BATA India Ltd

Q1FY27 Result Update | Retail

Cautious Outlook

DALAL & BROACHA
STOCK BROKING PVT. LTD.

Equity Research Desk

13 August 2026

Topline Momentum Still Lags

Revenue:

Revenue grew 3.9% YoY to ₹9,789 mn, marking the 3rd consecutive quarter of growth. However, topline momentum remains relatively subdued versus peers. Growth was primarily ASP-led, with volume growth at 2.3%. The shift of monsoon demand into Q2 also impacted the quarter, providing some potential for better seasonal traction ahead.

EBITDA / Margins:

EBITDA grew 2.7% YoY, despite a 25% increase in advertising spends, reflecting improving underlying operating efficiency. **Gross margin expanded 130 bps YoY**, supported by higher ASP, record-high full-price sales of 88% and lower markdowns. Inventory productivity and improved availability are also increasingly supporting margin quality.

Profitability:

Reported PBT increased 15% YoY, aided by lower depreciation (-2.5%) and interest cost (-6.2%). More importantly, **PBT before one-offs grew 22% YoY to ₹906 mn vs ₹745 mn,** demonstrating meaningful operating leverage despite only ~4% revenue growth. One-offs included ₹27 mn non-cash forex loss on license fees and ₹24 mn ERP implementation cost.

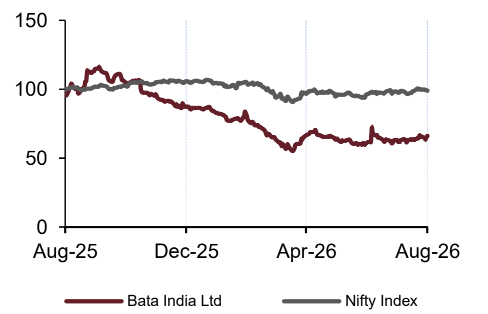
Adjusted PAT increased 16% YoY to ₹638 mn.

Rating	TP (Rs)	Up/Dn (%)
NEUTRAL	748	3

Market data		
Current price	**Rs**	**728**
Market Cap (Rs.Bn)	(Rs Bn)	94
Market Cap (US$ Mn)	(US$ Mn)	981
Face Value	Rs	5
52 Weeks High/Low	Rs	1,283 / 605
Average Daily Volume	('000)	4,014
BSE Code		500043
Bloomberg		BATA.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-26	Mar-26
Promoters	50.16	50.16
Public	49.84	49.84
Total	**100.00**	**100.00**

Source: BSE

Financial Summary

Y/E Mar (Rs mn)	FY23	FY24	FY25	FY26	FY27E	FY28E
Net sales	34,516	34,786	34,888	35,155	37,044	39,474
growth (%)	*44.6*	*0.8*	*0.3*	*0.8*	*5.4*	*6.6*
EBIDTA	7,938	7,859	7,355	7,065	7,535	8,372
Margins	23	23	21	20	20	21
PAT(adj)	3,230	2,931	2,274	1,733	1,881	2,409
growth (%)	*213.6*	*(9.2)*	*(22.4)*	*(23.8)*	*8.5*	*28.1*
EPS (Rs)	25.1	22.8	17.7	13.5	14.6	18.7
P/E (x)	29.0	32.0	41.2	54.1	49.8	38.9
P/B (x)	6.5	6.1	5.9	5.9	5.7	5.3
EV/EBITDA (x)	11.1	11.4	11.9	12.6	11.8	10.5

Source: Company

Kunal Bhatia
(022) 67141442
kunal.bhatia@dalal-broacha.com

Cash Flow & Inventory:

Cash operating profit increased 7.6% YoY to ₹2,166 mn, while gross inventory declined 10% YoY. The inventory is down 37% vs Q1FY24, with stock turns improving ~20% YoY to 2.54x. Availability improved ~12%, while store-level lines declined ~30%, indicating that the inventory transformation is translating into better merchandise productivity rather than merely reducing stock.

