Bata

February 9, 2024

The Manager
Corporate Relationship Department
BSE Limited
1st Floor, New Trading Wing,
Rotunda Building,
P J Towers, Dalal Street, Fort,
Mumbai - 400001

The Manager
Listing Department
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor,
Plot No. C-1, Block G,
Bandra Kurla Complex, Bandra (E),
Mumbai - 400051

The Secretary
The Calcutta Stock Exchange Limited
7, Lyons Range,
Kolkata - 700001

BSE Security Code: 500043

NSE Symbol: BATAINDIA

CSE Scrip Code: 10000003

Dear Sir/Madam,

Subject: Post Earnings call

This is further to our letters dated January 30, 2024 and February 6, 2024, on the captioned subject.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (as amended), we are enclosing herewith the transcript of the Post Earnings (Conference) Call held on Tuesday, February 6, 2024.

The same shall also be made available on our website i.e. www.bata.in

We request you to take the same on record.

Thanking you,

Yours faithfully,
For BATA INDIA LIMITED

NITIN BAGARIA
Digitally signed by NITIN BAGARIA

NITIN BAGARIA
AVP – Company Secretary & Compliance Officer

Encl.: As Above

"Bata India Limited

Q3 FY '24 Earnings Conference Call"

February 06, 2024

MANAGEMENT: **MR. GUNJAN SHAH – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – BATA INDIA LIMITED**
MR. ANIL SOMANI – DIRECTOR FINANCE AND CHIEF FINANCIAL OFFICER – BATA INDIA LIMITED
MR. NITIN BAGARIA – COMPANY SECRETARY – BATA INDIA LIMITED

MODERATOR: **MR. VARUN SINGH – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Bata India Q3 FY24 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Varun Singh from ICICI Securities. Thank you and over to you, sir.

Varun Singh: Yes, thank you, Manuja. Good afternoon, everyone. On behalf of ICICI Securities, it is our absolute pleasure to host Bata Q3 FY24 earnings conference call.

From the management, today we have with us Mr. Gunjan Shah, MD and CEO, Mr. Anil Somani, Director of Finance and CFO, and Mr. Nitin Bagaria, Company Secretary. Thank you and over to you, sir.

Nitin Bagaria: Thanks, Manuja. Thanks, Varun and ICICI Securities. A warm welcome to all of you.

We have Gunjan, our India CEO, and we have Anil, Director of Finance and CFO. We have shared the presentation with the stock exchanges sometime earlier. We will be taking you through the presentation on this call. We will navigate the slides as well as the page numbers to stay connected. On slide number two, we have the disclaimer. I am sure you have gone through the same.

I will now hand over to Gunjan and thank you once again for joining.

Gunjan Shah: Hi, everyone. Welcome to the quarter three analyst conference call. Thank you for joining us. I will quickly jump into the presentation. While it has been a relatively muted environment from a demand perspective, we continued with our strategic levers and the thrust areas and in fact, even invested in a couple of areas and which I will highlight as we go through the presentation. On slide number four, we continued on our portfolio evolution.

It continues, the premiumisation journey continues. Premium categories did outgrow our overall portfolio growth driven by Floatz, [Comfit], basically the Hush Puppies and the Bata Comfit brand and we also made significant movement towards newness in our stores. We are looking at this like a big thrust lever going forward and in the coming quarters, we would want to see a significant democratised newness and portfolio evolution across the store network of the wide portfolio that we have across categories and we put in measurable metrics in place for that.

But even the last quarter did see some improvement on that front. We continued our expansion journey, both COCO as well as Franchise. Obviously, as I have guided in the past also and we have worked upon it that Franchise will outpace and dominate the expansion journey and that will stand us in good stead because it is a far more capital as well as cost efficient channel for us from a margin perspective also.

Even the multi-brand outlets, while the mass market continues to see sluggishness, we did see the infrastructure build up now with a focus towards retail and we will want to focus on that going forward while we will wait for that turnaround from a market perspective. From marketing investments, the big highlight for this quarter, we did invest significantly in this quarter on our marketing campaign. We did have an optimistic outlook on the way the season follow through would have been in this quarter while the response has been a little muted from a consumer sentiment perspective.

But the campaign did deliver significantly on the metrics of fashion, trendiness as well as modernity. Brand health metrics, the way we measure every quarter have seen on most levels ever highest measures and therefore deliverables against it. But we will want to see that translate into much higher throughputs.

The digital footprint work continues aggressively has been and even for the previous quarter was the fastest growing channel, growing handsomely in strong double digits and backed by even the Omni channel which is through our entire EBO network delivered at home. That also continued its progress. We have now made sure that the Omni business of ours which was still about let's say three quarters back restricted to our COCO outlets is now expanded to our Franchise outlets.

Now the option and therefore the enablement for it has been expanded to almost 80% of our Franchise stores. We are seeing traction for it. There is a lot of headroom to match up to the kind of contribution that Omni gives into our COCO outlets.

So, we will want to keep tracking on the Franchise outlet only. On the supply chain, the point number five that you see on the left, two large progress updates. One is that we have continued the outsourcing of non-core areas.

Last year we had outsourced basically the North warehouse. In this quarter we successfully did the transition of outsourcing of our South warehouse that effectively translates to a third-party service provider or the South warehouse operation which is almost 300 headcount and with much better efficiencies as well as effectiveness in terms of service orientation.

