May 22, 2023

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 May 5, 2023 and May 19, 2023, 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 Friday, May 19, 2023.

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

This is for your information and records.

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
Q4 and FY '23 Earnings Conference Call"
May 19, 2023

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

MODERATOR: **MS. NIKITA JAIN – BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q4 and FY23 Earnings Conference Call of Bata India Limited, hosted by Batlivala & Karani Securities, India Private Limited. As a reminder, all participant lines will be in 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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Nikita Jain from Batlivala & Karani Securities, India Private Limited. Thank you and over to you.

Nikita Jain: Thank you, Yashshvi. Good evening participants. On behalf of B&K Securities, I would like to thank the management for giving us the opportunity to host the Q4 FY23 earnings call. Today we have with us in the management the MD and CEO, Mr. Gunjan Shah, Director of Finance and CFO, Mr. Anil Somani, and the Company Secretary, Mr. Nitin Bagaria. I would now request Mr. Nitin Bagaria to start the call with his opening remarks, post which the moderator will open the floor for Q&A. Thank you and over to you, Nitin.

Nitin Bagaria: Thank you, B&K team and Nikita and a very warm welcome to everyone. Good afternoon to all of you. We have Gunjan Shah who is MD and CEO. We also have Anil Somani who has joined us in April as CFO and has been elevated to Board and he's Director of Finance and CFO. We have shared the presentation with the Stock Exchange a little earlier prior to this call, but we'll be happy to take you through this call. We will navigate through the slides as well as the page numbers so that we stay connected.

So on slide number two, we have the disclaimer. I'm sure you have gone through the same. So we move to the next slide, which is slide number three. Over to you, Gunjan, and thank you for joining.

Gunjan Shah: Yes, thanks. Thanks, Nitin. We will run through the presentation. The template is for people who have joined us in the past should be reasonably co-relatable. Okay, let's go. So we are on slide number five, which is basically talking about some key milestones. I think the key one that I would like to highlight here is that we crossed 2,000 points of sale for the first time in our history for sure. And obviously 700 plus cities where these points of sale are spread out. Both of them are all-time highs.

We also had Sneaker Studios, which I have been talking about for some time, now straight to 500 plus stores. And a new product, which we are very excited about, which is doing extremely well, continues to create records every quarter for us and did achieve the ever highest last quarter. Besides that, we did obviously continue our investments in technology and received awards on the CSR front.

Slide number six. Slide number seven. So these are the levers that I have talked about, portfolio expansion as well as retail excellence, marketing investments and making the brand youthful, exploring digital commerce, making sure that our supply chain becomes agile and efficient to cater to demand, and nimbleness and variability on the cost structures, on the foundations of talent process technology, and being a responsible citizen as well, sustainable contributor to the ecosystem.

So largely you see updates on various initiatives across this. Many of them continue quarter on quarter and for consistency and leverage on scale. Sneaker Growth continues to outpace our overall growth largely. Floats, as I mentioned, is something that continues to create momentum every quarter. And we have made some very promising and reasonably contributing now inroads into occasion and [inaudible 0:04:25] wear, that is something that we were largely absent in. I would say focus towards ladies, but also covers men.

Retail Excellence. Store renovations continue. NPS, Net Promoter Score is at ever highest level last quarter. On an expansion front, we saw franchise store additions again, creating a continuing momentum. And we saw in the multi-brand outlets, expansion in terms of number of distributors, quality of those distributors.

Marketing Investments. We ran campaigns across sneakers, schools and women, which helped us basically drive footfall and the same store growth. And obviously, as I mentioned, Net Promoter Score from a consumer perspective, retail values.

On the digital side, the marketplace business was a little muted. But however, our own e-store as well as our omni-channel business did extremely well last quarter. NPS in our own store increased. And that is something that is a very critical lever for repeat business, as well as we saw significantly higher sneaker contribution on our e-store.

We did execute and stabilize the entire third-party outsourcing of our largest warehouse in the North, which is in Jamalpur. And the project is underway in this quarter for taking the next largest warehouse and outsourcing it to a [inaudible 0:05:57]. That has given us not only efficiency, but also effectiveness in terms of service levels, etcetera, improvement over the scenario was pre-transferred. Our optimization on cost continue, it is across, I think, corporate overheads, as well as in terms of store manpower, as well as in basically outsourcing the projects that I just mentioned.