Presentation KTA's

Growth Recovery Underway, Structural Levers Gaining Traction

- **Retail Growth Improving, ZBM Becoming the Core Growth Lever**
  - **Revenue grew 3.9% YoY**, with **volume growth of 2.3%**, indicating growth is now being supported by a combination of volume and ASP.
  - **ZBM rollout increased to 775 doors**, contributing **~80% of retail business**, vs 700+ stores / 70%+ contribution in Q4FY26.
  - ZBM continues to be the key retail transformation initiative, with increasing penetration across the network.
  - **Franchise network expanded to 750 stores** vs 722 in Q4FY26 and delivered **high double-digit growth**.
  - COCO penetration remains focused on the top 20 cities, while franchise penetration has reached ~675 unique towns.

Inference: *The retail transformation is moving from an inventory-led repair phase toward a more visible growth phase, with ZBM, franchise expansion and ASP-led growth emerging as the key SSSG/retail growth levers.*

- **Distribution Expansion Continues to Broaden the Growth Pool**
  - Town coverage increased to **1,678 towns** vs 1,660 in Q4FY26.
  - MBO network expanded to **17,000+**, further strengthening non-metro reach.
  - **KRO count increased to 3,472** vs 2,674 in Q4FY26, with management targeting **4,000+ by Q2FY27**.
  - I&D channel delivered **high-single-digit growth**, while **secondary sales continued to grow double digit**.
  - Men's Open and Men's Closed categories continue to drive growth.

Inference: Distribution is becoming a more scalable growth engine, with KRO expansion particularly significant as Bata pushes deeper into smaller towns and broadens its addressable market.

- **Digital Scale-Up Continues, Though Growth Has Normalized**
  - E-commerce grew **13% YoY**, while **Bata.com grew 25% YoY**.
  - B2C business grew **42%**, with **1,050+ stores** now fulfilling online orders vs 700+ in Q4FY26.
  - Digital now contributes **14% of Bata India turnover**, up from ~10% indicated previously.
  - Bata App crossed **300k downloads**, contributing ~14% of Bata.com business.

- Same-day delivery is now available across 7,500+ pin codes. 35% same day delivery pin codes (7.5K) & 9% (2K) for next day delivery activated.
- Digital Sales 41% via B2C.in, 49% via B2B and 10% via Bata.in

Inference: Digital growth has moderated from the earlier mid-20%+ trajectory, but the sharp increase in fulfilment capability and digital contribution indicates the omnichannel infrastructure is now materially stronger.

- **Inventory Transformation Continues to Translate into Better Economics**
  - Inventory is down **37% vs Q1FY24**, while **stock turns improved to 2.54x** from 2.11x in Q1FY26.
  - Stock turns improved **~20% YoY**, further validating the inventory productivity programme.
  - **Availability improved ~12%**, alongside continued store decluttering.
  - Store lines have been reduced by **~30%**, helping improve assortment productivity.
  - **Full-price sales increased to 88%** vs 73% in Q1FY25 and 84.3% in Q1FY26.
  - Freshness improved to **1.12x**, indicating better inventory quality and product availability.

*Inference: Inventory transformation has progressed beyond balance-sheet optimisation and is now directly supporting **availability, freshness and full-price sell-through**, creating a structurally better gross-margin framework.*

- **Product Simplification Moving from Concept to Execution**
  - Product complexity remains structurally lower with:
    - **~30% reduction in tool kits**
    - **~25% reduction in styles**
    - **~20% reduction in lines/colourways**
  - New development funnel includes **2 Barefoot kits, 16 NOS styles and 48 NOL styles**.
  - Next phase focuses on **standardised kits, reduced styles and improved kit-to-colour ratios**.
  - FY27–28 roadmap includes globally designed standardised kits and technology-updated NOOS.

