SMIFS LIMITED
LEGACY | TRUST | GROWTH

FOOTWEAR SECTOR

INITIATING COVERAGE REPORT

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Initiating Coverage l Footwear l 26 March 2024

Footwear

On the cusp of growth revival

The Indian footwear industry is poised for a healthy growth of 8-9% over FY24E-32E (8% over FY20-25E) fuelled by a shift in consumer perception of footwear transitioning from a mere utility item to more as a fashion statement. The desire for global fashion brands, higher aspirations, and increased digital usage are boosting the demand for branded footwear. Sports & Athleisure segment is expected to outpace the industry growth by growing at a CAGR of 15% over FY24E-32E (15% over FY20-25E). Women footwear is another segment which will lead the growth of footwear industry in the coming years with rise in number of women workforces. The implementation of BIS Standards in the footwear sector is poised to enhance the quality of domestically manufactured footwear, creating avenues for Indian players to capitalize on export opportunities. While the demand in FY24E has been subdued due to a high base and weak consumer sentiments, the growth is expected to pick-up from FY25E. We initiate coverage on Campus Activewear and Metro Brands with "BUY" rating, while "SELL" on Relaxo.

Organized Footwear market set for healthy growth

Currently, about only 34% of the market is controlled by organized companies, with a market size of Rs220bn as of FY22P. This share is expected to increase to 38-40% by FY25E. Organized companies, which include brands and modern retail stores, have been growing at a faster rate (15% CAGR) from FY15-FY20 vs 8.8% CAGR of overall industry. Going forward also, the organized segment is expected to outgrow industry growth. This growth is attributed to more people living in urban areas and a growing preference for branded products and modern retail formats by Indian consumers. Additionally, the rise of value brands and more stores in smaller towns, along with the increasing popularity of online shopping are contributing to this growth.

Shift towards premiumization

The market share of mass segment (below Rs500) dropped from 62% in FY15 to 56% in FY20. This decline has been advantageous for higher price-point categories like Economy (Rs501-1,000), Mid (Rs1,001-3,000), and Premium (>Rs3,001), experiencing a robust 12% CAGR from FY15-20. Looking ahead, the Indian Footwear market is anticipated to favour higher ASP segments. **The Mass segment is expected to grow at 6-7% CAGR from FY20-25E, while the higher price point segment is expected to grow faster at 10-11% CAGR.** The driving forces behind this shift include increased demand for branded footwear, expanded reach of organized retail, and the extensive retail networks established by branded retailers.

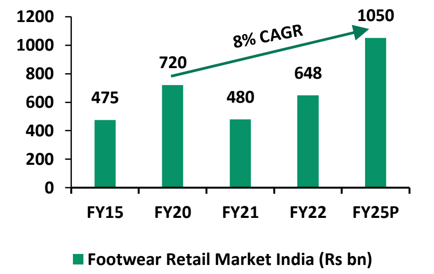
Sports & Athleisure (S&A) segment is the new growth driver

The S&A market in India is currently underexplored and is expected to grow at a CAGR of 15% over FY24E-32 (15% over FY20-25E). This presents a significant opportunity for domestic players to expand and thrive in this segment. The increased focus on health, fitness, and overall well-being is driving growth across various retail categories in S&A segment, including footwear. Sport shoes are designed with comfort in mind. They often feature cushioning, ergonomic designs, and materials that provide support and reduce fatigue. As people prioritize comfort in their daily lives, sport shoes have become a preferred choice over formal shoes. The ASP of Sports Footwear is 75-150% higher than Casual Footwear which is creating significant growth potential for the overall footwear industry.

Initiate coverage on sector leaders

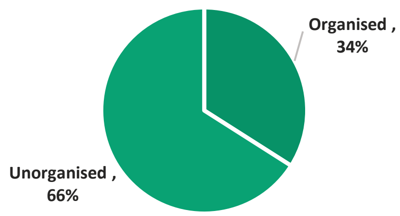
We initiate coverage on the three key footwear companies. Based on the current valuations and growth outlook over FY24E-26E, we have assigned **BUY ratings to CAMPUS (TP: Rs294, 30% upside), BUY ratings to METRO (TP: Rs1338, 19% upside) and SELL rating to RLXF (TP: Rs763, 8% downside)**

Indian Footwear Retail Market size



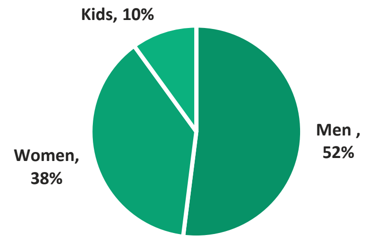
Source: Campus RHP, SMIFS Research

Organised Footwear Retail penetration (FY22P)



Source: Campus RHP, SMIFS Research

Gender wise break up (FY21)



Source: Campus RHP, SMIFS Research

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Company Name	Rating	TP (Rs)	CMP (Rs)	Upside (%)	Adj. EPS (Rs)				P/E (x)				EV/EBITDA (x)			
					FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Campus Activewear	Buy	294	226	30%	3.8	2.6	4.5	5.9	111	87	50	38	53	35	25	20
Metro Brands	Buy	1,338	1,122	19%	13.3	13.0	16.3	20.6	70	86	69	55	38	43	35	29
Relaxo Footwear	Sell	763	830	(8%)	6.2	7.7	11.0	13.9	137	108	75	60	63	51	39	32

Source: Company, SMIFS Research Estimates

Company Name	Net Sales (Rs Mn)				EBITDA Margin (%)				RoE (%)				RoCE (%)			
	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Campus Activewear	14,843	14,485	17,033	19,859	17.1	13.9	16.9	18.0	23.9	13.4	19.8	21.3	17.3	11.1	16.1	17.3
Metro Brands	21,271	23,872	28,318	33,888	31.9	29.8	30.5	31.2	25.3	20.8	22.4	24.0	18.2	15.2	16.5	18.1
Relaxo Footwear	27,828	29,730	34,617	39,965	12.1	13.6	15.3	16.0	8.5	10.1	13.4	15.4	8.5	10.0	13.0	14.7

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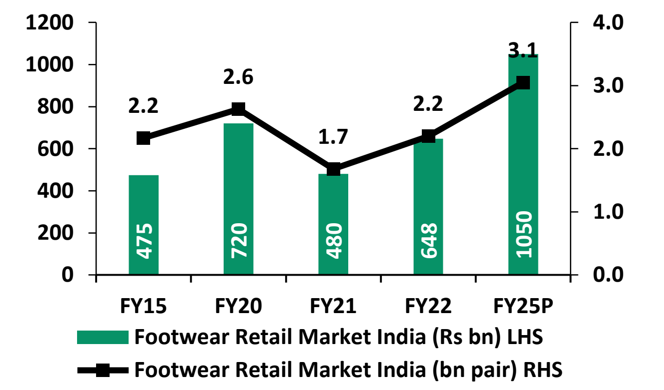
Industry Overview

Organized Footwear market set for healthy growth

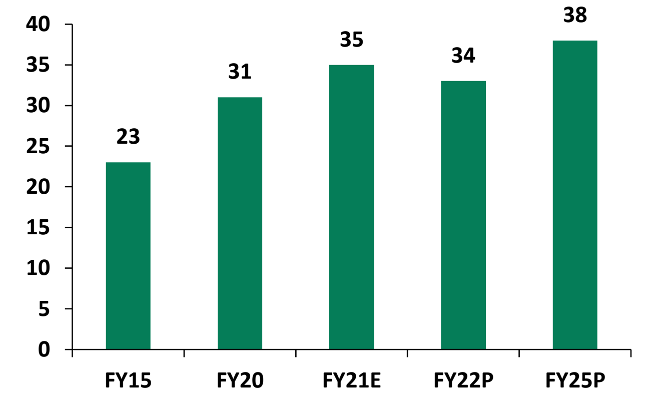
- The Indian footwear market has been growing at 8.8% CAGR from FY15-20, reaching a value of Rs720bn. Looking ahead, it is expected to grow at a rate of 8-9% over FY24E-32E (8% over FY20-25E), driven by both increased volume and prices, according to CRISIL.
- There's a shift happening in the market where consumers are moving from buying low-cost shoes to spending more on mid- and premium-priced footwear. Currently, about 34% of the market is controlled by organized companies, with a market size of Rs220bn as of FY22. This share is expected to increase to 38-40% by FY25E.

Fig 1: Indian Footwear market to grow at a CAGR of 8% over FY20-25P



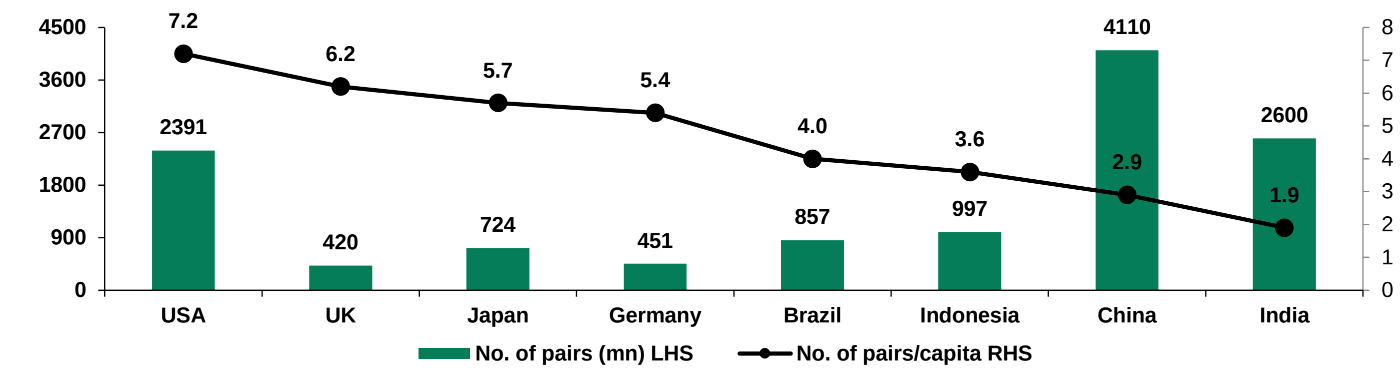
Source: Campus RHP, SMIFS Research

Fig 2: Organized retail penetration to improve to 38%



Source: Campus RHP, SMIFS Research

Fig 3: India's per capita footwear consumption at 1.9 pairs is much lower than global peers



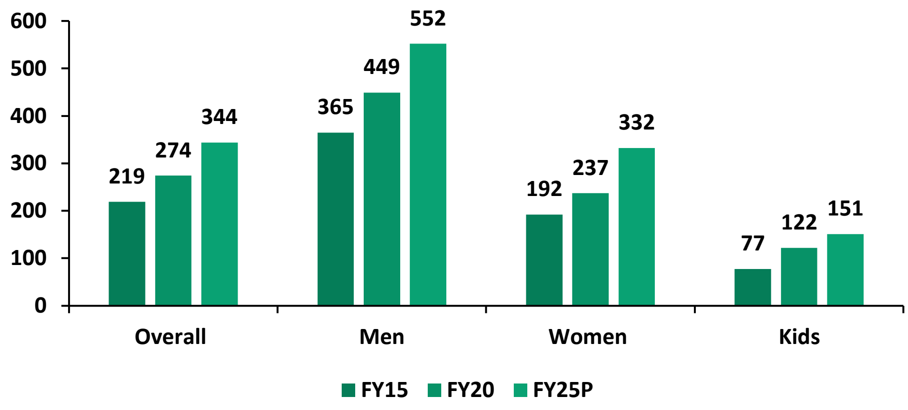
Source: Company, SMIFS

- Organized companies, which include brands and modern retail stores, have been growing at a faster rate (15% CAGR) from FY15-FY20. This growth is attributed to more people living in urban areas and a growing preference for branded products and modern retail formats by Indian consumers. The implementation of GST in FY18 has led to significant changes in the supply chain and logistics network across India.
- Going forward in FY20-25E, organized footwear segment is expected to grow at a CAGR of 12-13%. This growth is fuelled by a change in how people view footwear – it's now seen more as a fashion statement than just a utility item. The desire for global fashion brands, higher aspirations, and increased digital usage are boosting the demand for branded footwear. Additionally, the rise of value brands and more stores in smaller towns, along with the increasing popularity of online shopping, among various age and income groups, are contributing to this growth.

Shift towards Premiumization

- In FY20, the market share of mass segment (shoes below Rs500) dropped from 62% in FY15 to 56% in FY20. This decline has been advantageous for higher price-point categories like Economy (Rs501-1,000), Mid (Rs1,001-3,000), and Premium (Rs3,001 and above), experiencing a robust 12% CAGR from FY15-20.
- These higher-priced segments are mainly served by prominent organized/branded players with their exclusive stores.
- Looking ahead, the Indian Footwear market is anticipated to favour higher ASP segments, including Economy, Mid, and Premium. The Mass segment may grow at 6-7% CAGR from FY20-25E, while the higher price point segment is expected to grow faster at 10-11% CAGR.
- The driving forces behind this shift include increased demand for branded footwear, expanded reach of organized retail, and the extensive retail networks established by branded retailers.

Fig 4: Overall footwear ASP to rise at a CAGR of 5% over FY20-25P (in Rs)

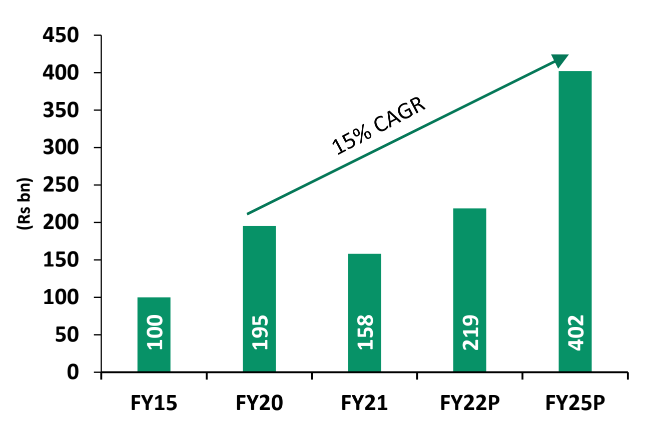


Source: Campus RHP, SMIFS Research

S&A segment is the new growth driver

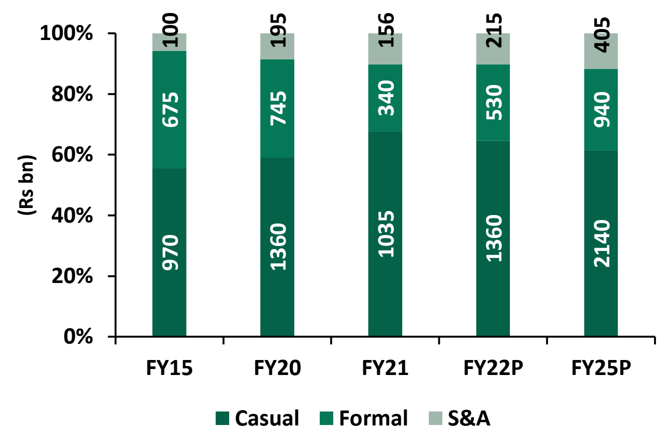
- The S&A market in India, which is currently underexplored, is expected to grow at a CAGR of 15% over FY24E-32E (15% from FY20-25E), nearly doubling its value to Rs208bn. This presents a significant opportunity for domestic players to expand and thrive in this segment by introducing new designs and products.
- Similar to China's experience from FY05 to FY15, whose Athleisure market grew at a CAGR of 24%, where leading brands like Anta and Li-Ning captured a substantial market share, India is poised for a similar growth trajectory.
- The increased focus on health, fitness, and overall well-being is driving growth across various retail categories in S&A segment, including footwear.

Fig 5: Indian S&A Retail market to grow at 15% CAGR



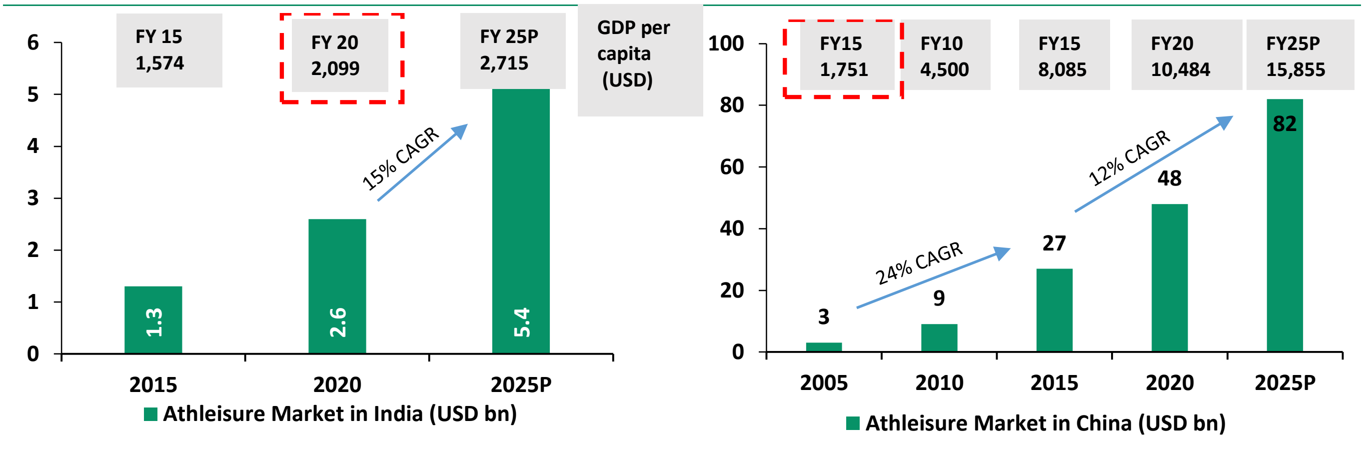
Source: Campus RHP, SMIFS Research

Fig 6: S&A Branded market is growing rapidly



Source: Campus RHP, SMIFS Research

Fig 7: Indian S&A market is set for rapid growth, mirroring China's 24% CAGR when its per capita GDP was $2000



Source: Campus RHP, SMIFS Research

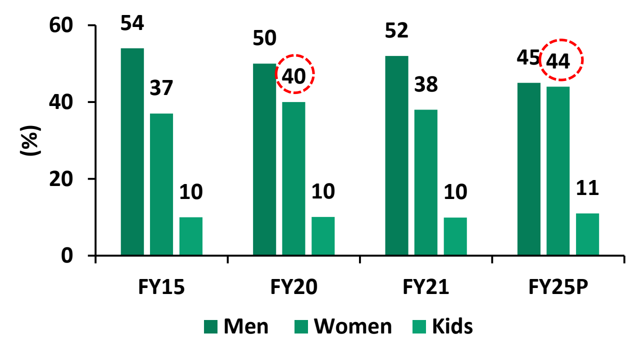
Source: Campus RHP, SMIFS Research

- Factors such as rising discretionary income, improved sports infrastructure, and a growing culture of sports and physical activities are encouraging consumers to invest in active-wear products. With increased participation in sports and improved GDP per capita, there is a positive outlook for spending on sports-related products in the Indian market.
- The trend of adopting an active lifestyle, especially among youth and middle-aged consumers engaged in activities like running, gym workouts, tennis, cricket, badminton, football, trekking, etc., is contributing to the growth. The ASP of Sports Footwear is 75-150% higher than Casual Footwear which is creating significant growth potential for the overall footwear industry.
- The shift from formal shoes to sport shoes for day-to-day use is a trend that has gained traction in recent years. Sport shoes are designed with comfort in mind. They often feature cushioning, ergonomic designs, and materials that provide support and reduce fatigue. As people prioritize comfort in their daily lives, sport shoes have become a preferred choice over formal shoes.
- **Campus is currently the leader in mass S&A segment in India while other players are also expanding in this segment. Relaxo has set-up an additional capacity dedicated to sport shoes while Bata has launched "Sneaker Studio" in its existing stores, expanding sneaker and sport shoes collection. Metro Brands has acquired two leading global brands, "FILA and Footlocker" to expand its S&A offerings.**

Rise of women's share in Footwear market

- More women joining the workforce have sparked a notable interest in women's footwear. Recognized brands are providing better designs and options in response to this growing demand.
- Women's formal and comfort wear have become increasingly popular, causing the Women's category to grow steadily at a CAGR of 10% from FY15-20 and their share in total footwear industry has improved marginally from 30% in FY15 to ~32% in FY20. Metro Brands has positioned itself well to capitalise this opportunity as it derives 41% of its revenue from women, which is the highest amongst its other listed peers. Other players are also increasingly catching up with the trend.
- This trend is expected to persist, indicating that women's footwear will likely continue to outperform the broader footwear market.

Fig 8: Women's footwear share to increase by 4%



Source: Campus RHP, SMIFS Research

Fig 9: Women's ASP estimated to rise 7% CAGR by FY25P

ASP segment wise (In Rs)	FY15	FY20	CAGR FY15-20 (%)	FY25P	CAGR FY20-25P (%)
Overall	219	274	4.6	344	4.7
Men	365	449	4.2	552	4.2
Women	192	237	4.3	332	7.0
Kids	77	122	9.6	151	4.4

Source: Campus RHP, SMIFS Research

BIS standards to give push to organised players

The recent Quality Control Order (QCO) issued by the Bureau of Indian Standards (BIS) will prove to be revolutionizing for the Indian footwear industry which is ~65% dominated by unorganized players and have a high presence of sub standards imports As per the QCO, any footwear sold in India, whether domestically manufactured or imported, will need to follow certain quality standards.

- **Global Competitiveness:** BIS standards align with international norms, making it easier for Indian footwear manufacturers to compete in the global market. Meeting global standards can open up export opportunities, expanding the market reach 1 for Indian footwear.
- **Curb low quality imports:** The standards help curb import of sub-standard quality footwear from countries like China & Vietnam and help domestic manufacturers gain market share.
- **Establishment of a manufacturing ecosystem:** The implementation of new standards is expected to facilitate the accessibility of high-quality raw materials, fostering the development of a robust supply chain. This, in turn, is likely to attract global players to establish their presence in India, catering to both domestic and global markets. Taiwan giants like Shoetown, Feng Tay, Pou Chen, and Hong Fu have begun setting up non-leather shoe factories in Tamil Nadu, India to cater to both domestic and international demand. These companies are contract manufacturers for leading international brands like Nike, Adidas, Puma and Crocs.
- **Global players to set-up manufacturing unit in India:** To adhere to the Indian BIS standards, global companies exporting to India are establishing local

manufacturing plants to ensure regulatory compliance and sustain their market presence.

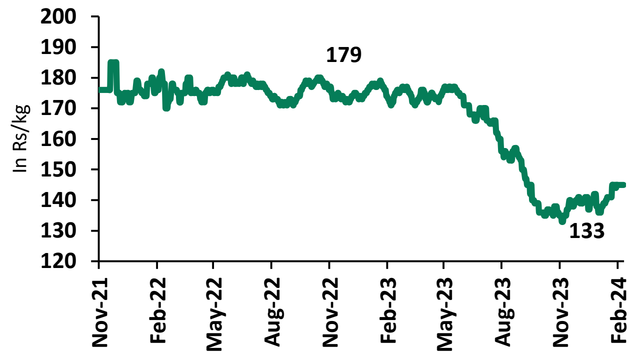
- **Temporary supply chain disruption:** Implementing the new standards is expected to result in temporary disruptions to the supply chain of raw materials and finished products (in cases of outsourced manufacturing) as companies strive to meet the updated compliance requirements.

Overall, the new BIS standards will accelerate the formalization of the footwear industry and improve the market share of organized players in the country. ***There will be two-way increase in footwear manufacturing in the country led by improvement in the manufacturing ecosystem: 1) Domestic companies expanding operations for exports; and 2) Global companies setting up plants to target both domestic and international demand***.

Softening in input prices to support margins

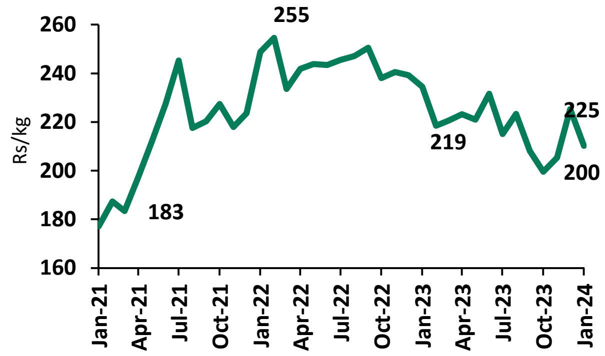
The prices of crucial raw materials like Rubber, Ethylene-vinyl acetate (EVA), Poly Vinyl Chloride (PVC), Polyurethane (PU), Thermoplastic Rubber (TPR) etc. utilized in the footwear industry have shown a downward trajectory since the end of FY23, eventually stabilizing at lower levels. This trend presents positive implications for the entire sector. The sustained lower prices of raw materials are poised to **enhance margins across the board**, particularly benefiting companies operating within the mass segment such as Relaxo and Campus.

Fig 10: Rubber prices have declined by 21% from the peaks



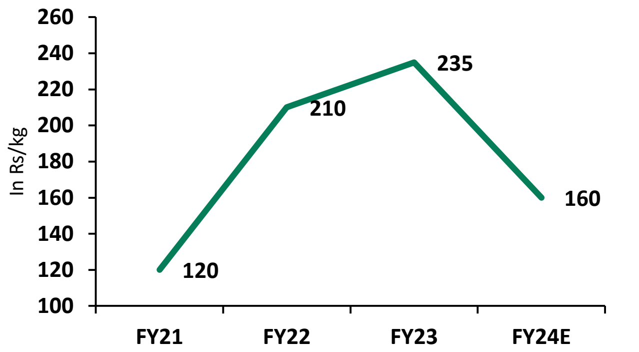
Source: indianpetrochem.com, SMIFS Research

Fig 11: PU prices declined from Rs255/kg to Rs200/kg



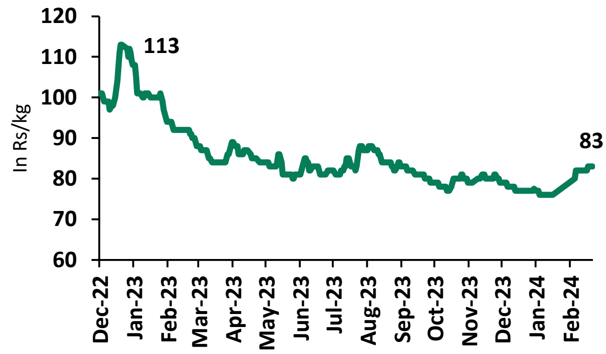
Source: Ministry of Commerce, SMIFS Research

Fig 12: EVA dropped from the peak of Rs235/kg to Rs160/kg



Source: Industry, SMIFS Research

Fig 13: PVC prices have declined by 27% from its peak



Source: indianpetrochem.com, SMIFS Research

Channel Checks – Athleisure and BIS Standards to be game changer!

We interacted with 30+ footwear retailers and distributors across India to understand the dynamics of the Indian footwear market and the changing tastes and preferences of consumers. The Sports & Athleisure segment is on a strong growth trajectory leading to a rise in competition as well, with all the players fighting for a share in this buzzing segment.

- **Fast pacing Athleisure segment**: As per our numerous interactions, one feedback was common across the sources was the upsurge in demand for sport shoes and sneakers. Many small regional players who did not have a wide collection in sport shoes or were not present in this category are either expanding their collection or introducing new collection in this category. The demand is largely driven by inclination towards "comfort shoes".

  The rise of athleisure clothes and shoes during the pandemic changed the game. Sports shoes replaced leather loafers for men while women have traded sandals and slippers for shoes/sneakers, even pairing them with traditional Indian clothes as they prioritise comfort over convention.

  Another piece of feedback in this category highlights that Campus has traditionally held a prominent position in the mass footwear segment. Nevertheless, its leadership is currently facing challenges from emerging regional players such as Abros, Columbus, Asian and others. Competition has intensified in the segment making it difficult for even large players like Campus, Sparx to increase/maintain their market share.

- **Deceleration in demand:** The footwear demand has been overall slow across the categories in FY24, largely in the mass segment led by high base (1st year of opening up post covid). The demand sluggishness is further aggravated by a weak winter season this year which otherwise is the highest grossing period for the footwear industry. The inventory is high in the system and distributors/retailers are clearing high inventory at heavy discounts. Demand is expected to be slow till Holi this year and is expected to revive only from Diwali in CY24.

- **Premium market is more resilient:** The premium segment (Rs1500+) is rather resilient this year with demand at least matching last year's demand. Metro Brands has in fact posted growth till H1FY24 and as per our channel checks, continue to perform well and deliver growth where other players are struggling to even match last year's growth.

- **Disruptions due to BIS:** The new BIS standards came into effect from 1st Jan'24. From our interactions, we felt that there is a lot of ambiguity regarding the implementation of the standards amidst most of the small unorganised players. Enterprises are struggling to comply with the standards and are concerned about potential additional costs. Conversely, sizable, organized entities are content with the increased prospects resulting from a decline in imports. Moreover, several global entities that previously imported goods to India are now establishing manufacturing facilities within the country to align with Indian standards

Peer Comparison

Company Name	Net Sales (Rs Mn)				EBITDA Margin(%)				PAT (Rs mn)			
	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Relaxo Footwear	27,828	29,730	34,617	39,965	12.1	13.6	15.3	16.0	1545	1920	2745	3452
Bata India	34,516	35,215	38,883	43,016	23.0	22.8	24.0	24.8	3191	2923	3786	4851
Campus Activewear	14,843	14,485	17,033	19,859	17.1	13.9	16.9	18.0	1171	793	1368	1791
Metro Brands	21,271	23,872	28,318	33,888	31.9	29.8	30.5	31.2	3614	3529	4444	5595

Company Name	CAGR FY24E-26E (%)			RoE (%)				RoCE (%)				P/E (x)			
	Revenue	EBITDA	PAT	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Relaxo Footwear	15.9	25.9	34.1	8.5	10.1	13.4	15.4	8.5	10.0	13.0	14.7	136.8	107.6	75.3	59.8
Bata India	10.5	15.2	28.8	19.6	19.5	23.8	25.1	19.2	17.2	22.3	23.9	68.8	58.7	46.3	36.1
Campus Activewear	17.1	33.0	50.3	23.9	13.4	19.8	21.3	17.3	11.1	16.1	17.3	111.1	86.9	50.3	38.4
Metro Brands	19.1	21.7	24.7	25.3	20.8	22.4	24	18.2	15.2	16.5	18.1	70.2	86.4	68.6	54.5

*Note: Bata FY24E-26E numbers are Bloomberg estimates

Company Name	Volume (Mn Pairs)			ASP (RS)		
	FY21	FY22	FY23	FY21	FY22	FY23
Relaxo Footwear	190.7	175.0	170.8	122	150	161
Bata India	32.0	38.1	48.5	534	627	712
Campus Activewear	13.0	19.3	23.5	546	620	631
Metro Brands	6.0	9.3	14.2	1,328	1,450	1,494

Company Name	Employee cost & Sales commission (In % of sales)					Advertisement cost (In % of sales)				
	FY19	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY23
Relaxo Footwear	11.3	12.2	12.8	12.6	12.3	3.3	3.8	2.9	3.7	4.4
Bata India	13.1	14.1	22.3	17.9	14.1	2.3	2.5	2.0	2.5	2.6
Campus Activewear	8.7	8.2	9.0	7.9	7.7	5.0	3.7	4.6	6.2	6.3
Metro Brands	13.5	14.1	19.0	14.3	13.1	3.6	3.7	2.0	2.5	2.6

Working capital cycle of major listed footwear players

	FY19	FY20	FY21	FY22	FY23
Bata					
Inventory days	105	104	130	133	133
Receivables days	8	7	17	11	11
Payables days	64	60	94	70	67
Cash conversion cycle	48	52	53	74	77
Metro Brands (Standalone)					
Inventory days	109	107	132	115	111
Receivables days	16	20	23	13	22
Payables days	58	57	93	57	48
Cash conversion cycle	67	70	62	71	84
Relaxo Footwears					
Inventory days	61	68	65	93	74
Receivables days	35	26	28	35	35
Payables days	27	28	34	31	33
Cash conversion cycle	69	66	59	97	76
Campus Activewear					
Inventory days	72	85	104	108	110
Receivables days	99	72	50	41	43
Payables days	49	61	88	60	53
Cash conversion cycle	122	95	67	89	101
Khadim					
Inventory days	71	80	82	104	100
Receivables days	61	56	70	82	104
Payables days	60	75	97	111	100
Cash conversion cycle	72	62	55	75	103
Liberty					
Inventory days	106	111	162	126	108
Receivables days	63	113	87	72	49
Payables days	58	113	100	59	41
Cash conversion cycle	111	112	149	138	116
Mirza					
Inventory days	137	120	148	41	90
Receivables days	49	41	28	15	48
Payables days	26	27	38	27	53
Cash conversion cycle	161	133	138	29	86

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Campus Activewear Ltd

Riding the Athleisure Wave!

