

August 08, 2024

RESULT REPORT Q1 FY25 | Sector: Footwear

Bata India Ltd

Muted topline, margins lower due to higher ad spend & IT cost, maintain NEUTRAL!

Result Synopsis

Bata India's topline remained flattish on YoY basis at Rs9.45Bn (6% below consensus estimates). Company opened ~54 new stores (COCO + franchise) during the quarter, of which ~33 franchise stores were added, primarily in Tier-III&V cities. Also, Bata launched its 2nd Power EBO in Delhi. Operating margins contracted meaningfully to 19.6% Vs 25%/22.8% in Q1FY24/Q4FY24 respectively, largely due to higher employee cost and other expenses. Company had spends of Rs147Mn towards investment in technology and advertisement cost stood at Rs271Mn Vs Rs158Mn in Q1FY24, which lead to higher other expenses and weighed on operating margins (excluding the cost towards technology, EBITDA margins stands at 21.1%). On the back of premiumization strategy, company renovated ~37 stores during the quarter. Company had gain on sale of land of Rs1,340Mn which inflated net profit in Q1FY25.

We reckon topline growth to be muted at 6% CAGR over FY24-FY26E which will be driven by premiumization trend and new store additions. Owing to lower margins in Q1FY25, we have revised our FY25E margin estimate downwards to 22% from 23% earlier while FY26E margins should come in at 23.5% with higher focus on premiumization & cost optimization. Hence, we expect EBITDA to grow by 8% CAGR over FY24-FY26E.

At CMP, the stock trades at P/E(x) of 63x/50x on FY25E/FY26E EPS of Rs23(excluding profit on sale of land)/Rs29. We continue to value the company at P/E(x) of 50x on FY26E EPS, arriving at a target price of Rs1,453 (7.7% below previous target price). Hence, we maintain our NEUTRAL rating on the stock.

Result Highlights

- Revenue stood at Rs9.44Bn (6% below consensus est), remaining flattish YoY.
- EBITDA margins came in at 19.6% Vs 25%/22.8% (consensus est of 26.2%). Margins were sharply lower due to employee cost and other expenses which was elevated due to one-time expenditure of Rs147Mn towards investment in technology. However, adjusting the impact of the same, EBITDA margin stands at ~21.1% which is considerably below estimates. Hence, absolute EBITDA declined by 23%YoY.
- Company had a gain from sale of land of Rs1,340Mn, barring which the PBT stood at Rs832Mn, a decline of 42%YoY.
- PAT (excl gain on sale of land) stood at Rs402Mn, a degrowth of 63%YoY.
- During the quarter COCO and Franchise stores count expanded to 1,916nos Vs 1,862nos in previous quarter. 37-new stores were renovated, and 33-franchise stores were added primarily in Tier-3&5 towns. Bata also launched its 2nd POWER EBO in Delhi.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	9,446	-	10,031	-	(5.8)	
EBITDA	1,850	-	2,627	-	(29.6)	
EBITDA Margin (%)	19.6	-	26.2	-	-660 bps	Miss on all fronts Vs consensus estimate
Adjusted PAT	402	-	1,185	-	(66.1)	

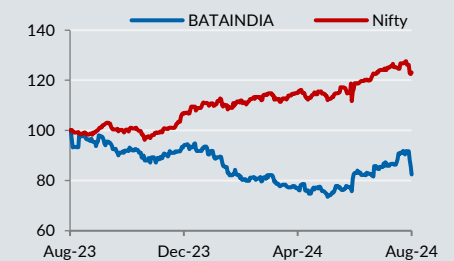
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 1,450
Target Price	: Rs 1,453
Potential Return	: +0.2%

Stock data (as on Aug 08, 2024)

Nifty	24,117
52 Week h/l (Rs)	1,771 / 1,269
Market cap (Rs/USD mn)	188,415 / 2,245
Outstanding Shares (mn)	129
6m Avg t/o (Rs mn):	624
Div yield (%):	0.8
Bloomberg code:	BATA IN
NSE code:	BATAINDIA

Stock performance



	1M	3M	1Y
Absolute return	-5.0%	10.2%	-17.1%

Shareholding pattern (As of Jun'24 end)

Promoter	50.2%
FII+DII	35.1%
Others	14.7%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	1,453	1,574