*Inference: Product simplification is transitioning into an execution phase and should increasingly improve **sourcing efficiency, standardisation, speed-to-market and inventory productivity** over FY27–28.*

- **Brand Investment Increased Sharply to Support Demand Creation**
  - Advertising spend increased to **1.25x YoY**, indicating a deliberate increase in brand investment.
  - **Brand consideration improved to 66** from 60 over three years.
  - “Make Your Way” campaign is being used to drive category growth, supported by focused product stories such as Office Sneakers, Smiley and Cush-on.
  - **GMB rating improved to 4.85 vs 4.55 YoY**, while NPS increased to 88 from 87.
  - Marketing investment is increasingly being linked to specific category/product campaigns rather than broad-based brand communication.

*Inference: Bata is moving from a largely operational restructuring phase toward **demand creation**, with higher marketing intensity aimed at converting improving brand consideration into sustainable growth.*

Conference Call KTA's

1. Inventory & Gross Margin | Structural Repair Continues

- Stock turns ~2.5x+, moving towards 2.7x; inventory remains ~140–150 days, explaining the lag in RM inflation impact.
- Full-price sales ~89–90% vs 86–87% last qtr → lower markdowns + better freshness driving GM.
- GM +130bps YoY; would have been ~230bps on like-for-like channel mix → ~100bps dilution from faster-growing franchise, which has lower GM but is EBITDA/ROI accretive.
- RM inflation ~5–6%, mainly synthetics/imported crude derivatives; limited Q1 impact as old inventory remains. Higher-cost inventory to flow through from Q2, meaningfully from Sept.
- Price hikes already taken across existing + new products → management expects to largely neutralise RM inflation.
- Future GM levers: premiumisation + higher ASP + further full-price sales; franchise/e-com mix remains a partial drag.
- Supply-chain consolidation: vendor base reduced from 100–120 → <70, targeting 15 core + 15 satellite over 3–5 yrs; consolidation/product rationalisation could deliver ~200bps long-term benefit, including 20–30bps p.a. from vendor consolidation.

2. Product & Premiumisation | Next Major Growth Lever

- Product funnel is now entering stores; meaningful impact expected H2FY27/H1FY28, with major portfolio change by Mar-27.
- Focus on premium products, Bata-led design/comfort + technology → higher ASP + GM potential.
- Clutter Levels: lines currently at 68% of historical levels, with management seeing optimal level around ~60% → lower complexity, better quality, clearance & consumer communication.

3. Competition | Lower-End Pressure Yet to Be Tested

- Premium continues to outperform lower price points; ASPs moving up.
- Lower price points have shown resilience post GST rationalisation, but management remains cautious as industry-wide RM inflation has not fully flowed through.
- Competitive pricing/consumer response will become clearer once higher-cost inventory reaches the market from Q2/Sept onwards.

4. Brand Performance | Hush Puppies + Floatz Lead

- Hush Puppies: standout performer / led growth.
- Floatz: very strong sequential + YoY growth.
- Bata: grew well; Ladies led, supported by Taapsee Pannu campaign + Everyday Essential range.
- Power: performed well.
- North Star: drag due partly to conscious line rationalisation; stronger collection expected over next few quarters.

5. Store Network + ZBM | Initial Opportunity Near Saturation

- 2,000+ stores: ~1,250 COCO + 750 franchise.
- ZBM: 775 COCO stores / ~80% of COCO revenue → management believes initial ZBM opportunity is near saturation.
- Next leg = Project Elevate / ZBM 2.0, while product refresh becomes the larger growth driver.
- Franchise has 600+ potential trade areas, providing substantial runway.

6. Franchise | Asset-Light Growth Engine

- Franchise LFL growth high-single digit for ~4 quarters; partners increasingly adding multiple stores.
- Successful franchise partner ROI 18–24% → attractive economics supporting expansion.
- 600+ potential trade areas remain; significant whitespace for expansion.
- Lower GM vs COCO but EBITDA/return accretive, supporting capital-light growth.