The other big one which we had shared with all of you last quarter where we had taken a large strategic call on shutting down our factory in Southcan in Bangalore which was not adding value in the long run for us. We have successfully progressed on the VRS compliance or completion and I think that has gone smoothly.

We did however as we have tried to do in the last recent months or recent quarters kept a tight control on overhead costs while we continue to invest in marketing as well as future readiness on technology etcetera. That immediately brings me to the technology which is the seventh point that is there out here.

The ERP program, there are two large technology projects which are underway. The high-performance merchandising project has gone live with now pilot modules running successfully and we expect the full commercialization in the next couple of months. Similarly on the ERP project with MS Dynamics and I will elaborate on the chart that is on track for commercialization in the subsequent quarter.

With that I will try and move to some key highlights that elaborate on the points that I mentioned on the thrust chart. Expansion continues as I mentioned. We have now successfully crossed in December '23 which is almost a year ahead of the initial start plan that we had of franchise towards crossing 500.

So, I think some very good work, some strong momentum that we see on that front and COCO continues to selectively project going forward and we will continue doing a prudent investment even on the COCO side. Simultaneously this is also backed with renovations which we continue to do a pace at almost now basically about 30 to 40 stores a quarter and we will want to make sure that we continue that pace. Average age of our stores has come down to below 7 years.

We would like it to come down to roughly around about 6.5 years which is a stable state and that will progress with the Red 2.0 concept in the Bata banners largely now in more than half of our network and ideally over the next two years we would like to see almost 80% of our network covered in that including the new stores that we open.

On the slide number seven that you see while we have been trying to make sure that the focus is on the core banners etc. we have -- I have shared with you future ready initiatives that are trying to open up new growth verticals.

The Floatz doors continue. Now we are at about 10 doors on Floatz. You see one example we continue to learn on this. We expand the range on Floatz and the momentum on Floatz continues. It is now developing a sizeable enough base and at accretive margins. Hush Puppies which has not gone through a renovation of a new concept.

We have piloted a new concept store for the first time last quarter. It is giving us encouraging response and there will be an aggressive panning out of this entire renovation of the Hush Puppies store which has not been touched for almost a decade and that will pan out aggressively in this quarter as well as subsequent to that. We also have tried out to expand the franchise of Hush Puppies through efficient kiosk model and that the first kiosk model got opened last quarter also.

Moving to chart number eight, while the mass market has continued to see sluggishness, we continue to invest in this channel. We believe that we have got the right model in place and once we are able to make sure that we get the right momentum going from a consumer perspective, this will give us multifarious benefits. On a CAGR basis, we still feel we have got a healthy trajectory going and that is backed by investments which are driven towards distribution and as you can see in town coverage as well as weighted distribution.

KRO count which is a critical initiative going into 2024 which is key retail outlets which is making sure that we start getting now a control on retail outlets along with basically getting feet on street going which will be the way to milk this entire thing in terms of extraction of this infrastructure has seen a peak last quarter and will continue to invest in this.

The KROs continue to grow faster despite the overall muted environment that we saw in this. Driven by certain focus categories in school, ladies as well as sports, we also obviously invested in terms of technology and automation in terms of warehouse automation on the distribution business.

Digital commerce as I said continues to significantly outpace our overall business. We are now into consistently double-digit contributions on e-commerce. We are present across all major platforms. We plan to expand across within these platforms in terms of both categories as well as channels in terms of B2B as well as B2C whether it is Amazon, Flipkart, Mitra, Nykaa Fashion, AJIO.

We also have basically now expanded the entire order fulfilment through our Bata stores as well as warehouses and we want to have a diligent mix between the two. The contribution remains healthy in terms of both Bata.com, B2C as well as the B2B business. We will see the B2C continue to grow much faster as well as Bata.com going forward also as has been the last quarter.

In addition to this, which I don't count in the numbers that I have shared, is the Omni delivery which I have mentioned and the franchise network that we are now looped in. With 400 plus franchise enabled, the penetration leaves a lot of headroom to be desired and that we will work towards in the coming quarters.

They were obviously backed by significant campaigns and a large part of even the marketing campaign was oriented towards digital which then has a direct co-relation to how we convert even on the online interfaces of ours in terms of digital commerce.

That brings me to Slide 10. We did launch our largest campaign in our history as well as in the year gone by. We did go with a front-footed approach that this should get multiplied with the kind of a season spillover that we would have expected into this quarter while the overall momentum was still leaving much to be desired and we would have expected much more.

But as I mentioned, in terms of imagery, in terms of fashion as well as style, all metrics that we measure for in terms of campaign deliverables gave us strong [greens] and the overall health metrics moved up. There were significant shifts that we did in this campaign compared to our previous campaigns.

One is that it was an influencer-led entire strategy, whether it is macro, global or national influencers as well as micro-influencers running into hundreds. We are building up capability and there is a distinct capability that is required in running this entire model of communication through influencers, etc. and there will be continuous work on it.

We also made sure that the entire campaign tagline which was every walk is a ramp walk was backed up with the right kind of merchandise, etc. and that showed up in terms of the growth that we saw in Bata Red Label, which I will talk about. We did invest in marquee properties to make sure that the saliency of the brand comes through and that showed up in terms of awareness and considerations being at ever highest levels during the exit December in terms of consumer surveys.

And last but not the least, obviously made sure that the entire collection as well as the activation in the stores in terms of the ramp walk as well as the merchandise backed this entire proposition that we were trying to register with consumers.