Campus is market leader in the Sports & Athleisure (S&A) footwear market catering to the mass segment of the country. Campus has attained this position with its good quality products, trendy designs, competitive pricing, investment in branding and strong relationship with distributors. Campus is facing temporary headwinds currently in terms of slowdown in demand owing to inflation, increased competition from regional players, and high base of FY23. Campus reported revenue decline of ~5% YoY in 9MFY24 while operating margins declined by 380bps YoY. Going forward, we believe the worst is behind the company and revenue will grow at a CAGR of 17% over FY24E-26E led by recovery in the market share, improvement in ASP through better product mix, expansion in new geographies and increase in online sales. Company's gross margins are expected to improve by 416bps to 53.5% by FY26E from FY23 on the back of correction in raw material prices and better product mix. While EBITDA margins are expected to improve to 18% in FY26E from 17% in FY23 resulting in RoE/RoCE of 21%/17% by FY26E. Drawing comfort from all the negatives being priced-in in the current valuations of the company and growth expected from revival in existing geographies, expansion in new geographies, increased focus on EBO expansion and online channel, we initiate coverage with a "Buy" rating. We assign a P/E multiple of 50x on FY26E EPS of Rs5.9, to arrive at our TP of Rs294 with an upside of 30%. Rising competition, input cost inflation and weakness in demand in the value segment are key threats to our estimates.

Leader in fast growing affordable S&A segment

Campus has been swift in identifying the missing gap in the Indian Sports & Athleisure (S&A) value segment. The S&A footwear category in India is underpenetrated and largely dominated by global players like Adidas, Nike, Reebok, Fila, Puma in the premium segment. Campus has grown its revenue by a CAGR of 26% and profits by 32% over a span of 4 years from FY19-23 selling a total of 82.5mn pairs of shoes. Campus has positioned itself well to capitalise the affordable athleisure footwear opportunity in the country.

D2C, a key lever of margin improvement

Out of the three distribution channels that Campus operates in, D2C channel has higher share of premium products and is leading the company's premiumization journey. D2C channel has witnessed a sharp increase in revenue share over FY19-23 (from 5.9% in FY19 to 47% of sales in 9MFY24) wherein the share of D2C online is highest at 37%. Moreover, contribution of the online channel to overall sales is the highest for Campus among listed footwear peers which gives it a competitive advantage to capitalise the online shopping opportunity. The company's operating margins have improved from 17% in FY19 to 20% in FY22 as the share of online sales increased. However, owing to raw material inflation and industry headwinds, margins fell to 17% in FY23 which is expected to improve to 18% by FY26E on back of correction in raw material prices, better product mix and high share of D2C online sales.

Revival in demand expected from FY25E

Campus revenue and sales declined by 4.6% and 40%, respectively in 9MFY24 owing to high base, increased competition, and industry headwinds. The only silver lining was improvement in gross margins by 400bps YoY to 52.7% in 9MFY24 on the back of correction in raw material prices. We believe that the worst is over for Campus and sales will improve hereon in 9MFY24 and operating leverage will kick-in, leading to improvement in margins and profits. **Being the market leader in the S&A segment along with a strong brand recall, Campus stands to gain the most in the longer run given the strong growth potential in the S&A segment.**

Valuation

Currently, the stock is trading at a P/E of 38x FY26E EPS of Rs5.9 which is on the comfortable side. **We value the stock at 50x on back of leadership position in a high growth segment, strong brand value and improvement in sales and margins** to deliver an EPS CAGR of 50% over FY24E-26E. **We arrive at a target price of Rs294 per share (50x FY26E EPS of Rs5.9) which provides an upside of 30% from current valuations. Therefore, we assign BUY rating on the stock.** Our call has a downside risk in case of any disappointment in the volumes sold by the company.

Rating: Buy	Upside: 30%
Current Price: 226	Target Price: 294

|Market data

Bloomberg:	CAMPUS:IN
52-week H/L (Rs):	389/220
Mcap (Rs bn/USD bn):	68.6/0.8
Shares outstanding (mn):	305.2
Free float:	26.1%
Daily vol. (3M Avg.):	1637k
Face Value (Rs):	5

Source: Bloomberg; SMIFS Research

|Shareholding pattern (%)

	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	73.9	73.9	73.9	74.0
FIIs	5.9	9.3	11.5	12.3
DIIs	7.1	4.8	6.6	6.7
Public/others	13.1	12.1	7.9	7.0

|Pro. Pledging

Pledging	NA	NA	NA	NA

Source: BSE

|Price performance (%)*

	1M	3M	12M	Since IPO*
NIFTY 50	-0.5	3.5	28.8	20.5
NIFTY 500	-1.4	4.9	38.2	29.6
CAMPUS	-10.9	-19.8	-39.6	-40.4

*as on 9th May 2023; Source: AceEquity, SMIFS Research
Company came out with IPO in May' 22.

|Price Chart (Since IPO)

Source: NSE

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Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Adj EPS	RoE (%)	RoCE (%)	Adj P/E (x)	EV/EBITDA (x)
FY22	11,942	67.9	2,420	20.3	1,085	304.0	3.6	29.3	20.0	NA	NA
FY23	14,843	24.3	2,536	17.1	1,171	7.9	3.8	23.9	17.3	111	53
FY24E	14,485	-2.4	2,019	13.9	793	-32.3	2.6	13.4	11.1	87	35
FY25E	17,033	17.6	2,877	16.9	1,368	72.6	4.5	19.8	16.1	50	25
FY26E	19,859	16.6	3,575	18.0	1,791	30.9	5.9	21.3	17.3	38	20

Source: Company, SMIFS Research Estimates

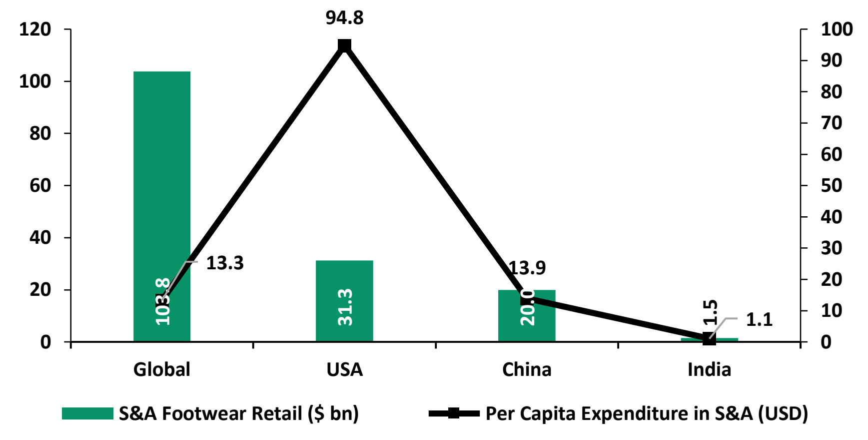
Investment Rationale

Leader in affordable S&A segment

Campus has been swift in identifying the missing gap in the Indian Sports & Athleisure (S&A) value segment. The S&A footwear category in India is underpenetrated and largely dominated by global players like Adidas, Nike, Reebok, Fila, Puma in the premium segment. Most of these brands entered India in the 1990s and established their presence through local franchisees. However, with time, Indian brands entered across value segments and niches which propelled S&A segment to grow in India. Campus is one of the very few established Indian brands in a segment which is primarily dominated by international brands.

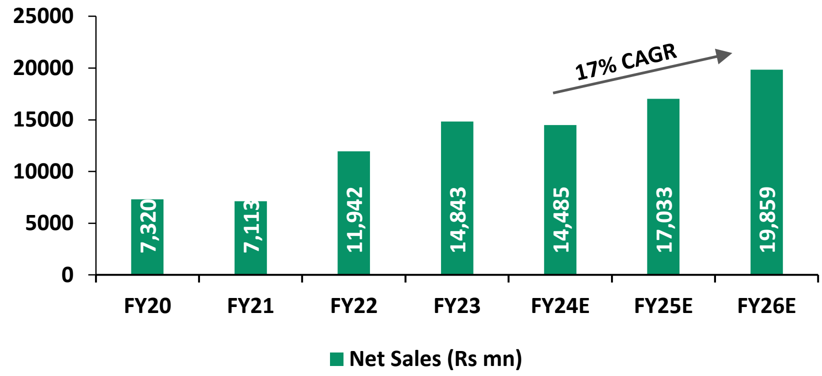
- The under penetration in this segment is evidenced by the extremely low footwear consumption per capita ($1.1 as on FY20) as compared to developed economies (USA $94.8), as well as the low contribution of S&A footwear to overall footwear (15% vs global 31%). These factors suggest a high growth runway for the segment.
- Few Indian brands like Relaxo, Liberty and Khadims have extended into the category with a small share of the revenue. Campus is the only home-grown S&A brand with almost 90% of its revenue from the category.
- Branded penetration in the market has a skew towards mid to premium price points and there are limited offerings in the value and mid premium price points leading to pricing gaps in the market. These gaps in the market have provided an opportunity for retailers to capture these segments and Campus has been swift in capturing this opportunity.
- Campus has grown its revenue by a CAGR of 26% and profits by 32% over a span of 4 years from FY19-23 leading to volume growth from 12.3mn pairs in FY19 to 23.5mn in FY23 and ASP CAGR of %.
- Going ahead, we expect Campus to deliver revenue CAGR of 17% over FY24E-26E led by 11% volume CAGR and 5% price CAGR.

Fig 14: Per capita S&A Footwear consumption (FY20) in India is very low at $1.1



Source: Company, SMIFS Research

Fig 15: Campus revenue to grow at a CAGR of 17% during FY24E-26E



Source: Company, SMIFS Research Estimates

Strong in-house design capabilities

Campus is the first brand to focus on design apart from quality in the value segment, making international designs affordable for the masses. Campus investment in building a design team and collaborations with international design agencies makes it stand out amongst its peers.

- It has a 50-member in-house design team in India as well as a design consultancy arrangement in China. The design team tracks global fashion trends and curate products with customizations for Indian consumers.
- Campus is following the footsteps of global players like Nike, Adidas and Puma and create its own collection lines every year, special drop and limited- edition product design initiatives, celebrity collections.
- It launches two collections each year, namely, (i) spring-summer by February/March; and (ii) autumn-winter by August/September. It recently collaborated with **Indian pop music artist "King" and launched an "OG Collection"**, much like its global peers.
- Campus has short lead times, faster life cycles, and accelerated time-to-market for new product launches. From the moment an idea is conceptualised to its debut, the entire process is streamlined within 60-90 days, making them the frontrunners in the industry.
- As per our channel checks with various retailers and distributors, Campus takes a bi-weekly review of customer preferences and choices to incorporate the same in its collection and improve on the designs and products.

The designs and collection offered by Campus are unique in nature and not easily available in the similar price range which provides it an edge over its peers. The key risk here for Campus is entry of a new player(s) in this segment who invests heavily in a designing team.

Fig 16: Campus offers attractive designs in value segment

Source: Company, SMIFS Research

Fig 17: Campus collaborates with "King" for exclusive OG Collection

Source: Company, SMIFS Research

Fig 18: Campus shoe offerings across mass, mid-premium and premium segment

Type of footwear	Price range (Rs)	Target audience	Positioning
Running shoes	599-2199	Men, Women	Mass/Mid-premium/Premium
Walking shoes	599-1829	Men, Women	Mass/Mid-premium/Premium
Casual shoes	549-3079	Men, Women, Kids	Mass/Mid-premium/Premium
Sports shoes	559-2749	Men, Women, Kids	Mass/Mid-premium/Premium
Sneakers	650-2599	Men, Women, Kids	Mass/Mid-premium/Premium
Sandals &Floaters	449-899	Men, Women, Kids	Mass
Slippers	289-764	Men, Women	Mass
Slip on shoes	349-1099	Kids	Mass

Source: Company, SMIFS Research

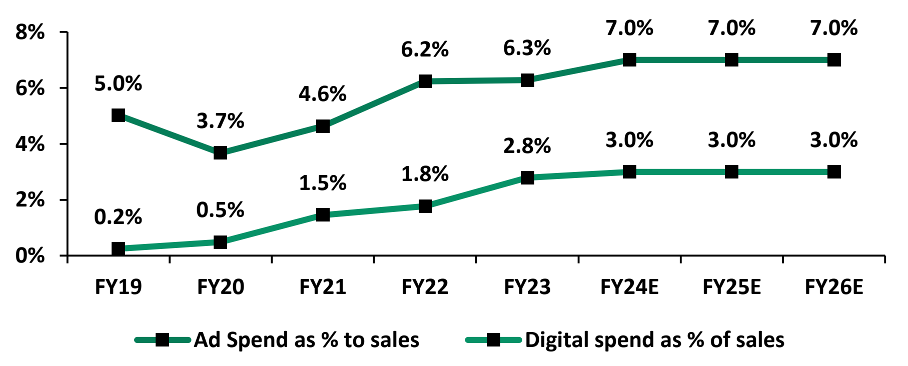
Strong brand building

Campus is not into the business of selling shoes, it is in the business of selling a brand, an idea, an idea of "Make the Move. Start a Movement', similar to many international players (Nike – Just do it!)

Campus aims to create an aspirational brand for the value customer seeking both quality and fashion at affordable prices. Campus has collaborated with an advertising agency from China to design international level shoes apt for Indian markets and a media planning enterprise to create marketing campaigns that can relate to their target consumers and increase brand acceptance.

- Campus has high spending on advertising & branding vs its peers in order to create a strong brand presence. Campus has increased its expenditure on branding over the years from 5% in FY19 to 6% in FY23 and plans to increase it to 7% going ahead.
- Campus is undertaking niche marketing to attract the youth of the nation. It spends **~1/3rd of its advertising budget on digital marketing** to target the youth. In FY23, it spent 44% of its total ad spend on digital marketing.
- Apart from traditional trade-led marketing, Campus marketing strategies have a more **direct-to consumer approach**, aim to interact with customers at multiple touch points where consumers discover the brand and explore product offerings.
- Campus invests in **item displays at the point of sale** which comprises of a selection of permanent and movable product displays, brand and product signage and graphics, as well as a wide range of visual elements to improve the 'shop in shop' experience at the counters.
- Campus leverages **data analytics** to gain insights into consumer demand trends, design preferences, colour choices, response to new designs, and price movements. This continuous evaluation enables it to forecast future consumption patterns, tailor offerings and plan production accordingly.
- We believe, this long term investment in designing, marketing and brand building will provide Campus with a competitive edge over its existing and new competitors and will enable it to grow faster than them.

Fig 19: Campus has high Ad spends to create a strong brand



Source: Company, SMIFS Research Estimates

Fig 20: Attractive items display outside stores to attract customers

Source: Company, SMIFS Research

Asset-light business model

Campus has adopted a mix of in-house and outsourcing manufacturing which helps it to remain asset light and have control over quality and design of the shoes. It assembles 100% of its shoes in-house to maintain the quality of the shoes while it manufactures 40% soles and 20% uppers in-house. Footwear manufacturers both internationally and domestically adopt a mix of in-house and outsourcing approach towards sourcing products based on individual requirements.

- The manufacturing of shoes is a labour-intensive process. Campus strives to achieve a balance between in-house manufacturing and assembly of products and outsource manufacturing for key components and labour intensive activities.
- Campus has created a large fabricator and sole ancillary supplier network in India which enables them to balance the high capital expenditure costs and protect design intellectual property.
- Campus requires its suppliers to commit to exclusive arrangements with them while adhering to strict quality control and confidentiality requirements.
- Campus predominantly has India based supplier network which limits its dependence on offshore suppliers and limits the risk of supply chain disruptions and foreign exchange fluctuations, while reducing manufacturing lead times.
- Campus sources 100% of the raw material requirements for all its suppliers and fabricators.
- All the above combinations enable Campus to adapt quicker to customer preferences and be the first to deliver the desired products in the market.

Fig 21: Well integrated manufacturing facility and supply chain

Source: Company, SMIFS Research

Fig 22: Manufacturing/Outsourcing approach of key players in Industry

Adidas	-Almost 100% outsourced
	-25 manufacturing partners globally in footwear
Nike	- 85% of Nike's footwear is delivered on lean manufacturing lines
	-96% manufacturers are in Vietnam, China, Indonesia, and Thailand
Puma	-96% production from APAC countries with Vietnam producing 35% of all Puma products
Bata	-4 manufacturing plants strategically located PAN India
	-Largest factory in Batanagar started in 1931
	- approximately 50% manufacturing in-house, 50% outsourced
	- Annual production capacity 21 million pairs
Campus	**- In-house manufacturing for uppers (approximately 20%) and soles (approximately 40%)**
	- 100% in-house assembly
	- approximately 80% outsourcing for uppers and approximately 60% for soles
HRX	- Manufactured in various parts of China and Vietnam
Liberty Shoes	-6 manufacturing plants located PAN India
	-Produces approximately 50,000 pairs per day
Khadim	- 2 manufacturing plants in Kolkata and Kanpur
	- Follow an Asset light model
	- 2 exclusive outsourced manufacturing facilities
	- approximately 90% of all products* sold are outsourced
Metro Shoes	- 100% third party outsourced products
	- Maintain an Asset light model
Mirza International	- 6 integrated manufacturing facilities PAN India - 6.4 million pairs produced per annum
	- approximately 55% of all products* are manufactured in-house
	- Outsource production of footwear to China who exclusively manufacture for Mirza

*Note: All products include footwear, apparels & accessories; Source: Company, SMIFS Research

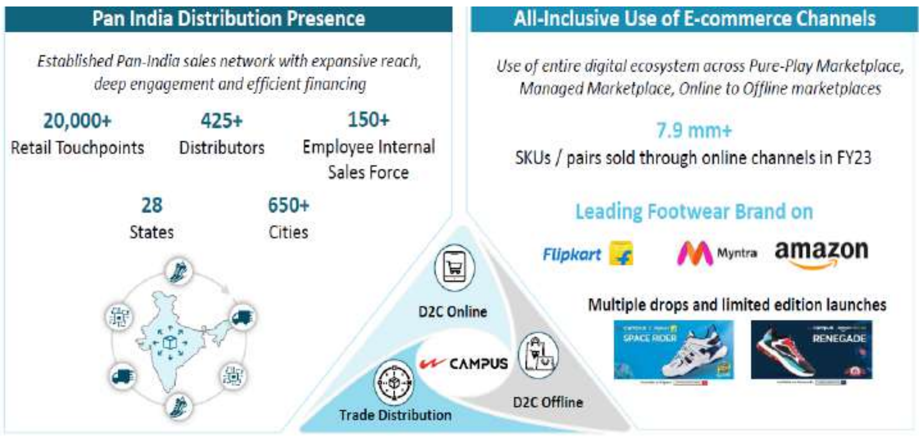
Mix of Traditional Distribution and online

Campus has adopted a mix of traditional distribution channel, online and D2C offline channel to be available on all platforms for its target consumers. With more consumers moving to online channels, D2C online is a major focus channel for Campus.

- **Traditional distribution:** Campus has pan-India distribution presence with 425+ distributors, 20,000+ retail touchpoints in more than 650 Cities. Of this, ~55% retailers are directly covered by its internal sales force. It is the major revenue contributor and accounted for 53% of overall revenue in 9MFY24. The North and the East regions are the key markets, accounting for ~80% of revenue from this channel.
- **D2C offline**: Campus started opening Exclusive Brand Outlets (EBOs) and increased its presence in large format stores (1000+ as of Dec'23) that were used to showcase its entire assortment, especially premium products. As of Dec'23, it has a network of 250+ EBOs, and it plans to add ~80 stores in FY24. Bulk of this expansion will be in the franchisee owned and operated format, hence the company does not expect major capex outflow.
- **D2C online:** Campus tied up with major e-commerce players (Flipkart, Myntra and Fynd) and is currently the leading Indian footwear brand in this channel. Campus sold ~7.9mn pairs (34% of total volume) via D2C online.

Another key aspect that differentiated Campus from peers was its distribution approach during the initial phase of expansion, and then launching the D2C channel to become a omni-channel player, which we believe has been one of the key levers for strong revenue trajectory for the company as it helped unlock a new consumer base as well as drive premiumization.

Fig 23: Threefold approach to sales network – Traditional, D2C online & offline



Source: Company, SMIFS Research

D2C, a key lever of margin improvement

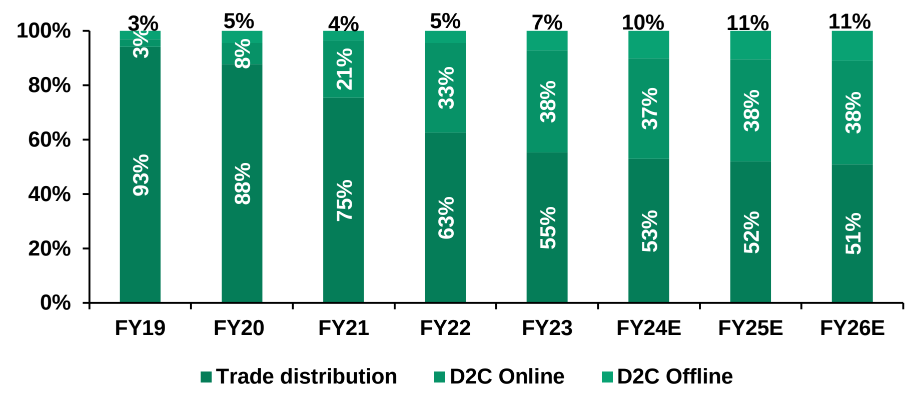
Out of the three distribution channels that Campus operates in, D2C channel has higher share of premium products and is leading the company's premiumization journey.

- Once the brand was established within the target segment, Campus decided to de-risk the business model and create new growth channels to penetrate emerging and frontier markets. Hence, in 2017-18, Campus introduced the D2C channel, which comprises an offline set up through EBOs and online distribution through tie-ups with e-commerce players.
- D2C channel has witnessed a sharp increase in revenue share over FY19-23 (from 5.9% in FY19 to 47% of sales in 9MFY24) wherein the share of D2C online is highest at

36.9%. Moreover, contribution of the online channel to overall sales is the highest for Campus among listed footwear peers.

- The company's operating margins have improved from 17% in FY19 to 20% in FY22 as the share of online sales increased. However, the margins fell to 17% in FY23 owing to raw material inflation pressures. Going ahead, we expect margins to improve to 18% by FY26E led by decline in raw material inflation, better product mix and high share of D2C online sales.

Fig 24: D2C (online & offline) share to increase from 45% in FY23 to 49% in FY26E



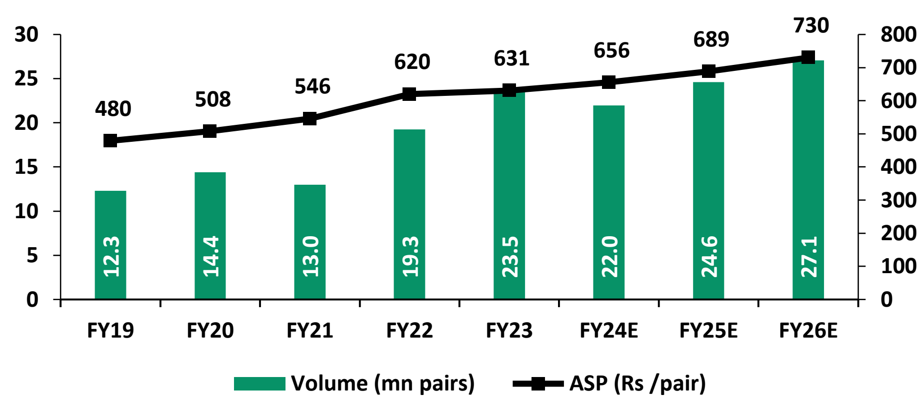
Source: Company, SMIFS Research Estimates

Revival expected from FY25E

Campus reported revenue/PAT decline of 4.6%/40% YoY in 9MFY24 led by high base, increased competition, and industry headwinds. Operating margins dropped by 380bps YoY to 13.5% and profits dropped by 40% YoY in 9MFY23. The only silver lining was improvement in gross margins by 400bps to 52.7% in 9MFY24 on YoY basis on back of correction in raw material prices.

We believe that the worst is behind the company and sales will improve from hereon and operating leverage will kick-in leading to improvement in margins and profits. Being the market leader in the sports & athleisure segment along with a strong brand recall, Campus stands to gain the most in the longer run given the strong growth potential in the S&A segment.

Fig 25: Volume to grow at a CAGR of 11% over FY24E-26E



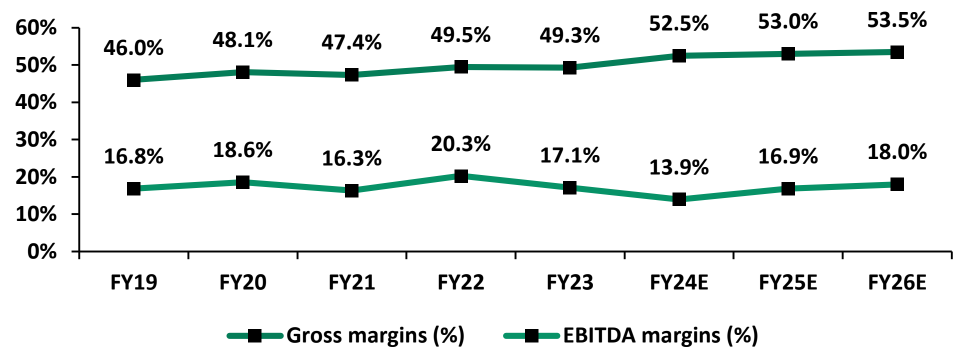
Source: Company, SMIFS Research Estimates

Financial Analysis

Improvement in product mix to expand margins

- Campus reported gross margins of 50%/49% in FY22/23. The company was able to maintain the margins despite high raw material prices on back of increased share of premium products in the overall portfolio. In Q3FY24, Campus gross margins have improved to 51% on back of correction in raw material prices. Hence, we expect margins to reach at 53%-54% in FY25E/26E.
- Campus operating margins declined to 17%/12% in FY23/Q3FY24 from 20.3% in FY22 led by high operating expenses. We expect margins to improve to 17%/18% in FY25E/FY26E after taking a hit in FY24 to 14% supported by improved sales, better product mix and operating leverage.

Fig 26: Operating margins to improve going forward

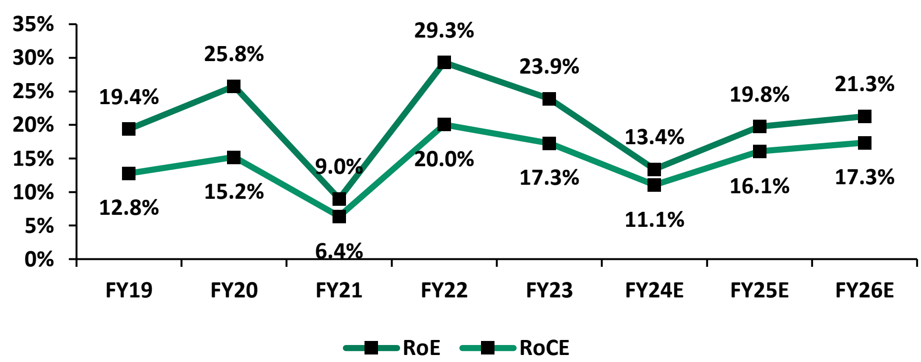


Source: Company, SMIFS Research Estimates

Return ratios to improve from FY25E

- Campus has generated healthy returns in FY22/23 with ROE of 29%/24% for FY22/23 and ROCE of 20%/17% for FY22/23.
- However, following the demand pressures in FY24, Campus will take one-time hit on its profitability by incurring high promotional expenses which will result in ROE of 15.6% and ROCE of 12% for FY24.
- We believe return ratios will bottom out in FY24 and improve from thereon in FY25E/26E to 20%/21% for ROE and 16%/17% for ROCE.

Fig 27: ROE/ROCE to improve 17%/21% in FY26E

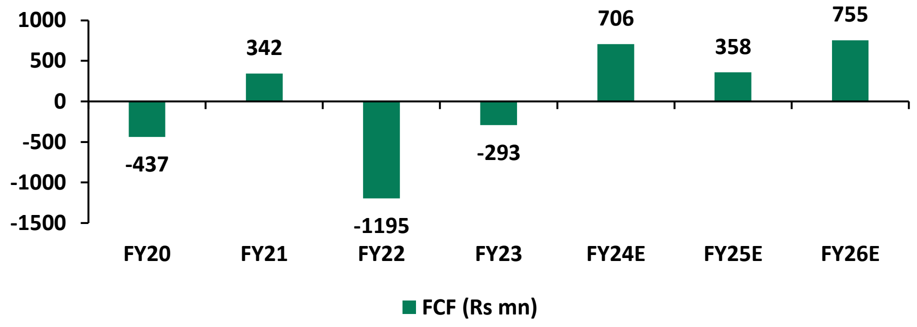


Source: Company, SMIFS Research Estimates

Capex largely financed by internal accruals

- Campus has cumulatively generated Rs3.5bn of operating cashflows over the last 4 years and spent Rs4.3bn in capex, leaving a deficit of Rs0.8bn to be financed through debt.
- Going forward, we expect Campus to become FCF positive from FY24 and generate Rs1.8bn of FCF cumulatively in FY24E-26E after incurring capex of Rs2.9bn.
- In Q3FY24, Campus managed to reduce its borrowings by nearly Rs1bn, bolstered by the positive cash flows it generated.

