

Bata India

HOLD

GST 2.0 transition impacted the demand

Summary

Bata India's (Bata) Q2FY26 result was below our estimates on key parameters. The management cited GST 2.0 transition caused significant and acute disruption during the quarter, impacting the overall top line. The period between the rate rationalization announcement and the effective date saw substantial consumer and channel partner deferral in buying. However, the company anticipates structural benefits from the GST reduction, especially aiding the lower price point segment (below Rs1,000) which has been under stress for the past two years. Further, there is a structural shift in consumer behavior towards online platforms, leading to growth in e-commerce and direct-to-consumer (D2C) brands. The management reiterated to focus on accelerating managing inventory, merchandising and decluttering initiatives. Further, the company is cautiously optimistic about recovery towards balance of this year, backed by strong market positioning and wide network while maintaining strong focus on cost efficiencies. Maintain HOLD with a revised TP of Rs1,092 (earlier Rs1,147), assigning 50x PER on FY27E.

Key Highlights and Investment Rationale

- GST 2.0 transition dented net sales:** Bata's net sales was decreased by 4.3% YoY Rs8bn, while EBITDA decreased by 17% YoY to Rs1.4bn. EBITDA margin contracted by 277bps YoY to 18%. Net profit for Q2FY26 stood at Rs139mn, lower by 73% over Q2FY25. Net profitability was impacted due to one-time exceptional expenditure of Rs83mn towards VRS in one of the factory. Further, advertising and promotional expense were significantly increased, nearly 2x the previous period, representing 3.5% of sales compared to 1.5% previously.
- Near term revival in demand to be closely watched, HOLD with a TP of Rs1,092:** Bata's recent performance was dismal owing to subdued volume off-take. The management has been prudent on implementing strategic initiatives for earnings revival. We would be watchful of earnings revival in near future. HOLD with a TP of Rs1,092.

TP	Rs1,092			Key Stock Data	
CMP	Rs1,072				
Potential upside/downside	2%				
Previous Rating	HOLD				
Price Performance (%)					
	-1m	-3m	-12m		
Absolute	(8.0)	(10.6)	(21.4)		
Rel to Sensex	(13.1)	(14.2)	(27.0)		
V/s Consensus			Shareholding Pattern (%)		
EPS (Rs)	FY26E	FY27E	Promoters	50.2	
IDBI Capital	18.0	21.8	FII	6.9	
Consensus	20.3	24.8	DII	29.4	
% difference	(11.4)	(12.0)	Public	13.5	
Financial snapshot (Rs mn)					
Year	FY23	FY24	FY25	FY26E	FY27E
Revenue	34,516	34,786	34,888	36,161	37,992
Change (yoY, %)	45	1	0	4	5
EBITDA	7,938	7,859	7,374	7,646	8,352
Change (yoY, %)	90	(1)	(6)	4	9
EBITDA Margin(%)	23.0	22.6	21.1	21.1	22.0
Adj.PAT	3,230	3,034	2,075	2,309	2,807
EPS (Rs)	25.1	23.6	16.1	18.0	21.8
Change (yoY, %)	213.6	(6.1)	(31.6)	11.3	21.6
PE(x)	42.7	45.4	66.4	59.7	49.1
Dividend Yield (%)	0.5	1.1	1.8	0.9	1.1
EV/EBITDA (x)	16.7	17.0	17.8	17.2	15.6
RoE (%)	19.9	20.5	13.4	14.3	16.5
RoCE (%)	19.4	17.6	13.3	12.5	13.5

Source: IDBI Capital Research

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Concall Highlights:

Industry Outlook

- The GST 2.0 transition caused significant and acute disruption during the quarter, impacting the overall top line. The period between the rate rationalization announcement and the effective date saw substantial consumer and channel partner deferral in buying.
- The company anticipates structural benefits from the GST reduction, especially aiding the lower price point segment (below Rs1,000) which has been under stress for the past two years.
- There's a structural shift in consumer behavior towards online platforms, leading to growth in e-commerce and direct-to-consumer (D2C) brands.