Hence, moving to Slide 11, the premium brands did see a significant outperformance in terms of growth that continues. We have seen that trend post-COVID. Premium brands do continue to outpace. While we do see the mass market, while it is still a drag on our overall growth, there are some signs of it showing some moderation.

But premium brands, as I said, continue to outgrow, led by Red Label in the wedding style area, Hush Puppies in terms of premium comfort, Comfit in terms of mass comfort under Bata as well as Floatz in terms of casualization and obviously backed by significant range expansion and freshness that I talked about in the earlier chart. The premiumization journey will continue and while we will want to make sure that the mass market becomes wherever applicable more competitive.

Moving on to Slide 12, the other big area besides marketing that we invested in, we have continued to invest. We continue to do that. The entire landscape that you see on 12 is a journey of transformation. A lot of the work has happened in the years gone by. Two large projects that we are doing this year as well as maybe in a couple of more quarters are HPM as well as the ERP and effectively that should translate to making sure that we have got wherever we needed to make up as well as get to cutting edge in terms of technology, it translates out, giving us datafication and database decision-making, agility in terms of empowerment as well as enhancing even consumer experience from a front-end perspective, whether it is offline or the online world.

We will see and keep updating you as we progress in terms of now leveraging some of these investments that we have made. But that was and this quarter was a large investment that we made in this. In terms of awards, obviously there were various awards especially on the software side that we made in terms of CSR as well as in terms of diversity. We continue to invest in people.

We installed our first -- commercialized our first capex in terms of machine, that is the EVA machine in our plant in the East and that will gradually ramp up and obviously give us significant backend benefits in terms of agility of product as well as cost efficiencies that we see. Initial signs are good and we will ramp it up over the next three to six months. And I think the other big transformation that the footwear industry has gone through is BIS.

We have successfully transitioned without any hiccup whatsoever. The entire sourcing that we have, which is largely domestic, into basically the BIS compliant era and we are looking forward to that transition giving us leverage and an edge going forward. The minor quantity that we do import, we have already made sure that we have got plans of localization on all those products going forward so that we don't anticipate any kind of a disruption from that point of view.

Therefore, then moving to Slide 15, all of this finally resulted in lesser than expected, but positive growth which was at 0.4%, INR904 crores versus INR900 crores last year. This was backed by making sure that we were tight on leakages which I mentioned even last quarter and resulted in expansion of gross margin at about 56% blended across all categories as well as channels versus 54.8%, so a gain of 120 basis points.

However, we didn't flinch back and as I said, there was a front-footed approach we took in marketing. As you see on Slide 16, we did make significant investments. On a cumulative basis, we are still relatively, I would say, at the benchmark that we wanted to stay in this environment on advertisement, but this quarter we did invest in it at about INR35 crores for this quarter versus '24, a significant jump. The other big investment was in terms of the IT cost.

There was also a prudent financial framework guideline adherence that we did which was expensing out the cumulative ERP-related expenditure that we have done. So, in this entire blip that you see of 127% versus last year, there was expensing out of the cumulative ERP implementation cost that we have incurred as capex and therefore hit the cost line.

Therefore, then moving to Slide 17, while we did see muted growth and that does have an operating leverage impact on the rest of the lines, there was tight control on the rest of the cost lines. So gross profit did expand, as I said, by about 120 basis points. But however, the investment that we made plus the fact that in December '22, we did have a back-ended benefit on rental concessions to the extent of about 100 basis points. That had a, last year versus this year, cumulative impact on PBT of about 250 basis points which we would have invested or we would have otherwise flown to.

So therefore, then resulted in an EBITDA de-growth of about 10% at about 21.3, a healthy double digit on that front, however, and a PBT of about 8.6% at minus 29.5% versus last year. That brings me to the end of this presentation. Thank you for your time and attention. I'm open to questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Videesha Sheth from Ambit Capital. Please go ahead.

Videesha Sheth: Yes, hi. Thank you for the opportunity. My first question was on the Freshness that you mentioned on slide four. You said the Freshness is at highest levels of 34%. I wanted to know how do you define the new products that are coming under this definition of the product launched 30, 60, 90 days back? How was this number a year back? And what is the aspiration for this number for the coming two to three odd years? That would be my first question.

Gunjan Shah: Okay. No, that's good. Actually, it's been a journey, Videesha, on this front. Let's give you a little perspective. We were let's say going back about six quarters. We were in the range of about mid-20s or so in terms of Freshness. The way we define Freshness is anything that is new to store and therefore that consumer cohort that the store services in this season.

It's a season-to-season measure and therefore gets reset every season which is Jan to June as well as July to December. And therefore, a percentage means out of the total offerings that we have in a store how much of it is fresh.

Now there is further rigor that we apply to this and we will want to make sure that this becomes a key proposition because that's what we are trying to promise to consumers in terms of trendy and fashion. And we will want to dovetail this similar measure at a store and category level but that mid-20s was still about a couple of seasons back at about 30 and has now moved to 34%. So that's the journey. I hope that answers your question.

Videesha Sheth: Yes, very much so. And what would the aspiration be for this number for the coming 2 to 3 year?

Gunjan Shah: I think we will actually want to now dovetail this even further into category cluster kind of a freshness. So, the overall 34% I think we will not want to go beyond 40 for a season Freshness but within that are we making sure that the entire 2,000 EBO network are we replicating this entire 34% or 40% is going to be the prime driver going forward. So, it will go up but the big driver will be making sure that it's democratically spread all across. The minimum threshold that we want to make sure is that it's not only at a certain cluster of stores and a certain category but all categories and all clusters of stores is where the endeavour would be on this front.