Δ in earnings estimates

	FY25E	FY26E
EPS (New)	30.7	29.1
EPS (Old)	26.9	31.5
% change	14.2%	-7.8%

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Net Revenue	34,786	36,525	39,119
YoY Growth	0.8	5.0	7.1
EBIDTA	7,859	8,036	9,193
EBIDTA (%)	22.6	22.0	23.5
PAT	2,625	3,949	3,734
YoY Growth	(18.7)	50.4	(5.4)
ROE	17.7	24.1	20.2
EPS	20.4	30.7	29.1
P/E	66.8	47.2	49.9
BV/Share	118.8	136.1	151.6
P/BV	11.5	10.7	9.6

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Exhibit 2: Quarterly Snapshot:

Rs mn	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	% yoy	% qoq
Revenue	7,786	9,581	8,192	9,035	7,979	9,446	(1.4)	18.4
Expenditure	5,965	7,186	6,375	7,210	6,156	7,596	5.7	23.4
- RM	3,238	4,335	3,436	3,970	3,181	4,264	(1.6)	34.0
- Staff Cost	1,039	1,048	1,058	1,027	1,066	1,208	15.3	13.3
- Other cost	1,688	1,803	1,880	2,213	1,909	2,124	17.8	11.3
Operating Profit	1,821	2,396	1,817	1,824	1,823	1,850	(22.8)	1.5
OPM(%)	23.4	25.0	22.2	20.2	22.8	19.6	-542 bps	-326 bps
Other Income	99	132	154	111	219	162	22.8	(25.8)
Depreciation	765	810	817	860	903	872	7.7	(3.4)
Interest	272	281	284	295	310	308	9.5	(0.5)
Exceptional	-	-	(409)	-	-	1,340	-	-
PBT	883	1,437	461	780	829	2,172	51.1	161.8
Tax	227	366	121	201	193	431	17.5	123.3
PAT	656	1,071	340	580	637	1,741	62.6	173.5
OCI	17	3	(34)	(1)	29	(1)	-	-
Reported PAT	674	1,073	306	579	666	1,740	62.2	161.4
Adjusted PAT	656	1,071	749	580	637	402	(62.5)	(36.9)

Source: Company, YES Sec

Exhibit 3: Operational Highlights:

Particulars	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	% yoy	% qoq
Store Network								
COCO	1,282	1,288	1,305	1,326	1,329	1,350	4.8	1.6
Franchise	419	448	476	509	533	566	26.3	6.2
Total	1,701	1,736	1,781	1,835	1,862	1,916	10.4	2.9
Stores renovated	22	27	54	36	67	37		
Towns covered	1,372	1,396	1,398	1,518	1,538	1,548	10.9	0.7
Distributor WD	43.5%	44.0%	44.7%	45.3%	45.8%	46.4%	240 bps	60 bps

