



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✓	✗
Right Valuation (RV)	✓	✓	✗

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✗	↔	✗
RV	✗	↔	✗

Company details

Market cap:	Rs. 16,955 cr
52-week high/low:	Rs. 1,724/1,269
NSE volume: (No of shares)	4.1 lakh
BSE code:	500043
NSE code:	BATAINDIA
Free float: (No of shares)	6.4 cr

Shareholding (%)

Promoters	50.2
FII	9.3
DII	27.1
Others	13.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.9	-6.0	0.1	-16.0
Relative to Sensex	-1.7	-4.4	-6.7	-35.6

Sharekhan Research, Bloomberg

Bata India Ltd
Weak Q2

Consumer Discretionary

Sharekhan code: **BATAINDIA**

Reco/View: **Hold**

CMP: **Rs. 1,319**

Price Target: **Rs. 1,440**

Upgrade ↔ Maintain ↓ Downgrade

Summary

- Bata India (Bata) registered yet another quarter of weak performance in Q2FY2025 with revenues growing by just 2.2%, EBITDA margins lower by 131 bps y-o-y to 20.9% and PAT falling by 19.4% y-o-y to Rs. 52 crore.
- Demand was slightly better as compared to Q1 with September 2024 being much better compared with July 2024. Expects wedding season to be better. Premium products gaining strong traction offset by good growth in Tier-2 and small towns.
- Gross margins were affected by a change in mix and inventory clearance. Management expects gross margins to rise led by premiumisation and sourcing efficiencies in the medium term.
- Stock trades at 61x/53x/48x its FY25E/26E/27E EPS, respectively. We maintain Hold with a revised PT of Rs. 1,440.

Bata delivered sixth consecutive quarter of muted performance in Q2FY2025, with revenues growing in low single digits, while margins fell during the quarter. Revenues grew by 2.2% y-o-y to Rs. 837 crore. Gross and EBITDA margins fell by 143 bps y-o-y to 56.6% and 131 bps y-o-y to 20.9%, respectively. Change in revenue mix and inventory clearance led to decline in the gross margins. EBITDA fell by 3.8% y-o-y to Rs. 175 crore. Adjusted PAT fell by 19.4% y-o-y to Rs. 52 crore. For H1FY2025, consolidated revenues stood flat y-o-y at Rs. 1,782 crore, EBITDA margins fell by 272 bps y-o-y to 21% and adjusted PAT decreased by 24.5% y-o-y to Rs. 131 crore. Bata added 39 stores in Q2 including 34 franchisee stores and 5 Coco stores, taking the total to 1,955 stores at Q2FY2025-end.

Key positives

- Floatz grew by 64% y-o-y; Comfit grew by 23% y-o-y
- E-commerce business grew by 16% over Q2FY24.
- Efficient inventory management led to inventory reducing by 7% y-o-y.

Key negatives

- Gross and EBITDA margins fell by 143 bps/131 bps y-o-y to 56.6%/20.9%, respectively.

Management Commentary

- Company is witnessing good traction in tier 2 and small towns. This is offset by premium products continuing to witness good traction (growing in double digits) compared to mass products. The contribution of less than Rs. 1,000 products has reduced to 30% from 40% (& 50% in pre-COVID levels).
- Overall, September 2024 was much better compared to July 2024. The company expects gradual recovery in the demand during the upcoming wedding season.
- Gross margins were affected due to a change in mix and inventory clearance. Increase in contribution of franchise sales (11-12% of revenues) and e-Commerce platform led to decline in the gross margins. Management remains confident about the medium term as increased contribution of premium products and sourcing efficiencies will help to push gross margins.
- Sourcing partner consolidation is one of the key initiatives with 39% reduction in complexity from sourcing partners and manufacturing base. The company is focusing to have 50-60 partners going forward, who can provide quality products, help in product development and are close to the demand. This will help in maintaining right inventory levels at stores.
- Bata is focusing on offering value to the customers across brands and category price points. EasySlide power series is priced at 2-2.5x its average selling price (ASP). However, it is available at a 50% discount to competitors pricing. Leather collection is available at Rs. 2,499 more than 2x of average selling prices (ASP) but at a discount to competitors brand available in the market.
- Company is focusing zero based merchandising (ZBM) to reduce complexity and enhance customer experience at stores. This will help improve revenue per sq. ft. by at least 20%. Currently piloted in 19 stores, will be expanded to 100 stores by December 2024 and 250 stores by March-2025.

Revision in earnings estimates - We have reduced our earnings estimates for FY2025 and FY2026 to factor in yet another quarter of weak performance. We have introduced FY2027 estimates through this note.