Videesha Sheth: Got it. Got it. And second question was on HBM. How are you tracking the benefits from the implementation of this software? So, one is of course the low contribution from discounted sales but just trying to understand when can the benefits from using this software when are they likely to peak in terms of better throughput?

Gunjan Shah: So, I cannot share the business case Videesha but we do have a business case. It is a financial business case and we are beholden and obviously want to make sure that the team is tracked against it. There are 3 or 4 levers where the benefits are anticipated to come through. First is obviously better inventory management. So far more linked data and therefore much better visibility of information while making decisions. Making decisions much faster on inventory management and therefore placing the orders in the right articles in the right locations is going to be one big lever.

The second one is much better availability against what we promised to a store therefore adherence to basically what they require while maintaining better inventory management. The third piece and that should result into better conversions and therefore sales. The third piece is in terms of better financial planning and better control from a merchandiser's perspective in terms of the right mix of articles and the margin blended profile that the person is wanting to deliver on.

The last one is control on obsolescence and therefore making sure that we are agile in terms of moving the stocks to the right places where we can push it out before it results into an inventory hit on us. So, these are the 4 levers that should in terms of timing of impact they will pan out but the sense is that within about 12 months we should have them into a steady state run rate of impact that have been built into the business case.

Videesha Sheth: What is the mix of sub 1000p products for us during the current quarter? I recall that during 4Q FY'23 the mix was somewhere around 30% to 40%. So just wanted to know the mix for the current quarter? And also, if the [3-week] consumption were to pick up and consumer wallets were to revise would we look to monetize that trend by refocusing on the mass end of our portfolio for the retail operations?

Gunjan Shah: Okay, that's a long question but a quick data point now less than 1000 is being basically for the last quarter wallet about 30%. Cumulative for the year it was at 34% so it is lower but however the pace of reduction has come down so I am assuming that if things stay right we will want to see this fire as I said that goes in conjunction with the mass market business channel of us which is MBOs.

We continue to invest in it. We are hoping that that's where we will get this entire thing repo back so while we want to focus on premiumization with the right brands as well as the right offerings we will not want to lose sight and in fact where required we will take aggressive steps to capture this revival in demand as we see it. An introduction of article is at this point.

Videesha Sheth: Thank you very much for answering my question. I will get back in the queue.

Moderator: Thank you very much. The next question is from the line of Girish Pai from Nirmal Bang Equities Private Limited. Please go ahead.

Girish Pai: Yes, thanks for the opportunity. Gunjan, in the flat revenue growth picture that we have for the quarter what is the volume and ASP expansion that you see?

Gunjan Shah: Both is mid-single digits both ways, Girish. So yes, that's how it is. In addition is that we have as I mentioned now for almost six quarters, we have stopped price increases so it's largely the premiumization that is driving this mid-single digit kind of a premium or ASP increase and we are hoping that the stability on pricing, etcetera, will as I commented just in the previous question will eventually help us turn around the mass market demand perspective from consumers. But yes, mid-single digit on the pricing and therefore mid-single digit on volume de-growth.

Girish Pai: Okay. The other expense part has jumped up on a Y-o-Y basis to almost like 410 basis points. Can you provide a bridge to that? What are the elements, what are the account heads which have kind of expanded on a Y-o-Y basis?

Gunjan Shah: I will request the CFO to answer on this.

Anil Somani: So as Gunjan talked about it during his presentation, especially investment on technology investment on marketing, these are the two big ticket items. Rest of the places we have leveraged versus last quarter and obviously we have certain rental benefits which would have flown last year on account of rent concessions resulting from COVID-19. All put together if we do it, rest all as you would have seen gross margins has gone up by 120 basis points.

So, these are -- obviously out of this, marketing IT we would getting into the normalized phase starting next quarter and rental obviously one piece where we are able to leverage on other costs and that would be something which we would not be able to recoup.

Girish Pai: So, on a normalized basis, how much would the other expenses be as percentage of sales? Would this come off by 200-300 basis points?

Anil Somani: To give you a slightly simplistic answer, Girish, while we don't have giving you forecast but the point is that on a YTD basis, except for the expensing out that we did of the cumulative ERP implementation, rest of it on a YTD basis is reasonably reflective of trend lines.

Girish Pai: Okay. My last question is on fixed costs in the manufacturing, I think on the supply chain side. Are we done with our pruning there or is there more to come?

Gunjan Shah: Okay. So, South Can was the large structural one that we did which is the factory that I mentioned in Bangalore and that obviously had a business case behind the VRS and that will flow through, and we are confident signs are good on that front and we will see those benefits. But that is I would say less than a quarter of the entire fixed cost from a manufacturing perspective. So, there are other levers, both operational as well as structural, and we will keep evaluating and working on all of those in terms of making sure that that helps us become -- that helps us allow for investments on the consumer and the marketing front. There is need left.

Girish Pai: Thank you.

Gunjan Shah: Thank you.

Moderator: Thank you very much. The next question is from the line of Nihal Mahesh Jham from Nuvama Wealth Management Limited. Please go ahead.

Nihal Mahesh Jham: Yes, thank you so much and good evening. Sir, my first question was on the marketing bit. You have taken a decent step up and I think we spent around 4% of our top line versus our historical run rate of around 2%-2.5%. So, the first question was that is this a reset you plan to continue over the course of the years ahead?

