

Cautious optimism



BATA Q2FY25 Results were below expectations on topline @ 2% YoY growth. Gross margins declined and higher employee cost lead EBIDTA decline by 3.8% YoY and IND-AS related adjustments in Depreciation and Interest led PAT decline by 19%.

- **Revenue** at Rs 8371.44mn down 2.2% on a YoY basis, QoQ the revenue was down 11.4% mainly on account of seasonality.
- **EBIDTA margins** stood at 20.9% as against 22.2% YoY and 19.6% QoQ.
 - Raw Mat to Revenue stood at 43.4% v/s 42% YoY and was 45.2% in Q1FY25.
 - Employee cost increased by 7.5% on a YoY basis to Rs 1137.2mn however witnessed 5.5% drop on a QoQ basis
 - Other Expenses as % to Revenue stood at 22.1% as against 22.9% YoY and 22.5% QoQ.
- EBIDTA in absolute terms fell by 3.8% YoY to Rs 1750mn on account of the above cost increases
- Adjusted PAT de-grew by 19.2% YoY to Rs 524mn on account of lower EBIDTA as well as depreciation and interest cost up by 10.6% and 12% respectively (mainly due to IND AS).

Outlook:

- **Demand:** Momentum slightly better v/s Q1 and Spetember was better than July.
- 1000+ category has experienced double digit growth
- Tier 3-4, smaller metros doing better and premium segment outgrowing Mass
- Store Rationalization 30% in smaller malls and 20% on high street should help improve margins

Financial Summary

Y/E Mar (Rs mn)	FY 23	FY 24	FY 25E	FY 26E	FY 27E
Net sales	34,516	34,786	35,766	38,591	41,763
<i>growth (%)</i>	44.6	0.8	2.8	7.9	8.2
EBIDTA	7,938	7,859	7,406	8,383	9,394
Margins	23	23	21	22	22
PAT(adj)	3,230	2,931	2,332	2,888	3,549
<i>growth (%)</i>	213.6	(9.2)	(20.5)	23.9	22.9
EPS (Rs)	25.1	22.8	18.1	22.5	27.6
P/E (x)	53.1	58.5	73.6	59.4	48.4
P/B (x)	11.9	11.2	10.1	9.2	8.2
EV/EBITDA (x)	20.9	21.3	22.3	19.5	17.3

Source: Company

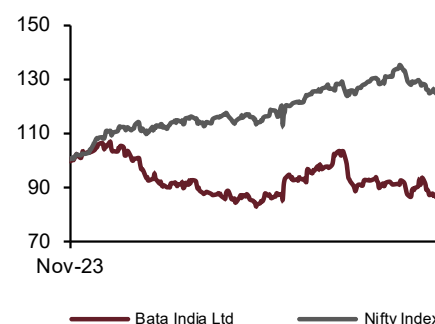
Rating	TP (Rs)	Up/Dn (%)
NEUTRAL	1,380	3

Market data

Current price	Rs	1,336
Market Cap (Rs.Bn)	(Rs Bn)	172
Market Cap (US\$ Mn)	(US\$ Mn)	2,036
Face Value	Rs	5
52 Weeks High/Low	Rs	1724.35 / 1269
Average Daily Volume	('000)	270
BSE Code		500043
Bloomberg		BATA.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-24	Jun-24
Promoters	50.16	50.16
Public	49.84	49.84
Total	100	100

Source: BSE

Kunal Bhatia
(022) 67141442
kunal.bhatia@dalal-broacha.com

Conference Call & Presentation KTA's

Bata Conference Call KTA's with Presentation Highlights	
BARND'S:	
Floatz	Growth +64% YoY Vol +70% YoY Stores ~1500
	Average volume per week @ 27K v/s 24K QoQ
	contributed 3% to Ecommerce
	Presence ~ 1500 doors & 14 Kiosks Plan to take it to 26 kiosks & add an EBO
Power	Revenue contribution Mid-double digit
	Growth +6% YoY Vol +9% YoY
	EBO's 4 plan 10 by end FY25
	Power Apparel present @ 70 stores, plan to take it to 100
Comfit	Growth +23% YoY
Sneaker Studio	stood @ 756 stores v/s 739 QoQ
Hush Puppies	Revenue contribution Mid-double digit
	Revenue growth +4% ASP growth 2%
	Stores: 136 HP stores (116 COCO 20 franchise)
	<u>License Contract renewed for 10 years</u>
Franchise	Stores Added 34 in Q2FY25
Coverage	Towns: 1560 v/s 1398 YoY Weighted Distribution 46.7% v/s 44.7% YoY Key Retail Outlets 1140 v/s 984 YoY 13500 MBO's and 400+ distributors reached
New Initiatives	Quick Commerce added
	Zero Base Merchandising piloted @ 8 stores leading to 20% Sales increase and 60% drop in lines extending to 250 stores by March 2025
Supply Chain	<u>Sourcing partner consolidation by 39% Target 45% and another by 20% in next year</u>
	Total supply praters were ~100 bought down to 60
	Aim to improve quality and service and make larger partners

