November 11, 2024

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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 October 22, 2024 and November 8, 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 Call (Group Call) held on Friday, November 8, 2024.

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

Digitally signed
by NITIN BAGARIA

NITIN BAGARIA
AVP (Special Projects) – Company Secretary & Compliance Officer

Encl.: As Above

"Bata India Limited

Q2 FY'25 Earnings Conference Call"

November 08, 2024

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

MODERATOR: **MR. RAHUL ARORA – NIRMAL BANG INSTITUTIONAL EQUITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY '25 Bata India Conference Call hosted by Nirmal Bang Equities Private Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today presentation. 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 would now like to hand the conference over to Mr. Rahul Arora from Nirmal Bang. Thank you and over to you, sir.

Rahul Arora: Thank you, sir. On behalf of Nirmal Bang Institutional Equities, I'd like to welcome everyone on this call for the second quarter results of Bata India Limited. From the management, we have Mr. Gunjan Shah, the Managing Director and CEO; and Mr. Nitin Bagaria, the AVP Special Projects and Company Secretary.

At the outset, I'd like to thank the management for giving us this opportunity to host this earnings conference call. And I'd like to wish everyone a very happy Diwali and a prosperous new year on this call. I request the management to begin with certain opening remarks on how the quarter has gone by, subsequent to which we can open up the floor to the participants for their Q&A.

Thank you and over to you, Gunjan and Nitin.

Nitin Bagaria: Yes. Thank you, Rahul, and warm welcome to all of you. Hope you all had a great Diwali. We have Gunjan Shah, MD and CEO with us. We have shared the presentation with stock exchanges sometime earlier. We will be taking you through the same. We'll navigate the slides as well as the page numbers to stay synchronized. On slide number two, we have the disclaimer. I'm sure you have gone through the same.

I now request Gunjan to take over. And thank you once again for joining.

Gunjan Shah: Okay. Hi everyone, Happy Diwali, and obviously shubh muhurat for the New Year. With that, I'll start off with the presentation. I will jump directly to slide number four. Yes. So I'll just quickly give you some highlights, and we'll obviously want to deep dive and share with you certain initiatives/progress that we made on the initiative that I've shared in the past with you all.

On -- but however, first the highlights on the slide, portfolio, I think the comfort, casual, as well as premium brands continue to outpace our overall growth, while overall growth still saw muted growth, slightly better than what we have seen for some time now, and obviously throughout the quarter. But within that few brands stood out, the Floatz continues to grow out of scorching pace. Now even in absolute, it's almost closing on 25,000 plus 27,000 pair actually weekly sales for the quarter gone by. Power outgrew faster, slightly higher single digits.

Bata Comfit continues on a very strong trajectory at a strong double-digit growth, and our Sneaker Studio expansion can use now to almost close to 800 stores. On the retail excellence, we did continue our addition of stores, franchise store additions, almost 34 new stores. We also have now Hush Puppies reaching very close to 140 stores, 136. And additions happening aggressively both in COCO as well as franchise. Four Power EBOs have now been opened.

Last time, I updated two of two years so the last quarter saw two more editions. And we also saw key retail outlet additions in the distribution channel. I'll talk about it. We did run a couple of campaigns and I'll talk about it, both behind Power, which I said is the other big brand that we'll focus besides Power Bata itself, and we ran a collaboration with the Emily in Paris in Bata Red Label. Digital commerce continues to be the fastest growing channel for several quarters and years now, including the last quarter gone by, and now we saw two large initiatives. One is quick commerce has been added, and we will announce that Slope going forward.

And the other one is obviously Slope now is creating a significant chunk even in the ecommerce business line, which was referred to almost close to zero till about a couple of quarters back. On the agile and efficient supply chain point number five, we are working on several fronts. I will expand on a couple of these going forward. Sourcing partner consolidation, we have dropped our complexity from a sourcing partner, manufacturing partner base by 39%. We want to drop it to actually by about 45% by the time we exit this year, and another 20% next year.

So there is a significant consolidation that we are trying to do in terms of consolidating volumes, extracting benefits, both in terms of quality, service, as well as cost. Simultaneously, there has been a concerted effort towards net inventory reduction. I will expand on this in subsequent charts, and both in terms of quality as well as the quality of the inventory. And which should serve us in good stead backed by some solid initiatives. But that is in despite the fact of that we have improved availability. So that also leads to a lot of complexity reduction that we are working towards very aggressively.