Fig 28: Campus to turn FCF positive from FY24E



Source: Company, SMIFS Research Estimates

Key risks

- **Rise in competition:** The barriers to entry are low in the mass footwear segment. Entry of new players with aggressive pricing and marketing can adversely impact revenue of Campus.
- **Inflation:** Inflation is the biggest enemy of a mass consumer discretionary company which is largely dominated by unorganised players. Campus has low pricing power which may lead to either loss in margin or loss of market share if it chooses to increase the prices.
- **Supply chain disruption:** Campus outsources 64% soles and 90% uppers for its shoes. Any disruption in operations at a major vendor can disrupt the supply chain for Campus and lead to either delay in production or increase in costs.

Corporate Governance

We believe that good corporate governance is necessary for enhancing the trust of the shareholders. Hereby, we present a detailed framework on corporate governance for the comfort of the investors of Campus considering board of directors, remuneration of key managerial personnel, contingent liability etc.

Promoters' Shareholding

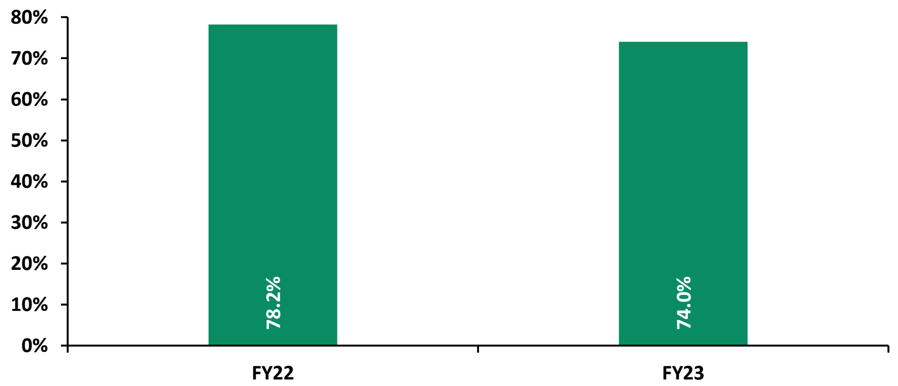
Metro brands is promoted by Mr. Hari Krishan Agrawal. The promoters currently hold 73.8% of the equity capital. Mr. Hari Krishan Agrawal and Mr. Nikhil Agrawal together hold the highest stake i.e., 69.6% combined. The details of the shareholding and its movement are indicated in the following table and chart:

Fig 29: Latest Promoter Shareholding

Particulars	% Holding
Hari Krishan Agarwal	57.6
Nikhil Aggarwal	12.0
Charu Goel	0.2
Prerna Aggarwal	0.1
HKV Services Private Limited	4.0
HNA Services Private Limited	0.0
Total	**74.0**

Source: Company, SMIFS Research

Fig 30: Promoter Shareholding



Source: Company Annual Report, SMIFS Research *Pre-IPO Shareholding Pattern, as the Company listed on BSE and NSE w.e.f., 9th May,2022.

The above shows promoter shareholding majorly remained unchanged in FY22 and FY23.

Promoter Remuneration

The promoter remuneration stood at ~4.7 of PBT as on FY23.

Fig 31: Remuneration of promoter *(Rs in Mn)*

	FY19	FY20	FY21	FY22	FY23
Hari Krishan Agarwal	49.5	53.5	48.5	54.2	53.2
Nikhil Aggarwal	11.4	13.9	13.9	19.7	20.6
Total Remuneration	**60.9**	**67.4**	**62.4**	**74.0**	**73.8**
As a % of PBT	*9.2%*	*6.8%*	*8.9%*	*4.3%*	*4.7%*

Source: Company Annual Reports, SMIFS Research

Independent Director's Compensation

Independent directors were cumulatively paid ~Rs7.3mn which is 0.0% of PBT as on FY23. Independent directors were paid sitting fees.

Fig 32: Remuneration of Independent Director *(Rs in Mn)*

Name	FY23 Compensation (Rs in mn)	As % to PBT (FY23)
Mr. Anil Kumar Chanana	1.6	-
Mrs. Madhumita Ganguli	1.6	0.0
Mr. Jai Kumar Garg	1.1	0.0
Mr. Nitin Savara	3.0	0.0
Total	***7.3***	***0.0***

Source: Company Annual Report FY23, SMIFS Research,

Board Composition

Independent directors constitute 50% of the board composition. The details are given below:

Fig 33: Board Composition

	FY21	FY22	FY23
Promoter group Executive Directors	2	2	2
Non-Executive and Non-Independent Directors	2	2	2
Independent Directors	4	4	4

Source: Company Annual Reports, SMIFS Research

Contingent Liabilities

The company's contingent liability is constant over the period of 3 years and stood at 0.1% of net worth as on FY23. A portion of contingent liabilities is safe items which we have taken into consideration in calculating total liability.

Fig 34: Contingent Liability *(Rs in Mn)*

	FY21	FY22	FY23
Export Obligation	4	4	4
Total	**4**	**4**	**4**
As a % of Net Worth	***0.1%***	***0.1%***	***0.1%***

Source: Company Annual Reports, SMIFS Research

Related Party Transaction

As per our analysis of RPT, nothing specific has come to our notice. The related party transactions increased in FY23 owing to rise in purchase of stock in trade to its joint venture M.V. Shoe Care Private Limited and increase in Interim dividend.

Fig 35: Related Party Transaction *(Rs in mn)*

	FY21	FY22	FY23
job Work			
M G Udyog Private Limited*	121	61	-
Total	**121**	**61**	**-**
Remuneration paid to relatives of KMP			
Prerna Aggarwal	2	6	9
Total	**2**	**6**	**9**
Security deposit paid			
Kabeer Textiles Private Limited		1	
Total	**-**	**1**	**-**
Rent paid			
Kabeer Textiles Private Limited	-	2	4
Total	**-**	**2**	**4**
Employee benefits Key Managerial Personnel			
Short term employee benefits	74	80	70
Post employment benefits	-	-	2
Other long-term benefits	-	-	2
Total	**74**	**80**	**74**

Source: Company Annual Reports, SMIFS Research *Includes transaction only up to the date till which the party was a related party.

Key Management Personnel

Fig 36: Details of promoter and director

Name	Designation	Profile
Mr. Hari Krishan Agarwal	Chairman and Managing Director	The visionary founder of Campus, he has led the Company for over three decades, serving as the Chairman and Managing Director. His transformative leadership has turned Campus into a dynamic, youth-centric, and forward-thinking organisation. Guided by his unwavering belief in the four pillars of technology, innovation, research and development, Campus has continuously evolved, captivating the imagination of millions of young individuals with its stylish designs nationwide. Mr. Agarwal's profound impact and dedication have laid a strong foundation for the Company's remarkable success.
Mr. Nikhil Aggarwal	Whole Time Director and CEO	Ms. Nikhil possesses over 15 years of invaluable experience in the footwear manufacturing and trading sector. His instrumental role has propelled Campus to become the largest sports and athleisure footwear brand in India. With a strong academic background, holding a B.Sc. degree in Industrial Engineering from Purdue University, Mr. Nikhil effectively channels his expertise and knowledge to drive Campus towards its strategic objectives. He has further honed his skills through prestigious programmes such as the TPG-INSEAD C-Suite Workshop and the Leading the Effective Sales Force INSEAD Executive Education Programme held at INSEAD, Singapore.
Mr. Anil Kumar Chanana	Non-Executive Independent Director	With over 41+ years of experience, he is an esteemed independent business consultant and is currently serving on the boards of both publicly listed and private companies as an Independent Director and chair of the audit committee. In addition, Mr. Chanana serves as an operating advisor to private equity firms and boards of companies across diverse industries, providing valuable insights and guidance. Prior to his current role, Mr. Chanana served as the CFO of HCL Technologies Limited, where

		he closely collaborated with the Board and its committees in formulating and executing strategic priorities.
Mr. Sanjay Chhabra	Chief Financial Officer	Chhabra, a chartered accountant and company secretary, is a seasoned financial professional having more than 25 years of experience. Previously, he was vice president - finance at Whirlpool of India, a US multinational, manufacturing home appliance firm. In the past, he was also associated with Carlsberg Breweries, Dr Reddy's Lab, OTIS Elevators & Visakhapatnam Steel Plant.
Mrs. Prerna Aggarwal	Chief Marketing Officer	She is the chief marketing officer of our Company. She has been associated with our Company since September 2, 2019. She is responsible for the marketing activities of our Company. She holds a diploma in digital video production from Srishti School of Art, Design and Technology. She has also passed the Intermediate (Integrated Professional Competency) Examination held by the Institute of Chartered Accountants of India in November 2014.
Mrs. Madhumita Ganguli	Non-Executive Independent Director	She is a law graduate from the University of Delhi and a seasoned veteran in the housing finance industry, with over four decades of experience at HDFC Limited. Mrs. Ganguli retired from HDFC and the last position she held in HDFC Limited was as Member of Executive Management and All India Retail Operations Head. In this position she was responsible for the entire Retail loan business, the process, building productivity efficiencies and the product performance.
Mr. Nitin Savara	Non-Executive Independent Director	He holds a Bachelor of Commerce degree from the University of Delhi and is an associate member of the ICAI. In addition, Mr. Savara holds a Bachelor of Laws degree. With approximately 20 years of experience in accountancy and advisory services, Mr. Savara has served as a partner at Ernst & Young LLP and BMR Advisors LLP. Notably, Mr. Savara held the position of Deputy CFO at Zomato Limited, further highlighting his expertise in financial management and strategic decision-making.
Mr. Jai Kumar Garg	Non-Executive Independent Director	As an associate member of the ICAI, a certified associate of the Indian Institute of Bankers, and an honorary fellow of the Indian Institute of Banking and Finance, Mr. Garg's expertise is widely recognised. With an illustrious career, he has previously served as the ED of UCO Bank and as the MD and CEO of Corporation Bank.
Mr. Ankur Nand Thadani	Non-Executive Non-Independent Director	Holding a bachelor's degree in Electronics and Telecommunication Engineering from the University of Mumbai, Maharashtra, Mr. Thadani possesses a strong technical foundation. He is currently a Partner with TPG Growth and RISE Funds, where he co-heads the India office and leads investments in healthcare, climate, and consumer sectors across India and the South Asia region.

Source: Company, SMIFS Research

CSR Activities

Metro brands has been actively involved in CSR activities for the betterment of the society. The company has spent ~Rs.21mn in FY23 and ~Rs.17mn in FY22.

Fig 37: CSR spend ***(Rs in mn)***

Company	Avg Net Profit (last 3 Yrs)	Prescribed Expenditure	Total Spends	Spend as % of prescribed limit
FY23	1057	21	21	100.9
FY22	841	17	17	100.0
FY21	414	8	10	118.5

Source: Company Annual Reports, SMIFS Research

Auditors

Metro brands appointed S R B C & CO. LLP as the statutory auditor. The auditors have given a true and fair view for the results of the financial year 2022-23.

Fig 38: Auditor fee

Auditor Name	Type	Auditor Fees - (Rs mn)	As a % of PBT
S R B C & CO LLP	Statutory Auditors	12.4	0.79%

Source: Company Annual Reports, SMIFS Research

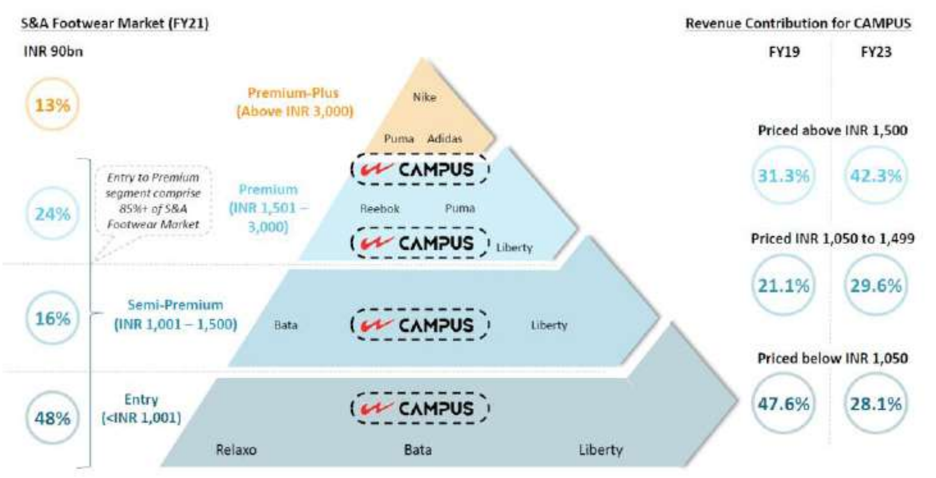
Company Background

What is Campus Activewear all about?

Campus Activewear is the largest Sports and Athleisure (S&A) footwear brand in India in the mass category with market share of 17% in the branded S&A segment. **'CAMPUS'** brand was introduced in 2005 and is a lifestyle-oriented S&A footwear company that offers a diverse product portfolio for the entire family. They offer multiple choices across styles, colour palettes, price points and an attractive product value proposition. With ASP of Rs631 as on FY23, campus is largely present in the entry and semi-premium category level segment (<Rs1500)

- Campus partly manufactures its soles (40%) and uppers (20%) while it assembles 100% of its shoes in-house with an annual assembly capacity of 35.8mn shoes
- Campus owns and operates 5 manufacturing facilities at Haridwar, Uttarakhand (Uppers), Ganaur, Haryana (Soles) and Cal Baddi I & II, Himachal Pradesh, Dehradun, Uttarakhand (Assembly)
- The company's sales are a mix of trade distribution network and D2C (online & offline). As of 9MFY24, revenue contribution from Trade distribution stands at 53% while D2C online and offline stand at 37% and 10% respectively.
- Campus has achieved revenue and profits CAGR of 26% and 32% respectively over FY19-23 led by wide distribution network, affordable prices and fashionable fast changing shoes.
- In FY23, the Company sold more than 23.5mn pairs, marking a substantial volumetric growth of 22% compared to FY22. The ASP grew marginally by 2% to Rs631 in FY23 vs FY22.

Fig 39: Largest Market Coverage Addressing 85%+ of the S&A Footwear Market

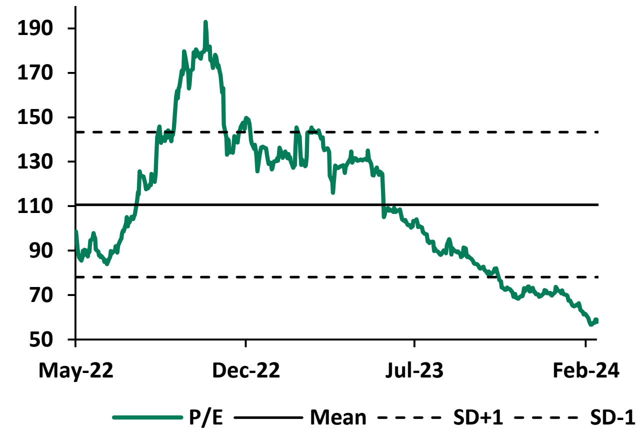


Source: Company, SMIFS Research

Valuation and Recommendations

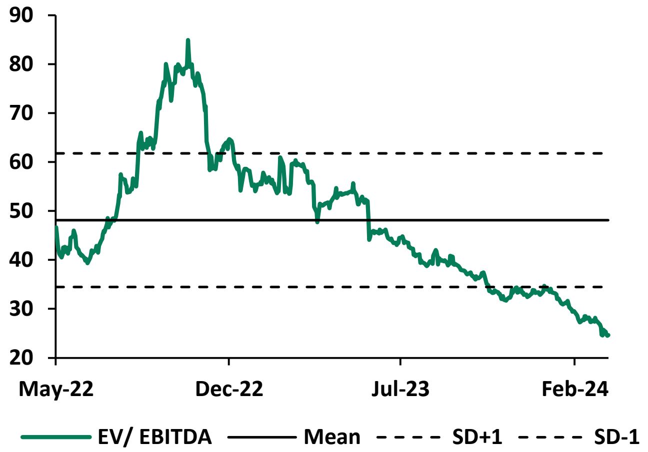
Currently, the stock is trading at a P/E of 38x FY26E EPS of Rs5.9 which is on the comfortable side. We value the stock at 50x on back of leadership position in a high growth segment, strong brand value and improvement in sales and margins to deliver an EPS CAGR of 50% over FY24E-26E. We arrive at a **target price of Rs294 at 50x FY26E EPS of Rs5.9 which provides an upside of 30%** from current valuations. Therefore, we assign **BUY** rating on the stock. Our call has a downside risk in case of any disappointment in the volumes sold by the company.

Fig 40: 1-Year Forward PE



Source: Company, SMIFS Research

Fig 41: 1-Year Forward EV/EBITDA



Source: Company, SMIFS Research

Quarterly financials, operating metrics & key performance indicators

Fig 42: Quarterly Financials

Y/E March (Rs mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net Sales	**27,071**	**28,118**	**24,696**	**23,705**	**24,856**	**23,183**	**23,975**	**23,295**
Raw Materials	13,979	15,098	13,984	14,928	15,289	14,189	14,462	13,311
Employee Costs	1,904	1,904	1,918	1,893	1,958	1,961	2,042	2,301
Other Expenditure	6,196	5,861	5,215	5,098	4,990	4,880	5,417	5,241
EBITDA	**4,992**	**5,256**	**3,579**	**1,785**	**2,620**	**2,154**	**2,054**	**2,442**
Other Income	484	200	304	665	751	943	896	749
Depreciation	922	931	988	986	1039	1047	1037	994
EBIT	**4,555**	**4,524**	**2,896**	**1,464**	**2,332**	**2,050**	**1,912**	**2,197**
Interest	290	263	249	206	304	324	220	194
Exceptional items	-	-	-	-	-	-	-	-
PBT	4,265	4,261	2,647	1,258	2,028	1,727	1,692	2,004
Tax	1,175	1,053	681	306	512	449	417	497
Tax rate (%)	27.6	24.7	25.7	24.4	25.2	26.0	24.7	24.8
PAT	**3,090**	**3,209**	**1,966**	**951**	**1,516**	**1,278**	**1,275**	**1,507**
Share of Associate / JV	116	117	103	103	82	89	86	111
Minority interest	-15	34	20	30	11	1	18	16
Adjusted PAT	**3,221**	**3,291**	**2,049**	**1,024**	**1,587**	**1,365**	**1,343**	**1,602**
YoY Growth (%)								
Revenue	39.0	45.9	3.5	-8.9	-8.2	-17.6	-2.9	-1.7
EBITDA	26.7	9.8	-47.1	-71.2	-47.5	-59.0	-42.6	36.8
Adj PAT	32.3	4.6	-57.4	-76.1	-50.7	-58.5	-34.5	56.5
QoQ Growth (%)								
Revenue	4.0	3.9	-12.2	-4.0	4.9	-6.7	3.4	-2.8
EBITDA	-19.4	5.3	-31.9	-50.1	46.7	-17.8	-4.7	18.9
Adj PAT	-25.4	2.2	-37.7	-50.0	55.0	-14.0	-1.6	19.3
Margins (%)								
RMC/revenue (%)	51.6	53.7	56.6	63.0	61.5	61.2	60.3	57.1
Gross margin (%)	48.4	46.3	43.4	37.0	38.5	38.8	39.7	42.9
Employee cost/revenue (%)	7.0	6.8	7.8	8.0	7.9	8.5	8.5	9.9
Other expenses/revenue (%)	22.9	20.8	21.1	21.5	20.1	21.0	22.6	22.5
EBITDA margin (%)	18.4	18.7	14.5	7.5	10.5	9.3	8.6	10.5
Adj PAT margin (%)	11.9	11.7	8.3	4.3	6.4	5.9	5.6	6.9

Source: Company, SMIFS research

Key Performance Indicators

	FY22	FY23	FY24E	FY25E	FY26E
Revenue (Rs Mn)	11,942	14,843	14,485	17,033	19,859
YoY(%)	67.9	24.3	(2.4)	17.6	16.6
Gross Margin (%)	49.5	49.3	52.5	53.0	53.5
EBITDA (Rs mn)	2,420	2,536	2,019	2,877	3,575
EBITDA Margin (%)	20.3	17.1	13.9	16.9	18.0
Revenue Contribution (%)					
Trade Distribution	62.6	55.3	53.0	52.0	51.0
D2C Online	32.9	37.5	37.0	37.5	38.0
D2C Offline	4.5	7.2	10.0	10.5	11.0
Volume/Realization					
Volume (mn pairs)	19.3	23.5	22.0	24.6	27.1
YoY(%)	*48.2*	*22.0*	*(6.5)*	*12.0*	*10.0*
ASP (Rs)	620	631	656	689	730
YoY(%)	*13.5*	*1.8*	*4.0*	*5.0*	*6.0*
EBO Stores (#)	100+	200+	260+	320+	380+

Financial Statements

Income Statement

YE March (Rs mn)	FY22	FY23E	FY24E	FY25E	FY26E
Revenues	**11,942**	**14,843**	**14,485**	**17,033**	**19,859**
Raw Materials	6,032	7,520	6,880	8,006	9,235
% of sales	50.5	50.7	47.5	47.0	46.5
Personnel	657	802	1,014	1,158	1,291
% of sales	5.5	5.4	7.0	6.8	6.5
Other Expenses	2,833	3,985	4,571	4,993	5,759
% of sales	23.7	26.8	31.6	29.3	29.0
EBITDA	**2,420**	**2,536**	**2,019**	**2,877**	**3,575**
Other Income	24	28	21	28	55
Depreciation & Amortization	530	710	727	856	985
EBIT	**1,913**	**1,853**	**1,313**	**2,049**	**2,645**
Finance cost	196	287	248	225	256
Core PBT	**1,693**	**1,538**	**1,044**	**1,796**	**2,333**
Exceptional items	0	0	0	0	0
PBT	**1,717**	**1,566**	**1,065**	**1,824**	**2,388**
Tax-Total	632	395	273	456	597
Effective tax rate (%)	36.8	25.2	25.6	25.0	25.0
PAT	**1,085**	**1,171**	**793**	**1,368**	**1,791**
Share of Associates	-	-	-	-	-
Non-controlling interest	-	-	-	-	-
Adjusted PAT	**1,085**	**1,171**	**793**	**1,368**	**1,791**

Source: Company, SMIFS Research Estimates

Balance Sheet

YE March (Rs mn)	FY22	FY23E	FY24E	FY25E	FY26E
Source of funds					
Capital	1,522	1,523	1,523	1,523	1,523
Reserves & Surplus	2,754	3,998	4,789	6,004	7,795
Shareholders' Funds	**4,276**	**5,521**	**6,312**	**7,527**	**9,318**
Total Loan Funds	**2,890**	**3,350**	**2,480**	**2,814**	**3,218**
Other liabilities	51	111	91	104	116
Total Liabilities	**7,217**	**8,983**	**8,883**	**10,446**	**12,652**
Application of funds					
Gross Block	**2965**	**3576**	**3958**	**4438**	**5016**
Net Block	3,222	3,732	3,753	3,799	3,916
Capital WIP	25	38	200	200	200
	31	64	70	77	85
Investments	0	0	0	0	0
Other non-current assets	**279**	**441**	**514**	**529**	**545**
Inventories	3,543	4,490	3,969	4,667	5,441
Sundry Debtors	1,337	1,766	1,786	2,100	2,448
	0	0	0	0	0
Cash & Bank Balances	3	240	89	649	1,855
Other current Assets	1,163	988	1,022	1,200	1,398
Total Current Assets	**6,046**	**7,484**	**6,865**	**8,616**	**11,142**
Sundry Creditors	**1,966**	**2,144**	**2,143**	**2,333**	**2,720**
Other Current Liabilities	420	633	377	443	516
Total Current Liabilities	**2,386**	**2,776**	**2,520**	**2,776**	**3,237**
Net Current Assets	**3,660**	**4,708**	**4,345**	**5,840**	**7,906**
Total Assets	**7,217**	**8,983**	**8,883**	**10,446**	**12,652**

Source: Company, SMIFS Research Estimates

Key Ratios

YE March	FY22	FY23E	FY24E	FY25E	FY26E
Growth Ratio (%)					
Revenue	67.9	24.3	-2.4	17.6	16.6
EBITDA	108.6	4.8	-20.4	42.4	24.3
Adjusted PAT	304.0	7.9	-32.3	72.6	30.9
Margin Ratios (%)					
Gross Profit	49.5	49.3	52.5	53.0	53.5
EBITDA	20.3	17.1	13.9	16.9	18.0
EBIT	16.0	12.5	9.1	12.0	13.3
Core PBT	14.2	10.4	7.2	10.5	11.7
Adjusted PAT	9.1	7.9	5.5	8.0	9.0
Return Ratios (%)					
ROE	29.3	23.9	13.4	19.8	21.3
ROCE	20.0	17.3	11.1	16.1	17.3
Turnover Ratios (days)					
Gross Block Turnover (x)	4.2	4.5	3.8	4.1	4.2
Adj OCF/Adj PAT (%)	1.6	80.4	204.0	92.1	103.7
Inventory	108	110	100	100	100
Debtors	41	43	45	45	45
Creditors	60	53	54	50	50
Cash conversion cycle	89	101	91	95	95
Solvency Ratio (x)					
Debt-equity	0.7	0.6	0.4	0.4	0.3
Net debt-equity	0.7	0.6	0.4	0.3	0.1
Gross Debt/EBITDA	1.2	1.3	1.2	1.0	0.9
Current Ratio	2.5	2.7	2.7	3.1	3.4
Interest coverage ratio	9.6	6.4	5.2	9.0	10.1
Dividend					
DPS	-	-	-	-	-
Dividend Yield (%)	-	-	-	-	-
Dividend Payout (%)	-	-	-	-	-
Per share Ratios (Rs)					
Basic EPS (reported)	3.6	3.8	2.6	4.5	5.9
Adjusted EPS	3.6	3.8	2.6	4.5	5.9
CEPS	5.3	6.2	5.0	7.3	9.1
BV	14	18	21	25	31
Valuation (x)					
Adj P/E	NA	111.1	86.9	50.3	38.4
P/BV	NA	23.6	10.9	9.1	7.4
EV/EBITDA	NA	52.5	35.2	24.7	19.6
EV/Sales	NA	9.0	4.9	4.2	3.5
Adjusted Market Cap /Core PBT	NA	84.4	65.8	37.9	28.7
Adjusted Market Cap /Adj OCF	NA	137.8	42.5	54.1	36.0

Source: Company, SMIFS Research Estimates

Cash Flow

YE March (Rs mn)	FY22	FY23E	FY24E	FY25E	FY26E
Operating profit before WC changes	**2,420**	**2,536**	**2,019**	**2,877**	**3,575**
Net changes in working capital	(1,574)	(912)	118	(936)	(864)
Tax Paid	(632)	(395)	(273)	(456)	(597)
Cash flow from operating activities	**214**	**1,229**	**1,864**	**1,485**	**2,114**
Adj. OCF	**18**	**942**	**1,617**	**1,260**	**1,857**
Capital expenditure	(1,212)	(1,235)	(910)	(902)	(1,102)
Adj FCF	(1,195)	(293)	706	358	755
Cash flow from investing activities	**(1,188)**	**(1,207)**	**(890)**	**(874)**	**(1,047)**
Debt	1,117	460	-870	334	403
Dividend	-	-	-	-	-
Interest and Lease	(196)	(287)	(248)	(225)	(256)
Cash flow from financing activities	**982**	**248**	**-1,120**	**-44**	**147**
Net change in cash	**7**	**269**	**-145**	**568**	**1,213**

Source: Company, SMIFS Research Estimates

Initiating Coverage l Footwear l 26 March 2024

Metro Brands Ltd

House of brands

Metro Brands (MBL) a one-stop-shop footwear retailer in India catering largely to the affluent section of the country. It operates 800+ stores across six formats (Metro, Mochi, Walkway, Crocs, Fitflop and FILA) with addition of Footlocker stores from FY25E. MBL is the only premium footwear retailer in the country with this scale of operations and wide range of domestic and international brands. With the successful development of "Crocs" franchise in India and acquisition of Fitflop, FILA and Footlocker, MBL becomes the preferred choice of international brands to launch their brand in India. We project MBL's revenue to grow at a CAGR of 19% over FY23-26E led by expansion in new geographies, rise in ASP led by premiumization and increase in online sales. EBITDA margins, too, after taking a dip in FY24 (30%) are expected to improve to 31% in FY26E resulting in RoE/RoCE of 24%/18 % in FY26E. We initiate coverage on MBL with a "Buy" rating at a P/E multiple of 65x on FY26E EPS of Rs20.6, to arrive at TP of Rs1338 with an upside of 19%. Failure to grow the new acquisitions (FILA, Fitflop & Footlocker) and supply chain disruptions are the key risks to our estimates.

An exceptional footwear retailer

MBL has created a house of brands to cater to customers of all age, segment, gender and occasions. MBL hosts 11+ in-house and 25+ licensed brands which enables it to offer wide-ranging choice to its customers for the best retail experience. MBL's understanding of its customer needs is exceptional which reflects in their wide-ranging collection across different price points, store layouts and customer service. Since MBL largely caters to the premium segment, it is immune to raw material inflation and enjoys pricing power. MBL has grown its revenue and profits at a CAGR of 15% and 21% over FY18-23 despite its peers struggling during this period. We believe MBL is poised to grow its revenue/profits at a CAGR of 19%/26% over FY24E-26E on back of store expansion, licensing of new brands and premiumisation

Aggressive expansion plans

MBL is following a three-pronged expansion strategy involving 1) Opening ~350 stores during FY24E-FY26E across 7 of its formats (Metro, Mochi, Walkway, Crocs, Fitflop, FILA and Footlocker); 2) New licensed brand acquisitions appropriate for its overall portfolio 3) Growing e-commerce platform. MBL has opened 115 new stores in FY23 and 91 in 9MFY24 along with acquisition of FILA and Proline in FY23 and the latest exclusive licensing rights of Footlocker stores in India. *MBL is betting big of the fast growing Athleisure segment by acquiring FILA exclusive selling rights for FILA in India and exclusive rights for opening Footlocker stores in India.* ***MBL has long road ahead with 800+ stores across its 8 format stores in 192 cities vs 2000+ stores for Bata in 412 cities. We believe MBL has the potential to open 850+ stores across all its formats by FY30E to touch a total store count of 1600+***.