Last but not the least, on technology, two large projects, one of them completed. This is the RIMS project. This is the entire inventory management project that has got upgraded. And now it is in a manner, I would say, one step. It is readiness for a full-blown ERP when it comes along. But it basically allows for that information to now cross-link across many other platforms of ours and therefore better decision-making. The ERP, as well as the high-performance merchandising project, are on track. The high-performance merchandising project will go live in another two or three months, in fact, two months. The ERP is expected to go live with the first module going live in the first quarter of next year, in 2024.

Next slide, please, slide number eight or slide number nine. I will run through some of those key parameters that we have been tracking and sharing with you. Points of sale, we crossed 2,000 plus now at 2,053. What you do see out here is the ratio below. And as I have been talking about consistently for a long period of time, we will see expansion on the franchise and FIAs from a contribution perspective because they will expand much faster. While we will have COCO expansion also happening, even in this quarter as well as going forward, franchise as well as FIAs for the full year, we did ever-highest additions in the year 2022-23. And the momentum is pretty promising. We've got ambitious targets even for the coming year, which is 2023-24.

The franchise, Yes, it just basically gives you a longer-term trendline of it. We had set a vision about one and a half years back of hitting 500. We have now touched almost 420 and we look to be much on track for that 500, maybe a year prior to what we had initially targeted ourselves. What you see in the graph below is what has happened over the last three years, 59 stores we added on the franchise in 20-21. 2021-22, we added 75. Last year, we added 116. And as I said, we are on track to achieve 500 much earlier than expected.

We see continuous momentum on this. And it is backed by not only same-store growth in existing franchisees, but also by a couple of other parameters that we consider very important in terms of sustainable franchise business. One is the MPS. Our franchise store is almost at par with now what we consider as almost hitting best in class at 80 MPS in COCO. And also, you know, the number of franchise stores that we open with existing partners that now contributes to almost 60% of our new franchise store additions every quarter.

In multi-brand outlets, our expansion journey continues. The business has been a little tight for the last two, three quarters, largely because the lower price points have been under pressure. We do hope that that turns around with inflation now getting moderated, flash, flattish. But our expansion and building blocks continue, both in terms of distribution as well as in terms of categories. We did hit 1,300 plus pounds, as well as weighted distribution now has touched almost 44%.

Within categories, the categories that we consider as competitive edge categories, which not only drive growth, but drive profitability in this, they continue to drive our growth. We have now entered or tried to launch into two new categories. One is the sports [open 0:10:14], and the other one is basically value-added category for ladies also. And both of these have shown good signs. And these are the two that we would like to, over a period of time, build into competitive edge categories, which are currently men's dress, which are school, as well as sandals, that is, plastics.

Digital, as I said, overall had a slightly muted quarter, largely due to marketplaces. And I think it was a temporary blip. Early signs are that we are more than making up for the gap that was there from a marketplace perspective last quarter. But the rest of the channel, which is both omni as well as our own e-store, did extremely well. And in fact, we did ever-highest number on our e-store, and it's on track to becoming almost 2x of our largest store in our network, backed by extremely good metrics now that we have started tracking in terms of consumer experience, as well as satisfaction.

We did drive campaigns, driven largely, anchored around sneakers, school, school work towards the fag end of the quarter, and which will extend into this quarter. And obviously, our Style with Comfort campaign, all of this obviously helps us deliver strong SSE growth this quarter. We are also, amongst the key categories that we have focused on, sneakers continues to grow well. We will see a lot more action on power going forward, and I'll speak about that in a few slides down the line. Hush Puppies again continues to outpace, which continues the entire premiumization journey, backed by Comfit. That brand also did extremely well, and a very profitable brand, as well as clothes. While the pace might have been negligible, but on a sequential basis also, we see continuous strong demand.

These are some key initiatives. Some of them I've talked about. Some of them we have shaped up. Now we feel more confident about how we want to take them forward. Red Label, we started off with an experiment, a single store in the north, in quarter 3, that is October, November, December. We see encouraging response across key metrics, whether it's ESP, whether it's profitability, and whether it is in terms of footfalls and consumer feedback, as well as, most importantly, the age of consumers that we are attracting. We will now want to expand this into multiple others locations, and the next store on this line is likely to come up in the next about 45 days.

The next big initiative I indicated towards this last time was Apparel. We will be launching at leisure under Power Brand. We feel that with 1.5 million consumers walking into our stores every week across the network, they do have a latent, as well as obviously an actual need of apparel, and they do purchase it also. It's just that we don't offer it. I think we've got a right to partake into that entire consumption area, and this is something that we'll see light of the day in the coming quarter, in another couple of months. We will be launching across three technologies, as well as, reasonably competitive price points, with decent margins to boot.