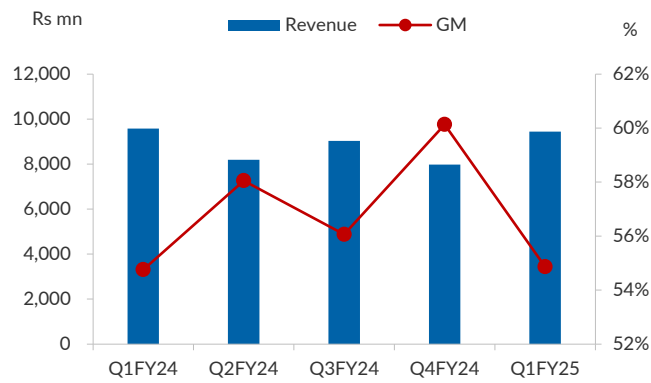
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Demand improved in the first half of the quarter, but momentum declined in the latter half and continues to remain subdued.
- Management continues to see 3 main trends of sneakerization, casualization & fashion premiumization while slowness in formal shoes primarily on account of lower sales of dress shoes.
- Company had a one-time expense for ERP implementation, IT & pay-roll costs that increased expenses by 300-320bps.
- >Rs2,000/Rs1,000-2,000/Rs500-1,000/<Rs500 products contribute 25%/35%/25%/15% respectively.
- Sneakers & casual footwear contributes 50-55% to topline and management expects it to increase to 65% in next 3 years.
- Company plans to open an additional 120-140 stores annually of which 70-80% will be FOFO. Of the total openings ~70% will be in tier-III and below towns (excl Power & Nine West). New Power EBO openings will be focused around the NCR radius. Company plans to continue 20-25 store renovations every quarter.
- While FOFO has lower gross margins than COCO (GM of ~50-55%), FOFO is EBITDA accretive and has higher ROCE.
- ~50% of new FOFO stores are being opened by current franchise partners.
- 2nd Power EBO was launched in the quarter and company plans to add 4-5 new EBOs in Q2FY25 and another 7-8 in Q3FY25. These stores are less than 1,000sqft.
- Power apparel is expected to be available in 140-150 stores & company plans to double Floatz kiosks (100-150sqft.) to 30 by Dec'24.
- Floatz has ramped up rapidly and contributes to 4-5% of total retail sales selling 1.2-1.4Mn pairs per annum and company believes it can be scaled up to 5Mn pairs per annum.
- In-house/contract manufacturing has shifted from 35%/65% 2 years back to 25%/75% and will decrease further with complete shutdown of the Bangalore plant.
- ~90% of Bata's portfolio is already BIS compliant as Bata had transferred majority of its products 1 month before BIS implementation which was on 1st Aug.
- Company has started offering 30% incentive variable pay structure at stores which is on par with industry norms.
- Company launched Evalite in <Rs500 category 6-8 months back that has one of the faster growing segments for the company.
- FOFO & E-commerce grew fastest during the quarter while distribution biz was a laggard.
- Company has a high single digit average discounting in a year.

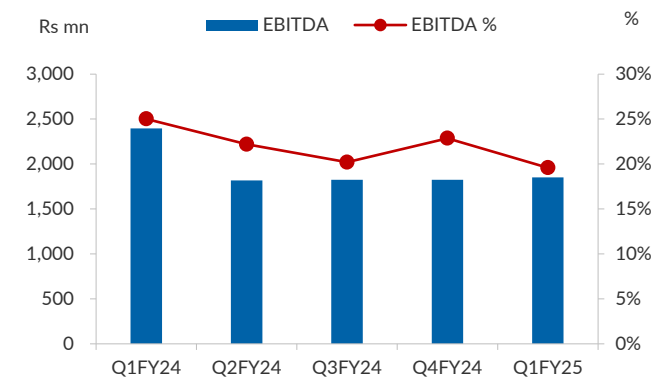
QUARTERLY TRENDS

Exhibit 4: Revenue declined by 1.4%YoY...



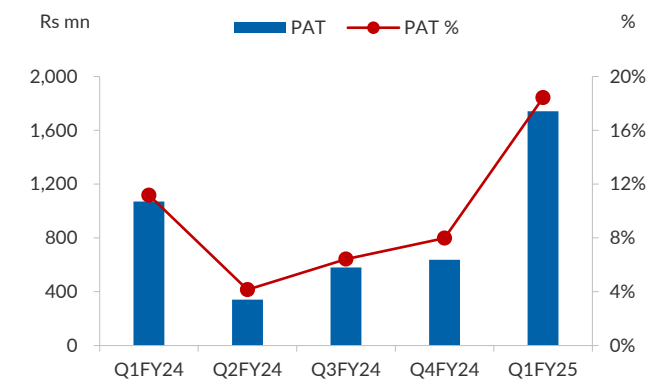
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Exhibit 5: EBITDA margin decreased to 19.6%...



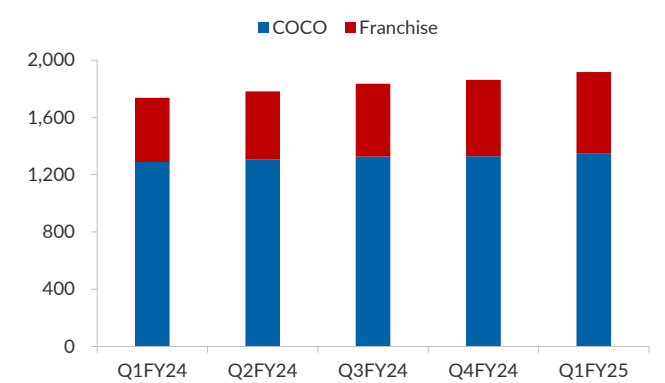
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Exhibit 6: PAT (excl exceptional) was Rs402Mn...



