

November 08, 2024

RESULT REPORT Q2 FY25 | Sector: Footwear

# Bata India Ltd

**Muted performance continues; maintain NEUTRAL!**

## Result Synopsis

Bata India Ltd (BATA) reported another muted quarter on the back of sluggish demand environment & subdued consumption. Consequently, topline stood at Rs8.37Bn (largely in-line with est), a marginal growth of 2%YoY (2-Year CAGR remained flat). Gross margins declined by 143bps YoY & improved by 176bps sequentially to 56.6% & similarly EBITDA margins declined by 133bps YoY & expanded by 127bps QoQ to 20.9% (above est of 20%). Hence, Absolute EBITDA stood at Rs1.75Bn, a decline of 4%YoY & 6%QoQ. For H1FY25, revenue remained flattish YoY at Rs17.82Bn with an operating margin of 20.2% Vs 23.7% in H1FY24.

Bata's COCO + Franchise store count as on Q2FY25 stood at 1,955 as compared to 1,916 stores in Q1FY25. Company now operates 4 EBOs of Power, 136 EBOs of Hush Puppies, and 14 Kiosks for Floatz. On its drive to enhance customer experience, company renovated 48 stores in Q2FY25. Also, to accelerate casualization strategy, Bata implemented Sneaker Studio in 756 stores.

## Management Guidance

Management maintained their near-term guidance of double digit growth and mentioned that GP margins will remain at similar levels and operating margins will improve depending on cost optimization. Company expects recovery in demand from coming quarters on the back of festive season momentum and Bata's market positioning.

## Our View

We maintain our NEUTRAL rating on BATA as demand scenario remains weak and multiple initiatives taken by BATA for their premiumization growth plan are yet to yield results. Owing to weak H1FY25 on topline and margin front, we have revised our FY25E/FY26E EPS downwards by 12%/13% respectively. We now factor-in Revenue/EBITDA/PAT growth of 4%/5.4%/5.6% respectively over FY24-FY27E. At CMP, the stock trades at P/E(x) of 53x/48x on FY26E/FY27E EPS of Rs25/Rs28. We continue to value BATA at P/E(x) of 50x (avg 1-year forward P/E) on FY27E EPS, arriving at a target price of Rs1,388.

## Result Highlights

- Sales grew marginally by 2%YoY & declined by 11%QoQ to Rs8.37Bn (broadly in-line with our and consensus est).
- EBITDA margins came in at 20.9% (Vs est of 20% and below consensus est of 21.4%). Margins declined by 133bps YoY & improved by 127bps QoQ. Absolute EBITDA, declined by 4%YoY & 6%QoQ to Rs1.75Bn.
- Net profit stood at Rs520Mn, a degrowth of 31%YoY (excl exceptional loss of VRS) & 16%QoQ (excl exceptional gain on sale of land) owing to lower margins and higher finance & depreciation cost.

## Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	8,371	8,192	8,573	2.2	(2.4)	Above estimate.
EBITDA	1,746	1,638	1,838	6.6	(5.0)	
EBITDA Margin (%)	20.9	20.0	21.4	86 bps	(58 bps)	
Adjusted PAT	520	465	598	11.7	(13.1)	

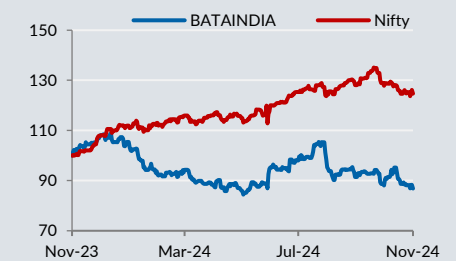
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 1,336
Target Price	: Rs 1,388
Potential Return	: +3.9%

## Stock data (as on Nov 08, 2024)

Nifty	24,148
52 Week h/l (Rs)	1,724 / 1,269
Market cap (Rs/USD mn)	172,233 / 2,042
Outstanding Shares (mn)	129
6m Avg t/o (Rs mn):	596
Div yield (%):	0.8
Bloomberg code:	BATA IN
NSE code:	BATAINDIA

## Stock performance



	1M	3M	1Y
Absolute return	-3.9%	-8.2%	-14.2%

## Shareholding pattern (As of Sep'24 end)

Promoter	50.2%
FII+DII	35.9%
Others	13.9%

## Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	1,388	1,453

## Δ in earnings estimates

	FY25E	FY26E	FY27E
EPS (New)	27.1	25.2	27.8
EPS (Old)	30.7	29.1	-
% change	-11.7%	-13.3%	-

## Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Net Revenue	35,482	37,277	39,163
YoY Growth	2.0	5.1	5.1
EBITDA	7,451	8,574	9,203
EBITDA (%)	21.0	23.0	23.5
PAT	3,485	3,241	3,569
YoY Growth	32.7	(7.0)	10.1
ROE	21.6	18.2	18.3
EPS	27.1	25.2	27.8
P/E	49.3	53.0	48.1
BV/Share	132.4	144.2	158.5
P/BV	10.1	9.3	8.4

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**SHALIN DAMANI**, Associate

- During the quarter COCO & Franchise stores count expanded to 1,955nos Vs 1,916nos in previous quarter, 48 stores were renovated, and Sneaker Studio was implemented in 17 more stores taking the total count to 756 stores.

## Exhibit 2: Quarterly Snapshot:

Rs mn	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	% yoy	% qoq	H1 FY24	H1 FY25	% yoy
Revenue	9,581	8,192	9,035	7,979	9,446	8,371	2.2	(11.4)	17,773	17,818	0.3
Expenditure	7,186	6,375	7,210	6,156	7,596	6,625	3.9	(12.8)	13,560	14,222	4.9
- RM	4,335	3,436	3,970	3,181	4,264	3,631	5.7	(14.8)	7,772	7,895	1.6
- Staff Cost	1,048	1,058	1,027	1,066	1,208	1,138	7.5	(5.8)	2,106	2,346	11.4
- Other cost	1,803	1,880	2,213	1,909	2,124	1,856	(1.3)	(12.6)	3,683	3,980	8.1
Operating Profit	2,396	1,817	1,824	1,823	1,850	1,746	(3.9)	(5.6)	4,213	3,596	(14.6)
OPM(%)	25.0	22.2	20.2	22.8	19.6	20.9	(133 bps)	127 bps	23.7	20.2	(352 bps)
Other Income	132	154	111	219	162	172	11.6	5.9	286	334	16.8
Depreciation	810	817	860	903	872	902	10.4	3.4	1,627	1,774	9.1
Interest	281	284	295	310	308	318	11.9	3.2	565	626	10.7
Exceptional	-	(409)	-	-	1,340	-	-	-	(409)	1,340	-
PBT	1,437	461	780	829	2,172	698	51.3	(67.9)	1,898	2,869	51.2
Tax	366	121	201	193	431	178	47.0	(58.7)	487	609	24.8
PAT	1,071	340	580	637	1,741	520	52.8	(70.1)	1,411	2,261	60.3
OCI	3	(34)	(1)	29	(1)	(7)	NM	NM	(32)	(8)	NM
Reported PAT	1,073	306	579	666	1,740	513	67.6	(70.5)	1,379	2,253	63.4
Adjusted PAT	1,071	749	580	637	402	520	(30.6)	29.4	1,820	921	(49.4)

Source: Company, YES Sec

## Exhibit 3: Operational Highlights:

Particulars	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	% yoy	% qoq	H1 FY24	H1 FY25	% yoy
<b>Store Network</b>											
COCO	1,288	1,305	1,326	1,329	1,350	1,355	3.8	0.4	1,305	1,355	3.8
Franchise	448	476	509	533	566	600	26.1	6.0	476	600	26.1
Total	1,736	1,781	1,835	1,862	1,916	1,955	9.8	2.0	1,781	1,955	9.8
Stores renovated	1,396	1,398	1,518	1,538	1,548	1,560	11.6	0.8	1,398	1,560	11.6
Towns covered	44.0%	44.7%	45.3%	45.8%	46.4%	46.7%	200 bps	30 bps	44.7%	46.7%	200 bps
Distributor WD	1,288	1,305	1,326	1,329	1,350	1,355	3.8	0.4	1,305	1,355	3.8

