Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Bata India Ltd

Weak Q1

Consumer Discretionary	Sharekhan code: BATAINDIA
Reco/View: Hold ↔	CMP: Rs. 1,454 / Price Target: Rs. 1,560 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Stock Update

Result Update

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		↔	

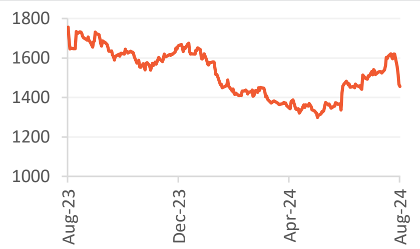
Company details

Market cap:	Rs. 18,692 cr
52-week high/low:	Rs. 1,768/1,269
NSE volume: (No of shares)	4.8 lakh
BSE code:	500043
NSE code:	BATAINDIA
Free float: (No of shares)	6.4 cr

Shareholding (%)

Promoters	50.2
FII	8.2
DII	27.5
Others	14.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.0	10.2	2.8	-17.1
Relative to Sensex	-3.6	2.9	-7.6	-36.9

Sharekhan Research, Bloomberg

Summary

- Bata India's (Bata's) Q1FY2025 numbers were weak, with revenues declining by 1.4% y-o-y, and EBITDA margin falling by 393 bps y-o-y to 21.2%, dragging down adjusted PAT by 27.5% y-o-y.
- Same-store sales growth (SSSG) declined by low-mid single digits in Q1, the company is aiming for mid-high single digit SSSG in the coming quarters with a focus on portfolio evolution, expanding digital footprint, marketing initiatives and innovation across brands.
- It plans to add 40-50 exclusive brand outlets (EBOs) every quarter and 120-140 MBOs annually with a focus on expanding in tier-3 to tier-5 towns. It targets 15 Power EBOs (from 2 currently) and 30 Floatz Kiosks (from 16 at present) by December 2024.
- Stock trades at 60x/52x its FY2025E/26E EPS, respectively. Given near-term growth headwinds and premium valuations, we maintain Hold with a revised PT of Rs. 1,560.

Bata delivered the fifth consecutive quarter of muted performance in Q1FY2025, with revenue coming in lower y-o-y and a sharp decline in margin led to double-digit fall in PAT. Numbers missed estimates on all fronts with revenues falling by 1.4% y-o-y to Rs. 945 crore (versus Rs. 1,006 crore expected), even though gross margin stood flat y-o-y at 54.8%. EBITDA margins fell by 393 bps y-o-y to 21.2% (much lower than expectation of 25.8%). EBITDA declined by 16.8% y-o-y to Rs. 200 crore and adjusted PAT declined by 28% y-o-y to Rs. 78 crore (lower than our and the street's average expectation of Rs. 110 crore and Rs. 115 crore, respectively). Exceptional items include one-time gain on sale of property of Rs. 134 crore and a one-time expenditure of Rs. 14.7 crore towards investments in technology. Reported PAT came in at Rs. 174 crore. Bata added 54 stores in Q1 including 33 franchisee stores and 21 COCO stores, taking the total to 1,916 stores at Q1FY2025-end. The company declared an interim dividend of Rs. 10 per share for FY2025.

Key positives

- Floatz grew by 85% y-o-y.

Key negatives

- SSSG stood at low-mid single digit negatives.
- EBITDA margins fell by 393 bps y-o-y to 21.2%.