We will wait and watch this space in terms of further updates on this, but we feel very bullish on it. Last but not the least is clothes. While we see continuous momentum and significant growth in this category and this brand, we have also expanded our collection in this. We are also wanting to take the brand outside the Bata banner, and we started off with, even in this quarter, with at least a couple of kiosks, which will basically allow the clothes brand moving outside the Bata banner.

We have also experimented this into the multi-brand channels, which is both e-commerce, as well as the distribution business, with encouraging response. It already has almost 60% penetration, even within our franchise stores.

Other highlights for the quarter gone by, NPS. We have now hit every highest TP. It's best in class. I think it is something that we can keep continuously plugging at, and we can even revise benchmarks on this, but I think on a normative basis, itself, it's extremely strong. We did, obviously, significantly invest towards training of our people and capability on that front. We have, obviously, the two large projects from a technology piece, while there are many others that are enabling much better data visibility, much more informative decision-making, and quick, corrective feedback, whenever required.

There have been, obviously, various events organized in terms of engagement of employees, as well as making sure that all of us are working towards a single objective of the organization. We did do a significant VRS in our southern factory in Bangalore in the last quarter, as well as we do see now some amount of benefits in terms of reduction of material prices. Last but not the least, efficiencies in our supply chain continue. I have talked about the CPL and similarly in our factories.

With that, with the financial summary, what we did see was 17% top-line growth that you see in the bar chart. We also, for the full year, saw significant growth, and we clawed back to pre-COVID levels of volumes, almost 48 million pairs, and with an average realization that was significantly higher, which I have talked about that because of the inflation we did and the GST, we had to take up prices. This is a blended realization across all our business lines. As I mentioned before, the COCO business price pair is very different from one which is on franchise, and this is very different from what we see from the multi-brand outlets. This is a blended price realization.

These are the financial metrics. I will not drain the chart because it is self-evident, as you can see on the curve. I will not go through each of those lines. With that, I think this should be -- there is one more last chart. Slide number 20. Cash generated for the year has now moved to about INR726 crores as we exit this year, and the ROC henceforth has obviously improved now to 20%. We expect this to keep going up as we improve our capital-efficient expansion and variability in our business cost, etcetera, and obviously growth.

Thank you so much for that presentation, and I am more than happy to take questions. Thank you.

Moderator: Thank you very much. We have a first question from the line of Bhargav Buddhadev from Kotak Mutual Fund. Please go ahead.

Bhargav Buddhadev: Good evening, team, and thank you for the opportunity. Sir, Bata has been sort of working a lot on premiumizing its portfolio. So just wanted to know your numbers in terms of what percentage of portfolio would now be below INR500 MRP, and what was it pre-COVID, and what is your sense on this category going forward in terms of outlook?

Gunjan Shah: Okay. I don't have it handy. I did mention some numbers last time. Just let me see if the team is able to rustle up something quickly. But broadly, I would say that below INR1,000, we were at about 50%-50% pre-COVID, and now we would be in the range of about 35%-40% below INR1,000. That number, we handily, I do track it because we also did a tracking because of the entire GST and opening up price points back again wherever we could to get volume growth going back in.

Below INR500, my sense is out of that 35%-40%, we should be about half of it, so about 20%. Both of them obviously would have declined with the premiumization, which is both mix as well as price that would have taken up the mix on the higher side.

Bhargav Buddhadev: Sure. Thank you. In terms of FOFO, our contribution to overall store count is now close to 20%. Is it possible to highlight what could be the revenue contribution from this segment, and what would be the EBITDA margin in this category?

Gunjan Shah: You are talking of the franchise stores?

Bhargav Buddhadev: Yes, sir.

Gunjan Shah: Yes. So, while we don't get splits on the business lines, but ballpark, I would say that it is about 600 points to 700 points accretive from a profitability perspective at EBITDA or channel operating margin level, which takes care of all the nuances and only allocation costs which are neutral across business lines. So, it is at almost significant accretiveness to our overall business profitability.

Bhargav Buddhadev: Because we are then seeing that contribution coming in as of date, so possibly as this sort of sector starts contributing meaningfully, will we see that also getting reflected in your EBITDA numbers?

Gunjan Shah: So, it should. See, the whole objective of driving franchise expansion is on three fronts. One is that it allows me to open up stores in places where the brand is obviously demanded for. But however, the scale does not justify me opening up a company on store.

The second one is basically it is, as I said, it is accretive from a profitable perspective. Your contribution that I get at an EBIT level per pair is higher than what I get from a COCO store. And the third one is basically in terms of capital efficiency. It allows me to flex expansion much faster without fixing up or deploying too much of cash. So, on all these three fronts, we will see, I mean, the whole objective of doing this is to make sure and step-by-step it keeps on contributing meaningfully to our overall growth as well as profitability. So, it gives me access to consumers as well as done it in a far more capital efficient and profitable way.