Asset-light business model

MBL outsources all its manufacturing to 250+ third-party vendors with long-standing relationships. Despite the outsourcing arrangement, MBL has full control over the designs, material, cost of the products. The designs are exclusively made for MBL which gives them a competitive edge. MBL leases all the stores it operates with many having an arrangement of revenue sharing which reduces the fixed expenses of the company. This asset light model gives MBL the advantage of higher returns on capital along with reduced capital risk. The gross block turnover for MBL is 4.4 for FY23 with ROE/ROCE of 24%/18% which fares better than its peers.

Valuation

Currently, the stock is trading at a PE multiple of 55x on FY26E EPS of Rs20.6. We value the stock at **65x FY26E EPS on back of better growth, margins, return ratios and asset turnover vs peers and arrive at a target price of Rs. 1338 per share which is largely in-line with current valuations and provide an upside of 19%. Hence, we assign "BUY" rating on the stock.**

Rating: BUY	Upside: 19%
Current Price: 1122	Target Price: 1338

|Market data

Bloomberg:	METROBRA IN
52-week H/L (Rs):	1440/764
Mcap (Rs bn/USD bn):	305.1/3.7
Shares outstanding (mn):	271.8
Free float:	25.8
Daily vol. (3M Avg.):	297.39 K
Face Value (Rs):	5

Source: Bloomberg; SMIFS Research

|Shareholding pattern (%)

	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	74.2%	74.2%	74.2%	74.2%
FIIs	2.7%	2.3%	2.6%	2.8%
DIIs	6.0%	6.1%	5.7%	5.3%
Public/others	17.2%	17.4%	17.5%	17.7%

|Pro. Pledging

Pledging	NA	NA	NA	NA

Source: BSE

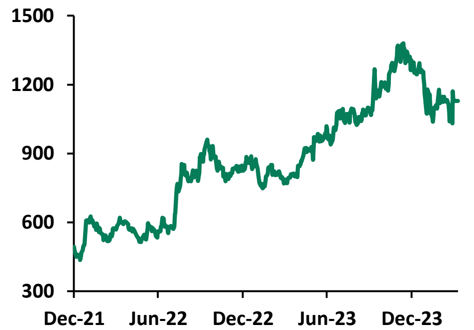
|Price performance (%)*

	1M	3M	12M	Since IPO*
NIFTY 50	-0.5	3.5	28.8	30.5
NIFTY 500	-1.4	4.9	38.2	38.5
METRABRA	-4.9	-16.4	38.3	127.4

*as 22nd Dec 2021; Source: AceEquity, SMIFS Research

*Company came out with IPO in Dec' 21, from IPO listing price the stock is up by 127%.

|Price Chart (Since IPO)



Source: NSE

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Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Adj EPS	RoE (%)	RoCE (%)	Adj P/E (x)	EV/EBITDA (x)
FY22	13,429	67.9	4,092	30.5	2,116	15.8	7.8	19.8	14.8	87	45
FY23	21,271	58.4	6,787	31.9	3,614	17.0	13.3	25.3	18.2	70	38
FY24E	23,872	12.2	7,102	29.8	3,529	14.8	13.0	20.8	15.2	86	43
FY25E	28,318	18.6	8,646	30.5	4,444	15.7	16.4	22.5	16.6	69	35
FY26E	33,888	19.7	10,564	31.2	5,595	16.5	20.6	24.0	18.0	55	29

Source: Company, SMIFS Research Estimates

Investment Rationale

An exceptional footwear retailer

MBL is a one-stop-shop family retailer catering to the footwear needs of men, women and children for different occasions including casual and formal events. MBL is known for its style, quality, comfort, innovation, and affordability. MBL can evenly distribute its sales with low seasonality in operations through an optimum mix of in-house and complementary third-party brands across the premium and affordable segments.

In a bid to be the best footwear retailer in the country, MBL operates under different format stores to fulfill the needs of customers of all ages across categories and occasions. Currently, Metro operates under 5 key formats (excluding Fila, Proline & Footlocker, all latest addition in its pool), targeted towards the athleisure segment:

Metro (MBO): Established in 1955, Metro is MBL's flagship store brand with a range including casual footwear, work wear and embellished footwear for parties, festivals, and weddings for the entire family. In addition to footwear, it also has a wide range of handbags, belts, wallets, and other accessories. Metro's footwear range is specially curated based on different regional preferences in India, and it caters to consumers in the mid and premium segments.

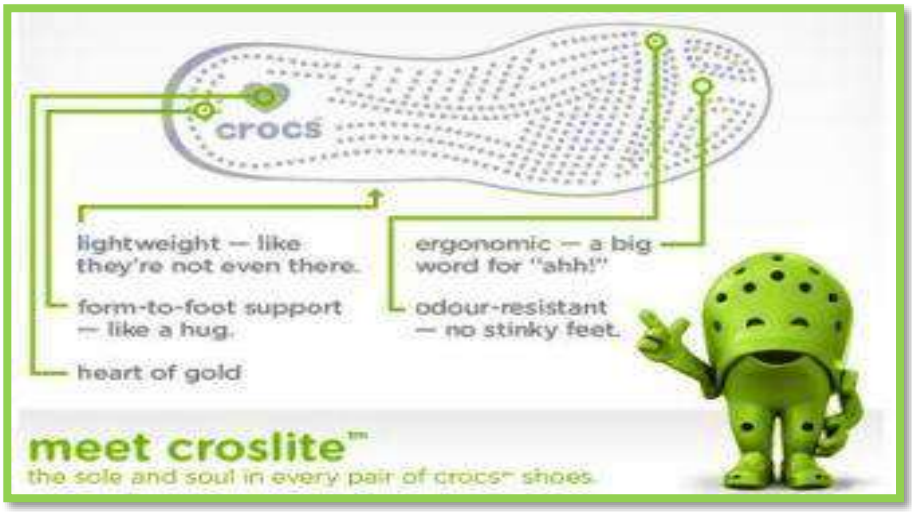
Mochi (MBO): Mochi as a brand was launched in 1986 while the first store was opened in 2000. Mochi is targeted more towards the youth while also catering to the entire family. This brand provides footwear to the youth for their day, work, evening, and party needs as well as for special occasions including weddings.

Walkway (MBO): Walkway is the new addition in the MBO format stores for MBL catering in the value segment. The Walkway format which was previously 'MSL – More Shoes for Less' started in 2009. Walkway offers footwear at value-for-money prices in the mass market segment. This everyday fashion brand provides affordable footwear to men, women, and kids. MBL is currently in the process of experimenting with the brand positioning and format of stores (COCO/FOFO).

Crocs (EBO): Crocs™ shoes feature **Croslite™** material, a proprietary, molded footwear technology that gives each pair of shoes soft, comfortable, lightweight, non-marking, and odor-resistant qualities. Crocs started off with single-style clog in six colors which has now expanded into a wide variety of casual footwear products including sandals, wedges, flips, and slides that meet the needs of the whole family.

MBL has a non-exclusive retail agreement of 18 years with Crocs to sell Crocs products in India at stores and kiosks, as approved by Crocs. MBL also has a "**right of first refusal"** to the opening of a retail store/ kiosk or outlet in India.

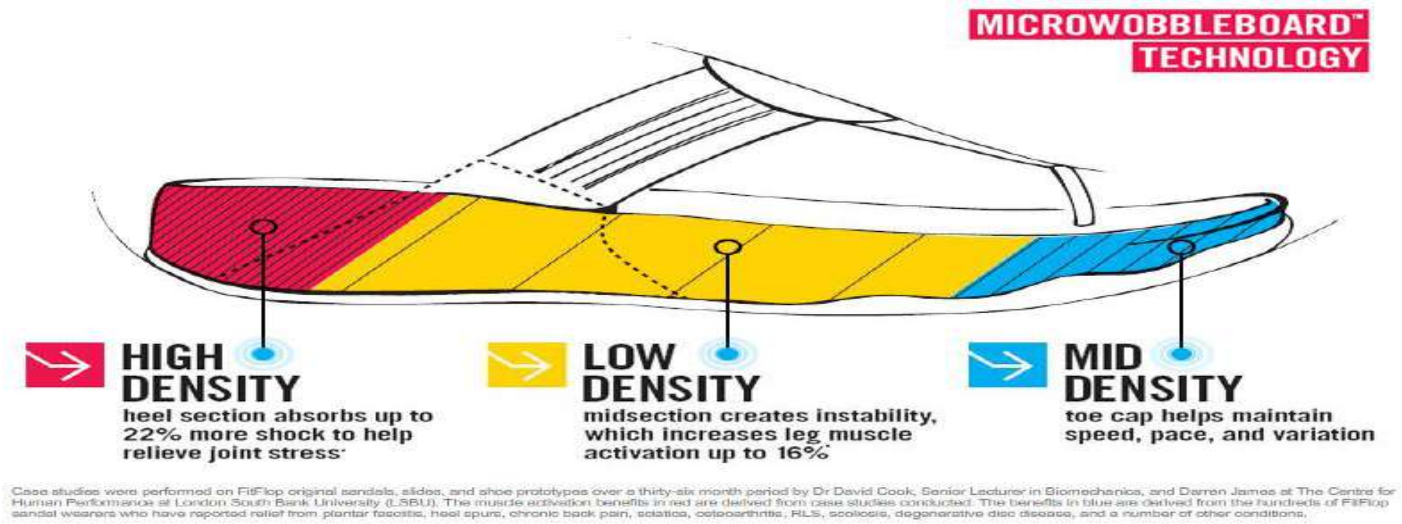
Fig 43: The unique technology of Croslite material is the USP of Crocs



Source: Company Annual Report, SMIFS Research

Fitflop (EBO): MBL was already selling Fitflop in its MBO format Metro & Mochi stores, it has recently acquired "full and exclusive rights for sale & distribution" of Fitflop in India. Fitflop works on a unique "Microwobbleboard Technology" which promotes optimal body alignment while complementing the user's natural walking style, by even distributing body weight to the extent possible. Fitflop is a premium product with SKUs starting from at least Rs3500. MBL is currently operating 8 Fitflop stores as of Dec'23 and has plans of expansion in place for the brand.

Fig 44: Fitflop's Microwobbleboard Technology helps reduce joint pain and increase leg muscle activations



Source: Company, SMIFS

FILA (EBO): MBL acquired "Cravatex Brands Ltd" in Oct'22 to strengthen its position in the fast-growing Athleisure space with exclusive rights to distribute FILA in the Indian sub-continent and ownership of the Proline Brand. FILA as a brand is underpenetrated in the country today and has potential to capture a decent share in the Indian Athleisure market. Another exciting part about FILA is, it's not only a distribution agreement wherein they distribute the global product developed by FILA, **but also a licensing agreement, where MBL can make certain categories of FILA for the Indian market**. FILA has an opportunity to open to 300-500+ stores (at par with other athleisure brands like Nike, Adidas & in the country).

Footlocker: MBL recently acquired exclusive rights to own and operate Foot Locker stores within India. Footlocker is a US based sportswear retailer which is the originator of sneaker culture globally. As the go-to destination for sneaker enthusiasts, Foot Locker will offer an exclusive curated assortment from the most preferred brands for India's next generation.

MBL has successfully opened 115 and 91 new stores in FY23 and 9MFY24 respectively (excl CBL acquisition stores). It targets to open ~350 stores during FY24E-26E in all its 8 format stores across the cities (Metro, Tier 1, 2 & 3)

Fig 45: The five formats of stores operated by MBL

Source: Company, SMIFS

Fig 46: FILA store in Infinity mall, Malad in Mumbai

Source: Company, SMIFS

Multiple brands under one roof

MBL has multiple brands to cater to customers of all ages, segment, gender, and occasion, be it formal, casual, comfort or party wear. MBL hosts 11+ in-house and 25+ licensed brands, which enables it to offer a wide-ranging choice to its customers for the best retail experience. As on Dec 2023, MBL more than derives 70% of its revenue from in-house brands (Metro, Mochi, Walkway, Davinchi, J Fontini, Activ etc.) and the rest from licensed brands like Crocs, Sketchers, Fitflop, Clarks, Florsheim.

- It has brands like **Sketchers, Fila** and **Activ** in the sports & athleisure segment, **Crocs**, **Fitflop** and **Birkenstock** as the comfort casuals, **Florsheim** and **Davinchi** for formal wear, **Cheemo** and **Haute Diva** for party wear.

- MBL chooses the third-party brands it wants to add to its portfolio very diligently, ensuring they complement their in-house brands and possess high growth potential. Adding a third-party popular brand which complements their in-house brands attracts the customers to the store wherein MBL can cross-sell its own brands as well to the consumers.

- MBL also offers a wide range of accessories such as bags, belts, socks, masks, and wallets along with various foot-care and shoe-care products which together contribute 10-12% to the overall topline of the company.

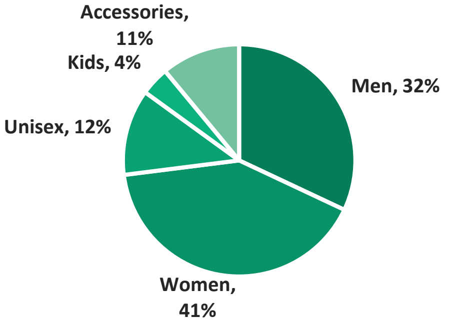
- One differentiating element to achieve success in any retail business is to adhere to the **regional tastes and preferences** and MBL adheres to it very well and has a different assortment of products for different regions like North, South, East and West.

- MBL benefits from the **dual advantage of providing a set standard of design and quality through licensed brands while through its in-house brands, it can cater to the different tastes and preferences based on regional differences** and can swiftly adapt to the evolving needs and tastes of the consumers.

- MBL is continuously on the look-out to acquire new brands either to add to its in-house portfolio or the licensed brand portfolio which adds value to its overall product portfolio. Few of the recent additions of brands done by MBL are FILA & Proline, Fitflop, Birkenstock and Cheemo.

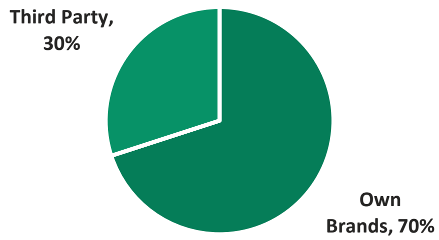
Acquiring the right type of international licensed brand which is already popular in the mindsets of the consumers like Crocs, Sketchers, Fitflop, Clarks, FILA, and Birkenstock, MBL can cater to other needs of the consumers via its in-house brands, enabling it to be one-stop retailer for all footwear needs.

Fig 47: Product portfolio available across categories



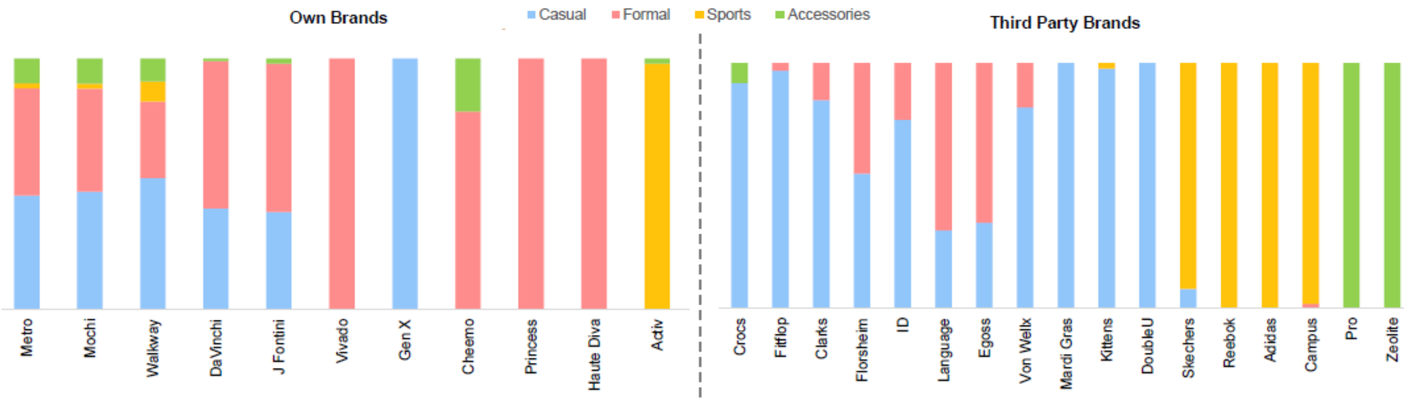
Source: Company, SMIFS Research

Fig 48: With a combination of own and licensed brands



Source: Company, SMIFS Research

Fig 49: MBL hosts over 25+ owned and licensed brands at its stores



Source: Company, SMIFS

Diversifying in value & athleisure segment

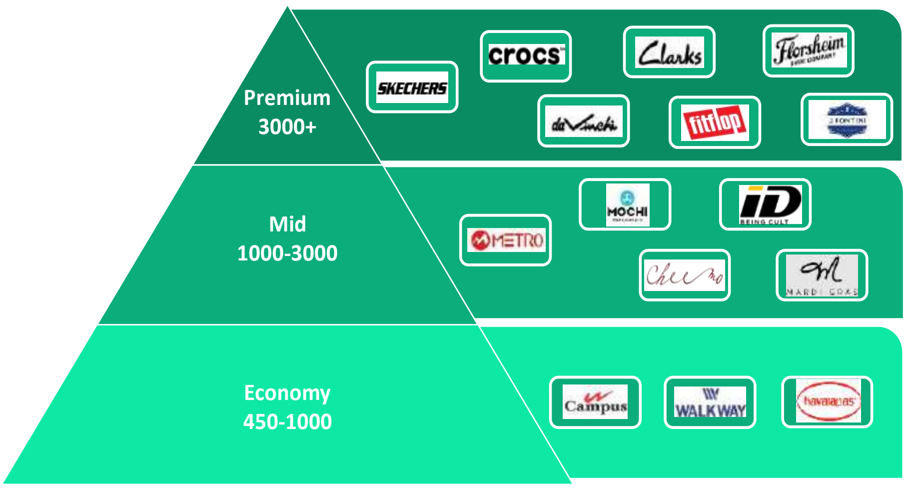
MBL started off as a premium brand and while it still leads in that category, it has diversified its portfolio in the value segment through "Walkway" chain of stores. MBL now has an offer on footwear **ranging from Rs.450 which goes up to Rs.15000 which is a wide range to operate in for any retailer**. This gives it an advantage to cater to a wide range of audience and take part in the fast-growing Indian footwear industry in a large way across the segments.

- MBL's strength lies in the mid-premium to premium segment where it has largest number of brands and whose contribution is highest in its total revenue at 87% (>1500). It is one of the few Indian formal players catering to that segment with such a wide range of both in-house and licensed offerings. Most of the international players which are present in India play in one or two categories.

- MBL is prompt and quick in adapting to the evolving market preferences and altering its assortment accordingly. With the increasing demand for athleisure footwear, it acquired FILA, Proline and Footlocker to stay relevant in all the emergent segments as it owned only a few athleisure brands earlier.

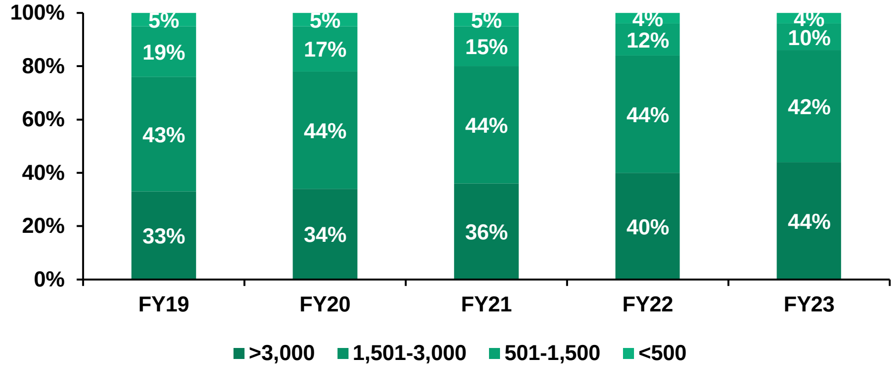
MBL's ability and agility to adapt to the market and respond with the right assortment of products is commendable and will enable it to deliver growth in the long run.

Fig 50: Presence across a wide range of price-points from Rs450-15000



Source: Company; SMIFS

Fig 51: High % of revenue for MBL comes from mid & premium segment



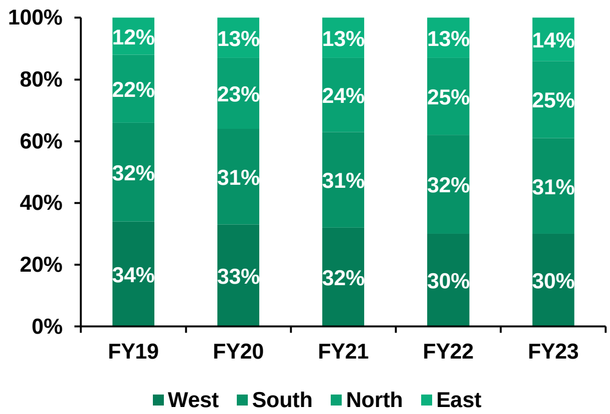
Source: Company Annual Report, SMIFS Research

Aggressive expansion plans

MBL has the third highest number of exclusive retail outlets in India. As of Dec 31, 2023, it has a pan-India presence through 800+ stores across 5 format stores (Metro, Mochi, Walkway, Crocs™, and Fitflop) located in 192 cities spread across 30 states and union territories in India. In these 5 store formats, MBL hosts 11+ in-house and 25+ licensed brands across different segments.

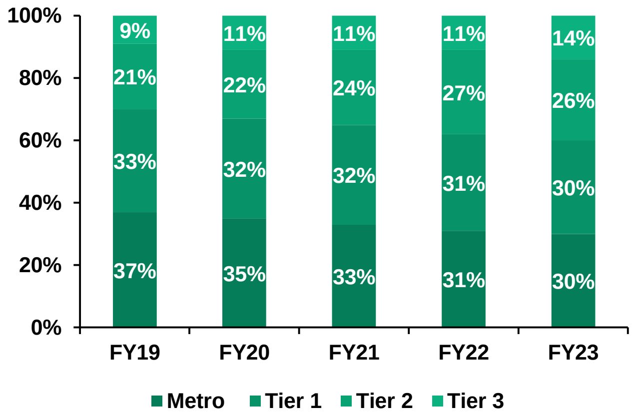
MBL operates a total Retail Business Area of more than 9 lac sq.ft., through its Stores as of Dec 31, 2023. MBL's operations are well-spread across metro cities, tier I, II and III cities and towns, and across all four zones of India. MBL is following a three-pronged expansion strategy involving 1) Opening ~350 stores during FY24E-FY26E across 7 of its formats (Metro, Mochi, Walkway, Crocs, Fitflop, FILA and Footlocker); 2) New licensed brand acquisitions appropriate for its overall portfolio 3) Growing e-commerce platform.

Fig 52: South and west contribute >60% of Revenue



Source: Company, SMIFS Research

Fig 53: Share of T2/3 cities is increasing



Source: Company, SMIFS Research

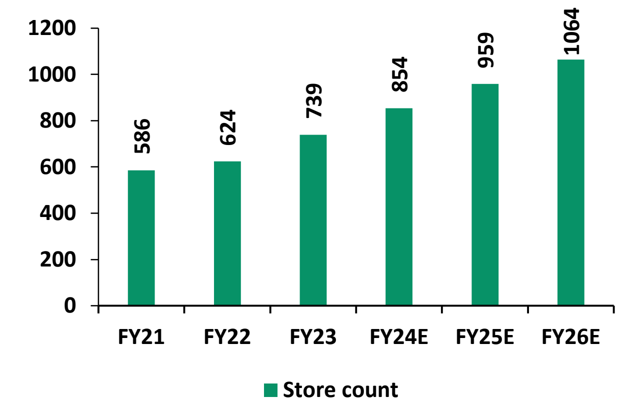
Scaling retail operations by adding ~350 new stores

MBL has opened a total of 235+ new stores from FY20-23 across four of its major store formats led by Crocs (99), Metro & Mochi (132) and Walkway (20). In the future, MBL has ambitious expansion plans, aiming to open ~350 stores across Metro, Mochi, Walkway, Crocs, Fitflop, FILA, Proline and Footlocker during FY24E-26E.

MBL is following a three-pronged strategy to expand its retail network: 1) **Cluster Approach** – Opening a greater number of stores in existing high-density geographies; 2) **Backfilling Approach** – Opening a different format store in existing geographies like a Crocs or FILA store where Metro/Mochi is already present; 3) **Tier 2/3 cities** - Entering in new tier 2/3 stores for expansion.

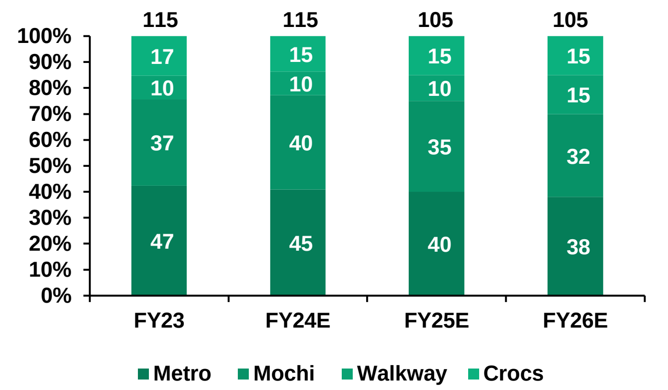
- MBL is expected to open 120+ Metro, 100+ Mochi, 35 Walkway, 45 Crocs, 15 Fitflop and 5 Footlocker stores during FY24E-26E across Metro/T1/T2&T3 cities. MBL's share of stores in Tier2&3 cities have increased from 30% in FY19 to 40% in FY23.
- MBL's expansion plans will add retail space of approx. 5lac sqft over FY24E-26E from 9.6lacs sqft as on FY23.
- The acquisition of FILA/Footlocker has opened opportunities for MBL to open ~80/30 new stores over FY26E-FY30E.
- MBL currently has 55% stores in high street, 44% stores in Malls and 1% at Airports as its target audience is semi-premium to premium category. Except for the Walkway format stores, MBL's new store openings will be focused on high streets and prime locations only

Fig 54: Stores to increase at a CAGR of 13% over FY23-26E*



*Note: Excludes FILA and Footlocker stores; Source: Company, SMIFS Research

Fig 55: Store format-wise expansion plan*



*Note: Excludes FILA and Footlocker stores; Source: Company, SMIFS Research

Fig 56: 345 new stores are expected to be opened by MBL during FY24E-26E

	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Stores added							
Metro	9	1	12	47	45	40	**38**
Mochi	9	-	17	37	40	35	**32**
Walkway	7	3	(20)#	10	10	10	**15**
Crocs	22	31	29	17	15	15	**15**
Fitflop	-	-	-	4	5	5	**5**
FILA*	-	-	-	-	-	-	**10**
Footlocker	-	-	-	-	-	5	**5**
Total	**47**	**35**	**38**	**115**	**115**	**110**	**120**
Number of stores							
Metro	218	219	231	278	323	363	**401**
Mochi	145	145	162	199	239	274	**306**
Walkway	70	73	53	63	73	83	**98**
Crocs	118	149	178	195	210	225	**240**
Fitflop	-	-	-	4	9	14	**19**
FILA*	-	-	-	-	-	4	**14**
Footlocker	-	-	-	-	-	5	**10**
Total	**551**	**586**	**624**	**739**	**854**	**968**	**1,088**
Total area (sq ft)							
Metro & Mochi	559,618	561,194	616,071	753,250	903,400	1,023,650	**1,135,950**
Walkway	94,360	98,404	71,444	88,200	102,200	116,200	**137,200**
Crocs	67,378	85,079	106,088	117,000	126,000	135,000	**144,000**
Fitflop	-	-	-	1,800	4,050	6,300	**8,550**
FILA*	-	-	-	-	-	5,400	**18,900**
Footlocker	-	-	-	-	-	20,000	**40,000**
Total	**721,356**	**744,677**	**793,603**	**960,250**	**1,135,650**	**1,306,550**	**1,484,600**

*Excludes store acquired from CBL; #Represents closure of SIS in Dmart; Source: Company, SMIFS

Fig 57: Indicative Store economics of all format stores of Metro Brands

	Metro	Mochi	Walkaway	Crocs	FILA	Footlocker	Overall
Per store (Rs mn)							
Capex	5.0	5.2	2.8	2.8	4.1	10.1	-
Inventory	5.5	5.4	3.3	2.1	4.5	11.0	-
Security deposit	1.2	1.2	0.6	0.8	1.0	2.5	-
Gross investment per store	**11.8**	**11.7**	**6.7**	**5.6**	**9.6**	**23.6**	-
Revenue per store	35.2	33.1	17.6	17.4	41.7	101.3	**27.8**
EBITDA per store	10.9	10.3	4.4	5.6	12.5	28.4	**10.0**
Profit per store*	7.7	7.3	3.2	3.8	8.3	18.2	**5.6**
Gross margin (%)	61.7	61.7	50.0	50.0	60.0	48.0	**58.0**
EBITDA margin (%)	**31.0**	**31.0**	**25.0**	**32.0**	**30.0**	**28.0**	**31.0**
Pre IND AS EBITDA margin (%)	24.0	24.0	20.0	24.0	22.0	20.0	**23.0**
EBIT margin (%)	22.0	22.0	18.0	22.0	20.0	18.0	**20.0**
Cost of retail (%)	37.7	37.7	30.0	26.0	38.0	28.0	**35.0**
Average size of the store (sq. ft.)	1650	1550	1400	600	1350	4000	**1300**
ASP (Rs)	1600	1600	700	1850	4116	21000	**1494**
Per sq ft (Rs)							
Capex	3150	3433	2089	4617	3150	2520	**3160**
Inventory	3444	3587	2415	3517	3444	2755	**3194**
Security deposit	769	807	444	1267	769	615	**779**
Gross investment	**7363**	**7827**	**4948**	**9400**	**7363**	**5890**	**7100**
Revenue	**21991**	**21371**	**12537**	**29080**	**30866**	**25336**	**22145**
EBITDA	**6817**	**6625**	**3134**	**9305**	**9260**	**7094**	**6865**
EBIT	**4838**	**4702**	**2257**	**6398**	**6173**	**4561**	**4429**
EBIT (after tax)	**3629**	**3526**	**1692**	**4798**	**4630**	**3420**	**3322**
ROCE (%)	**49%**	**45%**	**34%**	**51%**	**63%**	**58%**	**47%**
Payback period	**2.0**	**2.2**	**2.9**	**2.0**	**1.6**	**1.7**	**2.1**

Source: Company, SMIFS

Licensing of new brands to widen the product offerings

MBL believes in delivering the right kind of products to its customers and providing them the best shopping experience. MBL is continuously on the look-out to acquire new brands, based on the changing trends and consumer preferences, either to its in-house portfolio or the licensed brand portfolio which adds value its overall product portfolio.

