Metro Brands Limited

- **Moderator:**

- Ladies and gentlemen, good day and welcome to Metro Brands Limited Investor Call hosted by Prabhudas Lilladher Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

- I now hand the conference over to Mr. Amnish Aggarwal from Prabhudas Lilladher. Thank you and over to you Sir.

- **Mr. Amnish Aggarwal – Prabhudas Lilladher Private Limited:**

- Hi, I welcome all to the conference call hosted by Prabhudas Lilladher for Metro Brands Limited for their second quarter earnings. Now, I will introduce the management. Today, we have Mr. Rafique Malik, who is the Chairman of the company, Ms. Farah Malik, who is the Managing Director, Mr. Nissan Joseph, who is the CEO of the company, Mr. Kaushal Parekh, who is the CFO, and Ms. Alisha Rafique Malik, who is the President, Sports division, e-commerce and CRM. Without wasting any time, now I hand over the call to Mr. Nissan Joseph to make the opening remarks after which we will open the floor for Q&A. Over to you, Sir.

- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**

- Thank you, Amnish and my apologies to everyone for the slight delay in starting the call and with that, I'd like to welcome you to our Q2 FY24 earnings call. I'm pleased to report that in spite of facing pent-up demand last year, a delayed festive season that moved most of the key festivals from Q2 to Q3 of this year, we've been able to close the quarter with a 15% growth over last year along with the 15% PAT. This quarter has been very much in line with our expectations and hence we delivered numbers consistent with our continued guidance. I will dwell into some of the key highlights that have contributed to our performance. In Q2 FY24, we saw year-on-year revenue growth which reached an impressive 15%. This uptick in growth surpasses the 12% year-on-year growth witnessed in the previous quarter. A notable factor behind this growth is this slow, but on-pace normalization of demand as we move past the pent-up demand experienced in Q2 FY23 compared to Q1 FY23. Additionally, this year's festive period has been slightly delayed with festivities in FY24 occurring approximately 2½ to 3 weeks later than last year. As we progressed through the quarter and as anticipated, we did start to see the positive effect of the approaching festival season. Our store expansion strategy remains on track with the net addition of 29 stores including entry into eight new cities across all formats.

- This expansion reflects our commitment to enhancing our presence in both existing and new markets and strengthening our brands reach and accessibility. E-commerce continues to be a driving force behind our growth with Q2 e-commerce sales including Omni channel reaching 60 crores. This segment saw a 45% growth showcasing the increasing acceptance of our digital channels by our customers. Looking to the first half of FY24, we witnessed stable year-on-year growth of 13% when compared to the previous year. Our store expansion strategy continues to thrive with a net addition of 56 stores and an entry into 15 new cities in the half spanning all formats. I'm also pleased to add an update to our store count as earlier this week we announced the opening of our 800th store for Metro Brands. E-commerce sales including Omni channel for H1 amounted to 121 crores with a remarkable 53% growth. Our digital investments, presence and capabilities continue to be a source of strength contributing to our overall performance. We've also been proactive in managing challenges with the first half at a standalone basis very much within our guidance of 15% to 17% PAT with the half coming in at 17.1%. This despite incremental expenses of 100 basis points due to ESOP issuance and Ind AS accounting, the latter primarily due to increased new store openings. We remain vigilant in managing and optimizing our operations to maintain our profitability.

- Lastly, our premiumisation strategy is making substantial headway with sales of footwear price over ₹3,000 accounting for 48% of our business. This reflects the positive response from our customers and highlight our commitment to delivering high quality products and an enhanced consumer experience. Before I close, I would like to add some color out of FILA integration. As we mentioned in earlier calls, the three-year plan is to clean up the inventory and rationalize the current stores and distribution in this year. The second year to reset the brand and position it for success in the coming years and the third year will be focused on acceleration and as a follow up to the impending BIS regulations, we're gearing up for the implementation of the compliance requirements in January of 2024, though we still lack full clarity on all aspects of it. However, as guided previously, we have front loaded inventory to help mitigate any supply issues caused by the implementation.

- In conclusion, Q2 has been a period of solid growth and strategic advancement despite the many challenges faced by Metro Brands. I would like to thank the entire team at Metro Brands for their continued focus and hard work in ensuring we lead the way to serving India’s footwear needs. We're excited about the opportunities that lie ahead and remain dedicated to delivering value to our shareholders and customers. Thank you again for joining us. Apologies, again for the delay and we look forward to discussing our performance in further detail in the Q&A session. With that, I'll turn it back to the moderator to open it up for questions.

- **Moderator:**

- Thank you very much, Sir. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use handsets while asking your question.

- Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Tejas Shah from Spark Capital. Please go ahead.