Management Commentary

- SSSG stood at low-mid single digit negatives in Q1. The company is aiming for mid-high single digit SSSG in the coming quarters.
- Casual footwear and sneakers combined currently contribute 50-55% to revenue and management expects it to rise to 60-65% in the next three years.
- Floatz contribution to revenue is upwards of 4.5-5% to retail business and it and continues to log in highest quarterly sales q-o-q. Floatz volumes would be about 1.2-1.4 million pairs annually. Management expects it to increase to about 5 million pairs across all channels. Bata currently has ~16 Floatz Kiosks and targets to double it in the next two quarters.
- The Power brand is seeing double-digit momentum for the past two quarters. At price point of Rs. 2,000-3,000 it is rightly placed in the athleisure space. The company has stated that it has planned two large product launches in Q2 with distinct user benefits. Bata targets network of ~15 Power EBOs by Q3-end from 2 currently, plans to open 4-5 stores in Q2.
- Nine West is fully present in ~60 stores and Bata is working towards expanding its presence.
- E-commerce continued its positive trajectory and was the channel that grew the fastest, outstripping the overall growth.
- Bata plans to add 40-50 EBOs every quarter with focus on expanding in tier 3 to tier 5 towns. In case of MBOs, company plans to add 120-140 stores annually (70% of net additions likely to be in tier 3 downwards), with 75-80% of them to be in the FOFO format.

Revision in earnings estimates - We have reduced our earnings estimates for FY2025 and FY2026 to factor in weak performance in Q1FY2025.

Our Call

View - Maintain Hold with a revised PT of Rs. 1,560: Bata posted yet another quarter of muted performance in Q1FY2025, with a sharp decline in margins that led to a ~28% y-o-y decline in PAT. Near-term prospects continue to be subdued due to weak discretionary demand, while higher IT and marketing spends is putting stress on margins. Bata eyes double-digit growth in the long run, driven by premiumisation, casualisation, and expansion through the franchisee route. Further, a good scale up of the apparel segment and a positive response for the Nine West brand would aid the company's growth in the long run. Focus on cost efficiencies and technology enhancements would aid margin improvement in the long run. Stock trades at 60x/52x its FY2025E/26E earnings, respectively. In view of near-term growth headwinds and premium valuations, we maintain Hold with a reduced PT of Rs. 1,560.

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) Rs cr

Particulars	FY23	FY24	FY25E	FY26E
Revenues	3,452	3,478	3,726	4,108
EBITDA (%)	22.9	22.5	23.4	24.1
Adjusted PAT	319	301	310	357
% YoY growth	-	-5.7	3.2	15.2
EPS	24.8	23.4	24.2	27.8
P/E (x)	58.6	62.1	60.2	52.3
P/B (x)	13.0	12.2	10.7	9.3
EV/EBITDA (x)	24.1	23.8	21.3	18.5
RoNW (%)	19.6	20.3	19.0	19.1
RoCE (%)	12.4	11.5	11.8	12.6

Source: Company; Sharekhan estimates

Weak Q1 – Revenue declined y-o-y; EBITDA margin fell by ~400 bps y-o-y

Bata's revenues fell by 1.4% y-o-y to Rs. 945 crore, lower than our and street average expectation of Rs. 1,006 crore. Gross margins stood flat y-o-y at 54.8%, while EBITDA margin declined by 393 bps y-o-y to 21.2%, much lower than ours and the average street's expectation of 25.8%. EBIDTA fell by 16.8% y-o-y to Rs. 200 crore and adjusted PAT declined by 28% y-o-y to Rs. 78 crore, missing our and street average expectation of Rs. 110 crore and Rs. 115 crore, respectively. Exceptional items include a one-time gain on sale of property of Rs. 134 crore and a one-time expenditure of Rs. 14.7 crore towards investments in technology. Reported PAT came in at Rs. 174 crore. The company declared an interim dividend of Rs. 10 per share for FY2025.