Staying nimble on costs. So we have put in and now seen significant progress in terms of the right store size going forward. The store size of the network still has not seen the complete impact of it. But new store sizes are now codified to be significantly smaller, almost about 30% smaller in malls, and 20% on high streets. To have note that even capex per square foot, there has been a concerted effort from the teams online.

Last but not the least, I think a very large initiative on something called zero based merchandizing is what we call it. It's just a project name, but the pilot has been done in eight stores with some exciting results, and I will talk about it down the line. Okay. With that, I will move to slide number six, and these are templates that I've shared with you. So this is a EBO of footprint that is there, both COCO as well as franchise. COCO, we have reached now 1,355 stores, and franchise at 600 landmark. So that's a great landmark.

In fact, I said 2024 as the landmark for 500, so six or whatever three months in advance, we have hit 600 itself, with a pretty strong trajectory going forward also. As you can see, it's split reasonably well across the regions, with South being obviously the largest region from EBO footprint. And these are, as you can see in franchise, almost each one is adding unique towns to us, and therefore unique access to a market share.

The next chart, taking you to chart number seven is Hush Puppies. There has been a distinct shift in the trajectory and store count traditions on Hush Puppies over the last two years. So this year shows you almost 113 to 136. We foresee this going even faster going backwards, but even for forwards also. And as I said, here you have seen the aggression both in COCO as well as franchise, which is rightly so. We have also renewed the contract on Hush Puppies now for the next 10 years.

In the quarter gone by, we did a collaboration with Peanuts. And that has given us exciting results and obviously encouragement to do many more going forward. And obviously, it's resulted in better growth. So we would have desired much better in the quarter gone by. There has also been a significant effort towards a few initiatives that I want to highlight and share with the team. There has been this entire theme of driving affordability, and in these times where consumers are feeling pinched on their wallets, etcetera, so I'll not drain the whole chart.

But just tells you across categories that have been concerted efforts in not only offering the merchandise, but also as you can see on the right side, making sure that it's in a classy way communicated across to consumers, to prospect choices, make it easier for consumers, and to discover the price as well as hopefully get convergence going in the store. What you see on the left side while there are a lot of numbers, but basically it's trying to say price points, the articles in those price points, and how do you want to offer them in how many stores and what week? So there's a core price point which is the core and the belly of the business of the category.

And then there is an opening price point where we want to make sure that we are able to entice the consumer to engage with us in our store, etcetera. So there is a concerted act towards making sure the value proposition come across to consumers. We do see feedback from the consumers obviously wanting it, and that's what is triggering this. I talked about it a little last quarter also. We will see a lot more going forward.

Moving forward to slide number nine, Floatz continues the trajectory as I mentioned in my highlights, both volume as well as turnover growth, backed by a very exciting additions in the portfolio. We continue to be far more aggressive in going forward. Our investments in this both on the back end capacities, technology, designs, molds has actually gone up multiple times, and we will see a lot more in the portfolio as well as freshness coming through.

So we are also wanting to bring in newness in terms of one is collaboration. So we just actually launched the Marvel Disney Collaboration. I think it's giving us fantastic response. But along with that, we want to look at a lot more, and you will see that excitement coming through. We also continue to expand the banner of clothes outside Bata. As you can see one example of it, but we will want to see a lot more. We expect to exit by 25 plus by the next quarter, and obviously encouraged by the traction that we get in this.

Going forward, we will want to at the right time, maybe in around quarter four of '24, '25, we will want to also freeze plans on opening up first EBO on that front. Power is the other big brand that we've been focusing on, the slide number 10. And there we see again, as I said, while it's again volume backed growth that we have looked at, and Power continues to outpace. So now we are seeing three quarters of continuous outpacing, backed by great collection. We had two large campaigns that we ran on Easyslide as well as Energy series, great response.

We also have now expanded our EBOs to four. We are focused on basically making sure that we do density first. So it's going to be Delhi NCR and surroundings within a certain concentric circle, and obviously making sure the learnings come through. Apparel also continues to grow attraction sequentially. And as you can see that now we are reaching the threshold that we have looked for, and hopefully, by December, I should be able to get confidence on the team being able to expand it further once we hit that threshold of what seems to growth on apparels.

Slide number 11, zero based merchandizing. This is something that we have experimented. The objective is as stated in the chart, put store at the center, reduce complexity, and enhance the consumer experiences, and therefore eventually conversion and sales from the stores. What are the big pivots?