- **Mr. Tejas Shah -- Spark Capital:**

- Yeah, thanks. Thanks for the opportunity and congrats on the decent set of numbers in the current environment. So, just wanted to start with your read on the prevailing consumer sentiment in general and specifically on the premiumization trend that we have witnessed since COVID till now, how is it evolving and what's your read on the same going forward?

- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**

- Thanks for your question, Tejas. You know what we're seeing is probably a temporary headwind of timing more than it is an economic headwind that we're facing. So, the challenges we face were predominantly due to the pent-up demand from last year, number one and the shifts in festivals which really is a temporary headwind. It's the timing headwind, not an economic headwind. Overall, we feel the consumers in our segment remains resilient to the business and it is appreciative of the product offerings we have.

- **Mr. Tejas Shah -- Spark Capital:**

- Sure. Sir, we have seen a decent traction in our online sales and then you spoke about it also that our omni strategy is working well. So, just wanted to understand the margin profile of that business A and the breakup of that business, is it more platform driven or is it D2C or is it like largely third party B2B in nature?

- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**

- So, you know one of the reasons our e-com business hovers in the low double digits, which is just crossed double digits for the first time Tejas, is because we do not want to get into the discounting game, right, which unfortunately is the mainstay of Indian e-tailing today. Our business has done in multiple ways. One of them is products we sell directly to the marketplaces, but the main business that we really look at nurturing is what we call our Omni channel business, where we light up the inventory across all our stores onto different platforms and the advantage of that is twofold. One is we're able to increase our inventory utilization by getting a product across the country and also reducing our time of delivery and the second reason we like that is we're also able to control any discounting that happens online, right. So, if there's discounting that is unfavorable to us, we will be able to turn it off very quickly. Overall, the margin profile of that business is, is relatively healthy in line with our regular business, but e-commerce is not an easy business overall where the cost associated. So, it's just not a margin profile that you might be looking at and you might want to look at the end cart profile and I can tell you can look at all the pureplay, e-com players, you know you get the sense that it's not the most profitable business in the world for most people.

- So, consequently this is the same thing for us. Having said that, though, the way we try to grow it is to do it through curating ranges that will add both grand salience and also not being in any way deluded to us.

- **Mr. Tejas Shah -- Spark Capital:**

- Very clear and there's something on my side on FILA. So, in last two quarters there have been three WIP dimensions pertaining to FILA that you would have spoken about. One is on cleaning up of legacy inventory. Second is optimizing route to market or accelerate store expansion somewhere around second-half of FY24-25, and product and brand positioning, where do you want to place the brand whether you want to place a premium or semi-premium end, so if you can give us some update on all the three dimensions?

- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**

- So, you know, the first one is the first probably the first important step that we're going to focus on most of this year which is cleaning up the existing inventory. Because we don't believe that inventory is in line or reflects where we want to take the brand in the coming years, so that coming years, so that's number one and that's work in progress, it's progressing well, but as we've always guided, it's going to be diluted towards our performance in this year and hence I would encourage you to look at our standalone numbers if you want to get a true comparative read on how our business is doing, you know keep FILA to the side, right. So, that's gonna continue probably through most of this year, thanks Tejas.

- The second one is you know store expansion. First we need to rationalize the stores and the distribution of the route to market that we have today and we need to make sure that it is congruent with where we want to take the brand in the future, right and so what I mean by that is when we look at our real estate deployment of stores, do they represent the brand correctly both in terms of being in the right malls, but also being in the right locations in those malls, because that makes a big difference in how you brand is perceived by consumers if you're in the right locations in the right malls, distribution to other channels outside of us needs to be tightly controlled, so there's not extensive discounting or there's not overstocking a product going on that has further leads to brand dissonance down the road. So, that whole distribution piece is a critical part of how we're going to be approaching most of the latter part of this year and the early part of next year and the last but not least is the positioning of FILA. We honestly believe that in this sport fashion space, FILA has A - relevance. B - awareness that we can play to and build on somewhat similar to making it akin to the China model where China FILA does roughly $4 billion because they position themselves differently than your typical athletic brands and we see that consumer in India that is quite savvy going and migrating towards it as well. So, that's how we want to position the brand, which will be starting late this year and going well into next year and then that leads us to the third year where we will accelerate the brand, which will include store openings and positioning and so on and so forth.

- **Mr. Tejas Shah -- Spark Capital:**
- So, one follow-up there, you said legacy inventory will be cleaned up by FY24 or there will be some spillover in FY25 as well?
- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**
- No, by 24 we should be done with legacy inventory.
- **Mr. Tejas Shah -- Spark Capital:**
- Great, great. That's all from my side and thanks all the best.
- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**
- Thank you Tejas.
- **Moderator:**
- The next question is from the line of Devanshu Bansal from MK Global. Please go ahead.
- **Mr. Devanshu Bansal – M.K. Global:**
- Hi. Thanks for the opportunity. Just to take forward from the previous question on e-commerce sales, Sir you indicated that your focus is on going omni channel sort of sales through your own stores, but these numbers that we are reporting suggests that there is a significant amount of growth in the e-commerce (13:53 Voice Breaking) does this make anyways since the Metro is increasing everything anyway, sort of leftover margin or return profile?
- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**
- I'm sorry, you broke up there for a second, Devanshu. Can you just go? We got you till the point that you read it as it was driven by other channels other than Omni and then we lost you.