- **Platform of choice for 3rd party brands:** Several factors contribute to MBL's successful expansion of third-party branded stores in India including strong market position, wide reach across India, healthy store economics achieved through optimizing operational costs and several years of retailing experience serving customers of different ethnicities and markets. We believe MBL is well positioned to help other third-party brands to achieve similar expansion and growth in India.

- Few of the recent additions of brands done by MBL are as follows:

  - **Footlocker:** MBL recently acquired exclusive rights to own and operate Foot Locker stores within India. Footlocker is a US based sportswear retailer which is the originator of sneaker culture globally.

  - **FILA & Proline:** MBL acquired Cravatex Brands Ltd in October 2022 to enter the athletic and athleisure white space. Cravatex owns FILA, which is an international brand with a rich heritage in the athletic space and Proline which is a well-distributed sports apparel brand, with a rich heritage in India.

- **Fitflop:** MBL was selling Fitflop in its MBO stores since a long-time back while in January 2022, it has acquired exclusive selling and distribution rights of Fitflop in India and plans to open Fitflop EBOs as well with one store already being operational in Chennai. Acquiring exclusive selling & distribution rights has also enabled smoother supply chain and availability of wider gamut of Fitflop products in MBOs, which was not the case earlier.

- **Birkenstock:** MBL has acquired the rights to sell a popular open footwear brand “Birkenstock”, in 2022 which is known for its comfort fit, in its MBO stores on popular consumer demand as it complements its target consumer tastes and preferences.

- **Cheemo:** MBL acquired “Cheemo” as an owned brand in 2018 and launched its collection in November 2018. Cheemo is a haute couture brand for ethnic handbags and matching footwear, especially handcrafted.

The recent two acquisitions of internationally established brands, FILA and Fitflop, indicate the clear direction and strategy of MBL to continue to expand its operations via acquisition of suitable brands in appropriate categories. **We thrust our belief in MBL’s strategy and capability (with surplus cash to deliver new acquisitions as and when they find the perfect deal and opportunity).**

Fig 58: MBL acquired exclusive selling and distribution rights of FILA and Fitflop in India

Source: Company, SMIFS

Fig 59: Birkenstock (licensed) and Cheemo (in-house) are two other acquisitions by MBL to enhance its portfolio

Source: Company, SMIFS

Increasing e-commerce sales

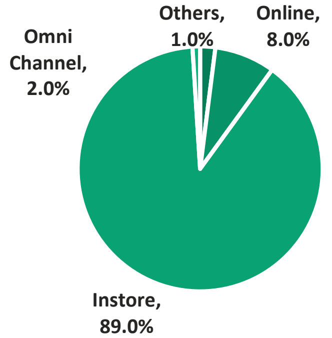
Earlier the driving factor for sales in e-commerce was heavy discounts and MBL was not in favor of offering discounts to boost topline and compromise on margins. But with the onset of Covid, the complete narrative on e-commerce has altered and now consumers are coming on online platform for convenience rather than discounts. MBL capitalized on this opportunity and launched its own multiple websites (www.metroshoes.net, www.mochishoes.net and www.walkwayshoes.com), app and offer all its products aggressively online on leading marketplaces like Myntra, Ajio, Flipkart etc.

Along with presence on online platforms, MBL also implemented systems to enable omni-channel sales which seems to be order of the day to succeed in the retail business.

- MBL delivered sales growth of 106% in e-commerce (includes omni-channel). The growth was led by driven by higher pricing, less discounting and greater volume.
- The current share of business from online platform is 10.2% in Q3FY24 vs 8.4% in Q3FY23 and 1/3rd of it is omni-channel sales which are full price sales and helps MBL to maintain high margins.
- With expansion in store network and more stores linked to e-commerce platforms, MBL's omni-channel sales are expected to increase its contribution in online sales.

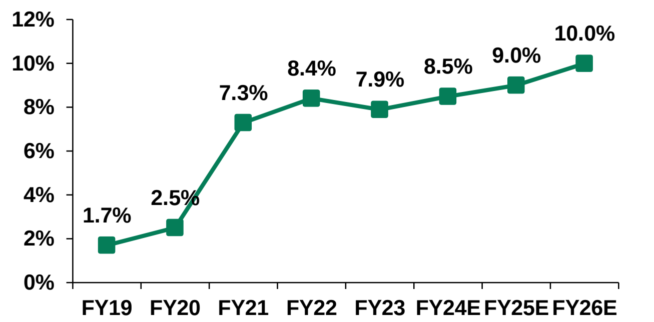
We believe the way forward for the retail industry is combination of offline and online growth and MBL being sufficiently invested in the omni-channel and a strong store network stands to gain significantly from this.

Fig 60: Online contributes 11% of total revenue



Source: Company, SMIFS Research

Fig 61: Share of online sales have improved ~5x since FY19



Source: Company, SMIFS Research

An asset light sustainable model

MBL is amongst the few footwear retailers in India to source all its products through outsourcing arrangements without own manufacturing facility, resulting in an asset light model. Its asset light model is based on third-party manufacturing by long-standing vendor relationships (250+ vendors), and supported by active brand portfolio management, optimum store size and layout, and long-term lease arrangements.

Though manufacturing is outsourced, MBL has full control over the designs, material, cost and various other aspects of manufacturing. The designs are exclusively made for MBL which gives them a competitive edge.

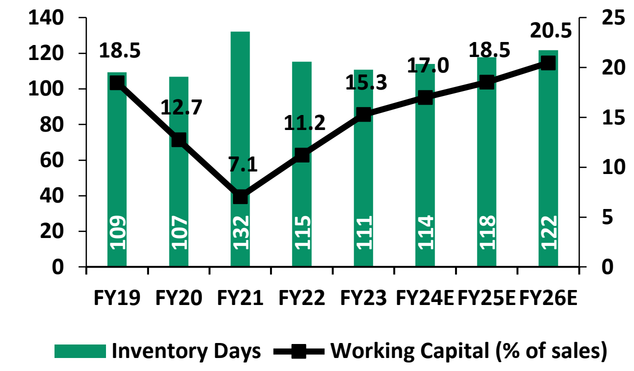
Complete outsourcing model

- **Asset light model:** The biggest advantage of an outsourcing the manufacturing model is less invested capital and higher returns on capital along with reduced capital risk. MBL's fixed asset turnover (excl. RoU) is 4.7 in FY23 and is expected to improve to 7.5 in FY26E.
- **Economical sourcing of raw material:** Owing to the scale of operations and the years of experience in the footwear industry, MBL has advantage in terms of vendor relationships when it comes to raw material sourcing. It uses that advantage to source raw material at more economical prices in bulk quantities, wherever it can, for most of its manufacturing vendors. During the recent supply chain disruptions post covid, when the whole footwear industry suffered from low margins due to sharp spike in raw material prices, MBL was relatively immune from margin pressure. Infact, it reported highest ever gross margins in Q1FY23 at 59.7%, though it was partially also aided by favourable product mix. MBL bought high inventory at economical prices to hedge the rising raw material prices which enabled them to deliver better margin.
- **Better inventory management:** The benefits of outsourcing 100% manufacturing are multifold. It eases the inventory management effort for the company both financially and physically while being able to maintain a wide variety of designs. The only inventory that MBL must manage is finished goods which puts much less burden on management bandwidth and balance sheet.

  With the scale of operations that they operate in, they can leverage better margins with the vendors and enter arrangements with third-party brands on terms favorable to them. For instance, under most of their arrangements, they are required to "**pay for products only once the products are sold"** and in certain cases, MBL "**return ageing inventory"** to the brand owner, thereby "**limiting their inventory risk".**
- **Continuous design innovations:** Having an outsourced manufacturing model enables MBL to faster implement design innovations and keep pace with the changing consumer tastes and preferences. MBL follows and surveys fashion trends across international and domestic markets to understand the evolving needs of the consumer.

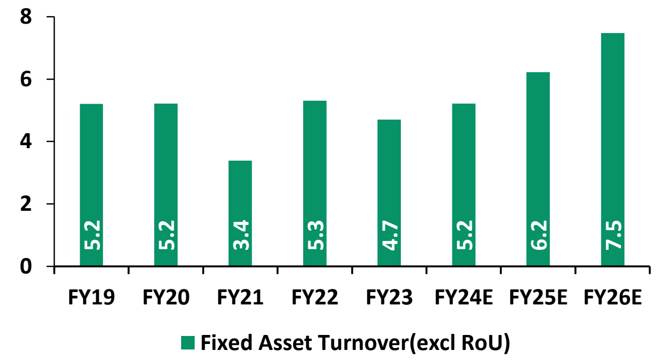
  With the deep relationships MBL possesses with its vendors, MBL helps its vendors in designing new products based on latest trends, fashion, and continuous customer feedback**. MBL has installed computers for its vendors to help them understand the latest trends, customer feedback and design products which are likely to be more successful in the market.**

Fig 62: WC to remain high on back of expansion



Source: Company, SMIFS Research

Fig 63: Fixed Asset Turns to improve to 7.5 in FY26E



Source: Company, SMIFS Research

Dynamic cost structure drives increased sales volume

Lease rentals on revenue sharing basis

- MBL operates stores either on a fixed lease basis or revenue share basis with inclination towards the revenue share model. It follows a robust location and store selection process primarily targeting high streets, malls, and airports.
- 15% of all its stores are purely on a revenue sharing model while some are on fixed lease basis and most operate on both fixed lease and revenue share basis.
- This policy followed by MBL enables it to manage costs during periods of crisis like Covid. It helps the company to stay afloat and maintain margins and cashflows during periods of slow sales.

Sales driven retail strategy

MBL follows a sale driven compensation policy for its sales staff wherein salary is directly linked to the number of products sold by them. This policy helps MBL to incentivize its sales force to provide best in-class customer service and convert most walk-ins into sales.

- MBL follows “fully variable salary” structure which is rare as most other retailers pay basic fixed salary and incentives are after crossing a certain benchmark.
- MBL has a philosophy of hiring entrepreneur material employees for its stores who are self- motivated, innovative, and determined to grow which gets reflected in their performance.
- Salaries are structured in a way where employees are told that the salary will be calculated based on number of items sold per month directly rather than any fixed salary. This serves as a key motivator for them to make most sales.
- Now what if there is no sale (which happens rarely), they are paid the minimum wages as per the Minimum Wages Act, 1948 which is bare minimum. The final salary payout is calculated based on ‘% of sales’ or “minimum wages as per the Minimum Wages Act, 1948’, whichever is lower.
- Over and above this, the top salesmen get additional commission which also acts as an incentive to strive not only for additional commission but also recognition for the hard work.

Fig 64: Summary of salesmen salary structure at MBL

Normal sales	Salary as a % of sales
Top salesmen	Salary as % of sales + additional commission
No sales (Rare case, like in covid)	Minimum wages

Source: Company, SMIFS

- MBL also boasts of a very progressive promotion policy. A salesperson performing well can go on to become a manager in future, which is difficult to achieve at some other organization.
- This compensation structure benefits both the company and the employees which is visible in the low attrition number (less than 2%) at the manager level for the company.

Discounted sales are lower than peers

MBL's discounted sales as a % of total sales is only 7-8% and it sells 90% plus of its products at full price. 7-8% of discounted sales are in discounted value terms wherein the full price value of these products is 14-15%. MBL's efficient inventory management and an appropriate pricing strategy has enabled it to achieve the lowest discounted sales not only in the footwear industry but also in the overall retail industry.

- **Inventory management:** MBL's real-time communication between store front staff and its vendors, through their warehouse and merchandising teams, helps ensure availability of relevant inventory at the right time at the stores. Based on understanding of the markets and consistent feedback from sales managers at the outlets, MBL identifies products for distribution and stock these products appropriately depending on location of the outlet within India (i.e. north, east, south, or west), and on the market in which it is situated (cities or town, urban or rural areas). This enables them to maintain complete visibility over inventory at all levels and prevents stock outs and dead stock. The real time tracking of sales in the outlets and warehouses helps them identify fast- and slow-moving stock better.
- **Owing to its pricing strategy,** MBL is able to convert a relatively large percentage of sales on MRP vis-à-vis the market average. MBL sells ~90% of its goods at full price, which is enviable for most retailers. The credit goes to their operational efficiency of providing the right product to the right places at the right time. That ensures that minimum products are hit, helping them maintain margins in the long term.

The low share of discounted sales gives us confidence in the efficiency and effectiveness of business strategy of MBL to achieve not only a healthy topline but also superior margins.

FILA acquisition: A foot in the right direction

- The acquisition of FILA is a significant milestone in MBL's growth journey as it fills the much-required gap in the high growth Sports & Athleisure (S&A) category. With this, MBL is also entering the apparel segment and diversifying its portfolio, however, the near-term focus will remain on footwear.
- This acquisition of a third-party brand is also more strategic as it gives MBL complete rights over not only distribution and marketing but also over designing and pricing of products in India.
- The S&A segment in India is expected to grow at a CAGR of 16% over FY20-25E from Rs19.5bn in FY20, wherein S&A footwear is expected to grow at 15% and apparel to grow at 16.5%.
- MBL is currently liquidating FILA's old inventory in FY24 and then introduce new designs in FY25E and test the customer response before opening new stores from FY26E. We expect MBL to open 70-80 stores over FY26E-30E.
- Globally, FILA caters to the "comfortable fashionable shoes" segment, primarily the Gen Zs and that is the brand positioning MBL aims to create in India as well. The sweet spot for FILA in India is in the range of Rs4,000-6,000 ASP.
- We estimate FILA will generate Rs5bn revenue by FY30E from its ~90 stores and contribute ~8% to overall Metro sales. The scope for expansion is wide as other S&A footwear brands in India has close to 300-500 stores as of now.

Fig 65: FILA to contribute upto 8% of total revenue of MBL

(Rs mn)	FY22	FY23	FY26E	FY30E
Revenue	779	962	583	5045
Growth (%)	*60.3*	*23.5*	*-15.3**	*71.5***
Contribution to total sales (%)		*1.6%*	*1.7%*	*8%*
Gross Margin (%)	40.65	39.87	50.0	50.0
EBITDA	-61	-299	117	1514
EBITDAM (%)	(7.8)	(31.1)	20.0	30.0
No. of stores		24	14	89
Store size (sq ft)		1350	1350	1350
Revenue/store (Rs mn)		40	42	57
Revenue/sq ft (Rs.)		29679	30866	41993
Sales Mix (%)				
Footwear	80%	80%	75%	70%
Apparel	15%	15%	18%	20%
Accessories	5%	5%	8%	10%

*CAGR over FY23-26E; ** CAGR over FY26E-30E; Source: Company, SMIFS

Footlocker: Embracing sneakerization

- Footlocker is a popular American sportswear retailer and a global leader and originator of sneaker culture. As the go-to destination for sneaker enthusiasts, Foot Locker offers an exclusive curated assortment from the most preferred brands of India's next generation. It operates 1,846 owned stores in North America and 2,714 owned stores globally across EMEA and Asia Pacific region as on CY22.
- The volume of the sneaker segment in India is projected to reach 66mn pairs by 2028. The sneaker segment is experiencing rapid growth in the country, with consumers seeking out unique designs that blend traditional Indian elements with modern trends.
- MBL has exclusive rights to manage and own Foot Locker stores in India while Nykaa Fashion has the e-commerce rights wherein it will oversee Foot Locker's India website and retail shoes on a dedicated Foot Locker shop within Nykaa’s online platforms.
- The Company plans to launch new Footlocker stores in H2FY25E, starting with 2-6 stores in two cities. On an average, a Foot Locker store will generate ~2 times the revenue of a Metro store. However, Footlocker stores are bigger in size, so on a per square foot basis, the revenue will be the same as the Metro store.
- Looking at the limited market size for high priced sneakers in the country today, largely focused on Metro and Tier 1/2 cities, we anticipate MBL to open ~30 stores in the next 5-6 years.
- In contrast to Crocs and FILA, Footlocker positions itself as a more premium brand, targeting a niche customer base. While its short-term prospects may face challenges, we feel the long-term success of Footlocker will align well with the growing trend of sneakerization.

Fig 66: Footlocker has potential to contribute 7.6% in MBL’s revenue by FY30E

(Rs mn)	FY25E	FY26E	FY30E
Revenue	219	1013	4865
Growth (%)		*362.0*	*48.0**
Contribution to total sales (%)	*0.8%*	*3.0%*	*7.6%*
Gross Margin (%)	50	50	50
EBITDA	33	324	1557
EBITDAM (%)	15.0	32.0	32.0
No. of stores	5	10	30
Store size (sq ft)	4000	4000	4000
Revenue/store (Rs mn)	44	101	162
Revenue/sq ft (Rs.)	10968	25336	40544

*CAGR over FY26E-30E; Source: Company, SMIFS Research

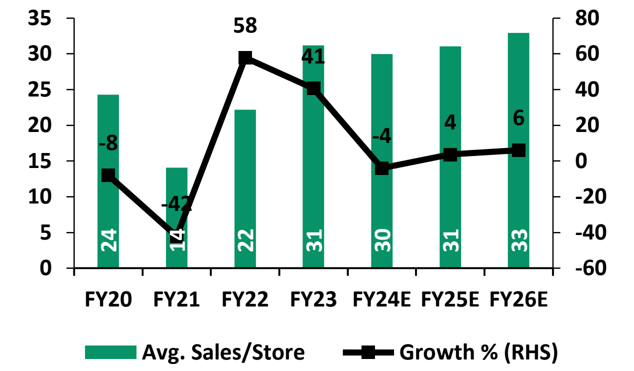
Fig 67: MBL will get access to the Exclusive Sneaker collection of Footlocker

Source: Company, SMIFS

Best-in-class store economics

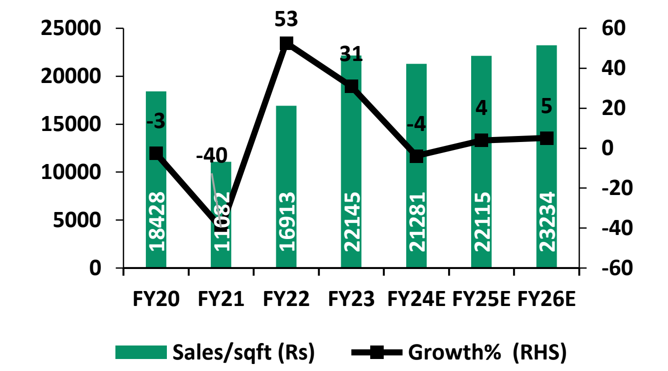
- **Impeccable unit economics:** Sales/sq ft of MBL is the best in the industry (Rs22145/sq ft vs Rs9360/sq ft for Bata), thanks to its premium positioning across formats (ASP of Rs1500 vs Rs712 of Bata), smaller store sizes (1200 sq.ft/store vs 1900 sq.ft/store for Bata) and exposure to premium catchments (High streets and malls).
- The **superior unit economics** combined with healthy GMs (57-59%), and consistent cost of retailing (34-35% of sales) ensure that Metro across formats (ex-Walkway) enjoys a payback period between 1.3-2 years. Walkway, however, doesn't enjoy the same unit economics as others (payback period: ~3 years) since it is positioned for the more value-seeking consumer.

Fig 68: Average sales/store to improve by 5% CAGR over FY24E-26E



Source: Company, SMIFS Research

Fig 69: Sales/sqft to grow at a CAGR of 4.5% over FY24E-26E



Source: Company, SMIFS Research

Financial Analysis

- We expect MBL to deliver a revenue CAGR of 17% underpinned by 11/6% Volume/Net realization CAGR over FY23-26E. MBL has delivered a sales CAGR of 11.5% over FY19-23 supported by 16/3% CAGR in Volume/Net realization. Volume growth is predominantly backed by area CAGR of 15% (incl FILA & Footlocker) over FY24E-26 (vs 11% CAGR over FY20-23). Note: Management has guided for ~100 store additions (ex-FILA/Fitflop) annually in FY24E/25E each.

- MBL to deliver superior EBITDA Margins (Pre-IND AS) of 21%/22%/23% over FY24/25/26 along with return ratios. MBL is expected to report ROE of 21%/22%/24% and ROCE of 15%/16.5%/18% over FY24E/25E/26E.

Fig 70: Sales to grow at a CAGR of 19% over FY24E-26E

(Rs. Mn)	FY22	FY23	FY24E	FY25E	FY26E
Opening stores	586	624	739	854	969
Net addition	38	115	115	115	120
Number of stores*	**624**	**739**	**854**	**969**	**1089**
Average Sales/ Store	22	31	30	31	33
Growth	*57.9%*	*40.6%*	*-3.9%*	*3.7%*	*6.0%*
Revenue/sq ft (Rs)	16913	22145	21281	22115	23234
YoY Growth	***52.6%***	***30.9%***	***-3.9%***	***3.9%***	***5.1%***
Revenue	13429	21271	23872	28318	33888
YoY Growth	***67.9%***	***58.4%***	***12.2%***	***18.6%***	***19.7%***
Gross Profit	7770	12351	13845	16283	19486
Gross Margins	***57.9%***	***58.1%***	***58.0%***	***57.5%***	***57.5%***
Operational cost	3679	5564	6743	7637	8922
% of sales	*27.4%*	*26.2%*	*28.2%*	*27.0%*	*26.3%*
EBITDA	4092	6787	7102	8646	10564
Margins	***30.5%***	***31.9%***	***29.8%***	***30.5%***	***31.2%***
Pre-Ind AS EBITDA	3,053	5,078	5,384	6,848	8,633
Pre-Ind AS EBITDA Margin	***22.7%***	***23.9%***	***22.6%***	***24.2%***	***25.5%***
Cost of retail	***35.1%***	***34.2%***	***35.4%***	***33.3%***	***32.0%***
Other Income	586	544	452	507	541
Depreciation	1342	1810	2232	2555	2949
Interest	504	631	637	640	660
PBT	2831	4890	4686	5958	7496
Tax	702	1257	1138	1496	1881
PAT	2130	3633	3548	4463	5614
EPS (Rs)	**7.8**	**13.3**	**13.0**	**16.4**	**20.6**

*Note: Stores exclude FILA and Proline store acquired from CBL; Source: Company, SMIFS

Fig 71: Capex of Rs1.6bn over FY24E-FY26E with ROE/ROCE of 24%/18%

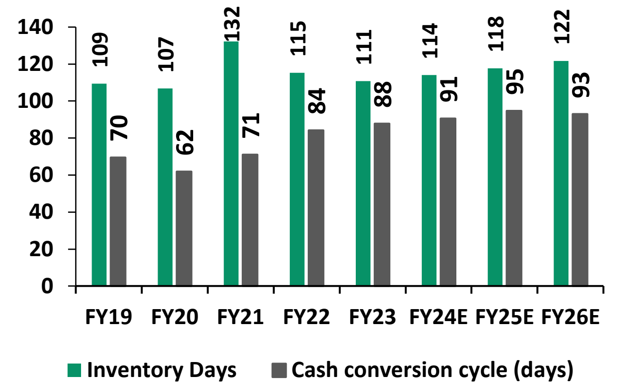
Particulars (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Capex	119	239	963	539	509	580
Debt	14	0	15	0	0	0
Cash & Cash Equivalents	879	3965	1985	2335	2789	2239
WCAP	5353	9398	9879	11517	14165	17717
ROE	8.1%	19.8%	25.3%	20.8%	22.5%	24.0%
ROCE	7.1%	14.8%	18.2%	15.2%	16.6%	18.0%

Source: Company, SMIFS

- MBL has steady cashflow generation which enables it to fund its growth via internal accruals. MBL is expected to generate FCF of Rs18.6bn over FY24E-26E, which is more than sufficient for existing capex plans as well as future expansion plans in terms of any new acquisitions.

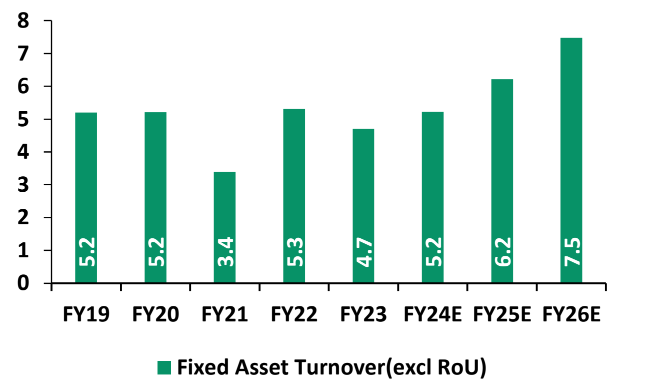
- The working capital cycle of MBL has increased from 67 days in FY19 to 84 days in FY23 as the company has grown from 504 stores in FY19 to 739 as of FY23. We expect the WC cycle to increase further to 93 days by FY26E as the company continues the expansion journey.

Fig 72: Cash conversion cycle to reach at 93 in FY26E



Source: Company, SMIFS Research

Fig 73: Asset turns to improve to 7.5 in FY26E



Source: Company, SMIFS Research

Key risks

- **Heightened Competition:** The entry of a new major player at national level could potentially disrupt the market landscape and erode MBL's competitive edge.

- **Performance Disappointments in New Acquisitions:** Concerns arise regarding the ability of new brand acquisitions such as Fitflop, FILA, Proline, and Footlocker to meet performance expectations in the Indian market, posing downside risks to our projections.

- **Supply Chain Vulnerability:** MBL relies entirely on external vendors for its product sourcing. Any operational disruptions at critical vendors' present significant risks to its business.

- **Lease Agreement Renewal Challenges:** Failure to secure lease renewals on favourable terms may force MBL to contend with elevated rental expenses or relocation costs, adversely affecting its overall profitability.

Corporate Governance

We believe that good corporate governance is necessary for enhancing the trust of the shareholders. Hereby, we present a detailed framework on corporate governance for the comfort of the investors of Metro Brands considering board of directors, remuneration of key managerial personnel, contingent liability etc.

Promoters' Shareholding

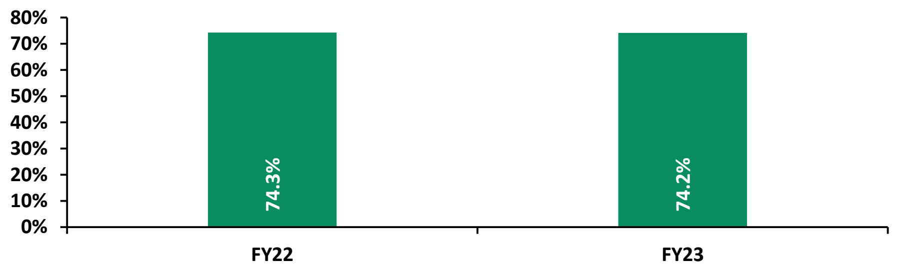
Metro brands is promoted by Mr. Rafique Abdul Malik. The promoters currently hold 74.2% of the equity capital. Mr. Rafique Abdul Malik, Mrs. Farah Malik Bhanji, and Ms. Alisha Rafique Malik together hold the highest stake i.e., 62.09% combined. The details of the shareholding and its movement are indicated in the following table and chart:

Fig 74: Latest Promoter Shareholding

Particulars	% Holding
Aziza Malik Family Trust (Trustee - Farah Malik Bhanji)	28.12
Rafique Malik Family Trust (Trustee - Farah Malik Bhanji)	27.72
Alisha Rafique Malik	3.34
Zia Malik Lalji	1.89
Sabina Malik Hadi	1.89
Zarah Rafique Malik	1.89
Farah Malik Bhanji	1.88
Zia Malik Family Trust (Trustee - Rafique Abdul Malik)	1.46
Zarah Malik Family Trust (Trustee - Rafique Abdul Malik)	1.46
Sabina Malik Family Trust (Trustee - Rafique Abdul Malik)	1.46
Farah Malik Family Trust (Trustee - Rafique Abdul Malik)	1.46
Rafique Abdul Malik	0.99
Aziza Rafique Malik	0.50
Rukshana Kurbanali Javeri	0.09
Suleiman Sadrudin Bhanji	0.01
Mumtaz Jaffer	0.01
Total	**74.17**

Source: Company, SMIFS Research

Fig 75: Promoter Shareholding



Source: Company Annual Report, SMIFS Research

The above graph shows promoter shareholding majorly remained unchanged in FY22 and FY23.

Promoter Remuneration

The promoter remuneration stood at ~2.3% of PBT as on FY23.

Fig 76: Remuneration of promoter *(Rs in Mn)*

	FY19	FY20	FY21	FY22	FY23
Rafique Abdul Malik	54.3	60.6	67.3	76.0	71.5
Farah Malik Bhanji	22.9	25.6	28.1	31.7	29.8
Alisha Rafique Malik	3.9	4.5	4.7	9.0	9.7
Total Remuneration	**81.1**	**90.7**	**100.1**	**116.7**	**111.0**
As a % of PBT	*3.4%*	*4.2%*	*11.8%*	*4.1%*	*2.3%*

Source: Company Annual Reports, SMIFS Research

Independent Director's Compensation

Independent directors were cumulatively paid ~Rs3.65mn which is 0.0% of PBT as on FY23. Independent directors were paid sitting fees.

Fig 77: Remuneration of Independent Director *(Rs in Mn)*

Name	FY23 Compensation (Rs in mn)	As % to PBT (FY23)
Mr. Utpal Hemendra Sheth*	-	-
Mr. Manoj Kumar Madangopal Maheshwari	0.9	0.0
Ms. Aruna Bhagwan Advani	0.8	0.0
Mr. Arvind Kumar Singhal	0.7	0.0
Mr. Vikas Vijaykumar Khemani	0.6	0.0
Mr. Srikanth Velamakanni	0.6	0.0
Total	***3.6***	***0.0***

Source: Company Annual Report FY23, SMIFS Research, *Voluntarily chose not to receive any remuneration for his services

Board Composition

Independent directors constitute more than 50% of the board composition. The details are given below:

Fig 78: Board Composition

	FY19	FY20	FY21	FY22	FY23
Promoter group Executive Directors	2	2	2	2	2
Other Executive Directors	1	1	1	1	1
Independent Directors	6	6	6	6	6

Source: Company Annual Reports, SMIFS Research

Contingent Liabilities

The company's contingent liability is decreasing over the period of 3 years and stood at 1.83% of net worth as on FY23. A major portion of contingent liabilities is safe items which we have taken into consideration in calculating total liability.

Fig 79: Contingent Liability *(Rs in Mn)*

	FY21	FY22	FY23
Central Excise demands	8.87	8.87	8.87
Service Tax demands	11	11	11
Sales Tax demands	754	82	99
Goods and Services Tax demands	8	152	152
Income Tax demands	457	3	3
Others	21	-	-
Total	**1258**	**256**	**273**
As a % of Net Worth	***15.2%***	***2.0%***	***1.8%***

Source: Company Annual Reports, SMIFS Research

Related Party Transaction

As per our analysis of RPT, nothing specific has come to our notice. The related party transactions increased in FY23 owing to rise in purchase of stock in trade to its joint venture M.V. Shoe Care Private Limited and increase in Interim dividend.