Operating Performance

- Overall revenue from operations stood at approximately Rs8,013mn, reflecting a 4.3% decline compared to the previous year.
- The Q2 decline was primarily volume driven, although the Average Selling Price (ASP) remained flattish due to a favorable mix that lifted the ASP.
- Gross margin eroded by about 150 basis points versus the previous year's same quarter, mainly due to offering additional incentives/schemes to excite consumers and channel partners before the GST rate rationalization.
- Advertising and Promotional expense were significantly increased, nearly 2x the previous period, representing 3.5% of sales compared to 1.5% previously.
- Inventory turns have reached almost 2.2, and the management's goal is to push this to at least 2.5 to improve working capital and supply chain agility. Inventory health is improving, evidenced by a double-digit reduction in absolute inventory year-on-year, despite having better product availability.
- The company is strategically shifting away from relying on heavy, deep markdowns during the End of Season Sale (EOSS) period, opting instead for continuous inventory clearance, suggesting a significantly lower markdown impact on gross margin in the subsequent EOSS quarter.

- The largest distribution center in the North, Jamalpur (covering approximately 40% of inventory), experienced an abrupt, unplanned transition in its 3PL partner during July, which temporarily impacted operations before stabilizing.
- The company is progressing towards the end of its initial transformation journey, which included inventory declutter and reinventing the customer store experience.
- A key marketing campaign focused on the Victoria Ballerina story was launched, leading to encouraging feedback and growth in the ladies category towards the end of the quarter.
- The Power category's Easy Slide story is showing strong traction, peaking at almost 4,000 pairs per week, with an ambitious goal to reach 10,000 pairs per week in the current quarter.
- A premium iconic collection was launched leading into the festive season, featuring shoes with the highest price point now reaching approximately Rs 20,000.
- The franchise network has seen large growth, increasing from less than 100 stores four years ago to almost 700 now, providing access to unique towns and targeting clusters where partners operate two or more stores.
- Product availability (sizes, etc.) has improved, indexed higher by almost 14% following the reduction in inventory clutter.

Exhibit 1: Financial snapshot

Particulars (mn)	Q2FY26	Q1FY26	QoQ (%)	Q2FY25	YoY (%)
Total revenues	8,013	9,419	(14.9)	8,371	(4.3)
Total expenditure	6,564	7,430	(11.7)	6,625	(0.9)
EBIDTA	1,449	1,988	(27.1)	1,746	(17.0)
<i>EBIDTA margin (%)</i>	18.1	21	-302bps	21	-277bps
Depreciation	1,050	1,061	(1.0)	902	16.4
Interest cost	338	349	(3.0)	318	6.4
Other income	214	170	26.1	172	24.7
PBT	276	748	(63.2)	698	(60.5)
Tax	54	181	(70.1)	178	(69.7)
Reported. net profit	139	520	(73.3)	520	(73.3)
Reported. EPS (INR)	1.1	4.0	(73.3)	4.0	(73.3)

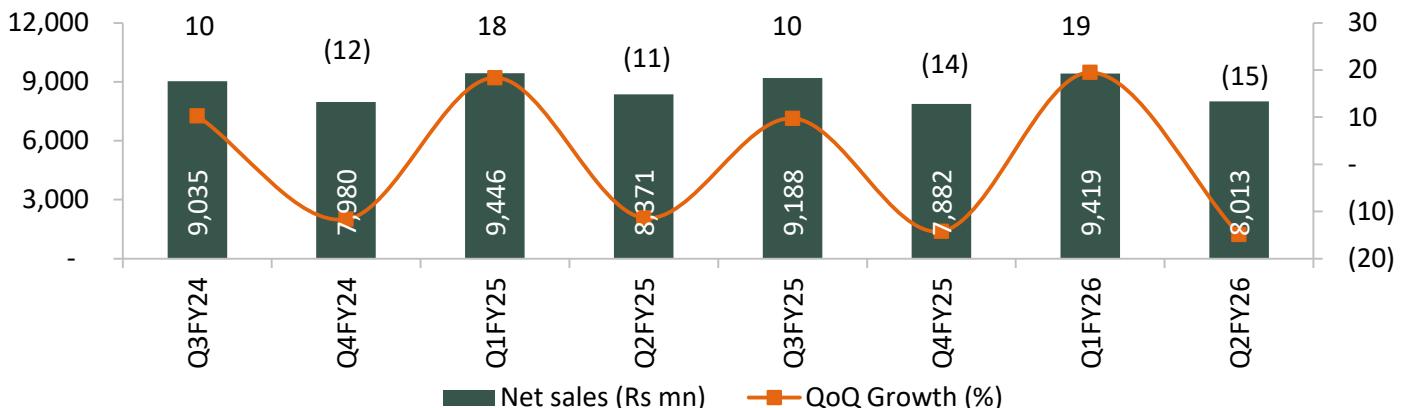
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. estimates