- **Mr. Devanshu Bansal – M.K. Global:**

- So, I was indicating, Sir, you indicated that focus is on omni channel sales, but the numbers that you have reported suggest that there is a significant amount of growth that you've seen in the e-commerce Space X of Omni channel in this quarter per say and you also indicated that the other part of the business is likely I would say margin diluted because of excessive discounting in the online channels. So, I wanted to check does this increase in mix of online in any way back over return or margin profile?

- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**

- Yeah. So, yeah, that's a good catch and thank you for asking the question. What that is, is really as you know right now is the period of immense discounting sales and the festival sales that go on the Amazons of the world and so on and so forth. So, what that was, was actually shipments to those channels being booked in that period of time, which is similar to last year, mind you, it's now no different than last year being booked in the last quarter and hence you see that Omin didn't grow as fast as the rest of the business. Having said that, Omni just grew a very solid number over the last season and it continues to grow relative to the rest of the business. Don't forget the rest of the business was also a little challenged because of the reasons I mentioned.

- **Mr. Devanshu Bansal – M.K. Global:**

- Got it, Sir. And Sir, among regions, East as the market is not doing well for us, while West has picked up quite well. So, among regions, what is your outlook for store addition in the geography? Also, if you could suggest if your margin or return profile is significantly different in these geographies versus rest of the region?

- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**

- So, you know, I think you gotta be careful how you read some of those numbers because it's not that the East is not doing well. Don't forget the big season in the East is Durga Puja, which fell squarely in Q2 of last year where it's flowing into Q3 of this year, so that's the key driver. Now you're talking about penetration not being high in the East, you're correct. It is not the highest in the East. In fact, it's our smallest market, but it's just a matter of us not having gone after the East enough as yet. There's still opportunity in the east for us to go after and typically as you know you, you establish strongholds where you are based first and foremost, but I'm pleased that the West and the South really continue to be our strong hold.

- **Mr. Kaushal Parekh – Chief Financial Officer, Metro Brands Limited:**

- Devanshu, just to add to what Nissan said, in fact East is one of our strong regions. You know if you see on slide 23 of our presentation, 13% of the store contributes

14% of the sales and mind you, this H2 - Durga Puja is in H2 Q3, but East is a very strong region for us and it's also one of the focus area in terms of expanding our reach.

- **Mr. Devanshu Bansal – M.K. Global:**

- Got it. Last questions from my end, should we read this from Crocs penetration point of view, there is a relatively slower network expansion versus Mochi and Metro, so just wanted to check is it the strategic move where we may see some slower expansion for Crocs going ahead or how should we do this?

- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**

- Well, you know, I think there's two parts of that question. One is it it's not really much slower than the rest of them. What you've actually seen is a very accelerated growth of Crocs four years ago where we grew it from almost zero stores in the last five years, we still added stores for Crocs. We added two stores in the last quarter and this year you know in the 12-month period, we will add somewhere in the 20 plus range of Crocs stores. It's not like it's falling behind and if we've guided that we'd open 100 stores, it's going to be 20% of our growth. What it really is driven from is our focus to grow our Metro and Mochi brands as well, right. So, you're seeing a lot of focus being distorted to growing those brands which are extremely profitable and extremely well-run banners for us and that's what you're saying you know and also the market size for Crocs is not as significantly wide as that for a Metro or Mochi, right.

- Metro and Mochi can probably go into 400 cities in India whereas Crocs is probably not as big, but it still has very big opportunity for us. The other thing is also you know the number you don't see in that growth number is that we closed five Croc stores and this happens a lot because either malls could die or High Street go dead because the mall got built up, so we went into the mall with the new store, but we had to close the store in the streets that consequently looked like we didn't grow, but there's actually another five stores that we closed. If you look at it net, you know it has a different number. If you just look at it, the hard number for each one is 7 stores.

- **Mr. Devanshu Bansal – M.K. Global:**

- Got it is Nissan. Thank you so much for answering my questions.

- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**

- Thanks, Devanshu.

- **Moderator:**

- Thank you. The next question is from the line of Nihal Mahesh Jham from Nuvama. Please go ahead.

- **Mr. Nihal Mahesh Jham -- Nuvama Wealth:**

- Yes. Thank you so much. Good evening, Nissan and Kaushal. My first question was on the numbers that if I look at the standalone numbers separately, the Opex growth is much lower than our top line growth as well as a square footage addition. So, if you could just give some more clarity, is it that we are pruned our advertising expenses or any other part of those OpEx? Given on the slowdown, just some clarity on that?