And second is while you did mention about the slowdown, was it that we saw a higher increase in footfalls or maybe an increase in online clicks, any of those metrics which maybe at least got more customers aware of our brand and maybe the convergence did not happen maybe because of slowdown. Just your thoughts on how effective were the marketing spend from that perspective.

Gunjan Shah: Okay. On the first piece, it is the direction that we want to take on the front that I mentioned in my chart which is digital influencer-led focus towards style trendiness and bringing in a certain amount of confidence. That is the direction that we want to take. Obviously, campaign to campaign the way we want to communicate, the kind of collection that we are bringing. But the core of it will be on these pivots and we will want to sustain because it takes time for a large enough consumer base and newer consumers to register the entire message that we want to give.

It has to be backed up as I said in the question that I answered a few minutes back, which was on making sure that we have got the right kind of store experience as well as the freshness in stores, and that I had detailed out a little earlier. So, we will want to sustain and continue with that, with obviously a flavour campaign by campaign. But the core message and the medium we would like to sustain.

On the second piece in terms of impact, while yes as I said that we would have desired much better impact in terms of the business results. But as I mentioned all signs of brand metrics, in fact while in absolute I don't think we were happy with the kind of footfall impact, but it was sequentially better versus what we saw in the previous quarter.

And brand health metrics I mentioned right from the entire consumer funnel from awareness to consideration towards [inaudible] as well as in terms of style and modernity, we hit ever higher peaks on that. So good signs on that front and therefore, we are encouraged to continue investing on it on a phasing basis.

Nihal Mahesh Jham: Understood. Just one more question. We do specifically highlight how the growth for Red Label, Comfit and Floatz has been keeping Hush Puppies out here. What would be the ballpark contribution of these three brands as of now to our total revenue?

Gunjan Shah: Should be in the range of about 15%

Nihal Mahesh Jham: And Hush Puppies is approximately 20%?

Gunjan Shah: Yes.

Nihal Mahesh Jham: Understood.

Gunjan Shah: That broadly correlates to our price point which is greater than 2,000.

Nihal Mahesh Jham: Yes. Thank you so much. I'm done.

Gunjan Shah: Thank you.

Moderator: Thank you very much. The next question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: Thank you. This is a my question you know again follow up to the previous question that you know why we see please speak.

Gunjan Shah: Please speak a little louder Gaurav.

Gaurav Jogani: Yes so is this better, can you hear me now?

Gunjan Shah: Yes

Gaurav Jogani: So, my question is a follow-up to the previous question, where you know, the 15% to 20% contribution coming from the fast-growing brands. So, would that mean, that the other, the rest of the 60%-65% odd brands are declining in high single-digits, because of which we are seeing a flattish kind of growth there? And so, that is one part of the question and the other being, what possibly you see could lead to a revival that could tell in future lead to a double-digit growth for the overall portfolio?

Gunjan Shah: Okay, the first question is mathematics Gaurav. So, whatever I say, I'm sure you've got mathematics to make sure that the average works out. So obviously, yes. But that doesn't mean that it's all dependent on only, while a large part of it is also correlated to price point and the segment that is relatively sluggish, I would say, so some turnaround from a consumer perspective will help.

But as I mentioned, there are a few things that we are working on. One is to make sure that across price points and categories, we want to make sure that we present on the front foot freshness. We did invest in marketing. We want to make sure that it's backed up with basically enough new range coming through and a proposition to consumers. And there will be a lot of work, and I talked about it in reasonable detail a little while earlier.

The second piece that is there is we continue to invest in accessibility to consumers, whether it's through the franchise route, in terms of EBOs, whether it is in the e-commerce space, as well as in the MBO space. And I've talked about it in the presentation.

Last but not the least, in certain pockets where we sense that we have got some flexibility, in a selective manner we will take aggressive affordability calls to bring about value for money back to consumers. We have not taken price increases, so we are assuming that consumers are slowly stabilizing to prices.

But in certain cases, we might want to even selectively take price reversals. I do not think the weightage will be large, but yes, we will take those actions also where required. So, combination of these three from our perspective should help us as the momentum turns.

Gaurav Jogani: And sir my second and the last question is with regards to the BIS, you know whatever we can understand from the BIS implementation is that it is largely to you know help to curb the cheap quality imports that are coming from China and other countries and you know given approximately 25% to 30% contribution for us comes from the INR500 and below segment.

So how do you see the benefits from the BIS implementation helping Bata given that you know again that particular segment is I think declining higher versus the other portfolio?

Gunjan Shah: Yes. There are actually multiple questions in this question that you have asked. Our first priority was to ensure that we secure our own manufacturing across categories as well as obviously expanding as well as a very large sourcing base that we have of our suppliers. We are simultaneously looking at consolidation of suppliers towards larger guys, but either way the entire universe has been brought under the BIS fold and is compliant and therefore our priority was to make sure that we don't have any disruption whatsoever in terms of supplies.

How does it pan out from a perspective of other players getting impacted etc. I have mentioned this even last quarter when I talked about this, is that relative to what we have seen in the past to some other industries going through BIS which is toys for example, the industry in footwear in India is relatively well developed, specifically in certain segments, right, in terms of construction type as well as price points.