Our Call

View - Maintain Hold with a revised PT of Rs. 1,440: Bata has been delivering weak performance for last 5-6 quarters due to weak consumer demand. Management expects some uptick in demand with improved momentum during festive and wedding season. In the long run, it eyes double-digit growth driven by premiumisation, casualisation, and expansion through the franchisee route. Focus on premiumisation, sourcing efficiencies and technology upgrades would aid margin improvement in the long run. Stock trades at 61x/53x/48x its FY2025E/26E/27E earnings, respectively. In view of near-term growth headwinds and premium valuations, we maintain Hold with a revised PT of Rs. 1,440.

Key Risks

Slowdown in sales due to a change in consumer sentiments or increased competition from large players will affect recovery momentum and will act as a key risk to our earnings estimates.

Valuation (Standalone)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenues	3,452	3,478	3,619	3,989	4,315
EBITDA (%)	22.9	22.5	21.8	22.5	22.9
Adjusted PAT	319	301	279	323	354
% YoY growth	209.9	-5.7	-7.3	15.7	9.6
EPS (Rs.)	24.8	23.4	21.7	25.1	27.5
P/E (x)	53.1	56.4	60.8	52.5	47.9
P/B (x)	11.8	11.1	10.3	9.3	8.5
EV/EBITDA (x)	22.0	21.7	20.6	18.0	16.2
RoNW (%)	19.6	20.3	17.5	18.6	18.6
RoCE (%)	12.4	11.5	11.2	12.5	13.2

Source: Company; Sharekhan estimates

Weak Q2 – Revenues grew by 2%; EBITDA margin fell by ~131 bps y-o-y

Bata's revenue grew by 2.2% y-o-y to Rs. 837 crore, in-line with our and street average expectation of Rs. 840 crore and Rs. 834 crore, respectively. Gross margin and EBITDA margin declined by 143 bps and 131 bps y-o-y to 56.6% and 20.9%, respectively, in-line with our and average street expectation of 20.9%. EBITDA decreased by 3.8% y-o-y to Rs. 175 crore and adjusted PAT declined by 19.4% y-o-y to Rs. 52 crore, against our and street average expectation of Rs. 54 crore. For H1FY2025, consolidated revenues stood flat at Rs1,781.8crore, EBITDA margins decreased by 272 bps y-o-y to 21.0% and adjusted PAT decreased by 25%y-o-y to Rs130.5crore. Bata added 39 stores in Q2 including 34 franchisee stores and 5 COCO stores, taking the total to 1,955 stores at Q2FY2025-end.

Key business updates

- ◆ **Premiumisation momentum sustains:** Floatz grew by 2x vs last year with average weekly sales of 27,000 pairs. Power and Comfit grew by 6% and 23% y-o-y, respectively. Sneaker Studios has been now implemented in 756 stores.
- ◆ **Floatz's contribution increasing:** Floatz continued its strong growth trajectory both in terms of volume and value. Its contribution has grown by ~2x. Its weekly average sales have improved to 27,000 pairs per week. The company has recently collab with marvel and Disney for kids. With strong acceptance to the brand, the company is planning to open first EBO in Q4FY2025.
- ◆ **Power driving athleisure segment:** Power is another strong brand in the portfolio, which is continuously growing ahead of base growth for three consecutive quarter backed by great collection. Two large campaigns EasySlide and Energy Series gained good response in the domestic market. The brand is at sweet spot priced at around Rs2000 which is at stark discount to some of the competitor brands available at Rs. 5000-6000 per pair. The company has opened four Power EBOs in the domestic market.
- ◆ **Zero-based merchandising:** The company is focusing zero based merchandising (ZBM) to reduce complexity and enhance the customer experience at stores. The company has removed non-range width/discounted articles from stores, merchandising store as per customer profile and improving stores experience to drive in higher footfalls at stores. This will help improve revenue per sq.ft by at least 20%. Currently piloted in 19 stores, will be expanded to 100 stores by December 2024 and 250 stores by March 2025.

Results (Standalone)

	Rs cr				
Particulars	Q2FY25	Q2FY24	y-o-y (%)	Q1FY25	q-o-q (%)
Revenues	837.1	819.1	2.2	944.6	-11.4
COGS	363.6	344.0	5.7	426.9	-14.8
Employee expenses	113.7	105.8	7.5	120.4	-5.5
Other expenses	184.8	187.3	-1.3	197.5	-6.4
Total expenses	662.1	637.1	3.9	744.8	-11.1
EBITDA	175.0	182.0	-3.8	199.9	-12.4
Other Income	17.1	15.4	10.7	16.2	5.8
Interest expenses	31.8	28.4	12.0	30.8	3.3
Depreciation & Amortization	90.2	81.6	10.6	87.1	3.5
PBT	70.1	87.5	-19.8	98.1	-28.5
Tax	17.8	22.5	-21.1	20.0	-11.2
Adjusted PAT	52.4	65.0	-19.4	78.1	-33.0
Exceptional items	0.0	-30.5	-	96.2	.
Reported PAT	52.4	34.5	51.8	174.4	-70.0
EPS (Rs.)	4.1	5.1	-19.4	6.1	-33.0
			bps		bps
GPM (%)	56.6	58.0	-143	54.8	176
EBITDA margin (%)	20.9	22.2	-131	21.2	-25
NPM (%)	6.3	7.9	-168	8.3	-202
Tax rate (%)	25.3	25.7	-41	20.4	494