So I will not take you through the full details, but basically making sure that we declutter the store, the merchandise as per what the customer profiling of that store is to make it more customized, reinvent and bring about and because of you reduce the clutter, you are able to bring out the story and the brand communication that you want to bring out, as well as the collection that you want to showcase, bring out the freshness of the newness, and last but not the least, also make sure that you declutter in terms of also the fixture in the communications hitting the consumers.

Now all of this has been done over the last quarter. We have now moved to almost eight stores. Most of them are running now for almost eight weeks post the intervention. We see great results. So obviously some input parameters, but also in terms of output parameters, two of them I've showcased here.

The lines in the store have reduced by almost 60%. So that's a massive slash, as well as the sales per square foot has simultaneously gone up by almost 20%. We expect this to obviously gain further momentum. Now since that playbook has been reasonably codified and the ambition is to take it to almost 20% of the network by the next couple of courses, which is 250 top stores of ours. We are very hopeful that this should give us even more encouraging results, and obviously impact the overall business also.

Slide number 12, digital commerce continues to as I said, grow much faster than the overall business in line with the market trends also. We are -- we hit a couple of large things. One was we did launch Nine West brand exclusively at one of the marketplaces. We also are driving growth. Now as I mentioned earlier in my summary in Floatz, but also some of our brands on Bata Comfit and Red Label, where we feel that we can expand beyond obviously the Bata as well as Hush Puppies core.

And Omuni obviously continues to chug along. It is 5% of our turnover, which is at actually industry leading. On slide number 13, the multibrand outlet business, the distribution business, the investments continue, our infrastructure expands. However, it is the one that is at the lower price point that still continues to struggle from a demand perspective. There been some signs that we have seen of response to some of our collections that we have brought in, not necessarily at a lower price point, so that we still await from a consumer price point perspective.

But we did see encouraging response to the entire Eva like collection which was absent earlier, as well as the refreshed men's clothes where we brought in some attractive price points, both at the higher end as well as lower end. One other large initiative that we have now rolled out and you will see updates going forward is now having got to a certain scale of rated distribution, you will now get to control on retail and that's what you see as KRO, which is a key retail outlets, which is curated outlets, which are large transacting outlets with huge throughputs for outlets for us.

And how are we making sure that we've got the right kind of engagement program going with them, and our new products as well as collection displayed in the right manner. So they are expected to lead the secondary growth as well as showcase our collection. We saw an addition of almost 150 in this. And we will track this going forward and share with you. From campaigns perspective, I mentioned there were two large campaigns that we run. Actually, the largest campaign was Power. I think well deserved, great response, and we look forward to seeing this going forward.

We were live across the entire network of ours, and as I said, it was backed by two large collections. One was Easyslide, and the other one was the Energy Series. We also did a curated in and out which was on a collab with Emily in Paris on moving the imagery on style, etcetera. And that was done in a limited set of stores, about 260 stores. Most probably the last chart before I get to the summary financials, slide number 15. We have also tried to make sure that we have concerted effort towards inventory, post obviously the post COVID boom where we are actually ramping up inventory.

Now we have tried to bring in some sanity and control, also in terms of making sure that the complexity comes down, while I talked about it from a store perspective a few charts back. But overall from the network, as you can see, we have dropped inventory significantly while increasing availability. So it's the right kind of quality of inventory, and which is also showing up in terms of making sure that the fresh inventory goes up so that you can see on the right side.

So both quantity as well as quality of the inventory has significantly improved. And you will see far more concerted action even going forward. There is still some meat left on it, which should overall, make the system far more agile going forward. On the financial highlights, as declared in our press release, the revenue grew by a muted 2.2%, albeit a little higher than what we have seen in the past for the last few quarters. We did see a recovery throughout the quarter between July to September.

And we are hopeful that this recovery should continue going forward with the oncoming wedding season and the occasions coming out. Gross margin did see a dip last quarter. We foresee that that should get fine tuned out. I am pretty comfortable with the in-taking the gross margin from a medium term perspective.

And that resulted in an EBITDA at about 22.9%, and PBT at about 8.4% as a percentage of turnover. We did obviously would like you to note that last year, the PBT was depressed because there were a VRS. And otherwise, there were obviously cost controls, etcetera, that we brought in place on a sequential basis that is reflected. Hopefully, it will start reflecting year-on-year going forward.