STORES	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Franchise	476	509	533	566	600
COCO	1305	1326	1329	1350	1355
Total	1781	1835	1862	1916	1955

Store Split	Geography Wise
North	26%
South	38%
East	17%
West	19%
Total	100%

Digital Sales Contribution % Wise	
Bata. Com	6%
B2C	27%
B2B	67%
Total	100%

*Omni Contribution 5% of Retail,
280K pairs sold in Q2FY25*

Bata Conference Call Financial KTA's	
Revenue	Less than Rs 1000/- price point now 30% of Revenue which was ~40% Pre Covid GST and inflation post covid were also the main reason for price point elevation
Gross Margins	comfortable @ current margins Impacted a) higher Franchise contribution now @ 11% of Retail b) reduction process in inventory
Inventory	QoQ drop 7% improvement in stock availability by ~70% Aged Inventory @ down by 20% v/s Q3FY24
Capex	Injected molded EVA plant running at full capacity, plans to add more In-house v/s Outsource currently at 25:75

Quarterly Snapshot

Particulars (Rs Mns) Standalone			Growth		Growth	
	Q2FY25	Q2FY24	YoY	Q1FY25	QoQ	
Net Sales	8371.44	8191.18	2.2	9446.34	(11.4)	
Other Income	170.98	154.45	10.7	161.6	5.8	
TOTAL INCOME	8542.42	8345.63	2.4	9607.94	(11.1)	
Cost of Materials	-715.11	-557.12	28.4	-549.09	30.2	
Purch of Stock in Trade	-2895.4	-3433.7	(15.7)	-2965.8	(2.4)	
Changes in Inventories	-25.27	550.42	(104.6)	-753.72	(96.6)	
Employee Cost	-1137.2	-1058.3	7.5	-1203.6	(5.5)	
Other Expenses	-1848.3	-1872.7	(1.3)	-2122.4	(12.9)	
EBIDTA	1921.11	1974.29	(2.7)	2013.35	(4.6)	
EBIDTA (Excl O. Incom	1750.13	1819.84	(3.8)	1851.75	(5.5)	
Less: Depreciation	-902.07	-815.78	10.6	-871.34	3.5	
PBIT	1019.04	1158.51	(12.0)	1142.01	(10.8)	
Less: Interest Cost	-317.92	-283.92	12.0	-307.74	3.3	
PBT (Before Exception	701.12	874.59	(19.8)	834.27	(16.0)	
Exceptional		-409		1339.52		
PBT (Post Exceptional)	701.12	465.59	50.6	2173.79	(67.7)	
Tax	-177.5	-120.7	47.1	-430.1	(58.7)	
PAT (Reported)	523.62	344.89	51.8	1743.69	(70.0)	
PAT (Adjusted)	523.62	647.86	(19.2)	624.0	(16.1)	
Equity	642.64	642.64	-	642.64	-	
FV	5	5		5		
EPS (on adjusted PAT)	4.1	5.0	(19.1)	4.9	(16.0)	
OPM	20.9%	22.2%		19.6%		
NPM (Reported PAT)	6.1%	4.1%		18.1%		
Tax Rate	-25.3%	-25.9%		-19.8%		
% of Total Operating Income						
RAW MATERIALS	-43.4%	-42.0%		-45.2%		
Employee Cost	-13.6%	-12.9%		-12.7%		
Other Expenses	-22.1%	-22.9%		-22.5%		
EXPENDITURE	-79.1%	-77.8%		-80.4%		

Source: Dalal & Broacha Research, Company

Outlook and Valuations

Bata has demonstrated a modest compound annual growth rate (CAGR) of 3% in revenue from Q2 FY20 to Q2 FY25, alongside a slightly higher CAGR of 3.3% from FY20 to FY24.

This growth trajectory has not kept pace with its industry peers, indicating a need for strategic reassessment.

The management's focus on a premiumisation strategy has shown initial success, with premium products contributing significantly to overall revenue. However, it is still in the early stages of implementation and has not yet resulted in the desired return to double-digit growth, which is crucial for a potential re-rating of the stock.

Looking forward, achieving double-digit growth by FY25 presents considerable challenges.

We hope that the efforts put forth by management towards market penetration through franchise expansion, along with improvements in operational cost efficiency, will enhance both topline and bottomline performance.

We have revised our numbers post Q2FY25 conference call. At CMP of Rs1,336 Bata trades at 59x FY26e EPS of Rs 22.5 and 48x FY27e EPS of Rs 27.6.

We had recommended **“Book Profits” since Q1FY24** results and the stock has corrected 20% from those levels. We hopeful of some pick-up in momentum from a low base and hence change our recommendation to **“NEUTRAL” with a target price of 1,380** (valuing Bata at 50x FY27 EPS of Rs 27.6)

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Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.

Tel: 91-22- 2282 2992, 2287 6173 | E-mail: equity.research@dalal-broacha.com