So, there will be certain pockets where I'm assuming that there will be turbulence, provided we are seeing what is the kind of implementation the government goes through. So, we'll have to wait and watch on that front, but our priority was to first make sure our house is right and we are ready for the transition. That we are good on.

Gaurav Jogani: Sir, just a follow up on this. Would it be a right understanding that a bulk of a large part of the imports does happen in the INR500 and below segment and that in a sense impacts the competitive ability of the organized players and probably that could be better once BIS is implemented?

Gunjan Shah: I would say it cuts both ways, Gaurav. We have also analysed the import data etcetera. We do get access to it. So, it is not only that but yes, it is mirroring the ratio that we have in India. So, a similar ratio reflects even in terms of imports. There is a lot of high-end imports that also happen. As even in our case there were a few of them. So, I think we'll have to see how that reflects all across, but it's evenly, you know, proportionate all across price points.

Gaurav Jogani: Sure sir. Thank you. Thank you. That's all for me.

Moderator: Thank you very much the next question is from the line of Jay Gandhi from HDFC Securities Please go ahead

Jay Gandhi: Hi, thank you for the opportunity. The first one is could you help me with the channel mix for the first 9 months in terms of retail distribution and online?

Gunjan Shah: And can you just complete the second question also Jay.

Jay Gandhi: Yes, so in general, just wanted to kind of, you know, understand the gross margin movement a little better from a nine-month perspective. So, once you have pre-revised over the course of, you know, the past nine months or past one year, there would be a counterbalancing, you know, lever also, right? If, basically, if your distribution is growing faster or the online piece is growing faster or even if the gross, if the franchising piece is growing faster, this will be a counterbalancing factor to your premiumization story, right? I'm only talking from a gross margin perspective?

Gunjan Shah: Okay, all right. While we remove the data point for the mix, I think let me answer the second one. The piece is that you are right. See basically the point is that as I mentioned we have not taken price increases for almost several quarters now, more than a year. So effectively whatever we are seeing is ASP increase is just because of the mix.

Now the mix is because of two plays. One is because of product mix primarily and some amount of channel mix. So, if the multi-brand outlet does not grow as fast, effectively the mass market is also relatively not growing as fast and therefore it is reflecting the overall ASP increase.

So, you are right in a way. The gross margin will not have too much of an impact. Some of it is coming through because of the premiumization per se. Some of it is coming off because we have managed to be a little more efficient on leakages, promotions, etcetera and markdowns, but a combination of that is what is giving you basically the gross-margin impact, but premiumization is largely coming through mix.

As I mentioned a couple of questions back, is that we are wanting to make sure we get the mass market going also wherever relevant without compromising on margins and the action that I talked about at that point in time.

On the ratio of mix etcetera largely I would say that we have got I&D at roughly around, so basically I&D has been a little lower. Normally we are at a YTD level basically at about 15% but for the quarter was at about 12%. E-commerce is steady state at 10% consistently and that continues. Franchise is now in realized turnover because it is basically discounted when you sell it to a franchise partner, but that now is steady state at about 7%, 7.5% and the rest about 70% is in COCO which is EBOs, Company Owned Company Operated. Does that answer the question?

Jay Gandhi: Well, yes, it does. See, I understand this. The only thing is that, I was wondering that you've gone from about 390-odd franchises to about 500-plus. I'm sure all of these channels, franchises or distribution or e-commerce, they've only grown relative to the COCO part Y-o-Y.

The only thing is, yes, I understand that certain amount of premiumization would have helped gross margins. But the limited point is that each of these channels, franchises, anything which is non-COCO is likely to be gross margin dilutive?

Gunjan Shah: Yes, you're right. So, there will be some amount of dilution that will happen. So, let's say, for example, if 150 basis points, 120 basis points is overall gross margin expansion, then the mix impact would be a little larger from a product perspective because the channel mix would have taken away a little. You're right.

Jay Gandhi: Correct. Fair enough. And the other question I had was on the rental, on the base year. So, you mentioned that you had about 100 bps of savings last year, right? Now, I was looking at the annual report and based on the annual report, the rentals is about INR420 crores, INR430 odd crores, which accounts to about 12 and a half odd percent of sales. And this is only in stock.

Even if I look at it from a rent per square foot perspective, based on the area that you report, from FY '22 to '23, rent as a percentage of sales has actually come, it's about 12 and a half percent. Even if I look at FY '19, it was about 12.9 percent. So the point is you are already firing at a similar rent per square foot as what you have been pre-pandemic times.

So is it that when FY '23, this rental bill that you are seeing in FY '23, is that going to be a meaningful bump? Is this rent per square foot going to continue?

Gunjan Shah: Okay. So my comment and that Anil then expanded upon was for the quarter, Jai. What you are talking about is annual figures and we need to check them also. But my comment was for the quarter, there was a certain amount of rental concession post-COVID that got back-ended, that got exhausted obviously in this quarter last year and therefore on a year-on-year basis, there is about 100 basis points impact. That's what we commented, limited to the quarter. For the full year, I am sure your numbers are correct, but we can separately clarify to you exactly, how does it reconcile.

Jay Gandhi: No, sir. Point set. Thank you so much for this.

Gunjan Shah: Okay, Jay. Thank you.

Moderator: Thank you very much. The next question is from the line of Ankit Kedia from Phillip Capital. Please go ahead.

Ankit Kedia: Thank you. So my first question is on the KRO counters, they are less than one per town, which seems a very odd number. So can you define how do you define this KRO in terms of revenue per counter and what could be the opportunity size in terms of say two, three per city or per town? So over the next two years, you would want to leverage these key retail outlets?