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Long-term growth prospects intact

India is the second-largest footwear manufacturer with a consumption of ~26 billion pairs after China with ~42 billion pairs. The domestic market makes up ~90% of India's overall footwear market. The sector holds an important place in the Make in India Initiative and thus has been chosen as a Champion sector. In the near term, demand is expected to be subdued owing to continued extraordinary inflation hitting consumers' discretionary spends. However, low per capita consumption at 1.9 pairs per annum, footwear now being considered as an important fashion accessory rather than a necessity, the growing trend of premiumisation in the Indian footwear industry and the shift to branded footwear provide a huge opportunity for top brands to scale up operations in the medium to long term. The Indian footwear market is expected to post a CAGR of 15-17% over FY2022-FY2025E as compared to a global market growth of 5.5% CAGR over CY2021-CY2025.

■ Company outlook - Recovery to take time

Bata delivered the sixth consecutive quarter of muted performance in Q2FY2025 with single digit revenue growth y-o-y while decline in margins led to a double-digit fall in PAT. Revenue growth was hit by sluggishness in the mass category, while margin decline was due to higher spends on marketing and technology enhancements. The company has been focusing on increasing its omni-channel presence and adding relevant products to its portfolio to drive demand in the near term. It is banking on portfolio freshness, consumer/market investments, and higher sales on the digital platform to drive consistent revenue growth. Margins are expected to be under pressure in the near term owing to change in mix, higher marketing spends and technology spends, while are likely to gradually improve driven by improving product mix, recovery in retail sales, operating efficiencies and cost-saving initiatives.

■ Valuation - Maintain Hold with a revised price target of Rs. 1,440

Bata has been delivering weak performance for last 5-6 quarters due to weak consumer demand. Management expects some uptick in demand with improved momentum during festive and wedding season. In the long run, it eyes double-digit growth driven by premiumisation, casualisation, and expansion through the franchisee route. Focus on premiumisation, sourcing efficiencies and technology upgrades would aid margin improvement in the long run. Stock trades at 61x/53x/48x its FY2025E/26E/27E earnings, respectively. In view of near-term growth headwinds and premium valuations, we maintain Hold with a revised PT of Rs. 1,440.

Peer Comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Relaxo Footwears	84.7	82.9	64.8	42.3	41.1	34.1	17.2	15.2	17.9
Bata	56.4	60.8	52.5	21.7	20.6	18.0	11.5	11.2	12.5

Source: Company; Sharekhan Research

About company

Bata is the largest footwear retailer in India, offering footwear, accessories, and bags across brands such as Bata, Bata Red Label, Hush Puppies, Naturalizer, Power, Marie Claire, Weinbrenner, North Star, Scholl, Bata Comfit, and Bubble gummers, to name a few. The company has established a leadership position in the industry and is the most-trusted name in branded footwear. The company has a retail network of 1,955 stores.

Investment theme

Bata has rebranded itself as a modern footwear player recently, which will help the company report double-digit revenue growth. To drive growth in the near to medium term, the company has identified certain strategic levers such as the focus on portfolio evolution, accelerating expansion via franchisee and distribution, bringing back marketing investments and getting youth to brand Bata, exploring digital footprint, building an agile and efficient supply chain, and staying nimble on costs in a dynamic environment. We expect the company's revenue and EBITDA to post a CAGR of 7% and 8% over FY2024-FY2027E, respectively.

Key Risks

- ◆ **Slowdown in discretionary demand:** Any slowdown in SSSG due to a fall in demand/footfalls would affect revenue growth.
- ◆ **Increased competition in highly penetrated categories:** Heightened competition would act as a threat to revenue growth.

Additional Data

Key management personnel

Ashwani Windlass	Chairman
Gunjan Shah	Chief Executive Officer & Managing Director
Anil Somani	Director-Finance and Chief Financial Officer
Nitin Bagaria	Company Secretary & Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	10.19
2	Mirae Asset Global Investments	5.49
3	ICICI Prudential AMC	2.73
4	Vanguard Group Inc	1.94
5	HDFC Life Insurance Co Ltd	1.61
6	Canara Robeco AMC	1.52
7	Kotak funds	1.48
8	Fundrock Management Co SA	1.04
9	Nippon Life India Asset Management	0.86
10	BlackRock Inc	0.86

Source: Bloomberg (Old data)

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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