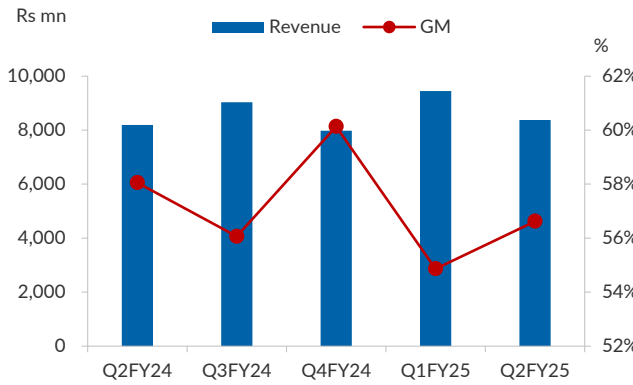
Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- Company has seen sequential improvement in demand and better traction from tier-2 and below towns. However, for the company the premium segment has been growing at a faster pace than mass segment.
- The revenue contribution from the <Rs1,000 segment has reduced from ~50% pre-COVID to ~38% in FY24 to ~31% in Q2FY25. Implementation of GST coupled with high inflation led to sharp increase in prices that moved some products out of the Rs1,000 category.
- GM has declined as franchise & e-commerce are growing at a faster pace for the company, that sell products at a lower margin than EBOs, and company has been clearing out some inventory.
- Franchise revenue has increased to 11-12% of COCO revenue.
- Bata is switching to new store sizes to optimize capex where mall/high street stores are 30%/20% smaller in size respectively, thereby having lower capex/sqft.
- Company renewed its contract with Hush Puppies in Q2FY25 for another 10 years.
- Company is considering to open 1st Float EBO that would be finalized by Q3/Q4 FY25.
- Power brand contributes mid double digit to company's turnover. Hush Puppies contributes mid double digit to company's revenue.
- Sales/sqft has increased by ~20% and customer lines have reduced by ~60% in the 8 pilot stores where zero base merchandising has been implemented. The retrieval time has reduced from ~2mins to 45secs. Company plans to implement this system in 100 stores by Dec'24 & 250 stores by Mar'25.
- Now that Bata has reached a good scale of WD in MBOs, company believes KROs will drive secondary growth and thus plans to add 800 KROs in next 6 months.
- Company's manufacturing includes 25/75 in-house/sourcing partners. Company has consolidated ~39% of its sourcing partners with a target of ~45%. Company plans to have 50-60 sourcing partners going ahead.
- IT capex for the company is almost complete.

