expect that number to probably shift a little bit more positively. But this quarter is not going to be the quarter you're going to see that because like I mentioned, we still are comping some big numbers from last quarter. And it's great that we are comping big numbers, and we're getting within the same zip code as those big numbers because it shows that the demand has significantly increased. When you look at travel today, when you look at restaurants today, I don't need to remind you last year, we were all wearing masks on plane, we were wearing masks when we went to restaurants. This year, we're not, people are traveling quite almost free as a bird, so to speak and that has taken up some of the discretionary income that people have right. So, despite all that, for us to be performing to this level is a testament of both the demand that exists out there and also the ability of Metro to capitalize on that demand.

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

Jasmine Surana: With the e-commerce growth of 60% to 63% overall, I wanted to understand if is it brand oriented, are there any particular brands which are leading the e-commerce growth?

Nissan Joseph: It is both the Metro and Mochi brands driving it. And then also we've seen some good success with Walkway, be it a much smaller part of the business. But it's predominantly both those brands driving the business. And then, we also have Fitflop online, we have also gone live with FILA online. So, it's a multitude of but fundamentally it's all our own brands.

Jasmine Surana: All right. And another question was on the ad spend, if we could get a range of the ballpark on what the ad spends are as a percentage to the revenue?

Kaushal Parekh: So, broadly, we expect them to be in a range of around 3% to 4%, which is our historically average over last many years.

Moderator: Thank you. The next question is from lines of Sabyasachi Mukherjee from Bajaj Finserv AMC. Please go ahead.

Sabyasachi Mukherjee: Couple of questions from my side. So, first of all, if I looked at the contribution from premium SKUs that is more than Rs.3000. It has gone up to 49% from 43% in the base quarter, that is Q1 on FY23. Despite that, the ASP increase is very, very low 3% inclusive of accessories that you mentioned. What could be the reason behind this?

Kaushal Parekh: So, predominantly as I said in Crocs, Jibbitz contribution has now increased significantly. And these are price around Rs.250, Rs.300 per piece. As I said, there are two reasons for that. One, our e-commerce contribution has increased from around 8% to 11% in this quarter, our average MRPs are lower in e-commerce because at times we are not very actively selling DaVinci and few others on e-commerce due to returns issue that is one. Second you've seen accessories' overall contribution increase from 11% to 12% which includes Jibbitz which are huge in quantity and hence on an overall basis if you see ASP growth looks 1%. If you see that our store levels, it is around 3% and if I see it only for footwear which would predominantly include that greater than 3000 MRP then the ASP growth is around 7%.

Sabyasachi Mukherjee: What is the typical price range on e-com of these shoes?

Kaushal Parekh: It would be somewhere close to Rs.1000

Sabyasachi Mukherjee: Okay. My next question is on the standalone piece of the business. Now, if I look at the revenue growth it is 12% Y-o-Y but if I look at revenue per square foot that is down almost 12% and EBITDA per square feet is down almost 60% Y-o-Y, is it because of the maturity profile of the stores or is there something else to read into?

Kaushal Parekh: No, so there are two questions right first was with respect to sales which Nissan explained as to we are comping against last Q1 which had significant pent up and higher sales on account of higher number of marriage dates. So, obviously that explains the reduction in sales per square foot that you see, plus healthy additional stores what we are doing is, for the 27 stores that have opened in current year that is all forming part of denominator. But numerator, you don't have sales for the entire year. So, that is also a reason why it sort of looks lower as compared to last year. With respect to EBITDA, if you see last year there were still COVID restrictions, there was hardly any travel. Our sales team were not traveling and there were various expense which were controlled significantly predominantly driven by COVID related restrictions. Now, we are obviously traveling more, which is essential to ensure that we get pulse of the market, pulse of the business that is happening. And that is resulted into slight reduction in the EBITDA that you see by about 1%, 1.5% otherwise, the numbers and hence Q1 of last year is not strictly comparable with the ongoing quarters.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference back to that Mr. Nissan Joseph for closing comments. Thank you and over to you.

Nissan Joseph: Thanks, everyone, for joining us. Once again, as we look forward to this quarter, the Metro Brand performance continues to always come within the guidance that we've offered when it comes to PAT, EBITDA and gross margin. So, thank you again for your interest and thank you for your support.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Nuvama Wealth Research that concludes this conference. Thank you all for joining us and you may now disconnect your lines.