Thank you. That brings me to the end. We're open for 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: Hi, thank you for the opportunity. My first question was on the overall consumption environment for the quarter till date, for third quarter till date. And also if you could highlight any divergence or any trends seen in metro and Tier one versus small cities for our stalls.

Gunjan Shah: Okay. So we did see I can comment on the quarter one by Videesha. It will be difficult for me to give you a forward-looking focus, but I'll try my best. Basically, as I said through the quarter, we did see improvement sequentially after obviously a pretty dismal environment in the previous quarter, which was April to June, election, summer, etcetera.

In terms of demographics, etcetera, we do see a slightly better kind of a response from the lower tier towns that is but however it's also getting up by the fact that premium continues to do better, right? So our higher price points continue to do better. And even this quarter, we have seen now the price points above INR1,000 have now even jumped further. I think over four quarters or less than INR1,000 price point contribution has now slided from about just close to 40% to now close to 30%. So there is still the divergence continuing. So we will have to wait and watch how that turns out.

Videesha Sheth: That's clear. And then with the focus on affordable proposition, how do you expect the premium versus mass portfolio to perform going forward, especially in the context of mass portfolio underperforming for the last quite a few quarters.

Gunjan Shah: So there are two pieces to this, right? So one is that, the question is that does the consumer sentiment and the consumer segments in ….[unclear speech]…. mass, how do they feel comfortable to start opening their wallets, etcetera? We'll keep hoping for it, and we'll wait for that to happen. But in the meantime, consumers at almost all brands and category price points are looking for value, right? And that we can see very clearly. So I mean, the classic case for example is let's say the Easyslide, Power series. Now that's ramped up really well for us.

Now that's something that is available at a price point, which is actually almost two times or 2.5x of our ASP of our stores. But it's still a great value proficient to consumers because it's almost at 50% of the competitor price. So it tells you that you offer value proposition, it might still serve premiumization. There are multiple examples I can talk about it. Our latest launch of the leather collection at INR2,499. Again, more than two times of our ASP, but offering pure leather product at INR2,499 is great response on consumers.

Videesha Sheth: Got it, got it. And my next question was on the ZBM initiative. Just wanted to clarify here that the eight stores that you piloted this initiative in has seen a 20% increase in the sales throughput, right? So what kind of impact do you expect on your growth rate over the next one to two years as you roll it out to the largest store network? I do respect that it's early days, but qualitative comment could also help.

Gunjan Shah: So the fact that basically it has gone up by 20% on a sales per square foot, and most probably you would have realized that in a pilot you would not have changed the size of the store, right? So it obviously means that the like-for-like in the store has gone up, right? You also see net of control, right? So we're looking at in the context of the overall environment of the city/ the nearby store, etcetera. So we feel encouraged enough that this is something that should give us benefits going forward, not only in terms of turnover, but efficiencies of the store, consumer experience.

I didn't mention it, but the entire retrieval time, which is a great piece of consumer experience to especially footwear, consumers in stores, is that if you ask for a certain colour, and you want an alternative colour. If you ask for a certain size, you want an alternative size. How much time does it take the store salesman to get that alternative shoe back to you? That's dropped from almost about two minutes to almost 45 seconds, right? So these are great benefits in addition to the fact that's a sales perspective. So yeah, we feel excited enough that it should -- we want to scale it up fast.

Videesha Sheth: Got it. Got it.

Gunjan Shah: And the inventory efficiency benefits that you get that on the long run.

Videesha Sheth: Right, and the last question is on gross margin. So besides higher saliency in franchisee sales, what -- which other factors would have led to the gross margin contraction of 140 basis point?

Gunjan Shah: Just a second. Basically the piece is that -- so there are two reasons that I would say, one is that, as you said, there is a mixed angle that's at play out here, franchise and ecommerce optically come at lower gross margins, right? The other piece that is there is that we have also invested some amount to try and make sure that we how do you say clear out inventory? And that is why I mentioned when I made the presentation that I'm pretty comfortable in the medium term, we should be able to manage gross margins reasonably well.

Videesha Sheth: Thank you for answering. Thanks a lot for the responses. I'll get back in the queue for my follow up. Thank you.

Gunjan Shah: We will be sure.

Moderator: Thank you. The next question is on the line of Sameer Gupta from India Infoline. Please go-ahead.

Sameer Gupta: Hi, sir. And thanks for taking my question. So sir, you have all mentioned in the past that the ambition is to first get to double digit growth. Now I understand that the times are challenging and value end in this seeing some pressure. But the company has also been taking very positive steps over the last few years. And at some point, we do expect the value portfolio also to stabilize, if not grow spectacularly.

