"Metro Brands Limited
3QFY24 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day and welcome to 3QFY24 Earning Conference Call for Metro Brands hosted by Ambit Capital. As a reminder, all participants' lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Videesha from Ambit Capital. Thank you and over to you, ma'am.

Videesha Sheth: Thank you, Rhea. Good afternoon, everyone. On behalf of Ambit Capital, I welcome you all to Metro Brands 3QFY24 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 remarks. Thank you and over to you, sir.

Nissan Joseph: Thank you, Videesha. Good afternoon and welcome to our 3QFY24 Earnings Call. As you're aware, we reported a 7% standalone year-on-year growth for the quarter and I'm pleased that along with delivering our highest quarterly sales in the standalone business, we were able to do so while achieving our PAT and EBITDA numbers within our guidance.

As a reminder, we have guided that our standalone PAT will be in the 15% to 17% range and this quarter we reported an 18% PAT and for the nine months of this fiscal year, we're at 17.4%. Our guidance on EBITDA for standalone business has been north of 30% and I'm pleased that we achieved 34% for this quarter and 33% for the nine months.

This; despite the normalization of various expenses last year, including investment in talent for the new business, of FILA and Foot Locker and other business as usual expenses. Additionally, this year we had an incremental non-cash expense of about 60 basis points due to ESOP issuance and Ind AS accounting, the latter primarily due to increased new store openings.

We continue to face the headwinds of the COVID bump from last year and inflated inventory levels in the market that prompted some retailers to be aggressive on their clearance sales as early as the fourth week in November. Despite both these challenges of the COVID bump and inflated inventory levels in the market, we achieved a gross margin for our product of 60% for the quarter and are currently at 59% for the nine months, which is also above our guided range of 55% to 57%. And as mentioned in the previous call, we anticipate lapping the COVID bump in sales towards the end of Q4, at which time we will have more normalized business comparables.

To recap the first part, while we see headwinds from the COVID bump, we're not seeing economic headwinds for our business. Our sales of product over INR3,000 hit a high of 49% of our sales. We see growth across all categories, all our banners in premium products, confirming that our strategy of premiumization continues to perform.

On the e-commerce front, I'm also pleased that, despite challenges faced in integrating additional technology platforms to our warehouse and order management systems, specifically for digital commerce, we were able to recognize a revenue of INR53 crores, while achieving 10% to the total sales for the nine months of fiscal '24.

We continue to be on pace with our new store additions as we open 31 net new stores, bringing us to 87 net new stores for the year and targeting to open a total of over 100 stores for this fiscal year. We closed the quarter with 826 stores, not counting the FILA stores.

Earlier in the year, we saw a very competitive market for new leases, and given the normalization of the COVID euphoria, we're seeing normalization of pressure for new leases as well. On the BIS front, we're getting more clarity and visibility on the requirements. Some of the rules are already effective as of Jan 1st, while others have been delayed till July 31st of 2024.

MSMEs continue to be exempted currently and we await further visibility on those suppliers. Overall, we have forward bought inventory and do not see any disruptions if the authorities are set up to inspect and grant licenses as needed.

Our FILA liquidation continues to be on track, and as guided to earlier, we will continue to see the impact of this on our consolidated numbers through Q4. The team has been working on repositioning initiatives that will start to take effect in Q1 of this coming fiscal year. FILA Global has also started initiating global marketing campaigns that align with our positioning, which will create synergies for us.

During the quarter, we also announced the signing of a long-term agreement to open Foot Locker stores in India. Our current plans are to open 4 to 6 stores in Q3 of this coming year, targeting two to three key cities, and then roll out more stores in calendar 2025. This is a great platform for Metro Brands to enter the athletic and sports category.

As we look to the future, we see significant growth opportunities from this segment and are pleased to have Foot Locker and FILA in our quiver to capitalize on that journey. In anticipation of our growth, we will be signing a lease for additional 320,000 square feet of warehouse space to be operational in late Q3, early Q4 2025. This will effectively double our warehousing capacity and will ensure we can continue to grow our different business units.

In conclusion, despite the COVID bump from last year, Q3 performed to our guidance on the key metrics of PAT, EBITDA, and store openings. We continue to invest in our talent and technology to enable our profitable growth. We remain confident on the pillars of growth, our strategic initiatives and the opportunity for each of our brands to take advantage of India's growth story. With that, I'll turn it back to the operator for the Q&A session.

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

Videesha Sheth: Yes, thank you. So, while we understand the base is elevated, but the broader sense with K-shaped growth would continue and the consumption would benefit from the shift in festive season, leading to some bump up in Q3 sales. So, why a bit early into the current quarter as well, can you elaborate a bit further on what is your read on the on-going consumption trends and the consumer sentiment?

Nissan Joseph: Yes, the COVID bump, you know, was through the entire part of last year. And we were aware of this bump coming up, Videesha. We knew that this would continue through Q4. So, while you have a little bit of shift here and there, you know, it tends to normalize, level out itself. So, it doesn't create enough of a momentum to overcome a big bump like we had last year, right?

So, if you look at our growth over the last four years, five years, you know, we continue to maintain the 18% CAGR growth, right? So, yes, last quarter we did not hit that. But you got to look at it in a string of events and how we performed over a period of time.

Given that and given the fact that all our categories, all our banners are doing equally well or, you know perform to an equal level, you would normally see consumer sentiment start to affect certain categories, right? So, you might see it slowdown into some discretionary categories of festive or wedding or whatever. We're not seeing a distinct difference between our categories. And we're not seeing a distinct difference between our banners as well.

So, they all, we don't believe there's an overall downtrend in the consumer sentiment. It's really just continues to be a matter of the COVID bump.

Videesha Sheth: Got it. That was helpful. Just a follow-up to this comment, when we look at how the quarterly product mix has moved in terms of pricing, the mix of INR3,000 and above products is increasing Q-o-Q as well. So, just wanted to get some clarification here that is there any element of change in terms of a thought trend that we're doing consciously or it was done by design? Or is it purely done by default that's driven by pressure and the mid-premium segment consumption?