Bhargav Buddhadev: And so, my last question is, Bata has appointed Badri Beriwal as a Chief Strategy Officer who has come from Britannia. Is it possible to share in which particular vertical will he be spending more time like COCO, distribution, FOFO, SIS?

Gunjan Shah: So, it is, the designation is Chief Strategy as well as Business Development Officer. And therefore, driving the strategy from a consumer point of view across the organization as well as making sure that, new initiatives as well as alternative growth engines, etcetera, are given the right kind of leadership as well as direction, both from a strategy as well as the execution perspective.

Bhargav Buddhadev: So, this is a new position, right, in the history of the company or was this position already there?

Gunjan Shah: Yes. Not there in the recent past.

Bhargav Buddhadev: Okay. So, thank you for your thoughts and all the very best.

Gunjan Shah: Thank you.

Moderator: Thank you. We have a next question from the line of Nihal Mahesh Jham from Nuvama. Please go ahead.

Nihal Jham: Yes, sir. Thank you so much and good evening to the management. Sir, three questions from my side. The first was that could you discuss the category-wise and here by category I would say bifurcated into formal, casual, school-wear and also maybe the [new sports 0:3:27] category where you have given some data, that how has the recovery versus pre-COVID and not versus last year?

Gunjan Shah: Okay. Basically, I would say that, see, overall we would have recorded about, for the quarter gone by, about 15% growth over pre-COVID. Now, in that, I would say sneakers, the casual as well as would have outstripped the rest of the category. So, comfort slash casual, sneakers and the premium segments would have outstripped while I think most of the categories, even school, would have exceeded the pre-COVID levels. But I think these are the categories that would have grown faster than the ad par growth.

Nihal Jham: Understood. Because if I say volumes for this year are similar to what we did in FY '20, which are these categories? Is it mainly formula which is seen of all versus pre-COVID or the school, which are the categories that have lost share internally in our analysis?

Gunjan Shah: I am, I didn't get your question clearly. You asked which categories have grown, have done better versus the others versus pre-COVID?

Nihal Jham: Which you highlighted were basically the casual categories and sneakers. So, I was just trying to ask the other side that which are the categories in which is incrementally seen a reduction in a share. I'm assuming formula, but anything else that you want to highlight?

Gunjan Shah: So, I would say the ones that are at the lower price point. So, I would say, as I said, all of them, even school would have exceeded pre-COVID, but they would not have grown at 15%. More importantly, I think plastic as well as volume category, which is facing some amount of demand pressure are the ones which have been relatively a little over versus pre-COVID. I mean, relatively versus 15%.

Nihal Jham: Understood. And just a follow-up here that is this driven by our own aspiration that maybe the inventory that we are keeping now is more premium or this is more related to the way the market has grown?

Gunjan Shah: It's a combination of both. So, premiumization is a conscious strategy, but that does not exclude ourselves from a significant amount of business that we do from the below INR1,000 price point, which I answered to someone else. And we would like that to grow and through our multi-brand distribution business, etcetera, we will see that growth happening. I think the building blocks are pretty much there. And there's no reason why we should not see that demand recover as the inflation stabilizes.

Nihal Jham: So, is it possible in the future the share becomes 50-50 again from the 40-60 it currently is?

Gunjan Shah: Sorry, I didn't get that question at all.

Nihal Jham: I'm so sorry. I was asking that currently the share of INR less than INR1,000 and, plus INR1,000 as you highlighted was around 40%-60%, 40% and 60%, which was 50%-50% pre-COVID. So, do you see the case that in the future the share of less than INR1,000 and, plus INR1,000 becomes 50%-50% again?

Gunjan Shah: It's a little difficult to predict this. As I said, there are two levers at play. There will be premiumization across segments. Now, which segment relatively is doing better at various points in time will determine this mix. But right now, we see the premium segments relatively doing much better. So, that's driving the momentum of growth. But you will also have times wherein obviously the bottom of the pyramid, etcetera, will start firing in. And we will see that also grow.

But I think over a longish period of time, I think by last year we would have seen a significant impact of inflation, therefore an acute impact on less than INR1,000. That should normalize a little. But the longer term trajectory would be that I don't see that going back to 50%-50%.

Nihal Jham: Point taken. The second question was, is it possible to share the channel mix for the full year between wholesale, online, and COCO franchise?