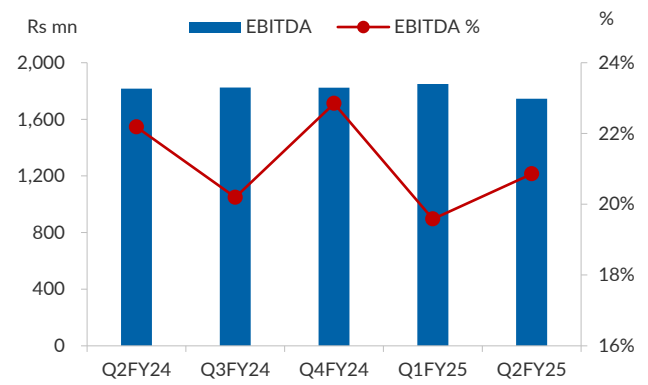
## QUARTERLY TRENDS

**Exhibit 4: Revenue increased by 2.2%YoY...**



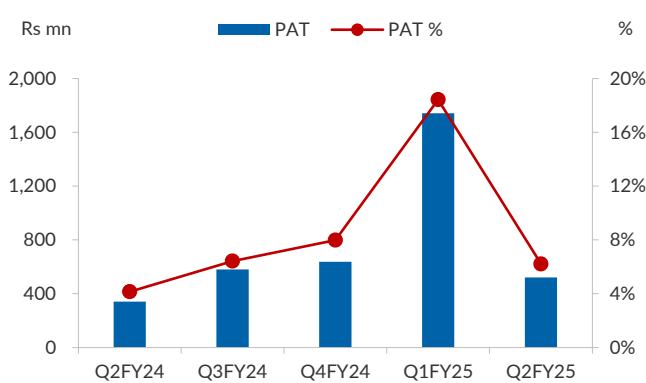
Source: Company, YES Sec

**Exhibit 5: EBITDA margin came in at 20.9%...**



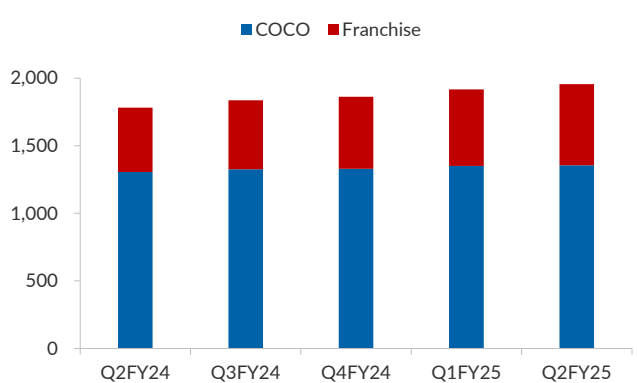
Source: Company, YES Sec

**Exhibit 6: PAT stood at Rs520Mn...**



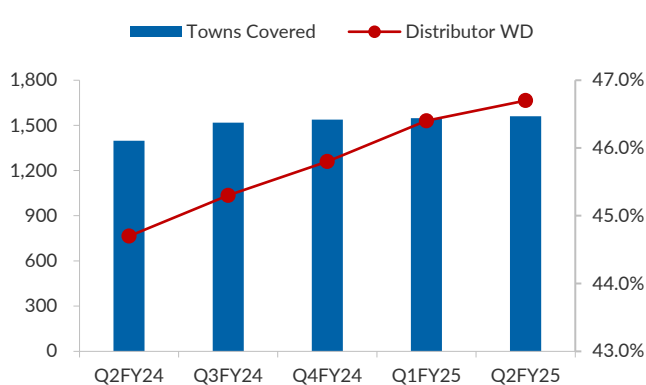
Source: Company, YES Sec

**Exhibit 7: COCO + Franchise stores grew to 1,955...**



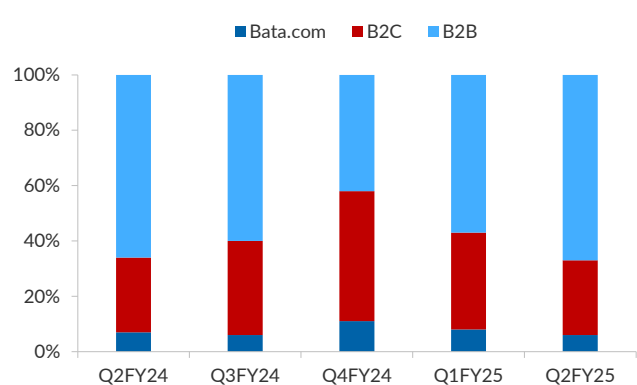
Source: Company, YES Sec

**Exhibit 8: 1,560 town coverage...**



Source: Company, YES Sec

**Exhibit 9: B2B contributed to 67% of digital sales...**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 10: Income Statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenues	34,516	34,786	35,482	37,277	39,163
Growth (%)	44.6%	0.8%	2.0%	5.1%	5.1%
EBITDA	7,938	7,859	7,451	8,574	9,203
EBITDA margin (%)	23.0%	22.6%	21.0%	23.0%	23.5%
Growth (%)	89.7%	-1.0%	-5.2%	15.1%	7.3%
Depreciation & Amortization	2,948	3,391	3,577	3,679	3,841
Other income	387	617	663	695	713
EBIT	5,377	5,085	4,537	5,590	6,076
EBIT margin (%)	15.6%	14.6%	12.8%	15.0%	15.5%
Interest	1,079	1,170	1,231	1,268	1,317
PBT	4,298	3,506	4,646	4,321	4,758
Tax	1,069	881	1,162	1,080	1,190
Net profit	3,230	2,625	3,485	3,241	3,569
Net profit margin (%)	9.4%	7.5%	9.8%	8.7%	9.1%
EPS	25.1	20.4	27.1	25.2	27.8
Growth (%)	213.6%	(18.7%)	32.7%	(7.0%)	10.1%

Source: Company, YES Sec

### Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	H1FY25	FY25E	FY26E	FY27E
Equity Share Capital	643	643	643	643	643	643
Reserves	13,739	14,626	14,050	16,380	17,890	19,728
Total Shareholders' Funds	14,382	15,269	14,693	17,022	18,533	20,370
<b>Liabilities</b>						
Lease Liabilities	12,464	13,573	14,379	13,668	14,212	14,571
Trade Payables	4,094	2,997	4,177	3,057	3,174	3,295
Others	1,776	1,659	1,625	1,688	1,746	1,806
<b>Total Equity and Liabilities</b>	<b>32,716</b>	<b>33,498</b>	<b>34,874</b>	<b>35,436</b>	<b>37,665</b>	<b>40,042</b>
<b>Non-Current Assets</b>						
PPE	3,216	3,279	3,258	3,788	4,360	4,893
CWIP	16	16	60	16	16	16
Intangibles	164	291	255	326	353	374
Right of Use	10,560	11,539	12,171	11,354	11,859	12,247
Others	2,625	2,868	3,021	2,868	2,868	2,868
<b>Current Assets</b>						
Inventories	9,046	9,296	8,540	9,481	9,845	10,221
Trade Receivables	826	801	1,523	817	859	902
Cash	5,312	4,080	4,735	5,456	6,176	7,193
Others	952	1,329	1,311	1,329	1,329	1,329
<b>Total Assets</b>	<b>32,716</b>	<b>33,498</b>	<b>34,874</b>	<b>35,436</b>	<b>37,665</b>	<b>40,042</b>