Nissan Joseph: Yes. So, you know, just to make sure we look at it carefully, you know, all of the entire sales for the entire company was up Q-on-Q, right, Q this year to Q2. But when you look at the premium category, which we consider anything over INR3,000 premium because it's just a good cut point. There are premium products that we sell in Fitflop, for example, that are not INR3,000, right? So, we see across the board it's moved up. But that category has only gone up by 1%. It was 48% last quarter. It's gone up to 49% this quarter.

So, what drove that 7% growth for us in the topline was not disproportionately spent on premium. It was spent across, which is why I don't believe it's consumer sentiment. But, you know, that fact that 49% of our business does come from this segment is really more of a premiumization strategy as opposed to, you know, having a different group of consumers doing okay and another group not doing so well. It's really how we're positioning ourselves.

Kaushal Parekh: Videesha, I just wanted to add one more point to what Nissan said. When you see Q-on-Q, generally in retail, Q2 and Q4 would have reduction end-of-season sales. And Q1 and Q3 generally have -- there's no discount in our ecosystem. So that also leads to slight improvement in Q3. It would come back maybe to, say, 47%, 48% what we saw in H1 as we go along.

Videesha Sheth: Sure. Thank you.

Moderator: Thank you. Our next question is from the line of Mr. Tejas Shah from Avendus Spark. Please go ahead.

Tejas Shah: Hi, team. Thanks for the opportunity. Nissan, in post-result, one of your media appearances, you asserted that the lackluster result this quarter isn't a reflection of any economic headwinds, but rather a timing issue. Can you elaborate the same and what gives us confidence that this is not an economic headwind and not here to stay for long?

Nissan Joseph: So, I think, first of all, it's not a lackluster quarter, Tejas. It is definitely a good quarter for us. You just -- when you look at the comparables, obviously, that's what you're basing it on. But if you will look at our business performance, it is not a lackluster quarter. On the contrary, I'm actually quite pleased with how we've come out comping the COVID bump from last year.

One of the reasons I believe it's not consumer sentiment is, you know, that we've been able to maintain our gross margins. Typically, when consumers have a sentiment that they want to withhold their money and not spend, or they usually want to -- first they want to go down market a little bit, we're not seeing that.

You would also see certain categories, like, a certain very fancy wedding shoe that you might wear only to an occasion or two that would indicate that you're not willing to spend just for an occasion or two. So, there are various indicators we use to see, is this really consumer sentiment or is this just a matter of traffic that doesn't compare to the previous quarter?

And when you look at our brands of Metro, Mochi, Walkway, and then Crocs, we're continuing seeing demand for the right products at the right price points in all of those banners. So, typically, we would see an unbalanced performance. We're not seeing that this quarter.

Tejas Shah: Got it. And in your initial assessment, the BIS, how would it impact the demand, profitability, competitive landscape in the longer run? And this is for industry in general and for us in particular, if you can help.

Nissan Joseph: Yes. I think the shoe retailers and manufacturers that rely heavily on imports, that haven't prepared themselves for local production and local compliance -- meeting local compliance, can get impacted, right? So, there is that exposure to those companies. As you know, in our Metro Mochi, Walkway business, 85% to 90% of everything we produce is made here right in India.

A large portion of that is manufactured by MSME factories, which are now currently exempt. So, what I really see doing is helping Indian manufacturing step up. Of course, it'll come in phases. It won't come overnight. And the fact that the government is pretty quickly imposing this does put some pressure on the industry, but we're not as heavily reliant on imports as some of the other brands might be.

Tejas Shah: Sure. Sir, as the compliance cost for MSME increases, does it mean that our sourcing cost will also get a inflationary impact and we'll have to pass it on to customers?

Nissan Joseph: Compliance costs are marginal, Tejas, in this. It's not the government trying to come up with another source of income at all, right? Because this is not the way they would do it. It would be quite steep. It's not steep. It's not consequential.

Tejas Shah: Sure. And then last one from my side. Looking at the demand pressure that industry is facing, and as you called out that EOSS has started the untimely way in November itself, do you think that industry will extend this discounted period for longer term and we'll kind of hit our fresh season for monthly as well?

Nissan Joseph: I don't know the answer to that because I don't have visibility of other people's inventories. But I can tell you that there were inflated inventories, not only in India, by the way. This COVID euphoria was a global phenomenon, right? So, globally, almost every footwear retailer, manufacturer has been loaded with inventory, right?

We were a lot more cautious because we understood that this was a COVID bump. I think we've talked about it quite frequently on these earnings calls. I've called it out quite pointedly on all of these calls, and I've also pointed out that it will take us through Q4. So, I don't see why this should be any different.

Tejas Shah: Got it. Thanks and all the best.

Nissan Joseph: Thanks, Tejas.

Moderator: Thank you. Our next question is from the line of Mr. Nihal Mahesh Jham from Nuvama. Please go ahead.

Nihal Mahesh Jham: Yes. Thank you so much and good evening to the management. Nissan, just discussing further on the COVID bump aspect that you mentioned. If I look at the last year's similar quarter, our revenue per square feet was actually down, and I do recollect that after festive, it seen a bit of a moderation in the demand. And in this quarter, while early participants also discussed that there were maybe a shift in the festive.

So when you look at it from that perspective, do you still believe that it's mainly a COVID bump that explains majority of the contraction in the revenue per square feet, if I had to look at that as maybe a proxy to the SSG for our business?

Nissan Joseph: Nihal, I just want to make sure that you and I are looking at the same numbers or I'm understanding the same numbers from you. So last year, if I recall correctly, Q2 was 4,900. That sales per square foot. Q3 was 57. So, we saw a big bump one quarter to the next also, right? So, I'm not sure I know what you're referring to. What I'd really encourage you to look at though is, overall, last year's numbers are highly inflated because of the COVID bump.