Gunjan Shah: So, basically COCO is about 70%. You have franchise which is at about 8%. You will have multi-brand distribution at about 14% and e-commerce at about 10% or so.

Nihal Jham: Last question from a side. You did highlight investments in technology and marketing as a part of the press release. Any sense or quantification that you expect how much of the spend could be on a ballpark basis if you budgeted this out?

Gunjan Shah: Yes. So, the IT technology-based capex that we will have outlay for this year will be in the range of about INR30 crores. And the marketing expenditure, we will look at it continuously going up to basically from 2.6%, 2.7% levels to about 3% over a period of time.

Nihal Jham: Thank you so much, Gunjan. And wish you all the best.

Gunjan Shah: Thank you.

Moderator: Thank you. We have our next question from the line of Tejash Shah from Spark Capital. Please go ahead.

Tejash Shah: Hi. Thanks for the opportunity. So, we have made a lot of interventions on distribution, premiumization, and even brand positioning in the last 24 months to 36 months. Now, when I see distribution expansion, CAGR, which is 7% of last four years versus our revenue growth of 4%, the output actually looks a bit underwhelming despite putting so much effort on the premiumization and distribution expansion side. So, is it that the underlying demand is so underwhelming or have we lost market share versus pre-COVID period?

Gunjan Shah: So, there are a couple of factors. I think one is basically that as we go about expanding, some of these, so let's say the franchise stores in general are at about 0.5x of our COCO stores on an average, 0.4x to 0.5x. So, the turnover per store would be lower because you are entering and penetrating into cohorts that are relatively smaller, and which is why we want the franchise model to get us access there. So, it's not an apple-to-apple.

The second piece that would be there is basically in terms of multi-brand outlets. I think there is some kind of a demand pressure that has been seen over the last year on those price points which are at the mass end.

And that has obviously created some of the pressure. As I mentioned, we are looking forward to the inflation stabilizing and consumers adjusting to it. I'm sure the kind of mix that we have in the building blocks, that should provide payback. So, I think both of these combined together is what is providing that phenomenon. Each of these element-wise, they have pretty good, I would say, same-store growth that we are carrying.

Tejash Shah: Sure. And so, if you can comment on market share and any specific segment where we would have gained market share or we are still under-indexed?

Management: There is no syndicated data available Tejas on market share. The last one that we have is Euromonitor that provides us an annual level. That shows that the market share is recouped back from whatever hit that we would have taken during COVID time. So, the last report says that. But there is no syndicated data. My guess is basically on the premium side, I think we could have participated even better than what we could have. I think on the mass side, we would have done reasonably well, I would say, from the market share perspective.

Tejash Shah: Fair point. So, second, on working capital, again, if I map it to our 4% CAGR growth, inventory has actually gone up by 9% CAGR. Debtors have also gone up by 16%. Debtors obviously on a low base, but inventory growth is also significantly, in fact, two times our revenue growth. So, just wanted to understand, is this the new mix in the distribution will actually entail higher inventory investment or there are any transient runoffs in this number right now?

Management: Anil, you want to answer that? I don't know where the inventory is. You said 1.5x of inventory?

Tejash Shah: No, sir. 9% CAGR versus 4% growth in revenue pre-COVID?

Management: Okay. I don't see it that way. So, I'm a little surprised. I would say actually we would, by this year, have inventory efficiencies, which we measure in terms of number of days of inventory that we carry on FG, would be better than what we have ever had in our past. So, even right now, I think we are roughly at par. So, I don't know whether CAGR is changing.

Management: Just to add, Gunjan, obviously our inventory is going at a much lower base, so I don't know where this number is coming from.

Management: So, we can respond separately.

Management: Yes, sure. I'll take it off that.

Moderator: I request you to come back in the queue, Mr. Shah, as we have other participants. Thank you. We have our next question from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: Thank you for the opportunity, sir. So, my first question is with regards to the investment that you are doing on the technology and also on the other ventures like marketing, etcetera. So, do you think that these are right now suppressing the margin? So, my question is with regards to, you know, you have been making a lot of investments in the technology part as well as on the marketing front.

But at the same time, you know, your franchisee is giving you a better margin perspective. So, do you think it is because of these investments that your cost savings initiatives as well as the incremental margins from franchises are getting masked right now? And once these initiatives are over, you could see a rebound in the margin profile?

Management: Yes, I would say yes and no. Yes, some part of it is that. Some part of it is also lag of capex that we had not deployed during the COVID period of couple of years. So, a lot of that has got applied in the year gone by. And some of it in this year. Besides that, obviously, some of these initiatives, they will not only pay back in terms of efficiency, but also our ability and muscles to grow better.