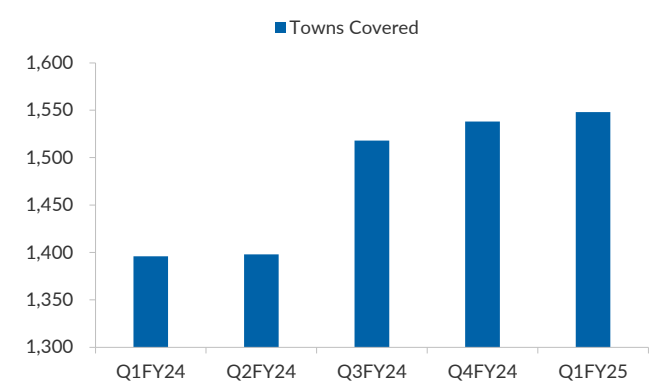
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Exhibit 7: COCO + Franchise stores grew to 1,916...



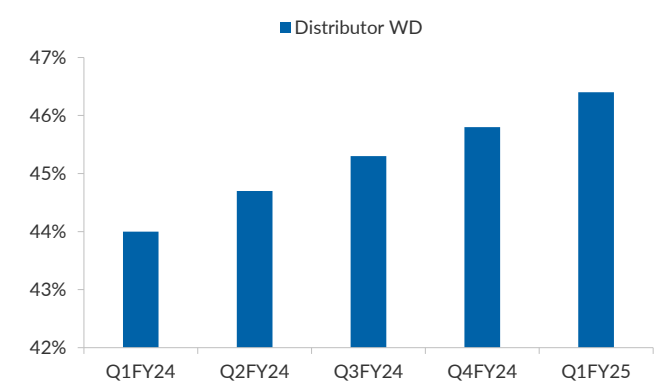
Source: Company, YES Sec

Exhibit 8: 1,548 town coverage...



Source: Company, YES Sec

Exhibit 9: Distribution WD increased to 46.4%...



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Income Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenues	23,877	34,516	34,786	36,525	39,119
Growth (%)	39.8%	44.6%	0.8%	5.0%	7.1%
EBITDA	4,185	7,938	7,859	8,036	9,193
EBITDA margin (%)	17.5%	23.0%	22.6%	22.0%	23.5%
Growth (%)	158.1%	89.7%	-1.0%	2.2%	14.4%
Depreciation & Amortization	2,420	2,948	3,391	3,560	3,654
Other income	560	387	617	681	708
EBIT	2,325	5,377	5,085	5,157	6,247
EBIT margin (%)	9.7%	15.6%	14.6%	14.1%	16.0%
Interest	928	1,079	1,170	1,231	1,268
PBT	1,397	4,298	3,506	5,265	4,979
Tax	367	1,069	881	1,316	1,245
Net profit	1,030	3,230	2,625	3,949	3,734
Net profit margin (%)	4.3%	9.4%	7.5%	10.8%	9.5%
EPS	8.0	25.1	20.4	30.7	29.1
Growth (%)	NM	213.6%	-18.7%	50.4%	-5.4%

Source: Company, YES Sec

Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	643	643	643	643	643
Reserves	17,504	13,739	14,626	16,844	18,847
Total Shareholders' Funds	18,146	14,382	15,269	17,487	19,490
Liabilities					
Lease Liabilities	10,942	12,464	13,573	13,668	14,212
Trade Payables	4,561	4,094	2,997	3,110	3,291
Others	1,601	1,776	1,659	1,715	1,804
Total Equity and Liabilities	35,251	32,716	33,498	35,980	38,797
Non-Current Assets					
PPE	2,885	3,216	3,279	3,788	4,360
CWIP	37	16	16	16	16
Intangibles	182	164	291	343	395
Right of Use	9,207	10,560	11,539	11,354	11,859
Others	2,940	2,625	2,868	2,868	2,868
Current Assets					
Inventories	8,709	9,046	9,296	9,647	10,210
Trade Receivables	717	826	801	841	901
Cash	9,688	5,312	4,080	5,794	6,860
Others	886	952	1,329	1,329	1,329
Total Assets	35,251	32,716	33,498	35,980	38,797