So, I would look at that as an anchor point, Nihal. I would really look and see what is this business doing in terms of EBITDA? What is this business doing in terms of PAT? Are they able to maintain their gross margins with their customers? These are the critical drivers that ensure that nobody's getting caught or hiding behind a COVID bump. And those are the factors I would read. So, as far as the industry goes, I can't tell you.

But going forward, this will continue next quarter as well. The quarter we're in currently, we're not going to see big numbers come out of this quarter. You're not going to see the 18% growth that we continue to have and will continue to have once we get past this growth. If you do add this year's numbers to last year's numbers or the last few year's numbers, not counting the COVID dips, we would still be tracking at 18%, if you go back to pre-COVID numbers. So, we are on pace for 18%. We get past the COVID bump. I feel confident that we can get back to 18% CAGR growth. Some quarters will blip up, some quarters will blip down.

Kaushal Parekh: Nihal, just adding to what Nissan said, if we compare, say, this nine months sales versus, say, nine months FY'20, which is a pre-COVID normal year, we are seeing our sales growth has grown by around 84%. If I take out store growth during that period, which is around 53%, 54%, that leaves you with 30%, 31% over last four years. Even on a CAGR of six, it's a reasonable SSG growth that we have seen over the last four years.

Nihal Mahesh Jham: Point taken. Maybe there's some more clarification. I'll take that separately. Just one more question was that with the signing of the Foot Locker agreement and also having FILA, do you now believe that from a portfolio perspective, at least for the next three to four years, the focus has to be on getting FILA and Foot Locker right and expanding the core of Metro Mochi Crocs, or we are always open to the right kind of arrangement as it comes along?

Nissan Joseph: So, I think your first statement is very, very true. We have immense growth opportunities for Metro Mochi, Walkway. We have immense growth opportunities for FILA and Foot Locker. Not the least of it because it's a low base, right? If I just look at the total addressable market for FILA and Foot Locker, it's considerable. So, immense opportunities there.

Sometimes some synergies are forced upon you. So, if there's a brand that does not export to India, for example, that we want to carry, that we believe is important for these banners, then those are types we'd look at. I also think the next rise is probably coming up in Athleisure, right? Over the next few years, we're going to see Athleisure improve. That will create other opportunities that we may feel the need to look at other brands to fill that space.

What we actually do is we work consumer backwards. It's not about me, or Kaushal sitting here wanting something. It's about what does our customer want? And if the customer says through their actions, through their wallet, that they want to go somewhere, get a brand, we're going to go and do our darnedest to go get it.

Nihal Mahesh Jham: That is clear. I wish you all the best, Nissan. Thanks.

Nissan Joseph: Thanks, Nihal.

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

Gaurav Jogani: Thank you for the opportunity, sir. My first question is with regards to FILA. If you can highlight how much is the old stock inventory that you're still carrying around and probably how much time it will take to get that exhausted.

And additionally, one more question on the Footlocker. If you can guide us some way how the Footlocker expansion plans are going ahead, what kind of margins are you looking in this format? Some more details about it would be helpful.

Kaushal Parekh: Gaurav, I'll take the first one. If I broadly have to give you a sense, we are at around INR30 crores of inventory at cost for FILA. We would have equivalent amount of inventory in the large format stores and the EBOs where we are currently operating.

So that's the quantum that we are looking at. As we have guided, we should be able to liquidate most of it by March 24 or max by June 24 in a worst-case scenario.

Nissan Joseph: And then to take the second part of your question on Footlocker, and as I said, we're going to target four to six stores. We're going to use the cluster to... We want to use a cluster strategy for growth.

We will start opening in October of this year. We will accelerate the growth through the calendar 25. We believe that Footlocker has the opportunity to be in every major city in India with multiple stores between the three- to five-year range.

You have to remember it's a premium operation, right? Both in terms of the level of operation that they do have and the type of products that they do carry. So it will not be one of those that can go down to a tier two or tier three city at all.

It will stay focused on metro cities and tier one cities. But the runway for growth, if you were to look at it in the next foreseeable future, is going to be every metro city, every tier one city having multiple outlets. And just to give you a little bit more color, there will be two types of footlocker stores we open.

One of them is called a power store, which will range north of 5,000 square feet. And the other one will be the core stores, which will range north of 3,000 square feet.

Gaurav Jogani: Sorry, you said the core store, right? Power store and core store?

Nissan Joseph: Correct.

Gaurav Jogani: Okay. And one question for the on the taxation part. If we see that the taxation for the first nine months is around 27% odd, and even we also have losses in FILA, so what kind of tax rates should we build for the FY '24 and FY '25?

Kaushal Parekh: Gaurav, we are discussing with our tax consultant if we can get any benefit of the carry forward loss at the subsidiary level. So at this point in time, we won't be able to comment on this particular point.

Gaurav Jogani: So, Kaushal, should we build in the nine-month rate for the FY '24 for now?

Kaushal Parekh: Come again? Should we build for…?

Gaurav Jogani: The nine-month rate, whatever it is. The nine-month rate, whatever the tax rate is, can we build that for the FY '24 at least?

Kaushal Parekh: Yes, because as I said, once we have clarity, we'll come out. Otherwise, the normal tax rate continues.

Gaurav Jogani: Okay, okay, sure. Thanks. That's ok.

Moderator: Thank you. Our next question is from the line of Mr. Jai Doshi from Kotak. Please go ahead.

Jai Doshi: Hi, team. Thanks for the opportunity. A lot of other retailers have, generally when we talk to across categories, indicated that footfalls in general traffic was a bit soft this festive season.

So did you also witness similar trends across your stores? If you could comment a little bit on traffic and footfalls.

Nissan Joseph: Yes, so if you're talking against last year, Jai, we definitely were softer, right? 100%, definitely softer. However, if you're talking about what we think is a healthy business, it wasn't soft.

Jai Doshi: Sorry, I'm sorry for interrupting, but I'm referring to generally you see monthly trends, right, based on, let's say, what you would have witnessed from April to September and this time we had late festive. So you would have certain expectations on a sequential trend for October, November, December. So if you can ignore the base quarter for now, but generally during the course of this year over the past few months, have you seen moderation in traffic?

