

Bata India

Weak print; thesis continues to play out

Bata's Q3 performance vis-a-vis pre-pandemic sales (INR9bn; 3-year CAGR: 2.8%) remains weak; up 7% YoY. On a relative basis, the disappointment is even starker (Note: Metro brands/Campus Activewear grew at ~19% CAGR each over three years). The bigger disappointment was on profitability. EBITDAM missed estimates by 170 bps and is ~880bps lower than pre-pandemic levels, given the (1) increasing skew of lower margin wholesale, online and franchisee channels and (2) higher brand and tech stack building spends. We've highlighted in our IC note too that treading the growth-margin equation across Bata's volume drivers is likely to be tough to execute. Note: for the cost elevation seen in 9MFY23, Bata has a mere ~2% volume CAGR (3-year) to show. We cut our FY24/25 EPS estimates by 6% each and maintain our REDUCE rating with an unchanged DCF-based TP of INR1,450/sh, implying 36x Dec-24 P/E.

■ **Q3FY23 highlights:** Revenue grew 7% YoY to INR9bn (a 3-year CAGR: 2.8%). In comparison, Metro brands/Campus Activewear clocked ~19% each in top-line (3-year CAGR basis). Volumes declined 5% YoY (3-year CAGR: 2%), while ASPs were up 13%, courtesy premiumisation in Q3. While GM expanded 211bps YoY to 54.8% (HSIE: 53%) it is 588bps lower than pre-pandemic levels, given (1) the skew of lower margin channels—wholesale, online, franchisee—increased in the mix, and (2) the impact of RM inflation weighed on profitability. The margin pain was more acute at the EBITDAM level (880bps lower vs pre-pandemic levels; 22.9% vs HSIE: 24.6%) as lower GMs met higher brand and tech stack building spends. Bata added 1/39/25 COCO/franchise/SIS stores in Q3 (392 franchisees now) and renovated 35 stores YTD. APAT grew at 15% YoY to INR832mn (~70% of pre-pandemic levels; HSIE: INR1.16bn).

■ **Outlook:** Treading the growth-margin equation while pivoting to different growth channels (wholesale, franchise) and realigning assortment isn't a walk in the park. Nothing to cheer about at the execution level yet. We maintain our REDUCE rating with an unchanged DCF-based TP of INR1,450/sh (implying 36x Dec-24 EPS). Note: FY24/25 EPS cuts stand at 6% each.

Quarterly financial summary

(INR mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Revenue	9,002	8,413	7.0	8,298	8.5	23,877	34,204	39,442	44,742
EBITDA	2,061	1,686	22.2	1,609	28.1	1,447	4,641	6,244	7,624
APAT	832	723	15.0	548	51.8	1,030	2,885	4,306	5,480
EPS (Rs)	6.5	5.6	15.2	4.27	51.8	128.5	128.5	128.5	128.5
P/E (x)						184.2	65.8	44.1	34.6
EV/EBITDA (x)						124.4	40.0	29.3	23.5
Core RoCE(%)						6.7	27.5	37.0	42.7

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(INR mn)	FY23E			FY24E			FY25E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	34,204	35,729	(4.3)	39,442	40,408	(2.4)	44,742	45,602	(1.9)
Gross Profit	18,924	19,566	(3.3)	21,546	21,907	(1.7)	24,110	24,472	(1.5)
Gross Profit Margin (%)	55.3	54.8	57 bps	54.6	54.2	41 bps	53.9	53.7	22 bps
Pre-IND AS EBITDA	4,641	5,390	(13.9)	6,244	6,451	(3.2)	7,624	7,798	(2.2)
Pre-IND AS EBITDA margin (%)	13.6	15.1	(152 bps)	15.8	16.0	(13 bps)	17.0	17.1	(6 bps)
APAT	2,885	3,646	(20.9)	4,306	4,599	(6.4)	5,480	5,822	(5.9)
Post IND-AS 116 EPS	22.4	28.4	(20.9)	33.5	35.8	(6.4)	42.6	45.3	(5.9)

Source: HSIE Research

REDUCE

CMP (as on 15 Feb 2023) INR 1,476

Target Price INR 1,450

NIFTY 18,016

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 1,450	INR 1,450
	FY24E	FY25E
EPS %	-6.4	-5.9

KEY STOCK DATA

Bloomberg code	BATA IN
No. of Shares (mn)	129
MCap (INR bn) / (\$ mn)	190/2,290
6m avg traded value (INR mn)	542
52 Week high / low	INR 1,989/1,464

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(13.4)	(22.8)	(19.8)
Relative (%)	(12.5)	(25.9)	(25.2)

SHAREHOLDING PATTERN (%)

	Sep-22	Dec-22
Promoters	50.16	50.16
FIs & Local MFs	22.31	24.03
FPIs	7.87	4.86
Public & Others	19.66	20.95
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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