Source: Company, YES Sec

## Exhibit 12: Cash Flow

Y/e 31 Mar (Rs mn)	FY23	FY24	H1FY25	FY25E	FY26E	FY27E
PBT	4,298	3,506	2,869	4,646	4,321	4,758
Depreciation & Amortization	2,947	3,391	1,774	3,577	3,679	3,841
Finance cost	1,079	1,170	626	1,231	1,268	1,317
(Incr)/Decr in Working Capital	(777)	(2,041)	975	(565)	(796)	(805)
Taxes	(972)	(949)	(700)	(1,162)	(1,080)	(1,190)
Cash from ops.	6,289	4,531	3,872	7,727	7,393	7,922
(Incr)/ Decr in PP&E	(897)	(979)	1,220	(950)	(1,050)	(1,050)
Cash Flow from Investing	4,384	404	1,023	(950)	(1,050)	(1,050)
Payment of Lease	(3,116)	(3,433)	(1,772)	(3,670)	(3,891)	(4,125)
Interest	(6,989)	(1,731)	(2,818)	(1,731)	(1,731)	(1,731)
Cash Flow from Financing	(10,105)	(5,179)	(4,602)	(5,400)	(5,622)	(5,856)
Incr/(Decr) in cash	568	(245)	293	1,377	720	1,016
Cash and cash equivalents at beg of year	178	746	501	4,080	5,456	6,176
Cash and cash equivalents at end of year	746	501	794	5,456	6,176	7,193