So, the endeavor is to basically try and make sure that they also contribute towards growth and better efficiency. So, for example, let's say the high performance merchandising project that I am talking about will allow me to manage this 2000 and expanding network in terms of the right kind of merchandise, what sells where, and therefore, the ability to do it more scientifically.

And therefore, the efficiency of that inventory in terms of generating growth, etcetera. So, similarly, on the e-commerce side, which is basically to drive growth. And finally, some of them will flow into initiatives, into efficiencies.

Gaurav Jogani: So, sir, would it be prudent to assume that the high level of investments would continue at least for the next couple of years that you're doing?

Management: I would say so.

Gaurav Jogani: Okay. And so my next question is with regards to the dividend payout. So, if you see during the year, the dividend payout is almost 57% of the annual profits. And I think the last year also we gave a special dividend. So, is there any change in the dividend policy and can we see the dividend now being higher versus the historical levels of 25%-30% dividend payout number?

Management: Okay. So, basically, the board, while last year was a one-off kind of a dividend that was announced at that point in time, but this year is more normative. So, I would say that that's in line with the policy. The board's policy on dividend is up to 60%. So, we will have to see every year what ratio the board approves on this, but that's where the policy is. This year is more normative. So, it's not a one-off.

Gaurav Jogani: And so, if I can slip in one more question. With regards to the distribution front, you've been very aggressive. Even this quarter, you've added almost 200 towns out of the 300 towns added in FY '23. So, what is the outlook here? What kind of performance or contributions you're expecting from this part of the business? And with the inflation now normalizing, do you see growth reverting in the segment back?

Management: Yes, both of them we are looking at very, both the questions we are looking at very optimistically. That's why we are investing in it, not only in terms of the infrastructure that I just showed you in the slide, but also in terms of manpower and capabilities. So, and also collection and merchandise that's required for that channel, which is very different from the exclusive business outlook, retail outlets. So, Yes, we are looking at it very ambitiously and optimistically.

Moderator: We have our next question from the line of Nitin Shakdher from Green Capital's Single Family Office. Please go ahead. We have our next question from the line of Girish Pai from Nirmal Bang Equities. Please go ahead.

Girish Pai: Yes, thanks for the opportunity. Gunjan, if you look at the EBITDA margin in FY '23 and compare with FY '20, there is almost like a 430 basis point dip. A lot of that is coming from other expenses being higher by about 500 basis points. Can you give some guidance of how that number is going to look like? Other expenses? Were there any one-offs in FY '23 which are not going to be repeated going forward?

Management: At a larger level, no. The last quarter did have a one-off. So, there is some element of that one-off. But the other piece that is there on other expenses is to do with two or three lines. One is there is a mix that is changing and therefore the contribution of channels like franchise, e-commerce, as well as multi-brand have gone up. And that has a very different kind of P&L. The second piece that is there is that some of the investment that we have put in that has its own depreciation effect. Especially the largest mention would be on technology side, Girish.

Girish Pai: Okay, and you also mentioned about a VRS being implemented in one of your manufacturing units down south. Are the costs connected with that appearing in the P&L? Where exactly would those be?

Management: They will flow through on the corporate overheads. So, that is where it should flow in. But basically, it should pan out over a period of this year, etcetera.

Girish Pai: And would we see further VRS going forward?

Management: I can't comment on it right now.

Girish Pai: Okay, last question. Margin, athleisure apparel is going to be adding to your revenues. Do you think this is going to be margin accretive or decretive? Or what is your view on that?

Management: All the three initiatives that I mentioned in the slide, and specifically apparel for sure, right? But even floats as well as rentable, all are being aimed for margin accretive.

Moderator: Thank you. We have our next question from the line of Aliasgar Shakir from Motilal Oswal. Please go ahead.

Aliasgar Shakir: Thank you so much for the opportunity. I just wanted some color on the revenue profile and revenue growth. So, when I see your store addition over the pre-COVID numbers around 20%, and you would have taken some price increase plus premiumization combined would have helped us somewhere about 10%. So, against this 30% revenue growth expectation probably that we were building, I mean, your growth, if I compare pre-COVID is somewhere about 13%.

Now, I take your point, you mentioned that franchisee is about 0.5. And we've seen about close to 250 or franchisee is about 10% to 12%. So, maybe 6% impact would have come because of this. And, but I'm just trying to get a sense that this along with, you also mentioned that lower price products are seeing some impact. Still, the gap seems, reasonably high.

So, against the 30, let's say if I take 6 impact because of franchisee, maybe, you know, give or take 5 impact because of the low price product not doing well. Still, the gap seems reasonably high. So, what is it, you know, that has seen a relatively far lower revenue growth than what, probably you were anticipating?