Nissan Joseph: I think I've seen normalization in traffic, for sure. And I would really call it normalization because shoes are still selling. We're still selling a lot of shoes in our stores, right?

So it's not like we don't have any traffic. So I just want to be careful that everybody is doing this based on the comparable. There's no other metric that they're using. What we're using is the metric leading to the PAT that we need to operate, is the metric giving us the kind of footfalls and the velocity we need to produce an EBITDA of north of 30%.

And all of those metrics are being met, right? So it's hard for me to sit here and say the traffic is lousy. It's not. It's hard as a retailer to show 17% PAT. It's hard as a retailer to show 60% gross margin without traffic. You need traffic to do that. So I think the sentiment is all about the comparable against last year, which is valid because that's how you evaluate retail 90% of the time. But you cannot compare restaurant sales on a Monday night to the sales on a Sunday night?

And as far as the festive shift goes, it wasn't significantly a shift. It shifted out by a few weeks into November, but the bulk of the sales would have started in October too. So it caught the cusp of the turn of the quarter, right? So you're not going to see it was absent in Q2 and it was fully present in Q3. That's not how it rolled. It started to trickle up and ramp up in Q2 and it culminated in Q3, unlike last year. So and then the wedding dates shift and while they shift and they go within the quarter.

There's a lot of variables to this, but you've got to look at the fundamentals of our business and we look at our inventory liquidations. We look at what people are buying. We look at the price points they're buying. We look at where they're shopping in our multiple banners, the types of products that they're looking for. We're not seeing that it is a economic or a consumer sentiment that's reflective in these numbers.

Jay Doshi: Understood. One more question, if I may. This year, especially during the festive period and before, have you seen, higher than the usual level of discounting, deep discounting by some of the other brands, both offline and online? So your comments on competitive intensity and the level of discounting that you would have seen in the market by other brands?

Nissan Joseph: Yes, that's right. In I think mid-quarter, we saw some unusual discounting going on. I can only speak in my space. I can't speak to any other spaces, but we saw some unusually high levels of discounting going on, which is indicative that I think it's a combination of people were over-inventoried because I go back to that comment on the euphoria of COVID. We thought that would continue forever, so people overbought.

And also, that against the performance not coming through leads to a lot of inventory bumping up, which, you know, probably caused cash issues with some of them. That's why they ran on sale. We, by the way, did not match those sales. Jay, we stayed without offering any discounts through Black Friday when there was steep 50% off entire store discounts going all around us. We did not match any of those.

Again, that's a reflection that we were convinced that we're not seeing it in the consumer. So, these were not consumer-driven activities. They were retailer-driven issues that they were trying to fix as opposed to fixing consumers. Yes, there were fewer consumers than the previous year because it was a COVID bump.

Jay Doshi: Understood. That's very helpful. Thank you so much.

Moderator: Thank you. Our next question is from the line of Tanuj from HDFC. Please go ahead.

Tanuj: Hello.

Moderator: Yes, sir, you're audible.

Tanuj: Yes, hi. So, I have a question on gross margins. I'm just comparing the two, 3Q FY '24 with the base quarter. I'm trying to understand this improvement in margins. See, anyway, at 60% odd or 59% odd, you're already meaningfully higher than what you typically tied. Now, there has to be a couple of things which would have ideally played against this, right?

So, for example, the FILA inventory liquidation would have been higher in this quarter versus the base. The share of discounted sales would have probably been normalizing upwards versus the base. At last, the mix remains broadly the same, right? So, I'm trying to understand how is this gross margin consistently improving and how are you doing that?

Nissan Joseph: Thank you for pointing that out. But it doesn't necessarily improve. Don't forget that, we were almost to the same levels in Q1 at 59.1%. Now, we're at 59.9%, right? So, it's not significantly different. What you also got to look at is last year, we were at 58.8 for the full nine months. This year, we're at 58.7 for the full nine months. So, we're going to be within a striking zone range there.

You cannot compare it just to the last quarter because Q2 is typically the end of season sale quarter. So, you would see margins retard as you would also see it in Q4 of this year, right? So, but the way we, I think the fundamental way to drive our margins is to ensure that we're selling more products at full price.

Tanuj: Right. So, that's what I was trying to mention. So, even if I ignore 3Q, and if I look at the nine-month block, and the gross margins are broadly similar, but wouldn't the discounted sales have been higher? I mean, FY '23 was sub-5%, right? The share of discounted sales, versus a typical 8%, 9% that we do every year, right?

Kaushal Parekh: Right. Tanuj, so there are multiple factors, our improvement in gross margins, and I'm talking on an overall basis, is also a factor of slight improvement in mark-up, and also change in the mix that led to slightly improved margin. Say, if you see Q3 margin on a standalone basis, we have seen improvement of around 50 basis points to 60 basis points, which is getting carried forward even in the consolidated numbers.

Also, one important thing you need to know, that as we start selling FILA more in just Metro Mochi MBO, on an overall basis, you will see a margin close to the normal margin, because if we don't do distribution sale, we are not parting our margin with the third party. Yes, you got what I'm saying?

Tanuj: Yes, yes.

Kaushal Parekh: We are focusing more and more on liquidating FILA within our Metro Mochi network. So, on a consolidated basis, it's just, it's like B2C sales and not B2B sales. And hence, obviously, B2C margins are higher than B2B.

Tanuj: Right, got it. But this will be in the future, right? Yes, I'm saying nine months. Fair enough.

Kaushal Parekh: Even in Q3, as we said, we are reducing our -- we closed a few EBOs of FILA. We will be closing most of it by June 24. And our focus is increasing, consolidating FILA within Metro Mochi and selling it and leveraging our Metro Mochi MBO network to reset the brand. And we will be slowly coming out of all the large format stores and even the EBOs for FILA, temporarily.

Tanuj: Fair enough. And my second question was on the Foot Locker arrangements. Now, if my memory serves me right, Foot Locker globally, two-thirds of the inventory is typically Nike. So I wanted to understand why would we go through Foot Locker and perhaps, instead of that, just straight away, just try to deal with Nike?