Gunjan Shah: Okay, Ankit. So obviously, you know, I mean, the ideal situation is in a very mature and evolved scenario is the way an FMCG would go about doing this, right? But there are two parallel tracks that are running, right?

One is access to towns and therefore making sure that Bata is accessible where the consumers would like to be. And obviously, we don't have, enough and more reach that we've got. Therefore, the entire town expansion, the pieces that where we've got some kind of a control and understanding and therefore stability in terms of distribution expansion, therefore towns that we have gone, pick out the larger outlets on those where we see basically so throughputs that give us outlets that give us throughputs of more than about 25 to 40,000 per month, right?

How do we make sure that we are able to present, not only make ourselves present, but present it to consumers in a controlled fashion, make sure that the range comes alive, we've got a certain critical mass of the kind of offering that we want, whether it's in men's dress in Bata Rebook, or whether it's let's say in power open, or the EVA range that we are coming out with, etc. So making sure that we've got a certain critical mass and the presentability coming through is what the KRO action plan is. It will always follow with a lag, but your expectation is right.

And that's where we would like to desire to move towards. And that's what the curve is trying to show you. It's a journey that's relatively nascent.

And I would say that, it's got long legs to go. Right now, the contribution of KRO to a distribution business is in the range of about early double digits. But we are expecting that even now, despite the overall muted scenario, it does grow much faster. And that should continue irrespective of how the environment changes.

Ankit Kedia: And sir, when you say when the demand comes back, you could take a reverse price action, typically for the MBO market, this 15% revenue contribution from IND over the next three years, where do you see this contribution go if the town coverage, KRO count, everything falls in place right for you?

Gunjan Shah: About 20% plus minimum.

Ankit Kedia: Sure. And my last question is on the April, this presentation, we haven't spoken about April. So how has been the progress on the April front in our stores? Last quarter, you gave us some good signs on the April growth.

Gunjan Shah: Yes, yes. So, we are still at, so I think I mentioned it last quarter, we have launched it in about 60 stores, we are at the 60 stores, we have got feedback in terms of what's working, what's not working, even in certain stores, what is the kind of, location within the store that works. Certain stores where we have actually removed and put into some other stores, we are still in active 60 stores, we want to make sure that it gives me a same store growth, delta on apparel alone of 3% plus before we collectively want to expand it beyond that.

We will want to our expectation is that by let's say, mid of next quarter, we should hit that and then I will be able to tell you about the expansion plan on it. Simultaneously, a whole bunch of learnings on merchandise itself, the colours that are working, some of the fits that we are looking at, as well as materials, all of that is obviously underway. But it's going to be something that we'll want to learn before we expand.

Ankit Kedia: Thank you. Thank you so much.

Gunjan Shah: Thank you.

Moderator: Thank you very much. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: Hi, good evening team. Thanks for the opportunity. Sir, my first question on slide nine, you have given a number 4.1 million pairs shipped YTD '24. So, can you strip out the quarter number for the digital part and the overall part for quarter and the nine months?

Gunjan Shah: What I do have handy is a million pairs for the quarter. So, a little less than million pairs, but yes, just about rounded off to a million pairs for the quarter.

Shirish Pardeshi: And the overall?

Gunjan Shah: We don't share that. Maybe at the end of the annual report, we will. Yes.

Shirish Pardeshi: Okay. Okay. Thanks. On the Nine West, I think you mentioned that it's on the way, but what is holding on and any point you can say that how fast it will roll out or it will be a marketing which will be done on the select and then you will expand or any some colour if you can share?

Gunjan Shah: Yes. Yes. So, it takes some time to make sure that we operationalize it. Obviously, the deal was signed last quarter and it is working at a furious pace. We should see it entering stores during this quarter. We will want to start off with about 50 stores within the Bata banner. We will learn how it works. It is a price point that's going to be very, very different. It will be higher than even Hush Puppies in terms of price point and average level.

We want to make sure it gets presented well in terms of brand stories coming through not only pieces of fashionable footwear, but also the kind of accessories that we are making sure that it comes along with. As I said, it will start getting into stores with the launch going through in this quarter and towards the end of this year is when we will be able to collect thoughts. As I said, subsequent plan is to make sure that we then reinforce it with an exclusive branded outlet, a banner store of its own. That's the broad plan.

Shirish Pardeshi: Thank you. And my last question on the margin part. If I look back, I think you did mention the mix change and channel mix, but I just want to pick up your candid thought. What are the margin drivers at this time and if there is an inflationary pressure? And if you look at medium term, I'm not saying guidance, but what aspiration sees that whether we go back to 58-59 or we will still remain in the similar range?

Gunjan Shah: This is gross margin. I believe we are at levels which are pretty healthy and reasonably comfortable with Shirish. There are margin drivers. There are ways, levels in which we can do margin drivers. Obviously, premiumization is one big lever, but also in terms of making sure, as I said, there is about 7% to 8% blended that we do in terms of consumer spends. About half of it, a little less than half of it goes into above the line, but there is more than 50% that goes below the line in terms of markdowns and promotions.

How do we do them more scientifically, etcetera? And the entire piece on merchandise management, which is going to be digitized through HPM, which will also give us levers, which I responded to a question earlier. So, there are drivers for it. As I said, we don't see inflation from a cost perspective. Consumer inflation, demand, yes, there might be an impact, but right now from a cost perspective, we have stayed away and we have managed to make sure that the costs are relatively stable. And therefore, that is not a big driver in terms of margin dilution going forward right now.