Fig 80: Related Party Transaction *(Rs in mn)*

	FY21	FY22	FY23
Rent - Compensation in respect of concession agreements for showrooms			
Mr. Rafique Malik	5	9	13
Mrs. Aziza Malik	12	22	29
Total	**17**	**31**	**42**
Commission			
Metro shoes	8	16	26
Total	**8**	**16**	**26**
Rent (Compensation received in respect of rent for office)			
Metro shoes	0	0	-
Total	**0**	**0**	**-**
Sale of Property, Plant and Equipment			
Metro Family Holdings	-	-	10
Total	**-**	**-**	**10**
Retainership Fees			
Mrs. Mumtaz Jaffer	2	4	4
Total	**2**	**4**	**4**
Professional Fees (capital cost)			
Design Matrix Interiors LLP	12	28	44
Design Matrix Associated Private Limited	-	-	0
Total	**12**	**28**	**45**
Purchases of Stock-in-Trade (net of taxes)			
M.V. Shoe Care Private Limited	62	97	201
Total	**62**	**97**	**201**
Security Deposit			
Mr. Rafique Malik	-		1
Total	**-**	**-**	**1.3**

Source: Company Annual Reports, SMIFS Research

Key Management Personnel

Fig 81: Details of promoter and director

Name	Designation	Profile
Mr. Rafique Abdul Malik	Chairman	Mr. Rafique A Malik holds a bachelor's degree in commerce and has attended the Owner/President Management Program at the Harvard Graduate School of Business. He has over 50 years of experience in the field of footwear retail and has been associated with the Company since January 1977.
Ms. Farah Malik Bhanji	Managing Director	Ms. Farah Malik Bhanji holds bachelor's degrees in arts and BBA from the University of Texas at Austin and has attended the Owner/President Program at the Harvard Graduate School of Business. She has over 20 years of experience in the field of footwear retail and has been associated with the Company since December 2000.
Mr. Mohammed Iqbal Hasanally Dossani	Whole Time Director	Mr. Iqbal Hasanally Dossani holds a bachelor's degree in commerce, Financial Accounting and Auditing. He was previously associated with M/s. Workforce Media Network and Schefata Pharmaceutical & Development Laboratories.
Mr. Nissan Joseph	Chief Executive Officer	Mr. Nissan Joseph holds a master's degree in business administration. He was previously associated with Payless Shoes, Hickory Brands, Crocs, MAP Active & Planet Sports .
Mr. Kaushal Khodidas Parekh	Chief Financial Officer	Mr. Kaushal Khodidas Parekh holds a bachelor's degree in commerce, Financial Accounting and Auditing (Special) and is a qualified Chartered Accountant and Company Secretary. He was previously associated with Ernst & Young, PwC and N. M. Raiji & Co.
Ms. Alisha Rafique Malik	President Sports Division, E-Commerce, and CRM	Ms. Alisha Rafique Malik holds a bachelor's degree in arts (Finance) from University of Northumbria conducted at Welingkar Institute of Management Development and Research. She has been associated with the Company since July 2009.
Mr. Utpal Hemendra Sheth	Non-Executive Independent (Nominee)	Mr. Utpal Hemendra Sheth is a Cost Accountant and Chartered Financial Analyst from ICFAI, Hyderabad and holds a bachelor's degree in commerce. He is currently serving as the CEO of Rare Enterprises.
Ms. Aruna Bhagwan Advani	Non-Executive Independent	Ms. Aruna Bhagwan Advani holds a bachelor's degree in science from the University of Sussex, UK. She has previously served as the Executive Chairman of Ador Welding Ltd.
Mr. Arvind Kumar Singhal	Non-Executive Independent	Mr. Arvind Kumar Singhal holds a Bachelor of Engineering Degree from IIT-Roorkee and an MBA from the University of California, USA. He is presently serving as the Chairman of Technopak Advisors Pvt. Ltd.
Mr. Manoj Kumar Madangopal Maheshwari	Non-Executive Independent	Mr. Manoj Kumar Maheshwari holds a bachelor's degree in science. He is the Chairman and Director of Maheshwari Investors Pvt. Ltd. and serves on the Boards of Mahindra CIE Automotive Ltd., R.J Investment Pvt. Ltd. and RPG Life Sciences Ltd.
Mr. Srikanth Velamakanni	Non-Executive Independent	Mr. Srikanth Velamakanni holds a bachelor's degree in electrical engineering from IIT Delhi and PGDM from IIM Ahmedabad. He is a Whole-time Director and Member of Fractal Analytics Pvt. Ltd.
Mr. Vikas Vijaykumar Khemani	Non-Executive Independent	Mr. Vikas Vijaykumar Khemani is a Fellow Member of ICAI, a CFA Charter Holder and Member of ICSI. He currently serves on the Boards of Carnelian Asset Advisors Pvt. Ltd., BSAS Infotech Ltd., Tibbs Foods Pvt. Ltd., Course5 Intelligence Ltd. And Zicom SaaS.

Source: Company, SMIFS Research

CSR Activities

Metro brands has been actively involved in CSR activities for the betterment of the society. The company has spent ~Rs98.3mn in FY23 and ~Rs82.7mn in FY22. The spend as % of prescribed limit is increasing from FY21.

Fig 82: CSR spend *(Rs in mn)*

Company	Avg Net Profit (last 3 Yrs)	Prescribed Expenditure	Total Spends	Spend as % of prescribed limit
FY23	1793	36	35	98.3
FY22	1,619	32	27	82.7
FY21	2,032	41	24	58.6

Source: Company Annual Reports, SMIFS Research

Auditors

Metro brands appointed S R B C & CO. LLP as the statutory auditor. The auditors have given a true and fair view for the results of the financial year 2022-23.

Fig 83: Auditor fee

Auditor Name	Type	Auditor Fees - (Rs mn)	As a % of PBT
S R B C & CO LLP	Statutory Auditors	4.7	0.10%

Source: Company Annual Reports, SMIFS Research

Company Background

What is Metro Brands all about?

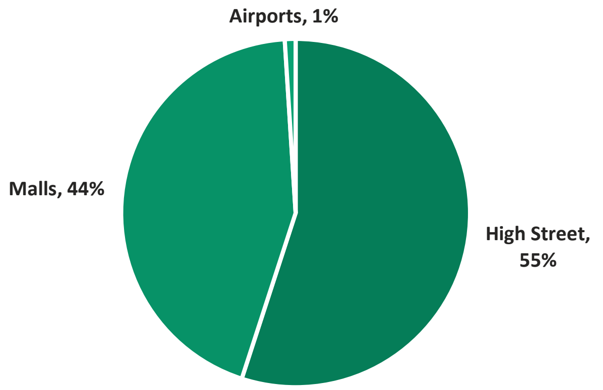
Set up in 1955, Metro Brands Ltd. is a one-stop-shop footwear retailer in India, with offerings for the whole family for any occasions, from casual to formal to party wear. With 795 stores across 192 cities as of 31st Dec'23, MBL targets the economy (Walkaway), mid (Metro & Mochi) and premium (Crocs, Fitflop, FILA & Footlocker) segments through its MBO (Metro, Mochi and Walkway) and EBO stores (Crocs, Fitflop, FILA & Footlocker). MBL follows the "company owned & company operated (COCO) model of footwear retailing to better manage customer experience at its store.

- MBL operates on an asset light business model with all its manufacturing outsourced to third party vendors with a complete management focus on retail and having the right mix of products for the customer.
- MBL offers one of the widest ranges of brands (11 own/in-house and 25+ third party) across price ranges (Rs450-15,000). 70% of MBL's revenue comes from in-house brands while the remaining comes from the licensed brands.
- With an ASP of Rs.1500 and 55% of stores located in high streets and 44% in malls, MBL is positioned as a premium footwear retailer having share of >Rs3000 products increase from 44% in Q3FY23 to 49% in Q3FY24.
- MBL also offers accessories such as belts, bags, socks, and wallets which contribute 10-12% to its total revenue. Add-ons in the form of accessories help MBL to maintain its high margins.

Fig 84: Wide gamut of products for all genders, age, and occasions

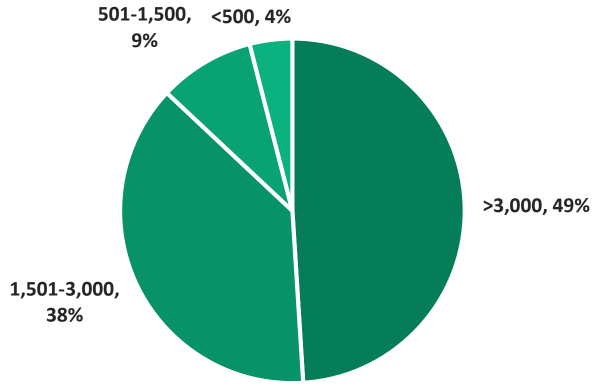
Source: SMIFS Research

Fig 85: Store placement designed to attract high-end customers…



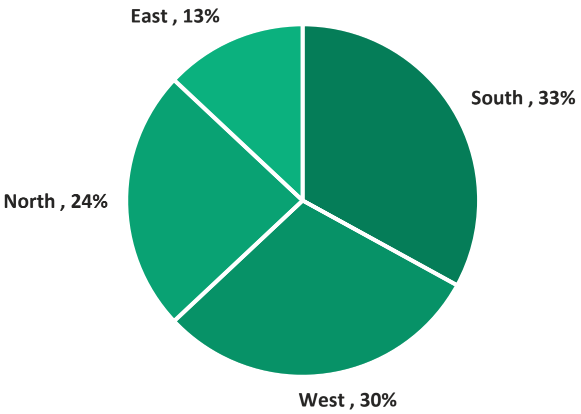
Source: Company, SMIFS Research

Fig 86: High share of revenue coming from >Rs3000 and 1501-3000 category



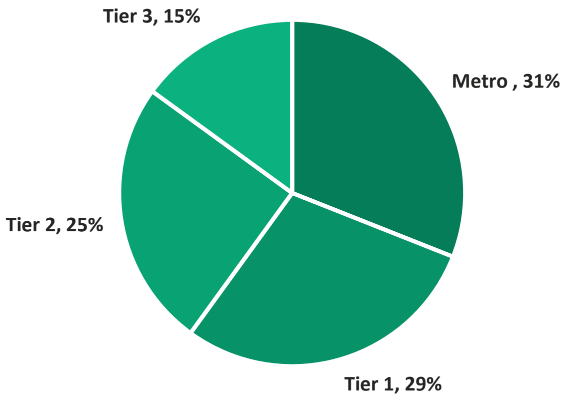
Source: Company, SMIFS Research

Fig 87: MBL operations are concentrated in the South & west region…



Source: Company, SMIFS Research

Fig 88: >60% of revenue coming from Metro & Tier 1 cities



Source: Company, SMIFS Research

Fig 89: One stop shop for all footwear needs

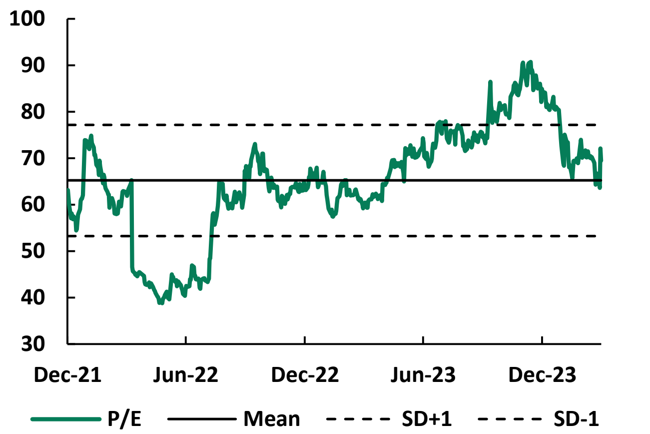
Details	Metro	Mochi	Walkway	Crocs	Fitflop	Overall Metro Brands
Format	MBO	MBO	MBO	EBO	EBO	MBO & EBO
Target Customer	Affordable (Family)	Affordable (Youth)	Value (Family)	Premium	Premium	Affordable to Premium
No. of stores (9MFY24)	313	229	70	206	8	766
No. of cities (9MFY24)	164	110	50	93	7	158
No. of SKUs	~3800	~1500	~600	~600		~6500
Price range (Rs)	1000-10000	1000-10000	350-3500	1500-8000	3500-12000	350-10000
Avg. Realisation - (9MFY24)	1700	1700	700	1650	5500	1500
Avg. Store Size (sq ft) (9MFY24)	1650	1600	1400	600	550	1160
Brand mix (9MFY24)		Own Brands		Third party brands		72% own brands and 28% third party brands

Source: Company, SMIFS Research

Valuation and Recommendations

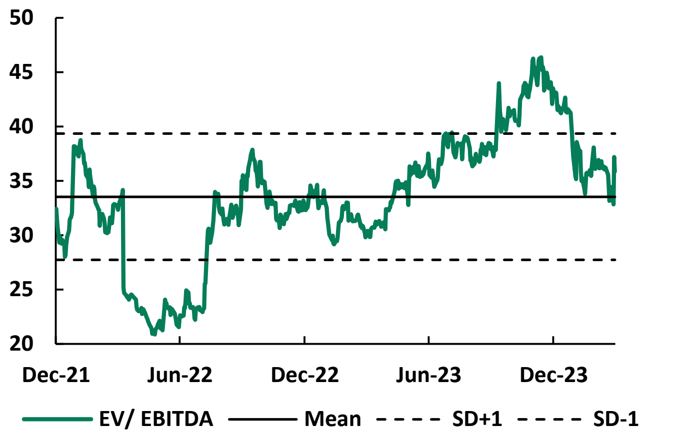
Currently, the stock is trading at a PE multiple of 55x on FY26E EPS of Rs20.6. We value the stock at **65x FY26E EPS on back of better growth, margins, return ratios and asset turnover vs peers and arrive at a target price of Rs. 1338 per share which is largely in-line with current valuations and provide an upside of 19%. Hence, we assign "BUY" rating on the stock**.

Fig 90: 1-year forward P/E



Source: AceEquity, SMIFS Research

Fig 91: 1-year forward EV/EBITDA



Source: AceEquity, SMIFS Research

Quarterly financials, operating metrics & key performance indicators

Fig 92: Quarterly Financials

Y/E March (Rs mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net Sales	**4,032**	**5,080**	**4,763**	**5,987**	**5,441**	**5,825**	**5,557**	**6,355**
Raw Materials	1,721	2,046	2,032	2,441	2,401	2,384	2,401	2,549
Employee Costs	352	396	428	496	523	533	553	604
Other Expenditure	659	809	832	998	1,082	1,043	1,050	1,213
EBITDA	**1,298**	**1,829**	**1,472**	**2,052**	**1,436**	**1,866**	**1,554**	**1,990**
Other Income	134	93	118	146	187	144	162	160
Depreciation	347	389	414	504	502	543	572	586
EBIT	**1,085**	**1,532**	**1,175**	**1,694**	**1,121**	**1,467**	**1,144**	**1,563**
Interest	145	134	148	173	175	185	197	204
Exceptional items	-	-	-	-	-	-	-	-
PBT	**940**	**1,398**	**1,027**	**1,521**	**946**	**1,282**	**947**	**1,359**
Tax	250	345	253	394	267	353	275	379
Tax rate (%)	26.6	24.7	24.6	25.9	28.2	27.5	29.1	27.9
PAT	**690**	**1,053**	**774**	**1,128**	**679**	**929**	**671**	**981**
Share of Associate / JV	5	5	5	2	8	6	5	7
Minority interest	7	10	16	10	3	7	9	10
Adjusted PAT	**688**	**1,048**	**763**	**1,120**	**685**	**928**	**667**	**978**
YoY Growth (%)								
Revenue	26.3	286.6	46.7	23.8	35.0	14.7	16.7	6.1
EBITDA	52.9	1152.5	52.0	22.2	10.6	2.0	5.6	-3.0
Adj PAT	59.7	0.0	44.4	10.5	-0.4	-11.5	-12.5	-12.6
QoQ Growth (%)								
Revenue	-16.7	26.0	-6.2	25.7	-9.1	7.1	-4.6	14.4
EBITDA	-22.7	40.8	-19.5	39.4	-30.0	30.0	-16.7	28.1
Adj PAT	-32.1	52.4	-27.3	46.8	-38.8	35.5	-28.2	46.7
Margins (%)								
RMC/revenue (%)	42.7	40.3	42.7	40.8	44.1	40.9	43.2	40.1
Gross margin (%)	57.3	59.7	57.3	59.2	55.9	59.1	56.8	59.9
Employee cost/revenue (%)	8.7	7.8	9.0	8.3	9.6	9.1	9.9	9.5
Other expenses/revenue (%)	16.4	15.9	17.5	16.7	19.9	17.9	18.9	19.1
EBITDA margin (%)	32.2	36.0	30.9	34.3	26.4	32.0	28.0	31.3
Adj PAT margin (%)	17.1	20.6	16.0	18.7	12.6	15.9	12.0	15.4

Source: Company, SMIFS research

Key Performance Indicators

	FY22	FY23	FY24E	FY25E	FY26E
Revenue (Rs Mn)	13429	21271	23872	28318	33888
YoY(%)	*67.9*	*58.4*	*12.2*	*18.6*	*19.7*
EBITDA	4092	6787	7102	8646	10564
EBITDA Margin (%)	30.5	31.9	29.8	30.5	31.2
Revenue Contribution (%)					
Retail	92	92	100	100	100
Online/Omni Channel	8	8	0	0	0
Volume/Realization					
Volume (mn pairs)	9	14	15	17	19
YoY (%)	*53.9*	*53.8*	*6.9*	*11.9*	*12.9*
ASP (Rs)	1450	1494	1568	1662	1762
YoY (%)	*9.2*	*3.0*	*5.0*	*6.0*	*6.0*
Stores (#)	624	739	854	959	1064
Additions (#)	38	115	115	115	120
Retail space (mn sqft)*	7,93,603	9,60,250	11,35,650	13,06,550	14,84,600
YoY (%)	*10.1*	*21.0*	*16.8*	*14.2*	*13.9*

**Note: Excludes FILA and Proline stores' area acquired from CBL; Source: Company, SMIFS research*

Financial Statements

Income Statement

YE March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenues	**13,429**	**21,271**	**23,872**	**28,318**	**33,888**
Raw Materials	5,659	8,920	10,026	12,035	14,402
% of sales	42.1	41.9	42.0	42.5	42.5
Personnel	1,212	1,843	2,196	2,549	3,050
% of sales	9.0	8.7	9.2	9.0	9.0
Other Expenses	2,466	3,720	4,547	5,088	5,872
% of sales	18.4	17.5	19.0	18.0	17.3
EBITDA	**4,092**	**6,787**	**7,102**	**8,646**	**10,564**
Other Income	586	544	452	507	541
Depreciation & Amortization	1,342	1,810	2,232	2,555	2,949
EBIT	**3,336**	**5,522**	**5,322**	**6,598**	**8,155**
Finance cost	504	631	637	640	660
Core PBT	**2,245**	**4,346**	**4,234**	**5,451**	**6,955**
Exceptional items	0	0	0	0	0
PBT	**2,831**	**4,890**	**4,686**	**5,958**	**7,496**
Tax-Total	702	1,257	1,138	1,496	1,881
Effective tax rate (%)	24.8	25.7	24.3	25.1	25.1
PAT	**2,130**	**3,633**	**3,548**	**4,463**	**5,614**
Share of Associates	12	20	20	20	20
Non-controlling interest	26	39	39	39	39
Adjusted PAT	**2,116**	**3,614**	**3,529**	**4,444**	**5,595**

Source: Company, SMIFS Research Estimates

Key Ratios

YE March	FY22	FY23	FY24E	FY25E	FY26E
Growth Ratio (%)					
Revenue	67.9	58.4	12.2	18.6	19.7
EBITDA	137.0	65.9	4.6	21.7	22.2
Adjusted PAT	210.3	70.8	-2.4	25.9	25.9
Margin Ratios (%)					
Gross Profit	57.9	58.1	58.0	57.5	57.5
EBITDA	30.5	31.9	29.8	30.5	31.2
EBIT	24.8	26.0	22.3	23.3	24.1
Core PBT	16.7	20.4	17.7	19.2	20.5
Adjusted PAT	15.8	17.0	14.8	15.7	16.5
Return Ratios (%)					
ROE	19.8	25.3	20.8	22.5	24.0
ROCE	14.8	18.2	15.2	16.6	18.0
Turnover Ratios (days)					
Gross Block Turnover (x)	3.6	4.4	3.8	4.1	4.6
Adj OCF/Adj PAT (%)	136.7	149.8	130.4	126.5	123.6
Inventory	115	111	114	118	122
Debtors	13	22	23	24	26
Creditors	57	48	49	51	53
Cash conversion cycle	71	84	88	91	95
Solvency Ratio (x)					
Debt-equity	0.5	0.6	0.5	0.5	0.4
Net debt-equity	-0.1	0.2	0.1	0.1	0.0
Gross Debt/EBITDA	1.7	1.4	1.4	1.2	1.0
Current Ratio	4.2	3.8	3.8	3.8	3.8
Interest coverage ratio	5.5	7.9	7.6	9.5	11.5
Dividend					
DPS	2.6	4.0	3.9	4.9	6.2
Dividend Yield (%)	0.4	0.4	0.4	0.5	0.7
Dividend Payout (%)	33.4	30.0	30.0	30.0	30.0
Per share Ratios (Rs)					
Basic EPS (reported)	8.0	13.3	13.0	16.4	20.6
Adjusted EPS	7.8	13.3	13.0	16.4	20.6
CEPS	12.7	20.0	21.2	25.8	31.4
BV	47	58	67	78	93
Valuation (x)					
Adj P/E	87.0	70.2	86.4	68.6	54.5
P/BV	14.3	16.1	16.7	14.3	12.1
EV/EBITDA	44.7	37.8	43.3	35.4	28.9
EV/Sales	13.6	12.1	12.9	10.8	9.0
Adjusted Market Cap /Core PBT	78.5	56.8	70.2	54.3	42.3
Adjusted Market Cap /Adj OCF	60.9	45.6	64.7	52.6	42.5

Source: Company, SMIFS Research Estimates

Balance Sheet

YE March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Source of funds					
Capital	1,358	1,359	1,359	1,359	1,359
Reserves & Surplus	11,514	14,382	16,852	19,963	23,880
Shareholders' Funds	**12,871**	**15,741**	**18,211**	**21,322**	**25,238**
Total Loan Funds	**6,922**	**9,430**	**9,788**	**10,238**	**10,996**
Other liabilities	6	45	46	47	48
Total Liabilities	**19,800**	**25,216**	**28,045**	**31,606**	**36,282**
Application of funds					
Gross Block	**3822**	**5936**	**6541**	**7120**	**7773**
Net Block	2,350	2,976	3,048	3,036	3,031
Capital WIP	56	171	174	178	181
Quasi cash investments	0	0	0	0	0
Investments	**85**	**105**	**125**	**146**	**166**
Other non-current assets	**6,971**	**10,784**	**11,842**	**12,682**	**13,685**
Inventories	4,242	6,458	7,460	9,135	11,296
Sundry Debtors	484	1,261	1,504	1,862	2,414
Current investments	3,926	4,658	5,124	6,148	8,608
Cash & Bank Balances	3,965	1,985	2,335	2,789	2,239
Other current Assets	971	874	979	1,160	1,445
Total Current Assets	**13,587**	**15,236**	**17,402**	**21,093**	**26,002**
Sundry Creditors	**2,114**	**2,813**	**3,223**	**3,965**	**4,914**
Other Current Liabilities	**1,135**	**1,243**	**1,325**	**1,565**	**1,869**
Total Current Liabilities	**3,248**	**4,056**	**4,547**	**5,529**	**6,783**
Net Current Assets	**10,338**	**11,180**	**12,855**	**15,564**	**19,219**
Total Assets	**19,800**	**25,216**	**28,045**	**31,606**	**36,282**

Source: Company, SMIFS Research Estimates

Cash Flow

YE March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Operating profit before WC changes	**5,009**	**9,078**	**7,183**	**8,928**	**11,098**
Net changes in working capital	(910)	(1,777)	(808)	(1,170)	(1,642)
Tax Paid	(702)	(1,257)	(1,138)	(1,496)	(1,881)
Cash flow from operating activities	**3,397**	**6,044**	**5,237**	**6,263**	**7,575**
Adj. OCF	**2,893**	**5,413**	**4,600**	**5,623**	**6,915**
Capital expenditure	(2,613)	(6,490)	(3,144)	(3,300)	(3,849)
Adj FCF	281	(1,077)	1,457	2,323	3,066
Cash flow from investing activities	**(2,648)**	**(7,188)**	**(3,609)**	**(4,325)**	**(6,309)**
Debt	(14)	15	(15)	-	-
Dividend	(706)	(1,084)	(1,059)	(1,333)	(1,679)
Interest and Lease	(504)	(631)	(637)	(640)	(660)
Cash flow from financing activities	**2,335**	**(835)**	**(1,278)**	**(1,485)**	**(1,816)**
Net change in cash	**3,085**	**(1,980)**	**350**	**454**	**(550)**

Source: Company, SMIFS Research Estimates

Initiating Coverage l Footwear l 26 March 2024

Relaxo Footwear Ltd

Pure play on Bharat

Over the years, Relaxo has established a formidable brand in the mass open footwear segment nationwide. Its extensive distribution network, competitive pricing, and strong brand recognition provide it with a competitive edge in the unorganized footwear market. We expect Relaxo to deliver 16% revenue CAGR over FY24E-26E, driven by the recovery of lost market share in open footwear, capacity expansion in high-margin closed footwear, and entry into new geographic markets. Recent challenges stemming from raw material (RM) inflation have eased since Q4FY23, leading to a rebound in gross margins from FY23's low of 52% to 57% in 9MFY24. EBITDA margins have also improved from 12% in FY23 to 13% in 9MFY24 and are expected to further improve to 16% by FY26E. RoE and RoCE are expected to improve to 15%/15% by FY26E vs 8.5%/8.5% in FY23. Despite these positive trends, the risk of slower-than-expected growth in the closed footwear due to increased competition and a large part of the revival being factored into the current valuation leaves limited margin of safety. Hence, ***we initiate coverage with a SELL rating, at the multiple of 55x FY26E EPS of Rs14, arriving at Target Price (TP) of RS763, reflecting a downside of 8%.*** *Key threats to our estimates include higher realizations driven by a better product mix and robust demand environment in the value segment.*

Lower than expected growth in Sports & Athleisure (S&A) segment

S&A category is the fastest growing category within the footwear space, to grow at a CAGR of 15% from FY20-25E vs 8% CAGR for the overall footwear industry. It is the fastest growing category for Relaxo as well. Since sport shoes have high realizations and margins, it will aid in improving Relaxo's overall profitability and returns. Relaxo has doubled its capacity in S&A segment from 50k pairs per day to 100k pairs per day. Relaxo plans to increase its share in the sport shoes from 16% as of FY23 to 30% in the next 5 years. Relaxo plans to increase its share in the sport shoes from ~16% as of FY23 to 30% in the next 5 years. **However, due to increased competitive intensities, we expect a CAGR of ~18% in revenue from Sparx sport shoes segment over FY24E-26E vs a CAGR of 30-35% required to command 30% revenue share in Relaxo's total revenue.**

Affordable, quality and branded footwear

Relaxo branded itself as a mass market (70% of the total footwear industry) and value for money product. Its wide network of ~650 distributors, covering 70k+ retail touch-points, ~400 EBOs, selling 10,000+ SKUs across India, with annual volumes of ~190mn, holds ~15-20% market share at the retail level. Relaxo's competitive edge is due to a) its wide and reliable distribution network which helps it to penetrate the market quickly during any new product launches, b) stronger brand recall at the retail touch points owing to wider SKUs, better designs and high A&P spends, c) competitive pricing with in-house manufacturing, and d) better sourcing capability, supported by large scale procurement.

Covid proved to be both boon and bane for Relaxo

In FY21, Relaxo reported its highest sales volume of 191mn led by increased open footwear demand during lockdown. High volumes subdued raw material prices and low A&P spends led to Relaxo's peak EBITDA margin of 21% in FY21 up from 17% in FY20. However, when the economy opened, the demand for open footwear went down and closed footwear went up. Along with demand contraction, Relaxo was hit with raw material inflation and high competition from local players leading to decline in volumes to 175mn/171mn and margins to 16%/12% in FY22/23. Sales and margins have now recovered in 9MFY24, albeit at a slower pace. The gross margin improved to 57% in 9MFY24 vs 52% in 9MFY23 while EBITDA margins improved to 13% vs 11%. Operating margins are expected to improve further to 16% by FY26E.

Valuation

At present, the stock is trading at P/E of 60x based on the FY26E EPS of Rs13.9, indicating a relatively high valuation. We value the stock at 55x as we believe much of the recovery in the open footwear has been factored in the price, and the heightened competition in the high-margin closed footwear category may result in slower-than-expected growth. **We arrive at a target price of Rs763 at P/E of 60x on FY26E EPS of Rs13.9 which leads to downside of 8% from current valuations. Therefore, we assign SELL rating on the stock.**

Rating: Sell	**Downside:** 8%
Current Price: 830	**Target Price:** 763

|Market data

Bloomberg:	RLXF:IN
52-week H/L (Rs):	974/787
Mcap (Rs bn/USD bn):	206.6/2.5
Shares outstanding (mn):	248.9/3.0
Free float:	28.7
Daily vol. (3M Avg.):	906k
Face Value (Rs):	1

Source: Bloomberg; SMIFS Research

|Shareholding pattern (%)

	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	71.3	71.3	71.3	71.3
FIIs	3.4	3.2	2.9	2.8
DIIs	8.9	8.5	8.3	8.0
Public/others	16.5	17.0	17.5	18.0

|Pro. Pledging

Pledging	0.0	NA	NA	NA

Source: BSE

|Price performance (%)*

	1M	3M	12M	36M
NIFTY 50	-0.5	3.5	28.8	49.5
NIFTY 500	-1.4	4.9	38.2	62.1
Relaxo	-1.4	-7.5	-0.9	-4.5

*as on 22ndMar 2023; Source: AceEquity, SMIFS Research

|Price Chart (3 Year)

Source: NSE

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Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Adj EPS	RoE (%)	RoCE (%)	Adj P/E (x)	EV/EBITDA (x)
FY22	26,533	12.5	4,158	15.7	2,327	-20.2	9.3	14.0	13.4	114	64
FY23	27,828	4.9	3,358	12.1	1,545	-33.6	6.2	8.5	8.5	137	63
FY24E	29,730	6.8	4,044	13.6	1,920	24.3	7.7	10.1	10.0	108	51
FY25E	34,617	16.4	5,301	15.3	2,745	43.0	11.0	13.4	13.0	75	39
FY26E	39,965	15.4	6,409	16.0	3,452	25.8	13.9	15.4	14.7	60	32

Source: Company, SMIFS Research Estimates

Investment Rationale

Affordable yet quality and fashionable footwear

Relaxo has created a niche in the mass segment by offering good quality and fashionable footwear at affordable prices in the largely unorganized market in the country. Relaxo has played a big role in organizing the large unorganized footwear market in India. It branded itself as a mass market (**accounts for 70% of the total footwear industry sales**) and value for money product.