Management: No, the only other piece that I can add, but I cannot comment on the mathematics, but the only other lever that I can, or insight I can add to you, Ali, is that you will have, we have shut down about, I think about 90 or COCO stores net, right, versus pre-COVID, which were unprofitable.

Aliasgar Shakir: Okay, and they would have have been very high revenue contributors?

Management: Average, I would say, not necessarily very high.

Aliasgar Shakir: That's also true. Okay, do you think, sir, you know, we mentioned that the casualization sneaker trend is doing very well, but we may have probably in this shift from our existing to casualization trend, seen some revenue loss in some part of the business? Or do you think this is recoverable?

Management: You would have seen some losses. Sorry, I missed that part.

Aliasgar Shakir: So, I'm saying that, you know, the trend that we are now moving towards casualization, sneakerization, maybe some part, I'm not sure whether open footwear, formal wear, some categories, you would have seen, lower revenue profile, probably because we are pushing lesser in the store. Has that been a factor which has led to this lower growth, or any of those categories? I'm just trying to understand when we build growth for the future, what part is recoverable?

Management: Right, right. So, the way the system works, Ali, is that a range and therefore an article set that does well automatically gets filled in, right, from a short term horizon, which is at a store level, etcetera. And then from a range investment point of view, which is at, let's say, a horizon of a season, which is six months.

So, if let's say, for example, we see comfort doing well, then comfort automatically starts getting more inventory, and comfort starts getting more and more range. So, similarly, you will see that across. So, as I mentioned, you do see a certain amount of action on premium, and that's doing well, right. The one that is on the lower end is where basically there is some amount of demand pressure, and which is what I responded to another query that was there in terms of, what's grown faster and what's grown slower.

So, that is where the piece would be. I would not exclude completely, but overarching, we would like to continue premiumization. So, another example being that, let's say, even if it's open footwear, right, float is a way of premiumizing open footwear. And therefore, the average ticket size of a consumer, which was otherwise buying, let's say, flip flops at, let's say, 300, 400 average selling price in our store, is now jumping to almost 1,200 plus.

So, you are catching a consumer, you are offering more premium products, but you are not necessarily excluding them from offerings of 300, 400, but some of them are up there.

Aliasgar Shakir: Got it. So, last follow up here is, so, as we see the lower price point products recovering, should we assume that there is at least about 15% odd recovery in revenue that is foreseeable?

Management: I can't project growth for you, Ali. We don't give forward-looking forecasts, but our endeavor is to make sure that while we see the market turning around at a certain price segment level, we continue our strategy as I outlined in my presentation. So, hopefully, that should only add to our performance.

Moderator: Thank you. We have our next question from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Hi, sir. First of all, I wanted to apologize on that inventory calculation. It was wrong at my end. So, you were right. It was 2% versus 4%. So, first of all, I wanted to register that. So, my question is on the franchisee part. So, we have done a very good job on expanding the network. And usually, if the franchise economics works out, then the same franchisee partner starts expanding the network. So, just wanted to know, are we seeing consolidation of franchisee owners who are expanding more franchisees?

Management: I did mention that, Tejas, in my presentation. But first and foremost, thanks for sharing that correction. So, I guess we are a little more relaxed on inventory now. But coming back on the point on… I had mentioned that in my presentation that there are two or three metrics that we look at in terms of, you know, while we are going aggressive in terms of expansion, but we want a sustainable franchise model. And one of those is basically the profitability of our franchise partners. And the best outcome indicator of that is how many of them are opening up stores, multiple stores with us. So, I think last quarter, 60% of our stores that got opened were with existing franchise partners. So, that's creeping up all the time, which is a good indicator. And that responds to your question also, I guess.

Tejash Shah: Fantastic. Second, sir, if I see your brand architecture and our premiumization journey, do you think that the current set of brands can fulfill our aspiration to premiumize the portfolio? Or you think that there are still some white spaces in our brand architecture where we'll have to launch or bring some of the overseas Bata family's brand to actually kind of premiumize the whole or complete the whole pyramid here?

Management: Yes, no, there is. I mean, it's a never-ending task, ideally, if you look at it, right? And which is why you have so many brands in the market, right? Because there are consumers for various kinds of price and the brand value that is being provided by various brands. From our portfolio perspective, there are obviously gaps. And the initiatives that I've listed out in the chart in my presentation, whether it was Red Label, whether it was Power, that was a category, but hopefully it does well. It spawns off the Power brand itself and Floats. All of these are basically attempts on that, basically trying to nail some of these kinds of white spaces. When we feel that we have developed some expertise in our architecture.