Shirish Pardeshi: Thank you and all the best.

Varun Singh: Thank you, Shirish.

Moderator: Thank you very much. The next question is from the line of Akshen from Fidelity Investment. Please go ahead.

Akshen: Okay. So, thank you for the presentation. And, we have been discussing last few quarters on initiatives that you are doing on portfolio and distribution to get the top line growing. I just wanted to ask you a question that, with the mix that you are envisaging, both in terms of products and in terms of distribution, when we look at the business three to five years out, what is the right margin for a business like that?

Historically, the margins have been very volatile, but we hit pre-COVID EBITDA margins of 16%, 17%, gone as high as 18%, 19% in quarters. And last year, we were at about, 30%- odd and then we've seen everything in between. So, as the business, hits the kind of strategic changes that you're trying to do. Do you go back to 15%, 16%? Those are healthy levels? So, you think a brand like yours, which is doing as much, should maybe earn a little more?

Gunjan Shah: We are as greedy as you, but we have to, on a lighter note, Akshen, but the point is that our endeavour is to make sure that very clearly, we want sustainable, profitable growth and both go hand in hand. So, it's not just a question of percentage EBITDA margins, but also making sure that we are able to invest enough in terms of driving growth, both current as well as future. So, we would like to make sure that, we don't give you guidance, Akshen, but we want to make sure that it's sustainable, profitable growth from all the benchmarks that you have mentioned.

Akshen: Sure. Let me try to sort of ask this in another way. Your ANP spends for the longest time has been between 1.5% to 2.5%. As you start doing, more premium portfolio within Bata, is there like a sense that this needs to maybe go to 4%, 5%? Or do you think spend levels are appropriate? Basically, what I'm trying to understand is that there's a lot of, optimization of costs, etcetera, which is going on. Is it necessary to do that to just reinvest in the business or some of that will flow through EBITDA?

Gunjan Shah: There was latter. So, some of it, I mean, as we implement it successfully, we will want to invest some of it into our brands as well as the business, as well as, in terms of technology, etcetera, which we have done and we'll continue to do. But some of it, obviously, will make sure that we flow into the EBITDA also.

Akshen: Okay. Great. And a last housekeeping question. As far as the last annual report, you had totally 9,400 employees. I think 4,400 were on roles and 5,000 were on contracts. When you're saying the Southcan VRS is sort of successful, could you help us understand how large the workforce over there would have been? I mean, is it like 10% of workforce, 20% of workforce? Any just rough idea would be fine.

Gunjan Shah: No, it's nowhere near the scale of 10% of workforce. A large part of this workforce is in the stores as well as including in terms of the supply chain. But combined together with the 3PL outsourcing of warehouses, each warehouse is about 300 manpower. Let's say, for example, Southcan was about 140 odd people. So, I think cumulatively, it does have its own impact. I don't have the handy numbers right now, but I'm sure that the team can follow through on that piece with you separately.

Akshen: Okay. That would be great. Thank you and all the best.

Gunjan Shah: Thank you, Akshen.

Moderator: Thank you very much. The next question is from the line of Ashish Kanodia from Citi Bank. Please go ahead.

Ashish Kanodia: Thank you for the opportunity, sir. On the volume growth part, I mean, when you say mid-single-digit decline this quarter, and if you look at this quarter, it basically had the benefit of delayed festive season. And in the base quarter, which was your Q3 FY'23, there was, again, a volume decline of around 5%.

And when I looked through the call transcript of two, last quarter you talked about festive season seeing some growth. And had there been no delay in festive, Q2 should have actually reported revenue growth, right? So, on that background, what led to this slightly underwhelming performance on the top line, on the volumes?

Gunjan Shah: Yes. No, I can't agree on that front. In fact, we went in with the same robust philosophy that I talked to you all last quarter with the festive spillover, etc. And we did back it up with money where the horse's mouth is on marketing investments, etc. with consumers. The impact was below par and therefore muted, as you're saying. I think the volume piece is obviously also traded off with the fact that there is a lower price point that is causing bulk of the sluggishness.

And that has a disproportionate impact on volumes. At an overall level, higher price points, etcetera, we have seen not only value growths but also volume growths. Because then the mixed impact gets neutralized at the same price point and it's all driven through basically growths of volumes.

Ashish Kanodia: Sure, sir. And just the last bit on marketing, I think you touched upon that. While this quarter, marketing spends are slightly elevated, but on a YTD basis, this spend is mostly normalized. So, if you can just share what that YTD normalized marketing spends are? And do you expect this spend to kind of continue over the next two years? From a percentage perspective, is that the trajectory which you will continue?

Gunjan Shah: So, slightly less than 300 basis points is the pure ATL spend, which is marketing spend. We would ideally want in a normal scenario, we would like this to inch towards 300 basis points and slightly higher over a period of time, as we see response and the business impact coming through on that front.

Ashish Kanodia: Sure, sir. That's very helpful. Thank you.

Gunjan Shah: Thank you, Ashish.

Moderator: Thank you very much. In the interest of time, that was the last question. I would now like to hand the conference over to management for closing comments.

Nitin Bagaria: So, thank you everyone for joining us. Looking forward to interacting with you again. Thanks. Thank you, ICICI.

Moderator: On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.