Nissan Joseph: Right. So I think this is the beauty of Foot Locker and the power of Foot Locker, right? They have 2,600 stores globally. They're able to command two things from all the brands, not just Nike, but also Adidas and Puma and all the other key brands in the world. They're able to command two levels of product. One, of course, is what we call a Tier 1 level product. So if you're a sneakerhead, you would understand the difference between Adidas Ultra Boost and the Air Force 1s and the Air Jordans.

And these are products, regardless of who you are, Nike will not want it to go outside of their Tier 1 distribution, right? Nike, Adidas, all the people. So I'm talking about all the big brands in the world, right? So that's number one. You will not have access to the products, regardless of the type of store you open. You will have to be part of one of these big, big global retailers and a strategic account for each of these brands for you to have access to that product.

So that's number one. Number two, because of their size, they also get exclusive products from these brands, right? As an example, they have a Crocs product that's exclusive to Foot Locker. Ironically, as good a partner as we are to Crocs here, and there were no Foot Lockers here, we still could not get access because Foot Locker has a global exclusive on the product. So that's the other access we get.

Those two things, along with Foot Locker's operational capabilities, are very, very exciting for us because it puts us in the game really quickly, right? Listen, there's 300-400 stores from Nike. There's 300-400 stores from Adidas and so on and so forth. They're already playing the game and we needed something to get up to speed very quickly. And both those things, Foot Locker's operational capabilities and Foot Locker's access to key products, puts us into that game very quickly.

Tanuj: Well, thank you. That answers my question. All the best for Foot Locker.

Nissan Joseph: Thanks, Tanuj.

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

Varun Singh: Yes, thanks for the opportunity. First on the operational capabilities that you mentioned in Foot Locker, which is very, very different compared to any other MBO outlet. Maybe can you highlight two, three stark differences in the operating capabilities of Foot Locker that you'll be benefiting apparently in India? That's my first question.

Nissan Joseph: So we want to operate differently. There'll be some localization that obviously needs to occur, right? So there's always localization with every brand. But when you look at a global brand and how they operate and how they plan their business and how they focus on the consumer experience, both from an associate standpoint and a store design standpoint and of course the product, it is a whole different experience that comes to life, right?

And that experience meshing, where you're able to leverage each of those pillars, the associates, you're able to leverage the store ambience and experience, and of course the product, only comes from years and years of experience, right? And we know this because we have it at a different level totally and a very good level, but in a different space with Metro and Mochi, right?

So it took us years to hone that as well. So what you usually get when you get the operational capabilities of all those good things that they've been learning, all the lessons that they have learned over the years to come and you're able to execute it, you also get access to best-in-class store designs, you get access to best-in-class marketing campaigns. It elevates you to a whole different level because it is a different field.

Varun Singh: Okay, so it is primarily store design and maybe product access I understand, but from an operational point of view?

Nissan Joseph: You know, I wouldn't be that simplistic about it. These things are very intricate to a consumer experience, Varun.

Varun Singh: Yes, that's true. And so my second question is, like we see more than INR3,000 price point, 25% growth, that is outstanding, but the less than INR3,000 price point, which is 51% of our total portfolio, there we see some absence of growth, but I just wanted to understand that I'm not sure what percentage, you know, of the shifting of the SKUs might have happened due to price hike, which may possibly explain 25% kind of a growth in the more than 3,000 rupees price point.

So if you can help me understand, uncover the reasoning for 25% growth from the price hike and portfolio point of view.

Nissan Joseph: I think it's our thoughtful positioning of products that we find, that the customers find value in, right? Over INR3,000. It is not an accident that's happened. It's not us vacating certain price points, and it's definitely not us performing in certain price points. Listen, we sell 51% of our shoes underneath that, and if that were not to do well, we couldn't come up with a 7% year-on-year growth in our standalone stores, right? So it is really a matter of us picking products very carefully and curating the products based on customer demand that has enabled us to grow that part of the business.

Varun Singh: Okay, so that means there has been, I mean, it's not related to any price hike related shift in SKU revenue to more than INR3,000 price point.

Nissan Joseph: No, it is not a price hike-driven improvement. It is literally a planned, curated positioning.

Kaushal Parekh: Varun, just to add, if you see our average ASP increase, it's been around 3%. Also, as I said, if you see a contribution of product above 1,500, we have seen improvement from around 86% to 87%. When we complete March 24, once we have one, March Q4 would have EOSS effect coming in.

You might see some rejig in the percentage that we see. Most important thing is to see above 1,500, are we tracking above that 85%, 86% on a consistent basis?

Varun Singh: Understood, sir. And sir, just one last question, if I may. On the e-commerce business, this quarter growth has been significantly subdued at hardly 6%. So, how are you reading this number?

Nissan Joseph: You're absolutely right. We are upgrading our technologies and adding technologies specifically to order management and catalog management in the e-commerce space. That has created some glitches.

Unfortunately, it was also over the busiest time. We're not seeing any erosion of demand on the e-commerce front. Unfortunately, we were not able to capitalize on it last quarter, which is what happened.

Having said that, though, the good news is they didn't fall away and disappear. We're still running very close to our 10% rate for the year. But e-commerce will continue to be a big part of our business.

But consumers have, you know, 80% of Gen Z customers say they like shopping in stores, right? It's not, and we're not looking at that and saying that means we don't need to worry on e-commerce. Almost everybody in some way at some point starts or completes or looks deeper into their journey on a digital space.

So we're very aware of the need to be digitally present. But today at 10%, it's not a significant part of my business, but at the same time, it's not a part of the business equally that we cannot afford to invest in because our customer is digital.

Varun Singh: Got it, sir. And, sir, just one last question. I don't know if you have already answered this. I joined a little bit late. What is the like-to-like growth or same store, same growth for the quarter?

Kaushal Parekh: Varun, actually, we don't disclose same store growth numbers. Unfortunately, we'll not be able to share that. But just a quick data point, you know, if you compare our nine-month sales for current year versus, say, nine months of FY20, we have seen growth of around 84%.

