Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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

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	=	↔	=

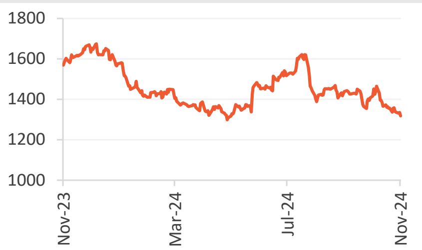
Company details

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

Summary

- Bata India (Bata) registered yet another quarter of weak performance in Q2FY2025 with revenues growing by just 2.2%, EBIDTA 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 EBIDTA 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. EBIDTA 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, EBIDTA 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 EBIDTA 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) Rs cr

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