Tejash Shah: Great, sir. Thanks and all the best. Thank you.

Moderator: Ladies and gentlemen, we request you to restrict your question to one at a time. We have our next question from the line of Ankit Kedia from Philip Capital. Please go ahead.

Ankit Kedia: Hi, Ankit. Hi, sir. A couple of calls back, you had mentioned your aspirations to do contract manufacturing for global data. In your next leg of growth, you haven't spoken of that. Has that project been shelved or that is a separate thing which you will call out number-line?

Management: I have not called it out because I don't have a tangible progress update for you. But Ankit, the progress in the work is not being shelved out. In fact, it is working even more aggressively. As I mentioned, I think even at that point in time or maybe in a subsequent conversation or a call, that requires a lot of working. I think globally, Bata is very aggressively looking at a China plus one strategy. India is the largest sourcing base, even larger than China, for the Bata Global Organization, primarily in India, obviously.

So there is a huge amount of capability. I think there is a natural fit in terms of what's required and what's available, both from a requirement perspective of trying to diversify out of China, as well as in terms of the kind of capabilities and the kind of network that we have in India. So, wait and watch this space. We will obviously make sure that we update you once we have some tangible progress to be made on it. But we are working very aggressively.

Ankit Kedia: Understood. Some second question is regarding floats. You know, the category has picked up post-COVID. We have seen clocks as the market leader, you know, growing aggressively as well.

Moderator: I request you to come back in the queue, sir. Thank you. Ladies and gentlemen, you are requested to restrict your question to only one at a time. We have a next question from the line of Akhil Parekh from Centrum Broking. Please ask your one question.

Akhil Parekh: Thanks for the opportunity. The question is on the employee expenses front. If I look at it as a percentage of sales, it is broadly in line with FY'20 numbers. And this is despite some of the activities…

Moderator: Hello. Your voice is breaking. There is a lot of disturbance.

Management: Yes. Which number is in line with 2020 number?

Akhil Parekh: The employee expenses as a percentage of sales. If I look at it, it is broadly in line at 12%. And we have been doing some kind of a flexi staffing to reduce that cost. Basically, if you can highlight or throw some light on, you know, what percentage of our staff is on flexi and do we expect any further cost reduction on the employee cost front for next two years.

Management: Okay. So, directionally, yes. Obviously, I think COVID did have its impact. Otherwise, these percentages could have looked a little better. But I'm sure some of these initiatives will pay back over a period of time going forward. There are three levers on this. And it is very macro level. One is flexi in terms of retail manpower. That as of now stands at about… it varies per quarter depending on seasonality of the business, etc. But stands at about, let's say, about 15% to 18%. The aim ideally should go to at least about 25% for status quo. So, there is headroom there.

The second one that's the lever is basically in terms of the backing. And therefore, you know, the supply chain piece, the 3PL, wherever we can outsource non-core areas, get in more efficient partners to collaborate with, etc. I have updated you on one of those warehouses that we moved. We are in one of our factories and there will be multiple such other initiatives down the line. The third one that's there is basically on technology. So, whether it's HPM, whether it's ERP, whether it's data warehouse management systems, etc. that we are setting up, there also we should see productivity increases coming through because of digitization itself. So, all of these combined together will eventually help us keep this under check going forward.

Moderator: Thank you. We have our next question from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: Thank you for the opportunity again, sir. So, my question is with regards to the margins if you see in Q4. So, you know, we had done a gross margin of around 58.5%. And given the fact that, you know, our franchisee contribution has been increasing over a period, shouldn't the gross margin should go down whereas the impact could be felt at the EBITDA level? But shouldn't the gross margin theoretically be down? And how do you see this sustaining ahead?

Management: Yes, so technically you're right. And I think it's a question of mathematical weightage and of various channels at various points in time. So, even let's say, for example, in e-commerce, if the e-store has got the maximum margin, whereas the marketplaces will have at the gross margin level would be relatively lower or a sales margin level. Right. Obviously, the picture is very different at the EBIT level. So, depending on the mix for those channels for various quarters, but eventually, yes, your mathematics will tell you that the margin will trend differently if the mix of the lower margin channel goes up. But then that will also get compensated by some of the expense lines below the margin line.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Nitin Bagaria for closing comments. Over to you, sir.

Nitin Bagaria: Thank you, everyone, for taking your time and joining us. Looking forward to interacting with you again. In case there are any further queries, you can direct them to us. We would be happy to answer them. Thanks a lot. Thanks, everyone.

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