During the same period in last four years, we have seen our network store numbers improve around 53%, 54%. So that leaves you with that 30% growth number over last four years, which would translate to about 6% to 7% CAGR growth year-on-year basis.

Varun Singh: Understood sir. That's it from my side. Thank you very much.

Moderator: Thank you. The next question is from the line of Mr. Amnish Aggarwal from Prabhudas Lilladher Private Limited. Please go ahead, sir.

Amnish Aggarwal: Yes. So my first question is on FILA. FILA, are we actually going slightly slower than what we earlier anticipated in terms of finishing our old stock? That is one. And secondly, in terms of FILA, now, will we be in a position to start opening new stores or how will the business model look like after we close down all the existing EBOs by the end of 1Q of next year?

Nissan Joseph: Sorry. With every acquisition that you make, you always find out things post-acquisition, right? So it's not that we've gone slower than we thought. It's that as we went through the acquisition, we found more things than we knew about prior to the acquisition, which is normal, which is nothing abnormal, but we just didn't know what that was, right? There were orders placed to factories that we had to honor.

And, you know, we believe in doing an honorable business, so it's not like we're ever going to leave anybody hanging. So that was a little bit more than we expected. Having said that, though, we've always guided Amnish that it would take us a full year, all of this year, all the way through Q4 even, and maybe tripling a little bit into the next Q1 to clean out the inventory.

But the plan is using this year broadly as a cleanup year, next year as a repositioning year. So, yes, you will start seeing us open stores sometime in fiscal 25 when we feel that we're ready to get going. And then we'll accelerate stores in FY26.

Having said that, though, don't forget that, you know, 15% of all our business in Metro Mochi comes from Athletics. And we will plan on using that platform to accelerate FILA. So while you may not see stores out there right away, you're definitely going to see FILA product with the new positioning that we plan on taking it to, you know, later on next calendar year.

Amnish Aggarwal: Is it fair to presume that losses in FILA or rather Cravatex they have more or less peaked out?

Nissan Joseph: They have peaked. They haven't gone away, though. You know, I just want to be very, very transparent about it. They have definitely peaked. But, you know, we would still continue this in Q4. We anticipate that to be as much of an investment, in quotation marks, if you want to call it, you know, into the brand.

But, again, we take a long-term view on all of this, Amnish. It's not like we wanted to, in a hurry, get rid of everything and start to show some sales. Because we want to position the brand right. It's a multi-decade agreement, right?

So we know that if we take the first 15 to 18 months to position it, 18 months and 24 months to position it right, we will reap the rewards for the next many decades behind it, right? And we've taken a playbook from China, which went through the same transition when they took it over from the local, the incumbent distributor there, and they used, it took them three years to clean up and reset the brand.

And today, if you look it up, FILA in China, under Anta, does somewhere in the $4 billion USD range in sales. So when you look at the size of the price, you want to set it up right and not rush through it and miss that opportunity.

Amnish Aggarwal: Yes, sure. My second question is on Foot Locker, where you're talking about, say, your Power stores and core stores. So can you give us some idea on how many Foot Locker stores we will open, say, in FY'25? Any particular, you can say, what sort of, say, your brand spans or any of your capex which will be still, you can say, which we can spend on the coming year?

Nissan Joseph: So, I think the opportunity for us to be in every metro city and Tier 1 city exists with Foot Locker, right? Now, some of them will have multiple stores in a city. Obviously, your Delhi-Mumbai's will have a lot of them, not just one or two or three, right? They'll have significant portions of them over the course of time.

We've looked at, what we look at both what is an absolute that we need to open and what is an aspirational number that we need to open from a capex standpoint, from an inventory standpoint, and we're very comfortable that we have the capital to allocate to this project and to this banner of ours. And we're comfortable with the risk that comes with it because it's in stages, it's not in one go.

And, we look at it. I would rather not give you a forward-looking guidance yet. It would be a little premature. Don't forget this is the first multi-brand outlet in India in a long time of a global banner with Tier 1 products. So there's a lot of push in here that we want to make sure that we currently vector so we can position our growth going forward.

Amnish Aggarwal: Sure. Thanks a lot.

Nissan Joseph: Thanks.

Moderator: Thank you. Our next question is from the line of Ms. Hetvi Marviya from Catamaran. Thank you. Please go ahead.

Hetvi Marviya: Hello. Hi, Mr. Nissan. I wanted to actually know a little more on Foot Locker. So you mentioned previously that these will be more premium products and we'll have larger store formats. But do we have a sense of idea? Let's say like current year revenue per square feet clocks about 20,000 annually for Metro, Mochi, or even FILA for that instance. But how much more can we expect from Foot Locker given it's in a premium position?

Kaushal Parekh: Hetvi, as we mentioned, we are expecting Foot Locker stores, core stores to be upward of 3,000 square feet in terms of size and Power store upward of 5,000 square feet in terms of size, right? We -- it's too early, but we expect similar X, if Metro is doing, if Metro stores around 1,500, so you can use similar multiple. We expect sales per store for Foot Locker to be significantly higher than that of Metro, Mochi. And consequently, we expect sales per square feet also to be in similar or better range.

Hetvi Marviya: Okay, so sales per square feet should be at least comparable to Metro or a little bit higher?

Kaushal Parekh: Yes, should be, should be.

Hetvi Marviya: Okay, thank you.

Moderator: Thank you. Our next question is from the line of Mr. Devanshu Bansal from Emkay Global. Please go ahead, sir.

Devanshu Bansal: Hi, thanks for the opportunity. Nissan, your commentary indicates that Q3 this year was a normal quarter. So I wanted to check, is it fair to break in normal seasonality between quarters sequentially from here on?

Nissan Joseph: No, we're going to have another normalization quarter next quarter, Devanshu. What I said was, we see the COVID bump lasting well into Q4. It's not all the way to the end of Q4, but it lasts well into Q4, right? So Q4 will also be a little bit of a normalization quarter. Having said that, though, what you can probably model out is our 15% to 17% PAT, our EBITDA north of 30, somewhere in the 30% to 35% range. Our gross margins continuing to hold somewhere between 57%.