7. Employee Costs | Productivity Offsetting Network Expansion

- Employee cost broadly flat despite network expansion.
- Benefits from VRS + organisational restructuring + technology-led productivity; store manpower broadly unchanged.
- Resources increasingly redirected toward faster-growing franchise business, allowing network expansion without proportional fixed-cost addition.

8. Marketing | Elevated Spend to Continue

- Advertising +25% YoY in Q1, following double-digit growth for 3 quarters.
- Spend now ~3–3.5% of sales vs ~2.5% earlier.
- Management expects elevated spends for the next few quarters and potentially 2 years, primarily to support new product launches/premiumisation.
- Objective: convert product refresh + brand investment into topline growth as early as possible.

9. Growth Outlook | Multiple Levers, But Not Immediate

- No formal guidance; management reasonably optimistic.
- ~10% growth would require a combination of product refresh + premiumisation + ZBM/productivity + franchise + digital + MBO expansion.
- Monsoon demand deferred from Q1 → Q2 provides near-term support.
- Biggest incremental driver expected to be new product funnel, with stronger visibility from H2FY27/H1FY28.
- Key monitorables: volume recovery, price-hike acceptance, competitive intensity, North Star turnaround and conversion of higher marketing spend into revenue.

Quarterly Snapshot

Particulars (Rs Mns) Cons	Q1FY27	Q1FY26	Growth YoY	Q4FY26	Growth QoQ
Net Sales	9789.47	9418.43	3.9	8276.26	18.3
Other Income	178.25	168.63	5.7	195.15	(8.7)
TOTAL INCOME	**9967.72**	**9587.06**	**4.0**	**8471.41**	**17.7**
RAW MATERIALS	-4429	-4383.5	**1.0**	-3606	22.8
Employee Cost	-1136.1	-1162.8	(2.3)	-1131.6	0.4
Other Expenses	-2185.3	-1886.3	15.8	-2030.9	7.6
EBIDTA	2217.34	2154.47	2.9	1702.92	30.2
EBIDTA (Excl O. Incom	**2039.09**	**1985.84**	**2.7**	**1507.77**	**35.2**
Less: Depreciation	-1033.9	-1060.9	(2.5)	-1050	(1.5)
PBIT	1183.45	1093.62	8.2	652.95	81.2
Less: Interest Cost	-327.11	-348.67	(6.2)	-336.29	(2.7)
PBT (Ex of One Off's)	906	745	21.6	537.957	68.4
PBT (Before Exception	**856.34**	**744.95**	**15.0**	**316.66**	**170.4**
Exceptional		-47.78		-280.6	
PBT (Post Exceptional)	856.34	697.17	22.8	36.06	2,274.8
Tax	-218.41	-180.17	21.2	-15.37	1,321.0
PAT (Reported)	637.93	517	23.4	20.69	2,983.3
PAT (Adjusted)	**637.9**	**552.4**	**15.5**	**234.3**	**172.2**
Equity	642.64	642.64	-	642.64	-
FV	5	5		5	
EPS (on adjusted PAT)	5.0	4.3	15.5	1.8	172.2
OPM	20.8%	21.1%		18.2%	
NPM (Reported PAT)	6.4%	5.4%		0.2%	
Tax Rate	-25.5%	-25.8%		-42.6%	
% of Total Operating Income					
RAW MATERIALS	-45.24%	-46.54%	1.3%	-43.57%	
Employee Cost	-11.6%	-12.3%		-13.7%	
Other Expenses	-22.3%	-20.0%		-24.5%	
EXPENDITURE	-79.2%	-78.9%		-81.8%	

Source: Company

Outlook and Valuations

Bata’s structural repair is progressing well, with inventory productivity, higher full-price sales, ZBM-led retail efficiencies and premiumisation supporting margins. However, topline/volume growth remains muted, while the near-term 5–6% RM inflation and competitive intensity remain key monitorables. We expect the new product pipeline, franchise expansion and higher marketing investments to support growth, but a sustained acceleration is yet to be demonstrated. We maintain a NEUTRAL stance with a TP of Rs 748.