- **Mr. Kaushal Parekh – Chief Financial Officer, Metro Brands Limited:**

- Nihal, sorry. That's a continuous exercise. We keep a close tab on all our expenses, but if you if you if you closely see more or less it's in line with how the sales have grown. You know Nissan also mentioned you know if you see our overall at a PBT level there is an impact of around 1% due to ESOP costs and in Ind AS 116 impact, which generally comes when you are opening stores aggressively, but cost control is, is something that we do on an ongoing basis within our company.

- **Mr. Nihal Mahesh Jham -- Nuvama Wealth:**

- Point taken on that, Kaushal in fact, just for that divergence between the top line growth and let's look at square footage addition and the OpEx, is it even wider and something that's appreciated, but just any specific aspects which have been taken care of, it could just give better clarity on how this has been achieved?

- **Mr. Kaushal Parekh – Chief Financial Officer, Metro Brands Limited:**

- You know, Nihal, I'll urge you to see the numbers. It's more or less in line. A - if you see it as a percentage to sales because the good amount of our costs are also variable in nature. So, if you compare absolute amount, you may see it is gone down because obviously rental, staff salary etc. to a certain extent are variable in nature. So, in Q2 as you know is our smallest quarter. You know it's close to about 20 to 23%. So, that also has an impact, but if you see it as a percentage of sales, there they are more or less in line with sales ratio.

- **Mr. Nihal Mahesh Jham -- Nuvama Wealth:**

- Sure. Point taken on that, Kaushal. The second question was on Crocs, I know we discussed it earlier, but just if I look at the last two years evolution, the number of cities that of Mochi and a Crocs wasn't similar. Today, obviously Mochi is in 16 cities or more, so when you look ahead in terms of say adding these 22 stores and maybe the limited opportunity because of the price point is Crocs gonna see more density per city or anyone planning to take this brand wider as you look at the evolution for Crocs ahead?

- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**

- Well, so the reality is, you know every city that has a Mochi or a Metro cannot take a Crocs today, right, but don't forget India is changing rapidly and India is growing very quickly and we know that Tier 2 and Tier 3 cities are gonna be the new hotbeds for growth in the future. So, it's a matter of balancing and figuring out what is the right time to enter a city and you know we have our own internal formulas and vectors that we use to determine when we believe that the city is right and right for a Crocs product. We don't see it as you know Crocs being in any way reaching its full capacity. So, as it can open, I think it's got some more runway especially in the South and the West for us to grow and we continue to grow and we also sell Crocs in our existing stores, right. Nihal, so that gives us a good - point of view on what that city and how that city will react to Crocs if we were to do a standalone store.

- So, there are many, many factors we take into consideration, but the short answer is there's no way that every city that has a Metro or a Mochi will have a Crocs store because of what you said the price point, they're different, their consumer profile is different.

- **Mr. Nihal Mahesh Jham -- Nuvama Wealth:**

- Thank you so much. Just one last question was on the quality control order. It has obviously been pushed for most categories to 1st Jan, which has given us some more time to assess. Is it that for most of our vendor network, despite some of the uncertainty, we are comfortable that most of the implementation would be in place or maybe at this point in time the approach is to keep the inventory in place and then post Jan, we'll figure out how things are to eventually be implemented?

- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**

- No, we're taking two steps to this, right. One is of course making sure that we don't see a disruption to our supply chain and hence we are you know, forward buying inventory because we remain relatively certain that we'll be allowed to sell any product that we own prior to Jan 1st into next year. So, that would ensure that we mitigate any supply chain disruptions caused by the BIS, so that's number one. Number two, where the compliance outlines have been given to us where we have granularity and clarity on what these guidelines are. We got a vendor base to go ahead and get certified and get the product approved. So, part of the issue is not so much whether our vendors want to do it. They're more than willing to do it. We have vendors that are capable of doing it. We just want to make sure that we have all of the parameters required because to be quite frank with you, it's been a little bit of a moving target even at this later stage.

- **Mr. Nihal Mahesh Jham -- Nuvama Wealth:**

- Understood. Thank you so much.

- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**

- Thanks, Nihal.

- **Moderator:**

- Thank you. The next question is from the line of Abhishek Getam from Alpha Invesco. Please go ahead.

- **Mr. Abhishek Getam -- Alpha Invesco:**

- Am I audible, Sir?

- **Moderator:**

- Yeah.

- **Mr. Abhishek Getam – Alpha Invesco:**

- Thank you for the opportunity. My question was regarding Walkway, we've seen Walkway store count come to FY20 levels. And it's commendable growth from FY22 in store expansion. I just wanted to have a little bit of flavor on numbers on Walkway on revenue style, and how do we see this growing in our whole portfolio?

- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**

- So, one of the reasons you saw its only come back to those numbers is that you remember, we closed about 17 DMart stores early in 2021, right? So that's another reason you've seen this, go backwards by about 25% of our store count, and to build it back up, right? We think the Walkway consumer exists and is very strong. At the same time, we want to make sure that we understand that business well and good before we pour the gas on it and accelerate it. So, it is still work in progress, we will continue to devote resources to fully unlocking that consumers potential and once we do that, we see strong opportunities for brands that caters to that segment of the market.

- **Mr. Abhishek Getam – Alpha Invesco:**

- Understood, eventually this Walkway brand expansion will be focused more towards tier 2 and 3, is that understanding, correct?

- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**

- Not really, I think they are focused to a different consumer and that different consumer exists in all the markets that are out there. You know, I was just in Chennai last week, and there was a mall we were in, and I was able to, with a Walkway in the mall by the way, right in the middle of Chennai. And we were able to see our consumers shopping that mall. It's just a different consumer that it targets. So that consumer exists in all the cities. The big difference will be as a percentage of population, they might be more prevalent in a tier 3 city, but as a velocity of volume of consumers, the units of consumers, you know, big cities have people in all demographics and economic spectrum. So, we don't see this being limited to just the tier 2 and tier 3 towns, you know, it can be see having definite legs in fact, one of our better markets today is Hyderabad which is not really a tier 2 town.

- **Mr. Abhishek Getam – Alpha Invesco:**

- Understood. Can you share some numbers on Walkway business on the revenue side?

- **Mr. Kaushal Parekh – Chief Financial Officer, Metro Brands Limited:**

- So, we don't give a number separately Abhishek so, you know, we won't be able to share anything on specific revenue, etc. However, if you see our presentation, we have shared all relevant details in terms of, you know, the averages, store size, number of stores, number of cities where Walkways present, etc. In terms of CapEx, obviously cost that goes into Walkway is lower as compared to what it is for Metro, Mochi. Like say take for example Metro, Mochi average CapEx is around 1 to 1.2 cr. This includes all the three elements, inventory, stores fit out and security deposit that we pay to the landlord. For Walkway, this comparative number would be somewhere close to around 70 to 80 lakhs. Just continuing to what Nissan said, we are, you know, in terms of profitability metrics, because Walkway is in value segment, it won't generate similar profits in percentage terms as what Metro or Mochi would do. But our endeavor is to make sure that over a period of time we built in a particular model that helps us generate the same return on capital employed as that of Metro Mochi. So that's our long-term plan.

- **Mr. Abhishek Getam – Alpha Invesco:**

- Understood. This is very helpful. Just one last question, a broad line question in Walkway, do we see this Walkway going to 500-1000 crore business for us in that range?

- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**

- Abhishek, I think the reality is, as a business, we want to consider only businesses that can get to a significant level of our sales, right? There's no sense in dabbling in a business, if it's not going to grow. So, all our business units when we put them through the filter of capital allocation or even resource allocation, you know, our big understanding and question is, you know, where do we see this particular brand, this banner in five years and to your point, if it doesn't have those kinds of metrics, it would not be very attractive to us.

- **Mr. Abhishek Getam – Alpha Invesco:**

- Understood. Thank you. Thanks a lot.

- **Moderator:**

- Thank you. Ladies and gentlemen, a reminder to all the participants, you may press * and 1 to ask a question. The next question is from the line of Kapil Jagasia from Nuvama Wealth Research, please go ahead.

- **Mr. Kapil Jagasia – Nuvama Wealth Research:**

- Thank you. Thank you for taking my question and good afternoon to all of you. Looking at your average realization of H1 FY24 and if I compare that with H1 FY23 and if I then calculate that for this quarter Q2, your average realization per unit seems to have corrected on a YoY basis. This I'm only saying pertaining to this particular quarter. So, is it that average realization for in-house brands is reducing and that of third-party brands is increasing? Is my understanding correct on this?

- **Mr. Kaushal Parekh – Chief Financial Officer, Metro Brands Limited:**

- Kapil, in Q2, we have End Of Season sales, right? So average ASPs move slightly lower in Q2, if you compare it with Q1. If you compare it with last year, we have seen an average ASP growth of around 3%.

- **Mr. Kapil Jagasia – Nuvama Wealth Research:**

- Okay, and probably even last year was high pent-up demand. So even pertaining to that it would have been reduced, right?

- **Mr. Kaushal Parekh – Chief Financial Officer, Metro Brands Limited:**

- Yes, and just adding one more data point. You know, we have seen our contribution of End Of Season sale inch up slightly up as compared to what it was last year. So, you know, last year it was around 5%. It is close to about seven and a half percent for H1. So, you know, that also has slight impact on the on the ASPs as well as on the gross margins.