You can model that out. And, we've had a CAGR growth of 18% when going over a period of time, right? So you can model that as well. And that's what I would say. But Q4 is also going to have the same similarities that we've seen in Q1 and Q2 and Q3 of this year.

Devanshu Bansal: Got it. So last year, between Q3 and Q4, there was a 15% dip in revenue per square feet. So is it fair to understand that it may be slightly higher this time around?

Nissan Joseph: I'm not seeing what you're saying. You need to look at the standalone numbers. So I don't see the dip between Q2 and Q3 last year. I see it going from 4,900...

Devanshu Bansal: I was saying between Q3 and Q4 last year, it was a 15% dip in revenue per square feet. So is it fair to presume that this time around, between Q3 and Q4, it may be slightly higher?

Kaushal Parekh: Devanshu, if you just see quarterly sales, Q3 is the biggest quarter, with close to about 28% to 29% contribution as compared to the full year sales. Q1 and Q4 generally is close to about 25%. We don't expect this year to be any different.

Devanshu Bansal: Got it. And secondly, you mentioned that there was excessive discounting during the quarter by peers because of higher inventory with them. So I wanted to check how comfortable are you on your current inventory positioning? Do we foresee a need for higher discounting in Q4 or are we well-positioned here?

Nissan Joseph: No, we're very well-positioned. Especially, we intentionally forward-bought inventory, Devanshu, because we have BIS coming in. And as you know, every time there are new rules and regulations, they tend to be disruptive to supply chains. And we wanted to make sure that we would have a steady flow of goods. So we forward-bought, but the freshness and the aging of that product is right in line with our expectations.

Kaushal Parekh: Devanshu, I just want to clarify, as we've guided even in our last call. If you see last two years, our share of end-of-season sales to the total revenue was a sub-5%. And we had said that it will normalize over a period of time. Our long-term average is around 8% to 9%. So for the full year as a whole, we may be close to the long-term average between 7% to 9% for the current FY'24.

Devanshu Bansal: Got it, sir. Thanks for taking my question. That's it from my side.

Moderator: Thank you. Next question is from the line of Mr. Bharat C. Shah from Ask Investment Managers. Please go ahead, sir.

Bharat Shah: Yes, hi, Nissan. Honestly, I thought the current quarter results were fairly decent. So I've been a bit surprised by all the kind of nuances that I hear on the call. But I think in qualitative terms, the results were fairly sound. But that apart, on the growth that you have talked about, that we've grown at about 18% for the long period of time so far, and we expect to do 18-odd percent going ahead, it sounds a bit mathematical to me as if some ordained number has to be delivered going ahead. So just wanted your view on that. I mean, what is magical or precise about it that it'll have to be something like that 18% going ahead?

Nissan Joseph: Yes, so I think what we'd like to do, first of all, is not give too many forward-looking statements. But I think that comment really comes from, what's the safe modeling number that we get asked for? And to me, when that's a performance that we've done over the last 10 years, there's no reason why we wouldn't be comfortable holding ourselves accountable to continue to perform to that as a minimum.

So that's where it comes from primarily. But when we look at the different growth opportunities, I think the opportunity for sports footwear in India is immense compared to where it is today, both in terms of as a comparison to what the size of the business is today, to what it's going to be, the utilization across India. So there are some significant growth drivers that we've started to invest in, which is why we're excited about the future for Foot Locker and FILA specifically.

And we went out and got the acquisition from Cravatex knowing that these kind of acquisitions are very painful to digest and dissolve and reposition. But we were quite comfortable with that because there is immense opportunity and upside in those brands. And that is not to take away from we have the equal amount of opportunity with our Metro and our Mochi stores, because we're only in about 190 cities approximately.

We have the opportunity to go to 300 cities with Metro and Mochi. So we haven't even tapped that out yet. So that's why we come up with it. At the same time, we're not going to sit here and say we're going to open up 500 stores next year and put a lot of pressure and make bad decisions.

If you look at our history, we're very thoughtful and thought out in how we grow. We're not narcissistic. We're not egotistical. If the opportunity is right, we'll open more stores than we said. If the opportunity is not right, we'll at least open the stores we said we would.

Bharat Shah: That begets actually my other question that I wanted to ask in any case. Given the way India and Indian economy and society are positioned today in a more take-off stage, given the way the taste and the styles and the attitudes have altered, and generally the belief about consumption and the way people turn themselves out have altered dramatically, would it not be somewhat unambitious to think of just a linear extension of the past that we grew a certain percentage in the past?

And therefore, it's a mental kind of number that we have fixated that probably will do something similar. But I would argue that even on a relatively larger base, the size of opportunity has opened up multi-fold given the income, consumption, attitudinal trends that we are witnessing in this society.

And given the fact that Metro itself has grown over a period of time in terms of understanding customer psyche and knowledge about the business and all of that, so are we in some sense psychologically biased in favor of that past number and just mathematically extending? Or are we carefully assessing the opportunity? And if instead of 18, if that number is to be 25 or 28, why not?

And if on that assessment, if it is 15%, then so be it. But some of that number sounds a bit more mathematical to me rather than a kind of well-conjectured kind of a number?

Nissan Joseph: Okay. Well, Bharat, I think I wouldn't use the word unambitious. But I might be more inclined to use the word conservative. You know, we are not a flamboyant company. We're not here to overly impress anybody. But we're not here to disappoint anyone either, right? Our responsibility is to make sure that we share forward-looking forecasts very responsibly. And I think that's, I would say it's conservative and responsible as opposed to unambitious.

But you're right. We, like you, see a lot of opportunities for growth. And the growth is just beginning. So yes, one could argue that it could be more. And it would be a great argument to have. But also, let me remind you, we as a country are famous for throwing on GST rules overnight. We're famous for doing demonetization.