Valuation: At CMP of Rs 728, Bata trades at 50x FY27E EPS of ₹15 and 39x FY28E EPS of ₹19. Given the premium valuation and limited near-term topline acceleration, we believe the current valuation largely factors in the ongoing structural improvements.

Financials

P&L (Rs mn)	FY24	FY25	FY26	FY27E	FY28E
Net Operating Income	34,786.1	34,887.9	35,155.0	37,044.1	39,473.5
Raw Materials	(14,922.3)	(15,080.3)	(15,717.1)	(16,336.4)	(17,368.3)
Employee Cost	(4,199.6)	(4,623.7)	(4,522.2)	(4,703.1)	(4,938.3)
Other Expenses	(7,805.2)	(7,828.9)	(7,850.2)	(8,469.3)	(8,794.9)
Total Expenses	(26,927.1)	(27,532.9)	(28,089.5)	(29,508.8)	(31,101.5)
Operating Profit	**7,859.0**	**7,355.0**	**7,065.4**	**7,535.3**	**8,372.0**
Depreciation	(3,390.8)	(3,713.0)	(4,200.7)	(4,382.3)	(4,513.4)
PBIT	4,468.2	3,641.9	2,864.7	3,152.9	3,858.6
Other income	617.2	674.8	792.1	745.1	775.2
Interest	(1,170.1)	(1,284.8)	(1,346.1)	(1,390.2)	(1,413.4)
Extraordinary Items					
Profit before tax	3,915.3	3,032.0	2,310.8	2,507.8	3,220.3
Provision for tax	(881.2)	(957.2)	(478.4)	(626.9)	(811.5)
Reported PAT	**3,034.1**	**3,306.5**	**1,832.4**	**1,880.8**	**2,408.8**
Extraordinary Items	(409.0)	1,231.7	(490.3)	-	-
Minority Interest	0.0	0.0	0.0	0.0	0.0
Adjusted PAT	**2,931.3**	**2,274.0**	**1,733.1**	**1,880.8**	**2,408.8**

Balance Sheet	FY24	FY25	FY26	FY27E	FY28E
Equity capital	642.6	642.6	642.6	642.6	642.6
Reserves	14,626.3	15,106.0	15,313.4	15,908.9	17,032.4
Net worth	**15,268.9**	**15,748.6**	**15,956.0**	**16,551.6**	**17,675.1**
Def. Tax Liab.+Minority I	-	-	-	-	-
Longterm Debt	-	-	-	-	-
Short Term Debt	-	-	-	-	-
Total debt	-	-	-	-	-
Lease Liability	10,876.1	13,099.3	12,134.9	12,532.5	12,742.0
CAPITAL EMPLOYED	**26,145.0**	**28,847.9**	**28,090.9**	**29,084.1**	**30,417.1**
Total fixed assets	**3,585.3**	**6,030.5**	**5,220.4**	**5,110.2**	**4,925.3**
Right to Use of Assets	11539.0	12109.3	11328.4	11699.6	11895.2
Goodwill	-	-	-	-	-
Investments	5.0	10.0	360.9	360.9	360.9
Inventories	9,295.5	8,146.7	7,075.9	9,844.6	10,490.2
Sundry debtors	801.3	1,117.6	1,840.6	913.4	973.3
Cash & bank	4,079.6	6,344.5	4,964.9	4,906.2	5,611.5
Loans & advances	-	-	-	-	-
Other current assets	2,925.1	3,047.9	5,401.3	5,941.4	6,535.5
Sundry creditors	(2,996.8)	(3,494.6)	(3,306.2)	(4,475.7)	(4,758.5)
O. Current Liablities	(1,472.2)	(2,177.3)	(2,434.8)	(2,678.3)	(2,946.1)
Provisions	(2,883.5)	(3,708.7)	(3,952.6)	(4,130.4)	(4,262.6)
Working capital	**9,749.0**	**9,276.2**	**9,589.0**	**10,321.1**	**11,643.4**
Deferred Tax Assets	1,266.7	1,421.9	1,592.3	1,592.3	1,592.3
Miscellaneous exp.	-	-	-	-	-
CAPITAL DEPLOYED	**26,145.0**	**28,847.9**	**28,090.9**	**29,084.1**	**30,417.1**