Particulars (mn)	Q2FY26A	Q2FY26E	Variance (%)
Net Sales	8,013	8,623	-7.1
EBITDA	1,449	1,785	-18.8
<i>EBITDA Margin (%)</i>	18.1	20.7	-261.3bps
Net Profit	139	407	-65.9
EPS (Rs)	1.1	3.2	-65.9

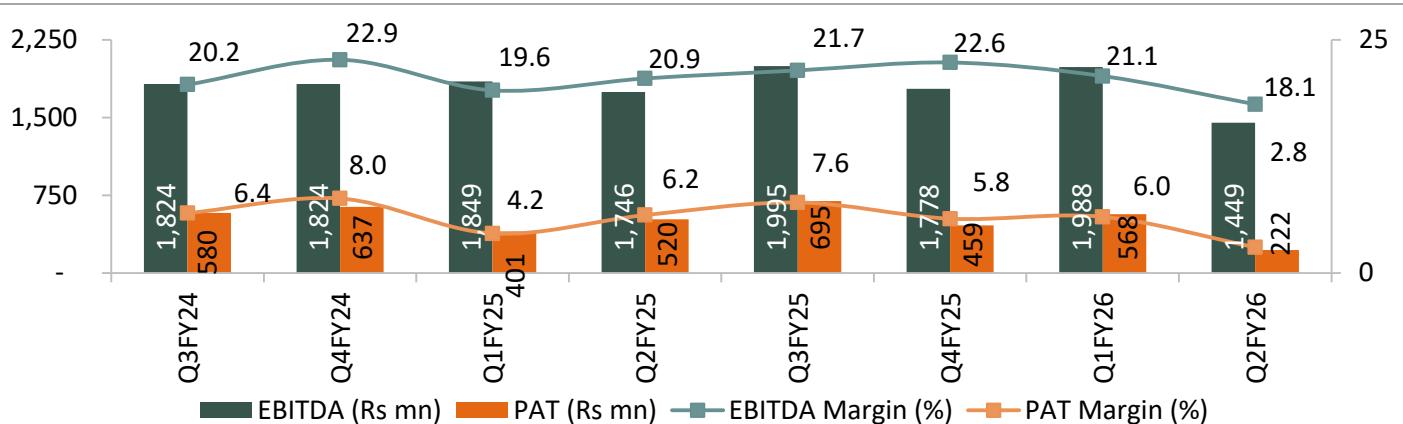
Source: Company; IDBI Capital Research

Exhibit 3: Net sales analysis



Source: Company; IDBI Capital Research

Exhibit 4: EBITDA, PAT and Margins Trend



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Net sales	23,877	34,516	34,786	34,888	36,161	37,992
Change (yoY, %)	39.8	45	1	0	4	5
Operating expenses	(19,692)	(26,578)	(26,927)	(27,514)	(28,515)	(29,640)
EBITDA	4,185	7,938	7,859	7,374	7,646	8,352
Change (yoY, %)	158.0	90	(1)	(6)	4	9
Margin (%)	17.5	23.0	22.6	21.1	21.1	22.0
Depreciation	(2,420)	(2,948)	(3,391)	(3,713)	(4,022)	(4,397)
EBIT	1,765	4,990	4,468	3,661	3,624	3,955
Interest paid	(928)	(1,079)	(1,170)	(1,285)	(1,260)	(997)
Other income	560	387	617	656	721	794
Pre-tax profit	1,397	4,298	4,324	1,800	3,085	3,751
Tax	(367)	(1,068)	(881)	(957)	(777)	(944)
Effective tax rate (%)	26	25	20	53	25	25
Minority Interest	-	-	-	-	-	-
Net profit	1,030	3,230	3,443	843	2,309	2,807
Exceptional items	-	-	409	(1,232)	-	-
Adjusted net profit	1,030	3,230	3,034	2,075	2,309	2,807
Change (yoY, %)	(222)	214	(6)	(32)	11	22
EPS	8.0	25.1	23.6	16.1	18.0	21.8
Dividend per sh	55	5	12	19	10	12
Dividend Payout (%)	816	24	61	141	67	66