Source: Company, YES Sec

Exhibit 12: Cash Flow

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	1,397	4,298	3,506	5,265	4,979
Depreciation & Amortization	2,419	2,947	3,391	3,560	3,654
Finance cost	928	1,079	1,170	1,231	1,268
(Incr)/Decr in Working Capital	(2,041)	(777)	(2,041)	2,311	2,815
Taxes	(68)	(972)	(949)	(1,316)	(1,245)
Cash from ops.	2,115	6,289	4,531	11,051	11,471
(Incr)/ Decr in PP&E	(477)	(897)	(979)	(950)	(1,050)
Cash Flow from Investing	928	4,384	404	(3,936)	(4,783)
Payment of Lease	(2,886)	(3,116)	(3,433)	(3,670)	(3,891)
Interest	(891)	(1,057)	(1,142)	(1,231)	(1,268)
Cash Flow from Financing	(3,410)	(10,105)	(5,179)	(5,400)	(5,622)
Incr/(Decr) in cash	(366)	568	(245)	1,715	1,066
Cash and cash equivalents at beginning of year	545	178	746	4,080	5,794
Cash and cash equivalents at end of year	178	746	501	5,794	6,860

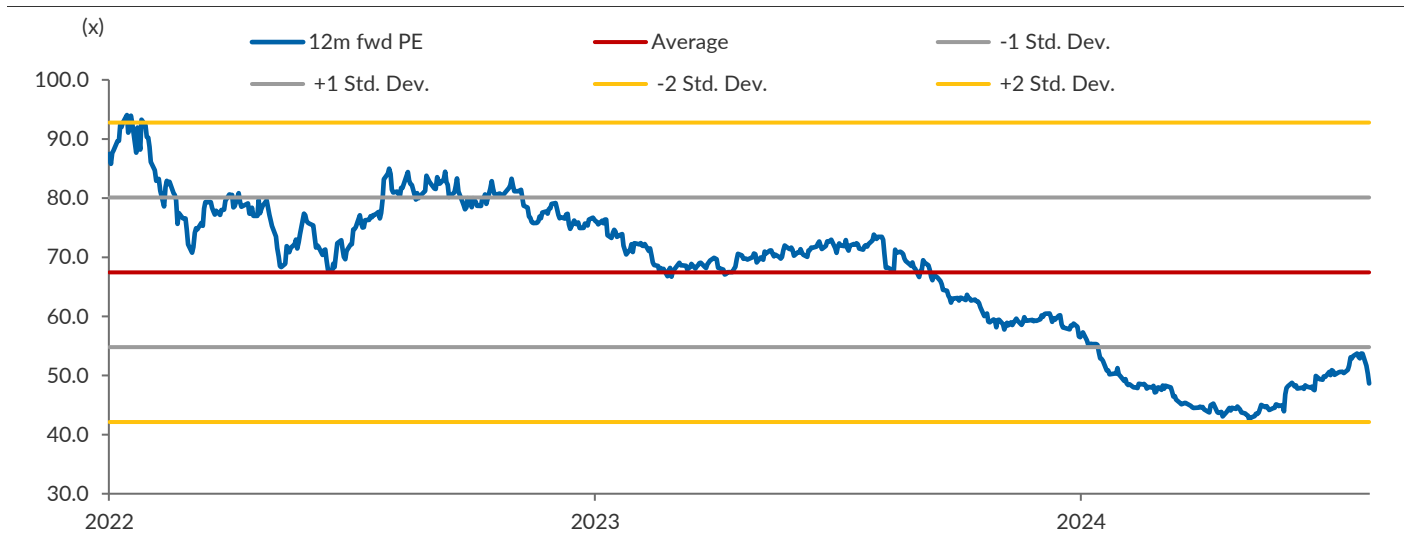
Source: Company, YES Sec

Exhibit 13: Ratios

Key Ratios	FY22	FY23	FY24	FY25E	FY26E
Growth Matrix (%)					
Revenue growth	39.8%	44.6%	0.8%	5.0%	7.1%
EBITDA growth	158.1%	89.7%	-1.0%	2.2%	14.4%
EBIT growth	NM	131.2%	-5.4%	1.4%	21.1%