Cash Flow St. (Rs. mn)	FY24	FY25	FY26	FY27E	FY28E
Net Profit	2,625.1	3,306.5	1,342.1	1,880.8	2,408.8
Add: Dep. & Amort.	3,390.8	3,713.0	4,200.7	4,382.3	4,513.4
Cash profits	**6,015.9**	**7,019.5**	**5,542.8**	**6,263.2**	**6,922.2**
(Inc)/Dec in					
-Sundry debtors	24.2	(316.3)	(722.9)	927.2	(59.9)
-Inventories	(250.0)	1,148.8	1,070.9	(2,768.7)	(645.6)
-Loans/advances	-	-	-	-	-
-Current Assets	(486.1)	(122.8)	(2,353.4)	(540.1)	(594.1)
-Sundry creditors	(1,096.7)	497.8	(188.4)	1,169.6	282.7
-Others	(159.8)	860.7	374.0	305.3	338.9
Change in working capital	(1,968.3)	2,068.2	(1,819.9)	(906.9)	(678.1)
CF from Oper. activities	**4,047.7**	**9,087.7**	**3,722.9**	**5,356.3**	**6,244.1**
CF from Inv. activities	**(4,559.0)**	**(6,733.5)**	**(2,960.5)**	**(4,643.3)**	**(4,524.2)**
CF from Fin. activities	**(721.0)**	**(89.3)**	**(2,142.0)**	**(771.7)**	**(1,014.6)**
Cash generated/(utilised)	**(1,232.4)**	**2,264.8**	**(1,379.6)**	**(58.7)**	**705.4**
Cash at start of the year	5,312.0	4,079.6	6,344.5	4,964.9	4,906.2
Cash at end of the year	4,079.6	6,344.5	4,964.9	4,906.2	5,611.5

Ratios	FY24	FY25	FY26	FY27E	FY28E
OPM	22.6	21.1	20.1	20.3	21.2
NPM	8.3	6.4	4.8	5.0	6.0
Tax rate	(22.5)	(31.6)	(20.7)	(25.0)	(25.2)
Growth Ratios (%)					
Net Sales	0.8	0.3	0.8	5.4	6.6
Operating Profit	(1.0)	(6.4)	(3.9)	6.6	11.1
PAT	(9.2)	(22.4)	(23.8)	8.5	28.1
Per Share (Rs.)					
Net Earnings (EPS) (FV 5)	22.8	17.7	13.5	14.6	18.7
Cash Earnings (CPS)	46.8	54.6	43.1	48.7	53.9
Dividend	13.5	22.0	9.0	10.0	10.0
Book Value	118.8	122.5	124.1	128.8	137.5
Free Cash Flow	39.6	45.9	41.8	45.1	52.2
Valuation Ratios					
P/E(x)	**31.96**	**41.2**	**54.1**	**49.8**	**38.9**
P/B(x)	6.1	5.9	5.9	5.7	5.3
EV/EBIDTA(x)	11.4	11.9	12.6	11.8	10.5
Div. Yield(%)	1.9	3.0	1.2	1.4	1.4
FCF Yield(%)	**5.4**	**6.3**	**5.7**	**6.2**	**7.2**
Return Ratios (%)					
ROE	19.2	14.4	10.9	11.4	13.6
ROCE (Excluding Cash & Bank)	20.2	16.2	12.4	13.0	15.6

Source: Dalal & Broacha Research, Company

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Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.
Tel: 91-22- 2282 2992, 2287 6173 | E-mail: equity.research@dalal-broacha.com