- Unorganized players dominate the domestic market; accounting for almost 70% of the retail market creating a huge opportunity for branded players like Relaxo to gain share from unorganized players.
- Indian footwear market is underpenetrated with per capita consumption at 1.9 pair pa which is low in comparison to the global average of ~3 pair pa and developed countries average of 6-7 pair pa.
- Data shows that nearly 95% of footwear manufactured in India fulfills the local demand, leaving less left to export and earn profits.
- Relaxo has famous four brands, **Relaxo Plus, Flite, Bahamas and Sparx**, in its kitty to cater to the wide mass segment and gain share from unorganized players.

Fig 93: Bahamas Portfolio ranging from Rs.149-Rs.309

Source: Company, SMIFS Research

Fig 94: Flite Portfolio ranging from Rs.123-Rs.600

Source: Company, SMIFS Research

Fig 95: Relaxo Portfolio ranging from Rs.67-Rs.267

Source: Company, SMIFS Research

Fig 96: Sparx Portfolio ranging from Rs.241-Rs.2399

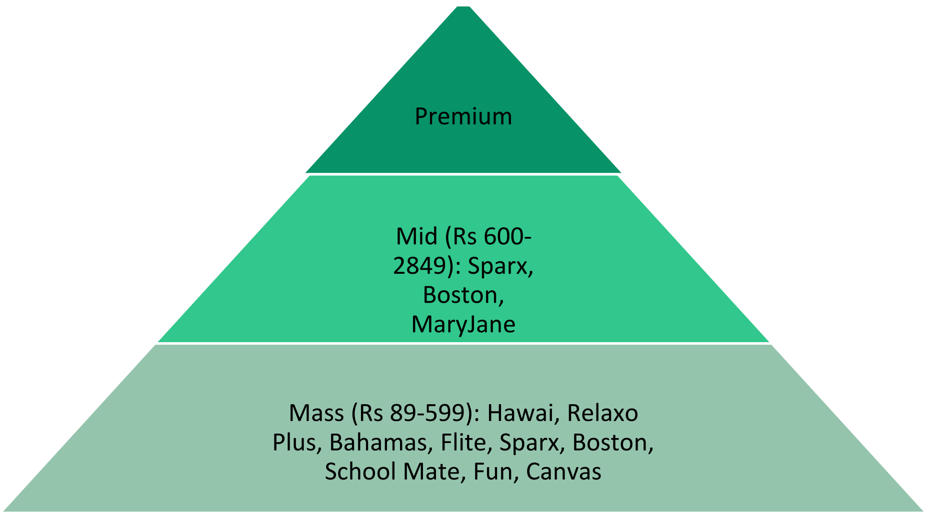
Source: Company, SMIFS Research

Entry challenges in the mid premium segment

After establishing a successful brand in the mass segment, Relaxo entered the mid, premium segment to capture that market as well.

- Mass and economy categories are a big chunk of Indian footwear market contributing ~80% of total sales. The mid, premium, and super premium categories account for balance ~20%.
- However, over the past few years there is an increased preference toward mid, premium, and super-premium segments on account of increased participation from women, increase in disposable income and rising urbanization. Relaxo also churns out 20% of its portfolio every year to keep up with current trends.
- It launched Sparx in 2005 in the mid-premium range. Its contribution increased significantly from ~4% in FY08 to 40% in FY23 (Shoes 16% & Sandals 24%) thus improving Average Selling Price (ASP) per pair for Relaxo from Rs60 in FY09 to Rs161 in FY23 at a CAGR of 7%.
- **However, due to recent increase in competition and price war in the athleisure segment, Relaxo is facing difficulties to penetrate this segment. Hence, we expect the share of Sparx Sport shoes to rise marginally by 50bps over FY24E-26E and an ASP rise from Rs149 in FY24E to Rs 163 in FY26E, at a CAGR of 5%.**
- **The mass market in India is still highly price sensitive (as observed during covid), the pace of growth in this segment will rather be slower for Relaxo.**

Fig 97: Relaxo portfolio present across mass, mid and premium segment



Source: Company, SMIFS Research

Fig 98: Over 70% of Relaxo's brands cater to the mass segment

Brands	Price range (RS)	Type of footwear	Target audience	Positioning
Hawai	89-189	Chappals/Slippers	Men, Women	Mass
Bahamas	106-370	Flip Flops	Men, Women, Kids	Mass
Flite – EVA	96-550	Slippers, Clogs, Sandals	Men, Women, Kids	Mass
Flite – PU	145-365	Sport shoes, Belle, slippers	Men, Women, Kids	Mass
School Mate	244-499	School shoes	Men, Women, Kids	Mass
Fun	201-849	Sandals, Shoes	Kids	Mass
Canvas	676-1449	Canvas shoes	Men, Women, Kids	Mass
Sparx	245 – 2399	Athleisure shoes, Sandals, Slippers	Men, Women, Kids	Mass, Mid
Boston	426-1899	Formal shoes, Slippers, Sandals	Men	Mass, Mid
MaryJane	251-1099	Slippers, Sandals, Shoes	Women	Mid

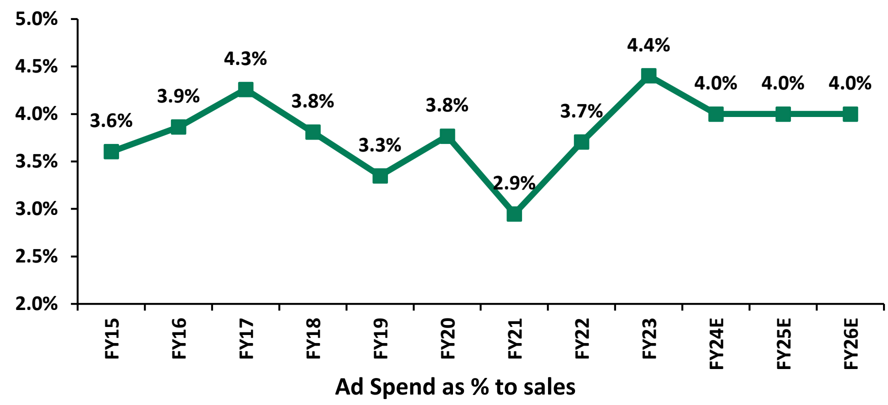
Source: Company, SMIFS Research

Brand value takes a backseat to price sensitivity

During the time of Emergency, retailers didn't remove Relaxo's products from the stores overnight as they did with another unbranded footwear. If customers asked for the shoes by name, shop owners would have to keep stocks.

One of the key elements of success for Relaxo, apart from affordable prices and quality, is investment in branding. Relaxo has benefited at multiple levels by higher spending in branding (3-4.5% of sales) – 1) It makes the products aspirational; 2) Creates an entry barrier for new entrants; 3) Relaxo gets an advantage over other unorganized/ unbranded players by creating a strong customer recall; 4) Relaxo is able to demand better margins from retailers.

Fig 99: High ad expense incurred to build a strong brand



Source: Company, SMIFS Research

Relaxo was one of the first domestic footwear companies to hire a brand ambassador. Relaxo continuously invests in branding and advertising with top-notch Bollywood actors like Salman Khan, Akshay Kumar and Ranveer Singh. Ad spending accounts for about 4% of its sales every year. Relaxo has successfully created the following leading brands, most of which have become household names now-

- **Relaxo:** Relaxo slippers are the classic rubber Hawaii slippers for the economic class across all ages and gender. They are priced in the range of Rs70-145 and are known for their durability and affordability.
- **Flite:** Flite is India's leading footwear brand most popular among middle class driving the India growth story and reflects the aspirational and youthful imagery of its consumers. A popular range of fashionable and semi-formal slippers for everyday wear, flite enables people to take on the day with style and confidence.
- **Bahamas:** For the ever-restless youth, change is the only constant. Endorsed by Salman Khan, the colorful range of Bahamas flip flops exude the spirit of freedom, fun and modernity of youth.
- **Sparx:** One of the most loved footwear brands, Sparx reflects the attitude, style, and spirit of young India - urging the youth to push the limits and seek their inner potential. Endorsed by Bollywood's fitness hero Akshay Kumar, Sparx offers a range of sports shoes, sandals, and slippers.

Despite establishing strong brand value, it becomes challenging to retain it during tough periods like the post-COVID era. For instance, when Relaxo had to increase prices due to soaring raw material costs, it lost market share to unorganized competitors. It took Relaxo more than a year to recover from the loss, highlighting the struggle of preserving brand loyalty in a mass market that prioritizes affordability over brand recognition.

Fig 100: Strong brand appeal created by hiring the top Bollywood actors

Source: Company, SMIFS Research

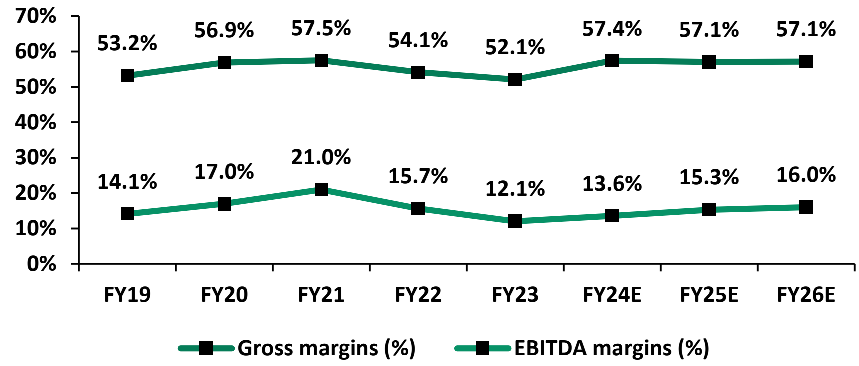
In-house manufacturing helps command better margins

The low-ticket size segment in which Relaxo operates in, can give superior yields if one has control over manufacturing and Relaxo has that. Relaxo manufactures all its products completely in-house in its 8 factories with a production capacity of 1.05mn pairs per day and 315mn pairs pa. Having its own manufacturing blesses Relaxo with the following boons:

- Firstly, in-house manufacturing on such a large scale gives one the benefit of economies of scale and yields high gross margins of ~55-57% vs for ~52% for Campus and ~44% for Bata.
- Secondly, it gives Relaxo full control over design and quality of products as maintaining good quality at competitive prices is not feasible in outsource manufacturing.
- Thirdly, the higher gross margins allow Relaxo to spend on branding and build a strong brand to differentiate itself from other unbranded players.
- Lastly, finding local vendors who can manufacture at a big scale are almost non-existent in India. Hence, in-house manufacturing bodes well for Relaxo.

Over the years, Relaxo has advanced its manufacturing operations to improve productivity through initiatives like 1) dedicated line for manufacturing fast moving SKUs (FY10); 2) adoption of lean manufacturing (waste minimisation without compromising on productivity in FY16); 3) and Maynard Operation Sequence Technique (MOST).

Fig 101: Relaxo boosts of healthy gross and operating margins



Source: Company, SMIFS Research

Mr. Ramesh Dua, the founder of Relaxo graduated from the Plastics and Rubber Institute, UK to understand more about their key raw material – rubber.
Being a commerce graduate, he did not meet the criteria.
"I told them that I only want to learn, I don't need a degree," he says. "When they heard that they asked me to pay the fees and start attending classes."
Such is the passion and commitment of the founder, Mr. Ramesh Dua towards the business.

Extensive distribution network

Relaxo boosts of an expansive distribution network of 650 pan-India distributors, 70,000+ retailers and ~399 EBOs. Investing in branding has helped Relaxo gain the trust of distributors as well owing to consumer recall. Over the years, Relaxo has built deep relations with its distributors through initiatives like appropriate incentives, personal attention by promoters to distributor complaints, holding conferences abroad to name a few. Relaxo also holds training programs for its channel partners for better product knowledge and improved sales competence for both domestic and international partners. All these efforts by Relaxo have helped it create a strong and reliable distribution channel for its products, which has played a pivotal role in its success story.

Strong innovation competence

Relaxo has grown from a single product – the classic Hawai slipper - company to a multi-brand multi-product company with 400 articles and 6000+ SKUs across 8 brands, speaks loads about its innovation and adapting capabilities. Relaxo believes in continuous innovation and has proved so time and again by launching new products/initiatives based on the evolving consumer needs. The company carries out market research to identify product demand, and close to ~20% of the portfolio is restyled every year.

Fig 102: Fig: Growth Journey of Relaxo over the last 4 decades

Year	Milestone
1976	Started operations with Rs10000 with a single product – The classic Hawai chappal.
1995	1995 was a turning point for Relaxo when it capitalized on government policy shifts and invested Rs75mn in a facility to produce 50,000 pairs daily. It raised money through IPO to set up a plant in Haryana.
2005-07	This was again a period of major milestones for Relaxo as they 1) Launched 2 new brands which are now bestselling, namely, 'Flite' and 'Sparx'; 2) Opened their first COCO store; 3) Commences exports (Today exports form 4.5% of their total revenue growing at double digits)
2012-14	During this period, the company hired consultants like Accenture and BCG to undertake major initiatives to professionalize the large-scale business. With their help, Relaxo strengthened its distribution and supply chain management system, beefed up its human resource policies, implemented data analytics to forecast demand more accurately, launched e-commerce platform and signed top-notch actors as brand ambassadors.
2023	Expanding production capacity of sport shoes by 50,000 pairs per day and setting up a design team for the same to capture the increasing demand of athleisure shoes and sneakers. Relaxo targets 30% of sales from the sport shoes segment by FY28, up from current 16%.

Through its ups and downs, the brand has constantly showcased its commitment to offering innovative and affordable footwear to its clientele successfully over the years.

Expansion in the S&A category to be challenging

- S&A category is the fastest growing category within the footwear space as of now, expected to grow at a CAGR of 15% from FY20-25E vs 8% CAGR for the overall footwear industry.
- It is the fastest growing category for Relaxo as well. Since sport shoes have high realizations and margins, it will aid in improving Relaxo's overall profitability and returns.
- Relaxo has doubled its capacity in S&A segment from 50,000 pairs per day to 1,00,000 pairs per day which has been operational since April'23 to cater to the increasing demand.
- Relaxo plans to increase its share in the sport shoes from ~16% as of FY23 to 30% in the next 5 years. **However, due to increased competitive intensities, we expect a CAGR of ~18% in revenue from Sparx sport shoes segment over FY24E-26E vs a CAGR of 30-35% required to command 30% revenue share in Relaxo's total revenue.**

Fig 103: We expect a modest CAGR of 18% in Sparx shoes category over FY24E-26E

Revenue	FY24E	FY26E	CAGR (%)
Sparx shoes			
No. of pairs (mn)	5.9	7.5	12%
ASP (Rs.)	808	891	5%
Revenue (Rs in mn)	**4803**	**6640**	**18%**
Sparx others			
No. of pairs (mn)	21	25	10%
ASP (Rs.)	340	371	4%
Revenue (Rs in mn)	**7120**	**9408**	**15%**
Rest categories			
No. of pairs (mn)	171	211	11%
ASP (Rs.)	102	112	4%
Revenue excl Sparx	**17493**	**23534**	**16%**
Total revenue	**29415**	**39581**	**16%**

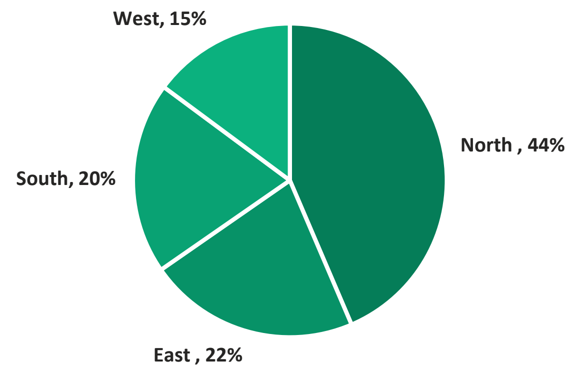
Source: Company, SMIFS Research

Entry in new geographies

Relaxo's current revenue is dominated by the North/East region which contributes ~44/22% to Relaxo's revenues and is a stronghold for Relaxo, the remaining 35% is contributed by the South/West. About 78% of Relaxo's revenue comes from the distribution channels, followed by Online (11%), then EBOs (8%); the rest is through other retail channels and exports. Further, Relaxo exports to 40 countries with increased focus on Africa and the Middle East. Relaxo has also set up an overseas office in Dubai.

- South is dominated by open footwear, where the company has just about 15% presence in FY23 (in the North, it has 45% presence), and hence, Relaxo stands to gain market share in that region.
- With only 35% revenue share coming from South/West region, Relaxo is expanding its retail and distribution network in these regions. The company is also witnessing positive response in the South/West regions; especially its brand 'Sparx'.
- Relaxo is targeting to add 10% retailers, particularly in South, WB, MP, every year to reach 75-80k retailers from present ~60k retailers.

Fig 104: Geography wise revenue mix of FY23



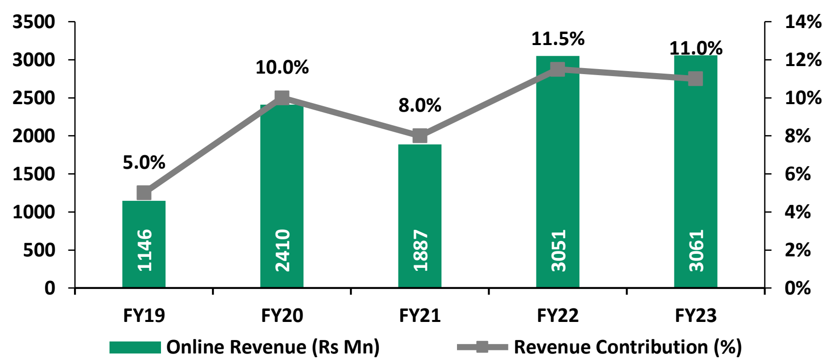
Source: Company, SMIFS Research Estimates

Online channels

Relaxo's online sales contribution to total revenue has increased from 6-7% in FY19 to nearly 11% in FY23. With the online shopping gaining increased traction due to multiple offerings, and ease of shopping, RFL's online revenue share is expected to increase in the medium-to-near term. Sparx' is Relaxo's largest online selling brand, contributing 85-90% of total online sales.

The company is increasing its online presence to sell higher price point products, as consumers prefer buying high-value products online vis-à-vis lower price point products (price < Rs500). With improving mix towards sports and athleisure and increased focus towards online, management expects e-commerce sales to be a key lever of growth.

Fig 105: Relaxo's online contribution is increasing over the period



Source: Company, SMIFS Research Estimates

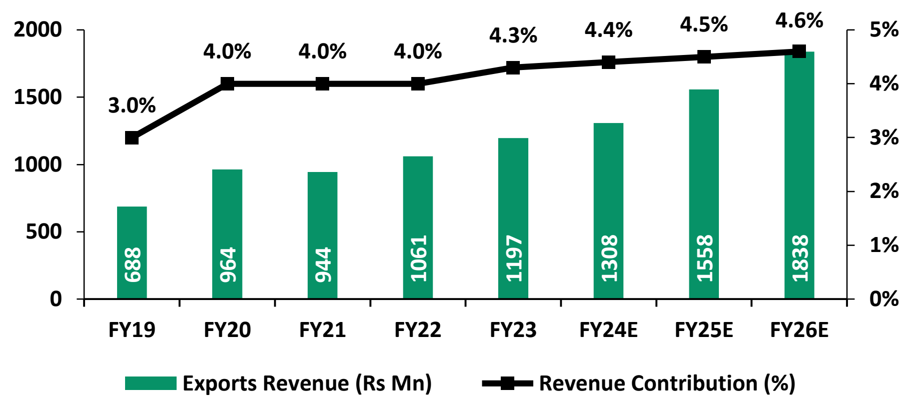
BIS has issued Quality Control Order (QCO) under which any footwear sold in India, whether domestically manufactured or imported, will need to follow certain quality standards. The standards prescribe the kind of raw material like leather, PVC, and rubber to be used besides norms on making soles and heels, among other parts of the footwear

Exports

With the new Quality Control standards by BIS for the footwear industry, the industry will formalise and produce better quality footwear suitable for international markets. Currently, the international footwear market is dominated by China & Vietnam (75%) and India has a huge opportunity to gain market share here. *Confederation of Indian Footwear Industries (CIFI) has chalked out a vision to counter the dominance of China and Vietnam in the global footwear market and make India a premier non-leather footwear manufacturer.*

Relaxo being a leading non-leather footwear manufacturer tends to gain from this opportunity in the longer run. Relaxo commenced exports in 2007 and has since then grown exports at a CAGR of 22% over FY09 to FY23 from Rs72mn to Rs1.2bn. The share of exports in total revenue has increased from 1.8% in FY09 to 4.3% in FY23. We expect the share of exports for Relaxo to improve steadily to 4.6% by FY26E to Rs1838mn.

Fig 106: Export contribution to improve slowly and steadily



Source: Company, SMIFS Research Estimates

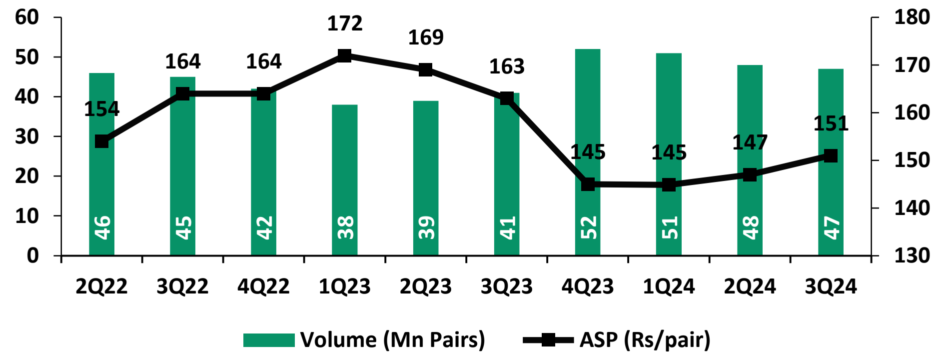
Past two years had been a roller coaster ride for Relaxo

Increased Competition from unorganized players:

The past 2 years (FY22-23) have been tough on Relaxo with a steep rise in raw material prices. Not only did the margins of the company decline, but they also lost market share to small unorganized players due to high prices.

- **Flashback to the beginning of FY22:** The country was recovering from the severe 2nd wave of Covid, and economy was started opening when the commodity inflation hit. The prices of one of the key raw materials for open footwear, Ethyl Vinyl Acetate (EVA), shot up Rs120/kg to Rs300/kg in a span of 6-9months. Owing to a longer inventory cycle, Relaxo had high-cost raw material for a long period of time vs smaller peers with relatively shorter inventory cycle. This is when Relaxo lost some of its market share to smaller players whose prices were more competitive than Relaxo for a few quarters.
- **Back to mid FY23:** The EVA prices have declined now and settled around Rs160-170/kg which gave Relaxo the headroom to cut its prices by 13-14% in Sep'22 to gain the lost market share. Recovery in sales could be observed in Q4FY23, Q1FY24 and Q2FY24 as well with margins returning to 57% in 9MFY24. Relaxo has now recovered most of the lost market share in the open footwear segment. The next leg of growth is to come from entry in new geographies and sports and athleisure segment.

Fig 107: ASPs rose sharply in H1FY23, and volumes declined; recovering now

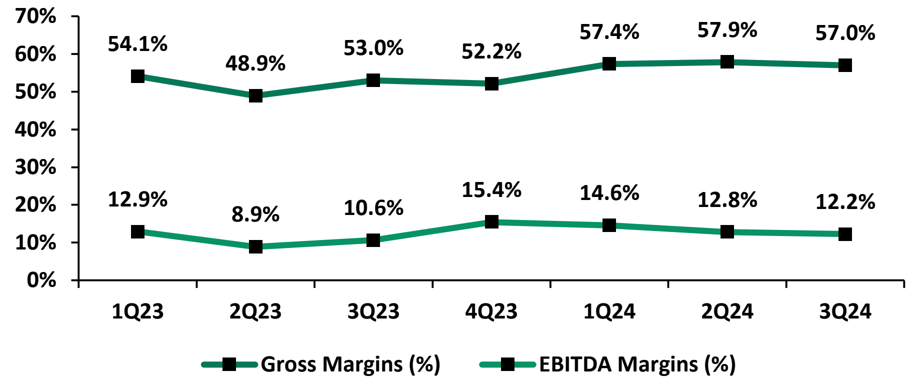


Source: Company, SMIFS Research Estimates

Stabilization in earnings volatility post RM inflation

- **Covid proved to be both boon and bane for Relaxo**. During lockdown in FY21, the demand for open footwear surged and Relaxo being the leader in open footwear witnessed robust growth in sales.
- In FY21, A&P spends were also less which gave Relaxo dual benefit and improved its EBITDA margin to 21% from 17% in FY20.
- However, post 2nd wave of covid, when the economy opened, the demand for closed footwear increased and declined for open footwear. Along with demand contraction, Relaxo was hit with raw material inflation which led to contraction in margins as well. Margins declined in FY22 and FY23 to 15.7%/12.1%.
- After 1 year of opening of economy and cooling down in raw material inflation, earnings are now getting stabilised for Relaxo. The gross margin improved to 57.4% in 9MFY24 vs 52% in 9MFY23 while EBITDA margins improved to 13.2% vs 10.8%.
- **We expect EBITDA margins to sustain at the improved levels and earnings to grow on back on improved sales for the company in the coming quarters.**

Fig 108: Margins improved from a low of 48.9% in Q2FY23 to 57% in Q3FY24



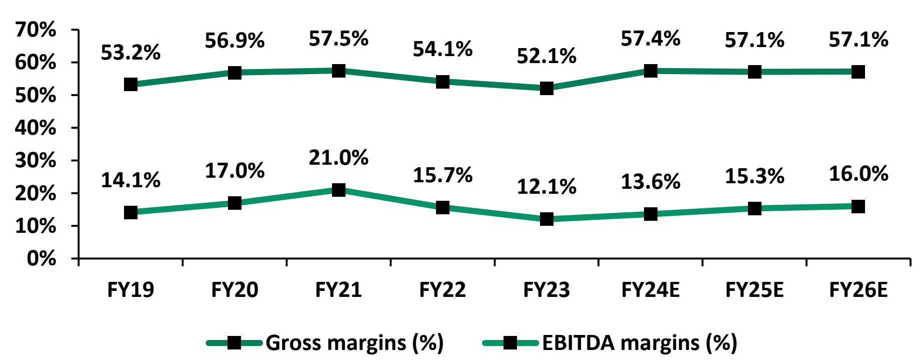
Source: Company, SMIFS Research Estimates

Financial Analysis

Margins to catch-up to previous levels

- Relaxo reported operating margins of 12.1%/15.7% in FY23/22, much lower than 17%/21% reported in FY20/FY21, respectively. The lower margins in FY23 and FY22 were on back of unusually high raw material prices during the end of FY22 and FY23. With the raw material prices now stabilised and old high-cost inventory out of the system, we expect margins to improve to 13.6%/15.3%/16% in FY24E/25E/26E.
- We do not expect EBITDA margins to touch the 21% mark again as that was a one-off event during covid due to high demand of open footwear and low raw material prices. However, we expect Relaxo to maintain its operating margins in the range of 16-17% in the longer run.
- Gross margins of Relaxo are expected to be ~57% by FY26E from 52.1% in FY23. The company has already reported Gross margins of 57.4% in 9MFY24.

Fig 109: EBITDA Margins to improve to previous levels

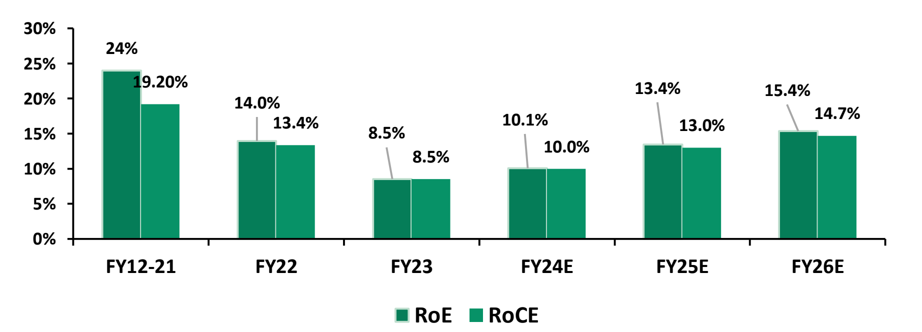


Source: Company, SMIFS Research Estimates

Subdued return ratios

- Relaxo had reported an average ROE/ROCE of 24%/19.2% over 10 years from FY12 to FY21. The return ratios declined in FY22/23 to 14%/8.5% for ROE and 13.4%/8.5% for ROCE due to subdued performance led by high raw material prices and losing of market share to competitors.
- Average ROE for last 5 years (FY19-23) is 16.2% which has declined over the years on back of deleveraging balance sheet by the company.
- We expect Relaxo's RoE/RoCE to improve 843bp/853bps over FY23-26E from 8.5%/8.5% to 15.4%/14.7% on back of improved earnings and return on capex in shoes capacity in FY23. RoE/RoCE is expected to improve to 10.1%/10% in FY24E.
- **However, despite the return ratios improving by ~850bps over FY23-26E, they are far from its 10-year average (ROE/ROCE - 24%/19.2%) over FY12-21. We believe, until and unless the company delivers some extraordinary volume growth in the closed footwear segment, return parameters will remain subdued.**

Fig 110: ROE/ROCE to improve to 15%/15% by FY26E

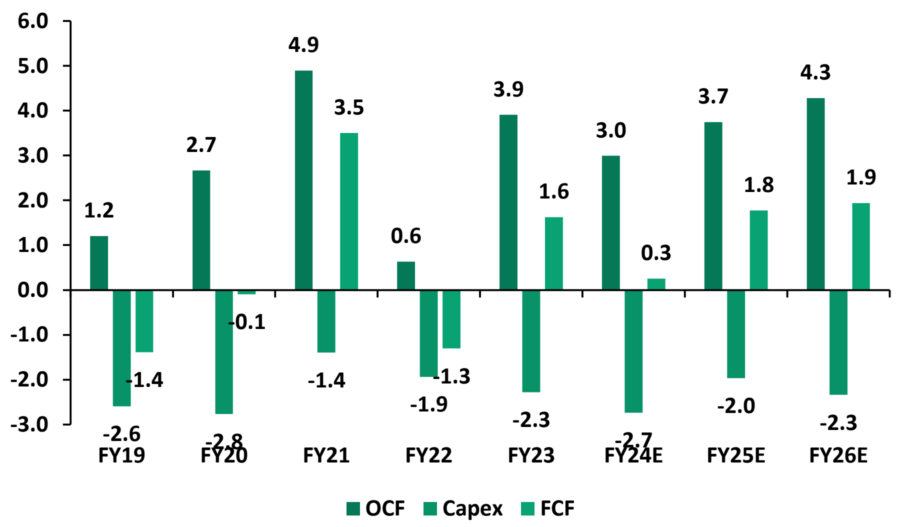


Source: Company, SMIFS Research Estimates

Healthy cashflows to support expansion plans

- The 10-year average OCF/PAT ratio of Relaxo stands at 1.18 highlighting the high quality of the earnings and higher cash generation by the company.
- Relaxo has cumulatively generated Rs2.4bn FCF in the last 10 years after incurring high capex over the years. The company also turned zero net debt in FY20 and is capable of funding any future capex via internal accruals.
- We expect Relaxo to generate cumulative FCF of RS3.2bn over FY24E-26E, at an average annual run-rate of RS1.1b for the same period after factoring in RS11bn capex.