PAT growth	NM	213.6%	-18.7%	50.4%	-5.4%
Profitability ratios (%)					
EBITDA margin	17.5%	23.0%	22.6%	22.0%	23.5%
EBIT margin	9.7%	15.6%	14.6%	14.1%	16.0%
PAT margin	4.3%	9.4%	7.5%	10.8%	9.5%
RoCE	8.7%	20.9%	20.1%	18.9%	21.1%
RoE	5.8%	19.9%	17.7%	24.1%	20.2%
Per share values					
EPS	8.0	25.1	20.4	30.7	29.1
CEPS	26.8	48.1	46.8	58.4	57.5
BVPS	141.2	111.9	118.8	136.1	151.6
Valuation ratios (x)					
P/E	244.8	56.5	66.8	47.2	49.9
P/CEPS	73.1	29.5	29.1	24.8	25.2
P/B	13.9	12.7	11.5	10.7	9.6
EV/EBITDA	57.9	22.3	21.8	22.5	19.5
Leverage ratios (x)					
Debt/ Equity	0.0	0.0	0.0	0.0	0.0
Net debt/Equity	(0.5)	(0.4)	(0.3)	(0.3)	(0.4)
Net debt/EBITDA	(2.3)	(0.7)	(0.5)	(0.7)	(0.7)
Int coverage	2.5	5.0	4.3	4.2	4.9
NWC days					
Receivables	11.0	8.7	8.4	8.4	8.4
Inventory	292.5	218.1	227.4	227.4	227.4
Payables	153.2	98.7	73.3	73.3	73.3

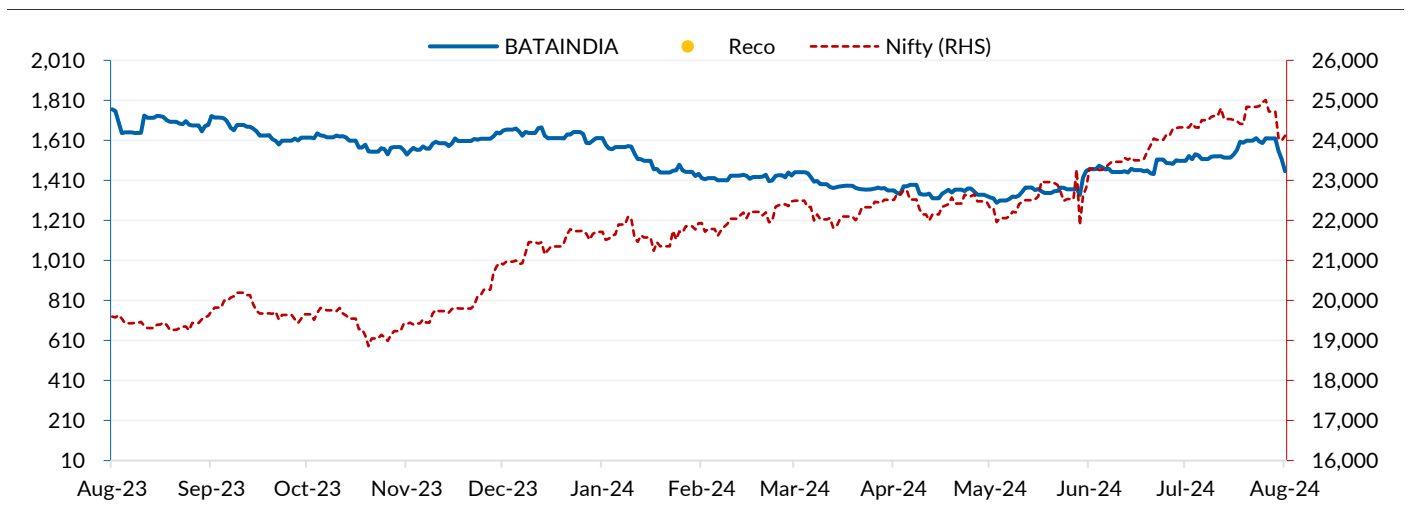
Source: Company, YES Sec

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



Source: Company, YES Sec

Recommendation Tracker



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Analyst signature

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