We're famous for putting legislation in place, right? There's a lot of variables that come into operating a retail business across the country. You know, we have stores today that are operating in a curfew town. They can only open for four hours. I cannot get product there. I have to air freight product in there.

These are the realities of retail in India, right? Retail in India is not this steady, steady, keel, even business. There are many, many behind-the-scenes variables that we deal with operationally with deep attention on a day-to-day basis. So given that, you know, I would like to just think it's a conservative and responsible number that you can safely model us on.

Bharat Shah: One last one, if I'm permitted. And just a thought. I wanted to check your mind on that. I understand that a half of our business is about INR3,000 price point, and roughly half below that, of which bulk of it is between INR1,500 to INR3,000. So really speaking, below INR1,500, we have rather one-eighth of our business today. But when I borrow from [“inaudible”]

Moderator: Sir, I'm sorry to interrupt. May we request you to return to the question queue for follow-up questions, as there are participants waiting for their turn?

Bharat Shah: Okay. All right. Thank you.

Moderator: Thank you. The next question is from the line of Mr. Kalpit Narvekar from EFG Asset Management. Please go ahead. And sir, please, I request to restrict to one question.

Kalpit Narvekar: Sure. Thank you so much, sir, for taking my question. So it's, I mean, broadly wrong, to be honest. I mean, could you share some updates, one, on the inventory issue you mentioned at the competitors? I mean, globally, companies like Adidas, Nike, have had some inventory liquidation issues. Are you seeing pressure from them, or are you also, I guess, there's also a big unorganized market?

So are you seeing inventory pressure from the unorganized or the global brands? And in terms of, like, again, on the SSG bit, like you mentioned, it's about 6% CAGR over a longer period. So do you think that once this base normalizes, let's say 4Q, then from FY '25, you can return to that 5% CAGR? Because right now, I'm seeing, like, SSG YOY, like, maybe minus 10% or something. So can it, like, inflect a positive after the base normalization to FY '25?

Nissan Joseph: Okay, so as far as inventories go, I think, you know, everybody, to some degree, has inventory pressure, right? We've taken ours in a different approach, and it's worked out well for us. But I think it's across the board. Everyone wishes they had less inventory because everybody got caught up in the euphoria of COVID. So that's definitely one.

You know, when we guide to 18%, you know, somewhere in the 10%, 12% is going to come from new store growth. Somewhere in the 6%, 7% is going to come from SSG growth, right, over a period of time. So I think that's what we're saying going forward as well.

Does it have the potential to blip up? Yes, this is India, right? We know what we're looking at. We will be ready for it. Am I going to sit here and guide to a higher number than that? Probably not, Kalpit.

Kalpit Narvekar: Sure, thanks.

Nissan Joseph: Okay, thanks.

Moderator: Thank you. The last question will be from Mr. Sabyasachi Mukherjee from Bajaj Finserv AMC. Please go ahead, sir.

Sabyasachi Mukherjee: Yes, hi. Thanks for the opportunity. So when you talk about this, you know, 18% revenue growth, let's not get fixated on this number, but then largely it is probably, as you said, that 10% to 12% could be a store-addition CAGR and 6%-7% kind of a SSG that we are seeing?

My question is, as you grow your store base, adding the same number of stores, let's say 100 stores on a base of 800 or 100 stores on a base of 900, the percentage addition will go down. So are you planning to kind of upgrade your store-addition guidance in the near future? That is question one.

And question two is, on the 6%-7% SSG, we are already at, you know, 48%, 49% of level of premiumization that is more than INR3,000 rupees SKU. Do you see any further headroom over here? Where do you see this number settling down?

Nissan Joseph: Okay, so on the new store-addition, you know, the guidance we gave was for two years, right, at which point we'll come back with further guidance for the following years. So we're going to stand by what we said, that 10% to 12% of that CAGR is going to come from new stores over the next foreseeable future, right? So that's, what was the second question? Second question was on SSG. SSG. Price point, go ahead.

Yes, so over INR3,000 price point. You know, I think this is something that is going to continue to grow for two reasons. One is our distinct, thoughtful effort to premiumize product. I think it's going to grow because the Indian consumer is starting to see value and also being able to afford. There's more and more consumers coming into that sect of the business, and it's also, there's going to be price increases over a period of time. It's only 3% on an average basis, but it adds up, right, over a course of time. But I think that there's significant growth opportunities in that price point still that we haven't capitalized on.

Sabyasachi Mukherjee: Got it. Last question, if I may, on FILA. You know, you mentioned closing down, almost closing down all the EBOs that we have currently by June 24 and leveraging the existing Metro Mochi network going ahead.

So what's your plan in terms of new stores or new EBO opening? Are you planning to open new EBOs for FILA or going to kind of sell the FILA shoes through your Metro Mochi network only? And also, in terms of the athleisure, that also you plan to sell through the Metro Mochi network or going to open new EBOs?

Nissan Joseph: Okay, so let's, the FILA network of stores, I think in late FY '25, you'll start seeing us come back with exclusive brand stores, right, for FILA. And that growth runway will start then. I think what we've, if you, earlier on, we mentioned that '26 will be the acceleration year.

So I think you would see a disproportionate number of stores open up in '26 for FILA. So that's definitely going to happen. As far as athleisure goes, you know, we sell some athleisure products in our Metro Mochi stores.

We think as that category gets bigger, you know, it would probably require more and more room. And, you know, our Metro Mochi stores are so productive, we don't have much room to spare. So we'll have to address how best to address that market as and when we get there. Right now, we have huge opportunities of growth in our FILA and Foot Locker business, along with our Metro Mochi core business units.

Sabyasachi Mukherjee: Thanks. That's all from my side. All the best.

Nissan Joseph: All right, so I just, go ahead.

Moderator: Thank you. Ladies and gentlemen, that was the last question of the day. I now hand the conference over to the management for closing comments.

Nissan Joseph: Thank you all for joining us. I think Metro continues to have a steady hand at its performance, and I think we're very excited about being able to maintain our past EBITDA numbers. We look forward to speaking with you all at the end of Q4.

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