Fig 111: FCF to increase over FY23-FY26E (In Rs Bn)

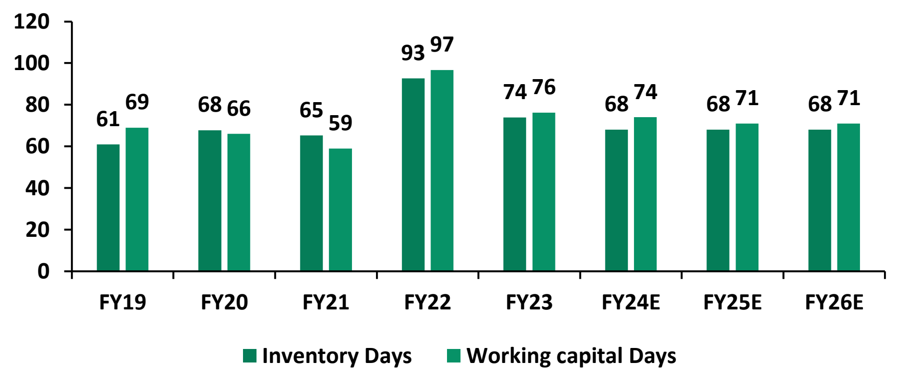


Source: Company, SMIFS Research Estimates

Working capital cycle to return to normalcy

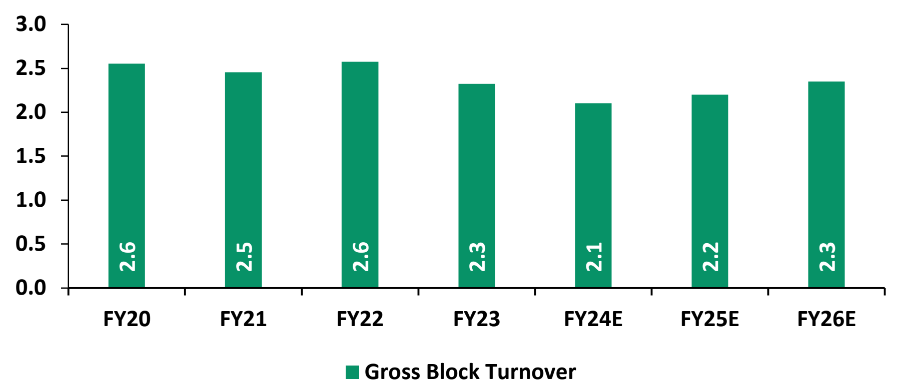
- The last 5-year average inventory days for Relaxo is 72 days. However, the 5-year average excluding FY22 & 23 (being the extraordinary years) is 64 days. Going forward we expect inventory days to normalise to 68 days by FY26E.
- Receivables and payables days are in a similar range of 30-35 days and are expected to be in the same range.
- Hence, reduction in inventory days to bring the overall working capital cycle down to 71 days from peak of 97/76 days in FY22/23.

Fig 112: Working capital cycle to reach previous levels



Source: Company, SMIFS Research Estimates

Fig 113: Asset Turnover to improve to 2.3x in FY26E; albeit lower than 5yr high of 2.6x



Source: Company, SMIFS Research Estimates

Key risks

- **Robust discretionary demand:** Strong recovery in mass demand and consumer sentiments owing to rise in income led by economic growth or good monsoons can lead to better than expected revenue growth of the company.
- **Higher realisations on back of better product mix:** The company stands to benefit from better-than-anticipated sales of high-margin closed footwear, which would positively impact both overall realizations and margins.
- **Sharp pickup in exports:** A significant increase in exports can a strategic driver for improving company's sales, margins, and overall profitability by tapping into new markets, capturing higher-value customers, optimizing production costs, and diversifying revenue sources.

Corporate Governance

We believe that good corporate governance is necessary for enhancing the trust of the shareholders. Hereby, we present a detailed framework on corporate governance for the comfort of the investors of Relaxo Footwears considering board of directors, remuneration of key managerial personnel, contingent liability etc.

Promoters' Shareholding

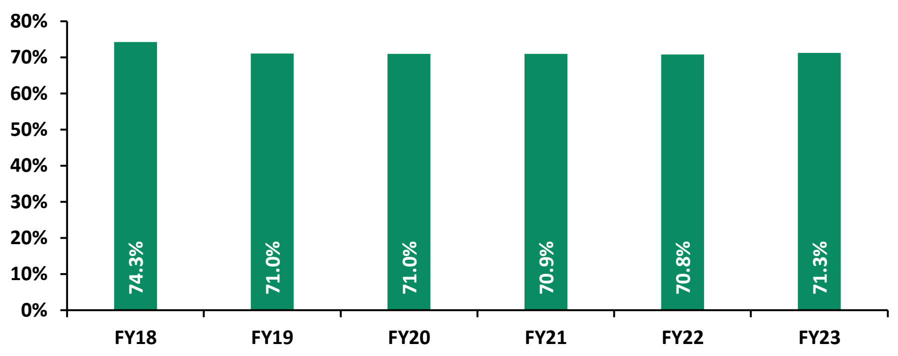
Relaxo footwear is promoted by Mr. Ramesh Kumar Dua and Mukand Lal Dua. The promoters currently hold 71.27% of the equity capital. Mr. Ramesh and Mr. Mukand together hold the highest stake i.e., 43.86% combined. The details of the shareholding and its movement are indicated in the following table and chart:

Fig 114: Latest Promoter Shareholding

Particulars	% Holding
RAMESH KUMAR DUA	23.47
MUKAND LAL DUA	20.39
USHA DUA	3.84
LALITA DUA	3.83
RAHUL DUA	3.75
NITIN DUA	3.75
GAURAV DUA	3.75
RITESH DUA	3.75
NIKHIL DUA	3.71
SAKSHI DUA	0.81
MUKAND LAL DUA (HUF)	0.19
RAMESH KUMAR DUA (HUF)	0.02
Total	**71.27**

Source: Company Annual Report FY23, SMIFS Research

Fig 115: Promoter Shareholding



Source: Company Annual Report, SMIFS Research

The above graph shows promoter shareholding majorly remained unchanged in FY22 and FY23.

Promoter Remuneration

The promoter remuneration stood at ~10.5% of PBT as on FY23.

Fig 116: Remuneration of promoter *(Rs in Mn)*

	FY19	FY20	FY21	FY22	FY23
RAMESH KUMAR DUA	137.2	149.2	204.2	142.3	97.0
MUKAND LAL DUA	137.2	149.2	204.2	142.3	97.0
NIKHIL DUA	10.1	11.0	11.7	12.3	13.2
GAURAV DUA	0.0	0.0	0.0	0.0	13.2
Total Remuneration	**284.6**	**309.4**	**420.1**	**296.8**	**220.4**
As a % of PBT	*10.6%*	*10.6%*	*10.7%*	*9.6%*	*10.5%*

Source: Company Annual Reports, SMIFS Research

Independent Director's Compensation

Independent directors were cumulatively paid ~Rs2.9mn which is 0.0% of PBT as on FY23. Independent directors were paid sitting fees.

Fig 117: Remuneration of Independent Director *(Rs in Mn)*

Name	FY23 Compensation (Rs in mn)	As % to PBT (FY23)
Deepa Verma	0.6	0.0
Kuldip Singh Dhingra	0.3	0.0
Pankaj Shrimali	0.7	0.0
Rajeev Rupendra Bhadauria	0.6	0.0
Vivek Kumar	0.7	0.0
Total	***2.9***	***0.0***

Source: Company Annual Report FY23, SMIFS Research,

Board Composition

Independent directors constitute 50% of the board composition. The details are given below:

Fig 118: Board Composition

	FY19	FY20	FY21	FY22	FY23
Promoter group Executive Directors	3	3	4	4	4
Other Executive Directors	1	1	1	1	1
Independent Directors	4	4	3	5	5

Source: Company Annual Reports, SMIFS Research

Contingent Liabilities

The company's contingent liability has increased over the period of 5 years and stood at 7.7% of net worth as on FY23. A major portion of contingent liabilities is safe items which we have taken into consideration in calculating total liability.

Fig 119: Contingent Liability *(Rs in Mn)*

	FY19	FY20	FY21	FY22	FY23
Sales Tax Matters	9	14	13	13	385
Income Tax Matters	23	44	55	48	48
Interest on entry tax, Haryana	464	541	625	709	794
Demand for Industrial Plot at Bahadurgarh	-	187	187	202	202
Total	**495**	**786**	**880**	**973**	**1429**
As a % of Net Worth	*4.5%*	*6.2%*	*5.6%*	*5.5%*	*7.7%*

Source: Company Annual Reports, SMIFS Research

Related Party Transaction

As per our analysis of RPT, nothing specific has come to our notice. The related party transactions increased in FY23 owing to increase in dividend and salaries.

Fig 120: Related Party Transaction *(Rs in mn)*

	FY19	FY20	FY21	FY22	FY23
Sale of goods					
Entities where KMP and Individuals exercise Significant Influence	1	0	2	0	0
Total	**1**	**0**	**2**	**-**	**0**
Lease Rent					
Individuals having Significant Influence over the Company and KMP	11	11	10	10	13
KMP	8	7	7	7	15
Entities where KMP and Individuals exercise Significant Influence	9	9	8	8	9
Relatives of Individuals and KMP	29	27	23	23	18
Total	**57**	**55**	**47**	**47**	**55**
Post-Employment Benefits					
Individuals having Significant Influence over the Company and KMP	3	4	4	4	4
KMP	1	2	2	2	2
Independent Directors (KMP) and their relatives	3	4	4	4	2
Total	**7**	**10**	**10**	**10**	**9**
Long-Term Employee Benefits					
KMP	0	0	0	1	1
Total	**0**	**0**	**0**	**1**	**1**
Share Based Payments					
KMP	2	1	1	1	0
Total	**2**	**1**	**1**	**1**	**0**
Contribution to Post Employment Benefit Plan Trust (Gratuity)					
Post Employment Benefit Plan Trust	4	59	30	66	26
Total	**4**	**59**	**30**	**66**	**26**
Issue of Shares under "RFL Employee Stock Option Plan 2014" (In Number)					
KMP		-	65,000	273,000	-
Total	**-**	**-**	**65,000**	**273,000**	**-**
Issue of Bonus Shares (No. of shares)					
Individuals having Significant Influence over the Company and KMP	-	54,979,832	-	-	-
KMP	-	4,674,093	-	-	-
Entities where KMP and Individuals exercise Significant Influence	-	252,000	-	-	-
Relatives of Individuals and KMP	-	28,193,784	-	-	-
Independent Directors (KMP) and their relatives	-	19,956	-	-	-
Total	**-**	**88,119,665**	**-**	**-**	**-**
Guarantees and Collaterals taken*					
Individuals having Significant Influence over the Company and KMP	2,939	2,601	2,600	2,600	2,600
Total	**2,939**	**2,601**	**2,600**	**2,600**	**2,600**

Source: Company Annual Reports, SMIFS Research

Key Management Personnel

Fig 121: Details of promoter and director

Name	Designation	Profile
Mr. Ramesh Kumar Dua	Managing Director	Mr. Ramesh Kumar Dua has over 47 years of experience in sales and marketing, production, and new product development in Footwear Industry. Additionally, he is a director in Confederation of Indian Footwear Industries. He is a Commerce Graduate & Rubber Technologist (LPRI, London).
Ms. Mukund Lal Dua	Whole Time Director	Mr. Mukund Lal Dua has over 50 years of experience in new product development and quality control in the Footwear Industry. He is a Science Graduate. He is Experienced in New Product development and quality control in Footwear Industry.
Mr. Nikhil Dua	Whole Time Director	Mr. Nikhil Dua has over 27 years of experience in production and new product development and has rich knowledge of product mix in Footwear Industry. He is a Commerce Graduate & has studied from International School of Modern Shoemaking, Czech Republic.
Mr. Guarav Dua	Whole Time Director	Mr. Gaurav Dua has over 22 years of experience in Sales & Marketing in the footwear industry. He has done MBA from University of Wales. Having over 22 years of experience in Sales & Marketing. He has been pivotal for various initiatives in the Company for revenue, growth, market expansion and branding rejuvenation
Mr. Daval Ganguly	Whole Time Director	Mr. Daval Ganguly has over 42 years of experience in the areas of manufacturing, project and plant management in various reputable organizations. He is B. Tech from IIT Kanpur. Experience in areas of manufacturing, project, and plant management.
Mr. Vivek Kumar	Non-Executive Independent	Ms. Vivek Kumar has over 21 years' experience as Operational Head in leading Indian companies and is also a management consultant to many corporates in the areas of quality, productivity, environment, and safety.
Mr. Pankaj Shrimali	Non-Executive Independent	Mr. Pankaj has over 37 years of experience in the areas of finance, accounts, secretarial, corporate management, legal & corporate consultancy services, strategic management, and investment banking for reputed corporate houses. He is Fellow member of ICAI, ICSI, and Institute of Cost Accountants of India.
Mr. Deepa Verma	Non-Executive Independent	Mr. Deepak Verma has over 33 years of experience in academic administration. Associated with University of Petroleum & Energy Studies since inception and has held various positions such as Director (NCR) region, VP (Academic Affairs) & presently in charge of Institutional Affairs & HR.
Mr. Rajeev Rupendra Bhadauria	Non-Executive Independent	Mr. Rajeev Rupendra has over 34 years of experience in Human Resource and leadership. His past association were with JSPL, Reliance ADA group & NTPC at various positions in Human Resource. He is B.A. & LLB from Allahabad University and management diploma from Power Management Institute, New Delhi.
Mr. Kuldip Singh Dhingra	Non-Executive Independent	Mr. Kuldip Singh has over 50 years of experience in painting and related industries. He is Science graduate from Delhi university and is an eminent industrialist. His contribution to paint industry is well known and internationally acclaimed.

Source: Company, SMIFS Research

CSR Activities

Relaxo's CSR activities is on a declining trend. The company has spent ~Rs3.8mn in FY23 and have spent Rs.6.4mn and 31.6mn in FY22 and FY21 respectively. The spend as % of prescribed limit is decreasing from FY20.

Fig 122: CSR spend *(Rs in mn)*

Company	Avg Net Profit (last 3 Yrs)	Prescribed Expenditure	Total Spends	Spend as % of prescribed limit
FY23	3,364	67	4	5.6
FY22	3,222	64	6	9.9
FY21	2,714	54	32	58.3
FY20	2,332	47	47	100.0
FY19	2,016	40	40	100.0

Source: Company Annual Reports, SMIFS Research

Auditors

Relaxo Footwears appointed Gupta & Dua as the statutory auditor. The auditors have given a true and fair view for the results of the financial year 2022-23.

Fig 123: Auditor fee

Auditor Name	Type	Auditor Fees - (Rs mn)	As a % of PBT
Gupta & Dua	Statutory Auditors	3.1	0.15%

Source: Company Annual Reports, SMIFS Research

Company Background

What is Relaxo Footwear all about?

“Relaxo” footwear brand was launched in 1976 by two brothers, Mukund Lal Dua & Ramesh Kumar Dua with a vision to make affordable yet quality footwear for the masses and capitalize on the large unorganized footwear market opportunity. Today, after 45+ years, Relaxo, is a Fortune 500 and a leading footwear manufacturing company in India selling ~200mn pairs every year. Relaxo has played a major role in transforming the unorganized footwear market in the country and introduce masses with the concept of brands and standardization in the footwear segment.

- With its headquarters in New Delhi and 8 manufacturing units across Haryana, Rajasthan, and Uttarakhand, Relaxo produces over ~1m pairs per day. The company is in the process of adding capacity of 50,000 pairs per day for its Athleisure brand, Sparx due to over-utilization of current capacity.
- Relaxo has succeeded in creating this footwear empire on the back of its excellent manufacturing capabilities, continuous innovation both in technology and product portfolio, extensive branding, and a strong distribution channel.
- RLXF product portfolio includes rubber/EVA slippers, canvas shoes, sport shoes, sandals, school shoes and other types of footwear.
- Relaxo’s major mass appeal brands are **Relaxo, Sparx, Flite and Bahamas**. Other brands include MaryJane, Boston, Schoolmate, Kids Fun, Casualz.
- Key raw materials used in manufacturing are Ethylene Vinyl Acetate (EVA), Polyurethane (PU) and Poly Vinyl Chloride (PVC) and hence the majority of the portfolio caters to mass segment.

Relaxo has a strong distribution network and serves its customers through ~390 Exclusive brand outlets (EBOs), 650 distributors and 65,000+ retailers.

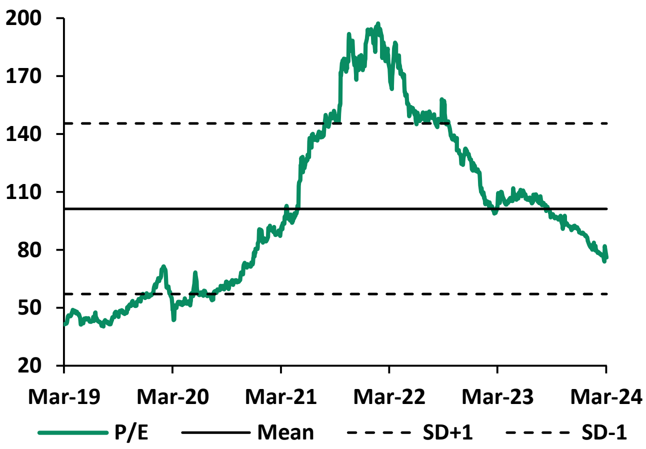
Fig 124: Multiple brands under its kitty

Source: SMIFS Research

Valuation and Recommendations

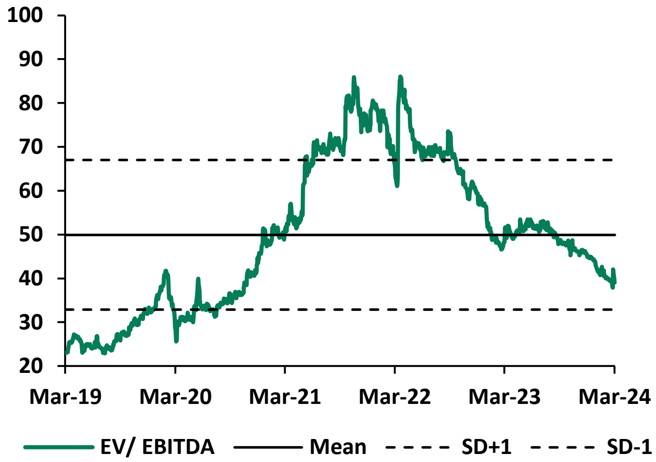
At present, the stock is trading at P/E of 60x based on the FY26E EPS of Rs13.9, indicating a relatively high valuation. We value the stock at 55x as we believe much of the recovery in the open footwear has been factored in the price, and the heightened competition in the high-margin closed footwear category may result in slower-than-expected growth. **We arrive at a target price of Rs763 at P/E of 60x on FY26E EPS of Rs13.9 which leads to downside of 8% from current valuations. Therefore, we assign SELL rating on the stock**.

Fig 125: 1-Year Forward PE



Source: Company, SMIFS Research

Fig 126: 1-Year Forward EV/EBITDA



Source: Company, SMIFS Research

Quarterly financials, operating metrics & key performance indicators

Fig 127: Quarterly Financials

Y/E March (Rs mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net Sales	**6,982**	**6,672**	**6,697**	**6,810**	**7,649**	**7,388**	**7,153**	**7,127**
Raw Materials	3,195	3,063	3,422	3,199	3,660	3,151	3,013	3,065
Employee Costs	899	872	845	862	854	974	958	960
Other Expenditure	1,777	1,876	1,836	2,027	1,956	2,188	2,267	2,230
EBITDA	**1,111**	**861**	**594**	**723**	**1,180**	**1,076**	**915**	**872**
Other Income	59	42	57	44	43	73	105	60
Depreciation	287	298	305	320	328	346	369	375
EBIT	**883**	**605**	**346**	**447**	**895**	**802**	**651**	**557**
Interest	39	69	41	41	41	45	47	48
Exceptional items	-	-	-	-	-	-	-	-
PBT	**844**	**536**	**304**	**406**	**854**	**758**	**604**	**508**
Tax	215	149	80	105	221	195	162	123
Tax rate (%)	25.5	27.8	26.4	25.8	25.9	25.7	26.8	24.1
PAT	**629**	**387**	**224**	**301**	**633**	**563**	**442**	**386**
Share of Associate / JV	0	0	0	0	0	0	0	0
Minority interest	0	0	0	0	0	0	0	0
Adjusted PAT	**629**	**387**	**224**	**301**	**633**	**563**	**442**	**386**
YoY Growth (%)								
Revenue	-6.6	34.2	-6.3	-8.4	9.6	10.7	6.8	4.7
EBITDA	-31.8	30.1	-49.1	-40.6	6.2	24.9	54.0	20.7
Adj PAT	-38.4	24.9	-67.4	-57.1	0.6	45.6	97.3	28.1
QoQ Growth (%)								
Revenue	-6.1	-4.4	0.4	1.7	12.3	-3.4	-3.2	-0.4
EBITDA	162.7	-22.5	-31.0	21.6	63.3	-8.8	-14.9	-4.8
Adj PAT	28.3	-38.6	-42.1	34.4	110.3	-11.0	-21.5	-12.7
Margins (%)								
RMC/revenue (%)	45.8	45.9	51.1	47.0	47.8	42.6	42.1	43.0
Gross margin (%)	54.2	54.1	48.9	53.0	52.2	57.4	57.9	57.0
Employee cost/revenue (%)	12.9	13.1	12.6	12.7	11.2	13.2	13.4	13.5
Other expenses/revenue (%)	25.4	28.1	27.4	29.8	25.6	29.6	31.7	31.3
EBITDA margin (%)	15.9	12.9	8.9	10.6	15.4	14.6	12.8	12.2
Adj PAT margin (%)	9.0	5.8	3.3	4.4	8.3	7.6	6.2	5.4

Source: Company, SMIFS research

Key Performance Indicators

	FY22	FY23	FY24E	FY25E	FY26E
Revenue (Rs Mn)	26533	27828	29730	34617	39965
YoY (%)	*12.5*	*4.9*	*6.8*	*16.4*	*15.4*
Gross Margin (%)	*54.1*	*52.1*	*57.4*	*57.1*	*57.1*
EBITDA	4158	3358	4044	5301	6409
EBITDA Margin (%)	*15.7*	*12.1*	*13.6*	*15.3*	*16.0*
Revenue Mix (%)					
Open	80	75	74	73	72
Closed	20	25	26	27	28
Volume/Realization					
Volume (Mn pairs)	175	171	198	221	243
YoY (%)	*-8.2*	*-2.4*	*15.9*	*11.8*	*10.0*
ASP (Rs)	150	161	149	155	163
YoY (%)	*22.4*	*7.6*	*-7.7*	*4.2*	*5.0*
Stores (#)	394	387	402	422	447
Additions (#)	-4	-7	15	20	25

Financial Statements

Income Statement					
YE March (Rs mn)	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Revenues	**26,533**	**27,828**	**29,730**	**34,617**	**39,965**
Raw Materials	12,167	13,343	12,664	14,867	17,125
% of sales	45.9	47.9	42.6	42.9	42.9
Personnel	3,347	3,433	4,014	4,500	4,996
% of sales	12.6	12.3	13.5	13.0	12.5
Other Expenses	6,861	7,694	9,008	9,950	11,436
% of sales	25.9	27.6	30.3	28.7	28.6
EBITDA	**4,158**	**3,358**	**4,044**	**5,301**	**6,409**
Other Income	237	186	332	366	420
Depreciation & Amortization	1,135	1,251	1,558	1,706	1,884
EBIT	**3,259**	**2,293**	**2,818**	**3,961**	**4,945**
Finance cost	153	192	217	242	268
Core PBT	**2,869**	**1,914**	**2,269**	**3,352**	**4,257**
Exceptional items	0	0	0	0	0
PBT	**3,106**	**2,100**	**2,601**	**3,719**	**4,677**
Tax-Total	779	555	681	974	1,225
Effective tax rate (%)	25.1	26.4	26.2	26.2	26.2
PAT	**2,327**	**1,545**	**1,920**	**2,745**	**3,452**
Share of Associates	0	0	0	0	0
Non-controlling interest	0	0	0	0	0
Adjusted PAT	**2,327**	**1,545**	**1,920**	**2,745**	**3,452**

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Growth Ratio (%)					
Revenue	12.5	4.9	6.8	16.4	15.4
EBITDA	-16.1	-19.2	20.4	31.1	20.9
Adjusted PAT	-20.2	-33.6	24.3	43.0	25.8
Margin Ratios (%)					
Gross Profit	54.1	52.1	57.4	57.1	57.1
EBITDA	15.7	12.1	13.6	15.3	16.0
EBIT	12.3	8.2	9.5	11.4	12.4
Core PBT	10.8	6.9	7.6	9.7	10.7
Adjusted PAT	8.8	5.6	6.5	7.9	8.6
Return Ratios (%)					
ROE	14.0	8.5	10.1	13.4	15.4
ROCE	13.4	8.5	10.0	13.0	14.7
Turnover Ratios (days)					
Gross Block Turnover (x)	2.4	2.2	2.0	2.1	2.2
Adj OCF/Adj PAT (%)	20.6	240.5	144.6	127.7	116.2
Inventory	93	74	68	68	68
Debtors	35	35	38	35	35
Creditors	31	33	32	32	32
Cash conversion cycle	97	76	74	71	71
Solvency Ratio (x)					
Debt-equity	0.1	0.1	0.1	0.1	0.1
Net debt-equity	0.0	-0.1	0.0	-0.1	-0.1
Gross Debt/EBITDA	0.4	0.5	0.5	0.4	0.4
Current Ratio	2.9	2.7	2.7	2.8	2.9
Interest coverage ratio	19.7	11.0	11.4	14.8	16.9
Dividend					
DPS	2.5	2.5	3.5	4.0	4.5
Dividend Yield (%)	0.2	0.3	0.4	0.4	0.5
Dividend Payout (%)	26.7	40.3	45.4	36.3	32.4
Per share Ratios (Rs)					
Basic EPS (reported)	9.3	6.2	7.7	11.0	13.9
Adjusted EPS	9.3	6.2	7.7	11.0	13.9
CEPS	13.9	11.2	14.0	17.9	21.4
BV	71	75	79	86	95
Valuation (x)					
Adj P/E	114.0	136.8	107.6	75.3	59.8
P/BV	15.1	11.4	10.6	9.7	8.7
EV/EBITDA	63.7	62.5	50.9	38.7	31.8
EV/Sales	10.0	7.5	6.9	5.9	5.1
Adjusted Market Cap /Core PBT	91.7	108.8	89.9	60.5	47.3
Adjusted Market Cap /Adj OCF	548.7	56.1	73.4	57.8	50.2

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March (Rs mn)	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Source of funds					
Capital	249	249	249	249	249
Reserves & Surplus	17,352	18,302	19,300	21,049	23,382
Shareholders' Funds	**17,601**	**18,551**	**19,549**	**21,298**	**23,630**
Total Loan Funds	**1,740**	**1,641**	**1,929**	**2,224**	**2,530**
Other liabilities	387	408	435	462	489
Total Liabilities	**19,728**	**20,599**	**21,913**	**23,984**	**26,650**
Application of funds					
Gross Block	**11674**	**14017**	**16152**	**17276**	**18694**
Net Block	9,910	11,514	12,922	13,185	13,643
Capital WIP	1,452	878	650	650	650
Quasi cash Investments	248	245	300	300	300
Other Investments	2	2	2	2	2
Other non-current assets	**345**	**373**	**386**	**420**	**457**
Inventories	6,733	5,638	5,539	6,449	7,446
Sundry Debtors	2,508	2,703	3,095	3,319	3,832
Current Investments	1,693	2,006	1,338	2,077	2,798
Cash & Bank Balances	126	740	1,090	1,551	2,107
Other current Assets	810	849	1,071	1,244	1,433
Total Current Assets	**11,869**	**11,936**	**12,132**	**14,641**	**17,615**
Sundry Creditors	**2,217**	**2,529**	**2,606**	**3,035**	**3,504**
Other Current Liabilities	1,880	1,820	1,873	2,179	2,514
Total Current Liabilities	**4,098**	**4,349**	**4,480**	**5,214**	**6,017**
Net Current Assets	**7,771**	**7,588**	**7,653**	**9,427**	**11,598**
Total Assets	**19,728**	**20,599**	**21,913**	**23,984**	**26,650**

Source: Company, SMIFS Research Estimates

Cash Flow					
YE March (Rs mn)	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Operating profit before WC changes	**4,177**	**3,358**	**4,044**	**5,301**	**6,409**
Net changes in working capital	(2,765)	1,105	(370)	(580)	(904)
Tax Paid	(779)	(555)	(681)	(974)	(1,225)
Cash flow from operating activities	**633**	**3,907**	**2,994**	**3,747**	**4,280**
Adj. OCF	**480**	**3,715**	**2,776**	**3,504**	**4,012**
Capital expenditure	(1,937)	(2,281)	(2,739)	(1,969)	(2,342)
Adj FCF	(1,457)	1,434	38	1,535	1,670
Cash flow from investing activities	**(260)**	**(2,405)**	**(1,794)**	**(2,342)**	**(2,642)**
Debt	299	(100)	288	295	306
Dividend	(621)	(622)	(871)	(996)	(1,120)
Interest and Lease	(153)	(192)	(217)	(242)	(268)
Cash flow from financing activities	**(324)**	**(887)**	**(850)**	**(943)**	**(1,082)**
Net change in cash	**49**	**614**	**349**	**462**	**556**

Source: Company, SMIFS Research Estimates

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