- **Mr. Kapil Jagasia – Nuvama Wealth Research:**

- Okay fine, this helps. My next question is the revenue per square feet was down about 9% this quarter. So even with this lower revenue per square feet, gross margins for H1, FY24 is 58%. So, would your guidance on gross margins still remain at 55-57% levels or would you be revising it at a later date?

- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**

- So, you know, I think there's a couple of ways to read that square foot erosion, you know, a lot of it has to do with the mix of stores, right. So, our most highest productive sales per square foot is Crocs. And you know, somebody pointed out earlier on, that's not where we focus a lot of our growth in. So, you're going to see some of that naturally take place. We also know that, you know, we went into eight new cities, and new cities take a little while to get the store going. We fully expect the store to be cashflow positive in two years, but it still takes a little while to get going. So, it's a combination of things. Having said all that, you know, we have guided Kapil that we can hit 55 to 57% pretty consistently, as we look to the future, we'll blip up sometimes, we'll blip a little bit below it sometimes, but overall, we're pretty confident that we will be hitting that range.

- **Mr. Kapil Jagasia – Nuvama Wealth Research:**

- Sure, sir. And what would have been the gross margins for Cravatex this quarter?

- **Mr. Kaushal Parekh – Chief Financial Officer, Metro Brands Limited:**

- It is close to around 35%.

- **Mr. Kapil Jagasia – Nuvama Wealth Research:**

- Okay, and just last question from my side. How sustainable is this growth in online channel, as a lever, majority of it would have been driven by Fila and Proline. Because you know, before this acquisition of Cravatex, Ecomm contribution to sales was around 8% or so and now it has risen to 10%. So just your thoughts on growth patterns for this channel going ahead?

- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**

- So first of all, let me address one of those statements you made. Kapil, it is not driven by Fila and Cravatex. It's only Metro Brands' standalone number that we were reporting that went from 8 to 11%, right. So, it is really a growth without any consolidated numbers. So, it is not driven by those two. I think India is going to increasingly become digitally savvy, and digitally adaptable. I mean today 75% of the Indian population has access to TVs. You know, the equal percentage will have access to smartphones within a matter of minutes. And we firmly believe that our consumers in the future will be starting their journey online, digitally and then moving to the offline space or continue to buy online, right. There's a lot of friction points with online for consumers than there is for the retailer. Shoes specifically has to do with fit as you know the fit of a shoe doesn't have much tolerance. You can wear a shirt a little bit loose, a little bit tight. You cannot wear a shoe a little bit loose, a little bit tight, right. So that makes it a friction point because shoes typically run about a 30% return rate in the business. And that means a third of your customers are dissatisfied. Having said that, though, I think technology will ease the way as we continue to move forward. So, the good news for us is we see brick and mortar as continuing to have vibrancy and need in the market simply because consumers enjoy a shopping experience. At the same time, we see the convenience of ecommerce coming into play, giving that channel more growth,

- **Mr. Kapil Jagasia – Nuvama Wealth Research:**

- Sure sir. And any internal targets for this Ecomm channel, 60 crore run rate for the quarterly, so around 240 to 250 cr. So, any internal targets, looking at 500cr revenue from this or any percentage of sales number?

- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**

- I think our goal is to maximize the opportunity in every channel without in any way eroding the profit or more importantly, eroding the brand, right? If I wanted to hit a target of x double digit percent in ecommerce, we could do it day after tomorrow. But then we wouldn't have a brand by the end of the week, right? So, it's a matter of managing growth to where you're having growth, it's profitable growth, it adds to your brand value and is sustainable and that is an evolving number. I'm gonna tell you, the number I have in my mind today will probably be very far off in the next few months. So, it's one of those, it's a dynamic situation and for me to make a comment on that, I don't want to box myself in either.

- **Mr. Kapil Jagasia – Nuvama Wealth Research:**

- Sure, thank you for answering all my questions. All the best to you. Thank you.

- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**

- Thanks Kapil.

- **Moderator:**

- Thank you. The next question is from the line of Kinjal Mota from Banyan Tree Advisors Private Limited. Please go ahead.

- **Ms. Kinjal Mota – Banyan Tree Advisors Private Limited:**

- Hi, thank you for the opportunity. My question is around ASP and product pricing. So, when I look at the presentation for this quarter on slide number 26, if you look at product pricing sales mix. What I understand is more than 85% of sales is derived from products which are price range between 1500 to 3000 and 3000 plus. But when I look at average selling price price that is somewhere around 1500. So, since we don't have volume data, I'm trying to understand that why is ASP around 1500 whereas it is more than 85% of sales is coming from products which are priced at more than 1500 or even 3000 plus?

- **Mr. Kaushal Parekh – Chief Financial Officer, Metro Brands Limited:**

- Kinjal, this is primarily due to impact of accessories. We sell lots of accessories below 500 rupees as well. Classic case being say Crocs Jibbitz which sells around 250 to 300 rupees per piece. If you see ASP for footwear specifically, it is close to about 2200 to 2250.