Key business updates

- **Portfolio evolution:** Floatz grew by 85% y-o-y with average weekly sales of 24,000 pairs. Power and Comfit grew by 10% and 3% y-o-y, respectively. Sneaker Studios has been now implemented in 739 stores.
- **Store additions:** The company added 33 franchise stores and 21 Coco stores (total 54 stores) in Q1FY2025, taking the total to 1,916 stores at quarter-end. Further it carried out renovations / facelifts at 37 stores during the quarter.
- **Supply chain:** Bata has seen improvement in its efficiency with 1) in-house capacity utilization in Q1 reported the best since the past six quarters, 2) q-o-q reduction in net inventory and registering best inventory levels since the last eight quarters, and 3) q-o-q improvement in stock availability despite having a lower net inventory.
- **Power:** Management expects expansion and innovation to lead growth in Power. During the quarter, the company launched the second Power EBO in NCR. It targets a network of 15 Power EBOs by December 2024. Power apparel has witnessed q-o-q improvement in sales. The company targets to reach 100 stores by December 2024 from presence in 70 stores at present.
- **Nine West:** Management expects Ninewest to drive premiumization. The brand is currently available in 42 stores and the company targets to increase presence of the brand to 70 stores by December 2024.

Results (Standalone) Rs cr

Particulars	Q1FY25	Q1FY24	y-o-y (%)	Q4FY24	q-o-q (%)
Revenues	**944.6**	**958.1**	**-1.4**	**797.7**	**18.4**
COGS	426.9	433.6	-1.5	319.0	33.8
Employee expenses	120.4	104.8	14.9	105.1	14.5
Other expenses	197.5	179.5	10.1	194.2	1.7
Total expenses	744.8	717.8	3.8	618.3	20.5
EBITDA	**199.9**	**240.3**	**-16.8**	**179.4**	**11.4**
Other Income	16.2	13.2	22.2	22.0	-26.6
Interest expenses	30.8	28.1	9.4	30.9	-0.5
Depreciation & Amortization	87.1	81.0	7.6	90.2	-3.4
PBT	98.1	144.5	-32.1	80.3	22.2
Tax	20.0	36.7	-45.5	20.0	0.0
Adjusted PAT	**78.1**	**107.8**	**-27.5**	**60.3**	**29.6**
Exceptional items	96.2	0.0	-	0.0	.
Reported PAT	**174.4**	**107.8**	**61.7**	**60.3**	**-**
EPS (Rs.)	6.1	8.4	-27.5	4.7	29.6
			bps		**bps**
GPM (%)	54.8	54.7	6	60.0	-520
EBITDA margin (%)	21.2	25.1	-393	22.5	-133
NPM (%)	8.3	11.3	-298	7.6	71
Tax rate (%)	20.4	25.4	-500	24.9	-452

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 global market growth of 5.5% CAGR over CY2021-CY2025.

■ Company outlook - Recovery to take time

Bata delivered fifth consecutive quarter of muted performance in Q1FY2025 with revenue coming in lower y-o-y and a sharp decline in margin led to 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 omnichannel 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 in the quarters ahead. Margins are expected to be under pressure in the near term owing to higher marketing 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. 1,560

Bata posted yet another quarter of muted performance in Q1FY2025, with a sharp decline in margins that led to a ~28% y-o-y decline in PAT. Near-term prospects continue to be subdued due to weak discretionary demand, while higher IT and marketing spends is putting stress on margins. Bata eyes double-digit growth in the long run, driven by premiumisation, casualisation, and expansion through the franchisee route. Further, a good scale up of the apparel segment and a positive response for the Nine West brand would aid the company's growth in the long run. Focus on cost efficiencies and technology enhancements would aid margin improvement in the long run. Stock trades at 60x/52x its FY2025E/26E earnings, respectively. In view of near-term growth headwinds and premium valuations, we maintain Hold with a reduced PT of Rs. 1,560.

Peer Comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Relaxo Footwears	-	83.8	66.6	51.3	44.1	37.1	17.2	18.0	19.2
Bata India	62.1	60.2	52.3	23.8	21.3	18.5	11.5	11.8	12.6

Source: Company; Sharekhan estimates

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 1,916 stores, including 566 franchised 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 9% and 13% over FY2024-FY2026E, 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 Invesments	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

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 detoriating 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

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