Balance Sheet							(Rs mn)
Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E	
Shareholders' funds	18,147	14,382	15,269	15,749	16,515	17,471	
Share capital	643	643	643	643	643	643	643
Reserves & surplus	17,504	13,739	14,626	15,106	15,872	16,828	
Total Debt	-	-	-	-	-	-	-
Other liabilities	8,913	10,110	10,876	13,099	12,624	12,194	
Curr Liab & prov	8,192	8,224	7,353	9,381	9,855	10,392	
Current liabilities	8,082	8,149	7,213	9,085	9,530	10,035	
Provisions	110	76	140	295	325	358	
Total liabilities	17,105	18,335	18,229	22,480	22,480	22,586	
Total equity & liabilities	35,251	32,717	33,498	38,228	38,995	40,057	
Net fixed assets	2,937	3,254	3,316	3,356	2,342	454	
Investments	-	-	-	-	-	-	-
Other non-curr assets	12,314	13,328	14,676	17,656	18,122	18,556	
Current assets	20,000	16,135	15,505	17,216	18,531	21,047	
Inventories	8,709	9,046	9,296	8,147	9,124	10,037	
Sundry Debtors	717	826	801	1,118	1,364	1,609	
Cash and Bank	9,688	5,312	4,080	6,344	6,435	7,794	
Loans and advances	886	952	1,329	1,608	1,608	1,608	
Total assets	35,251	32,717	33,498	38,228	38,995	40,057	

Cash Flow Statement							(Rs mn)
Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E	
Pre-tax profit	1,397	4,298	4,324	1,800	3,085	3,751	
Depreciation	2,420	2,948	3,391	3,713	4,022	4,397	
Tax paid	(25)	(1,160)	(1,015)	(1,112)	(699)	(850)	
Chg in working capital	(236)	(412)	(1,098)	2,860	(749)	(621)	
Other operating activities	-	-	-	-	-	-	
Cash flow from operations (a)	3,556	5,674	5,603	7,261	5,660	6,678	
Capital expenditure	(2,186)	(3,265)	(3,453)	(3,752)	(3,009)	(2,509)	
Chg in investments	67	-	-	-	-	-	
Other investing activities	-	-	-	-	-	-	
Cash flow from investing (b)	(2,119)	(3,265)	(3,453)	(3,752)	(3,009)	(2,509)	
Equity raised/(repaid)	-	-	-	-	-	-	
Debt raised/(repaid)	-	-	-	-	-	-	
Dividend (incl. tax)	(8,406)	(771)	(1,851)	(2,930)	(1,542)	(1,851)	
Chg in minorities	-	-	-	-	-	-	
Other financing activities	5,688	(6,014)	(1,531)	1,686	(1,018)	(959)	
Cash flow from financing (c)	(2,718)	(6,785)	(3,382)	(1,244)	(2,560)	(2,810)	
Net chg in cash (a+b+c)	(1,280)	(4,376)	(1,232)	2,265	91	1,359	

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	141	112	119	123	128	136
Adj EPS (Rs)	8.0	25.1	23.6	16.1	18.0	21.8
Adj EPS growth (%)	-222	214	-6	-32	11	22
EBITDA margin (%)	17.5	23.0	22.6	21.1	21.1	22.0
Pre-tax margin (%)	6	12	12	5	9	10
Net Debt/Equity (x)	-0.5	-0.4	-0.3	-0.4	-0.4	-0.4
ROCE (%)	7	19	18	13	12	13
ROE (%)	5.8	20	20	13	14	17
DuPont Analysis						
Asset turnover (x)	0.7	1.0	1.1	1.0	0.9	1.0
Leverage factor (x)	1.9	2.1	2.2	2.3	2.4	2.3
Net margin (%)	4.3	9.4	8.7	5.9	6.4	7.4
Working Capital & Liquidity ratio						
Inventory days	133	96	98	85	92	96
Receivable days	11	9	8	12	14	15
Payable days	85	56	41	46	49	51

Valuations

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
PER (x)	133.8	42.7	45.4	66.4	59.7	49.1
Price/Book value (x)	7.6	9.6	9.0	8.7	8.3	7.9
EV/Net sales (x)	5.4	3.8	3.8	3.8	3.6	3.4
EV/EBITDA (x)	30.6	16.7	17.0	17.8	17.2	15.6
Dividend Yield (%)	5.1	0.5	1.1	1.8	0.9	1.1

Source: Company; IDBI Capital Research

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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