- **Ms. Kinjal Mota – Banyan Tree Advisors Private Limited:**

- Okay, got it. Thanks. That's all from my side, thank you.

- **Moderator:**

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

- **Mr. Gaurav Jogani – Axis Capital:**

- Thank you. Hi Nissan, hi Kaushal. My question is with regards to the margins, really. See if we see the margins ex of the Cravatex brand, it is, you know, very much still comparable to the last year H1 numbers. And this is despite the fact that, you know, there has been some drag on the sales per square feet. And also, there is 100 bips impact that have called out due to ESOP and Ind AS impact. So, what is you know, really helping to drive this margins, because even if you see the private label contribution that has gone down by around 4 odd percent to 70% now. So, if you can throw some light to, you know, what are the efficiencies, where we are getting this, get to negate the challenges on the margin front.

- **Mr. Kaushal Parekh – Chief Financial Officer, Metro Brands Limited:**

- Gaurav, if you see, our gross margins, they are more or less in line. As you mentioned, you know, we've seen increase in third party brands, but, you know, this increase to 30% is primarily driven by Crocs and Fitflop, where we enjoy gross margins similar to our in-house brands and hence you don't see any significant impact of that on our incoming gross margins that you sort of see. And hence the gross margins have been relatively stable. Below the line obviously, as I answered earlier, we also generally keep very tight watch on all the expense line items. Another important reason is most of our expenses are also variable in nature. So, you know, it helps. When you see increase in sales, you will see increase in expense in absolute terms in the slower quarter, it sort of helps. So, you know, this combination of all these factors that is seen in the numbers that we have delivered.

- **Mr. Gaurav Jogani – Axis Capital:**

- Okay. So, also it is largely, you know, the efficiencies that are showing up that is able to help to drive the margin, despite the Cravatex impact. Hope that understanding is correct.

- **Mr. Kaushal Parekh – Chief Financial Officer, Metro Brands Limited:**

- Yeah, I think, you know, if you see standalone numbers on separately, you will see that, you know, we'll see slight increase in expense as such. Our sales have grown by 15%, if you see for H1 our sales has grown by 13%, and our PAT has grown by around 8%. I've given explanation for about 1% delta, which is on account of ESOP, and Ind As 116, and then balance 50-60 bips is on account of certain increases that you've seen under certain line items.

- **Mr. Gaurav Jogani – Axis Capital:**

- Sure, and my next question is, with regard to the contributions of the 3000 Plus segment, that has consistently continued to remain near that 48% average, are now for H1, if I speak so. So, it can highlight, you know, what kind of segments is really contributing to the 3000 plus product contribution and are there any specific brands that are really contributing to this?

- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**

- So, we have two brands of J. Fontini and Davinchi, which is our own brands that we operate in the Metro and Mochi stores that focus on the more premium product ranges, right, which is our own brand. So that's number one. We've seen growth in both those brands. Number two, the Crocs average ASP is much higher than 3000 and so, is FitFlop. Again, a FitFlop the average ASP is closer to 7000 rupees. And then we also carry key brands, like Skechers, and Birkenstock that also come in with high ASP. So, it's really about making sure that we have the right products for our consumers to shop at our stores. And they tend to like the products like Birkenstock, like Crocs, like Davinchi, like J. Fontini that come with a higher ASP.

- **Mr. Gaurav Jogani – Axis Capital:**

- So, just one follow up here. I mean, do you see this trend sustaining even going ahead or is it really, you know, the short-term phenomena, because of the K-shaped recovery that we're seeing in the overall economic recovery?

- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**

- Well, you know, we've had this kind of growth over the last quite a few quarters, right. And I would have attributed more of this being a spurt, when they came out of the pent-up demand, you know, they were cooped up inside for COVID for three years, and decided to go outside and treat themselves a real nice pair of shoes, right? I would attribute it to less of this period of time. So, the way we see this is more indicative of where the consumer is going in our segment, right? There's different segments of consumers out there, you well know about that. But in our segment, this consumer is showing that they want to gravitate and maintain that level of quality and value in our products.

- **Mr. Gaurav Jogani – Axis Capital:**

- Sure, Nissan. Thank you for answering my question.

- **Moderator:**

- Thank you. The next question is from the line of Vikas from Equirus. Please go ahead.

- **Mr. Vikas – Equirus:**

- Thanks for the opportunity. So, my first question, is with respect to the demand. You did highlight that there was some sales that was being postponed because of the festivals getting delayed? So, like, is it something that you'd like witnessing this is returning back since festivals like near the corner now?

- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**

- Yeah, I think our early indication Vikas is in line with our expectations, you know, the East is getting closer to Durga Puja and we're definitely seeing that. So, but a lot of these things in retail, you'll find is it's not you can't do a math formula, and say, you know, two weeks before Durga Puja what did I do last year versus this year? You know, there's lots of variables, right? I mean, you know, payday makes a big difference in all of retail. There are other factors, you know, it's as simple as you know, was the second of October on a Monday this year versus a Sunday last year that has an impact on your business. So, there's many variables. But as we look through all those variables, you know, we feel comfortable and confident that it goes well to our statement earlier that this was a timing headwind and not an economic headwind.

- **Mr. Vikas – Equirus:**

- Got it. Very clear. And second thing question is more to do with the revenue per square feet. So, of course last year, as you mentioned, there was some element of pent-up demand and demand remaining strong, we did see our quarter going roughly around in an average of 5500 revenue per square feet, which for last two odd quarters… Can we broadly say that the new model will be roughly at around this 5000 revenue per square feet, or it is just as a timing issue, as you just mentioned, and it can even return back to the 5500 revenue per square feet number going ahead?

- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**

- I feel confident that we'll get back to that number. Like I mentioned, there's a lot of variables behind that number dipping down. A lot of it has to do with new stores that you open, right, and the new stores that you opened, depending on the towns that you open it, and the concept that you open. You know, Crocs has a high, high sales per square foot, but Metro though it does significantly more volume than a Crocs store does. What has the same sales per square foot, so you got to look at it a little bit imbalanced, you know, and when we go back, you know, even last year to Q1, when we have the pandemic, you know, getting to the 5500 number was not, is definitely something that we could guide through if you are very comfortable on it, annualized basis, of course, we're going to go up some quarters and down some quarters.

- **Mr. Vikas – Equirus:**

- Correct. Got it. And thank you so much. I got it. Thank you so much.

- **Moderator:**

- Thank you. The next question is from the line of Anirudh Shetty from Solidarity Investment Managers. Please go ahead.

- **Mr. Anirudh Shetty – Solidarity Investment Managers:**

- Hi, thank you for the opportunity. I had two questions. My first question is something that we do uniquely is at the store level, we offer a high level of variable pay to a staff, which incentivizes them to, you know, get more sales. So, just wanted to understand at the store level, what is the split between the fixed and the variable components.

- **Mr. Kaushal Parekh – Chief Financial Officer, Metro Brands Limited:**

- So, Anirudh broadly, the split would be somewhere close to 60-40. 60 being fixed and 40 being variable. It differs depending on which state and city you see, because in certain cities at a high minimum wages, it would be slightly lower, but on a global basis, this is the average.

- **Mr. Anirudh Shetty – Solidarity Investment Managers:**

- Got it. And is this true for both the store manager as well as the staff or does that differ?

- **Mr. Kaushal Parekh – Chief Financial Officer, Metro Brands Limited:**

- For manager, it is almost the entire amount is variable.

- **Mr. Anirudh Shetty – Solidarity Investment Managers:**

- Got it. And, you know, this is something that's fairly unique about what Metro is doing, which will differentiate ourselves. I just wanted to understand what are the other aspects of our culture and what are we doing differently that has allowed us to become such a leading player and allowed us to do so well in the past.

- **Mr. Nissan Joseph – Chief Executive Officer, Metro Brands Limited:**

- Thank you for the very nice things, you know, what we see is doing is not brain surgery and it's not magic, right? What it is, is executing the details of retail every single day. You know, I wish there was some magic pill or potion, I write a book and I'd retire, it is going through the grind every single day. And making sure that you stay focused, keep the ego out of the way, work on facts and data. And you know, we've got years and years of retail experience in this building. And it's utilizing all of that every single day. And furthermore, I'm not so sure I want to talk too much about it. Because that who knows who's listening, right. But thank you for those very nice statements, Anirudh.

- **Mr. Anirudh Shetty – Solidarity Investment Managers:**

- Thank you for answering my question. Appreciate it. Thank you.

- **Moderator:**

- The last question is from the line of Umang Mehta from Kotak Securities. Please go ahead.

- **Mr. Umang Mehta – Kotak Securities:**

- Hi, thank you for the opportunity. I just had one question on Fila particularly. So, do you think that with the brand repositioning, you're planning to do this year you're working on inventory but next year do you think that the brand could break even?

- **Mr. Kaushal Parekh – Chief Financial Officer, Metro Brands Limited:**

- Yeah, that's what we're all working on. But towards the end of FY25, in the last quarter our endeavor would be to sort of try and breakeven, but it's somewhere in end 25-26 is what we expect breakeven point to sort of come in.

- **Mr. Umang Mehta – Kotak Securities:**

- That's it. Thank you.

- **Moderator:**

- Thank you so much. Ladies and gentlemen, you may please press * and 1 to ask questions. We will wait for a moment while the question queue assembles.

- Ladies and gentlemen, as that was the last question of the day, on behalf of Prabhudas Lilladher Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

END OF TRANSCRIPT