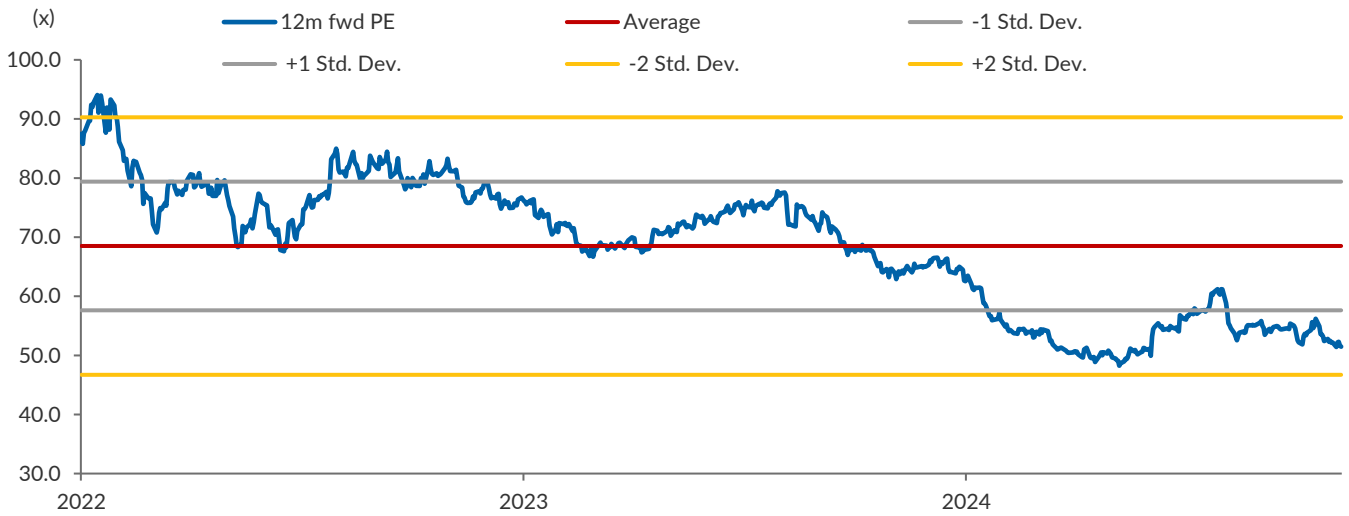
Source: Company, YES Sec

## Exhibit 13: Ratios

Key Ratios	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth Matrix (%)</b>					
Revenue growth	44.6%	0.8%	2.0%	5.1%	5.1%
EBITDA growth	89.7%	(1.0%)	(5.2%)	15.1%	7.3%
EBIT growth	131.2%	(5.4%)	(10.8%)	23.2%	8.7%
PAT growth	213.6%	(18.7%)	32.7%	(7.0%)	10.1%
<b>Profitability ratios (%)</b>					
EBITDA margin	23.0%	22.6%	21.0%	23.0%	23.5%
EBIT margin	15.6%	14.6%	12.8%	15.0%	15.5%
PAT margin	9.4%	7.5%	9.8%	8.7%	9.1%
RoCE	20.9%	20.1%	16.8%	19.3%	19.6%
RoE	19.9%	17.7%	21.6%	18.2%	18.3%
<b>Per share values</b>					
EPS	25.1	20.4	27.1	25.2	27.8
CEPS	48.1	46.8	54.9	53.8	57.6
BVPS	111.9	118.8	132.4	144.2	158.5
<b>Valuation ratios (x)</b>					
P/E	56.5	66.8	49.3	53.0	48.1
P/CEPS	29.5	29.1	24.3	24.8	23.2
P/B	12.7	11.5	10.1	9.3	8.4
EV/EBITDA	22.3	21.8	22.3	19.3	17.9
<b>Leverage ratios (x)</b>					
Debt/ Equity	0.0	0.0	0.0	0.0	0.0
Net debt/Equity	(0.4)	(0.3)	(0.3)	(0.3)	(0.4)
Net debt/EBITDA	(0.7)	(0.5)	(0.7)	(0.7)	(0.8)
Int coverage	5.0	4.3	3.7	4.4	4.6
<b>NWC days</b>					
Receivables	8.7	8.4	8.4	8.4	8.4
Inventory	218.1	227.4	227.4	227.4	227.4
Payables	98.7	73.3	73.3	73.3	73.3

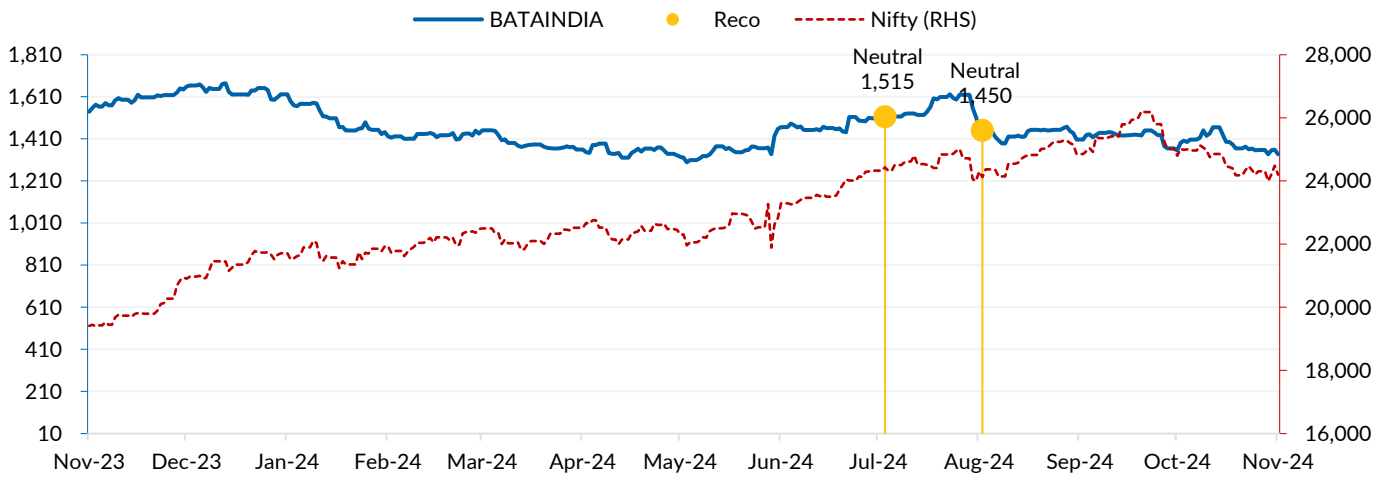
Source: Company, YES Sec

**Exhibit 14: 1-year forward P/E (x) chart**



Source: Company, YES Sec

## Recommendation Tracker



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Analyst signature

Analyst signature

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