So your ground on the ground assessment and based on the new thing that have come up with zero based merchandizing, is there a timeline with that you have for yourself that this is the time when you know, I think we can touch a double digit growth. When we started the year, we all were seeing the second half as to grow much faster. Do you see that playing out now, as in we are much closer to that now? So, your thoughts?

Gunjan Shah: Yes. Okay, thanks Amir. You're asking me to do crystal ball gazing, which is not been a very good fast track record, especially for the last few quarters. But however, what we feel is that some of these initiatives that we are doing should give us much better traction, basis the experiences that we have seen. Besides the fact that as I said that simultaneous straddling the premiumization journey through Hush Puppies, through some of the concepts and Floatz, Power as well as some of the examples that I talked about in terms of Bata core while according the affordability, should make sure that we keep moving the needle up while we wait for the turnaround, etcetera, which is very difficult to predict.

Sameer Gupta: No worries, sir. Second question specific on Power. Now there is a feeling that this brand has been neglected, and it is only now that the company is doing something to re-energize it. So just wanted some numbers. Can you give the salience how it was in let's say in FY20 and what it is now, or maybe how -- what kind of growth the brand has achieved vis a vis the company growth?

Gunjan Shah: I think overall Power as I mentioned has grown has seen -- see, it saw a great boom in '22, right, coming out of COVID, etcetera. '23 was actually and I commented on it, has been slightly muted. While Northstar continue to fire from a sneaker perspective because of lifestyle. Power is our performance back to how do you say fitness brand, and therefore needs technology USP to keep it firing. while we need to also, as you rightly said, invest behind it. So I think now we feel comfortable with the pipeline that we've got, the technology credentials that we want to bring in, while living up to the promise of Power, which is democratizing fitness.

We want to offer Power at the sweet price point at INR2,000 plus or minus broadly, right? But offering great technologies otherwise are available to consumers only at INR5,000, INR6,000 plus. So that's the promise, the pipeline is great. So now we feel great about investing in it. And as I mentioned in my presentation, you saw one campaign, we will continue doing that.

Sameer Gupta: Can you show the salience, broad number would also be helpful?

Gunjan Shah: Yeah. It should be in the range of about mid double digits contribution to our turnover.

Sameer Gupta: Got it, sir. That's all for me. I'll come back in the queue for follow-ups.

Gunjan Shah: Thank you Shah-ji.

Moderator: The next question is from the line of ….[unclear speech]….. Please go-ahead.

Surbin Lotta: Hello. Hi. So what is the current capacity utilization at your manufacturing unit? And is all production done in these four unit, or is there any outsourcing?

Gunjan Shah: Okay. So basically what we do Surbin that our sourcing footprint is in-house manufacturing as well as sourcing partners. What I commented in my presentation of sourcing partner consolidation, broadly the ratio that we have, at least, let's say for example, last few quarters would be in the range of about 25% and 75%. So 25% comes from in-house manufacturing, and

75% comes from sourcing partners. We obviously make sure that we go for the right categories where the larger term road map that we have, and we have taken some action that we find that it's not long-term sustainability on the IHM front, we shut down one of our plants last year.

Similarly, on the sourcing front, we want to consolidate, make larger partners where we can obviously have better engagement, better product development, capabilities as well as economic of scale benefit on quality, as well as service levels, etcetera, is going to be also on the IHM front, we are investing more and more on automated, less labour intensive, technology and capex led kind of interventions. So one example has been about a year back when we invested in something called the injected molded Eva plant. It's now running to full capacity.

And actually there is now evaluation going on how do we add that. There's another one that we are bringing in which is a little higher investment, which is something called the polyurethane direct ingestion plant, which is PUDIP, that should be coming in, I think another next quarter, which is in the March quarter. So that should get installed. But all of these are, as I said, high capex, less labour, highly automated technology intensive lines.

Surbin Lotta: Okay. Thank you so much.

Gunjan Shah: Thank you, Surbin.

Moderator: The next question is from the line of Videesha Sheth from Ambit Capital. Please go ahead.

Videesha Sheth: Hi, thank you for the follow-up opportunity. On the industry especially, I mean, primarily on the sports and athleisure side, how are you seeing the competitive landscape evolve, especially with BIS coming in, is there any change in terms that you'd like to highlight? Or do you see the competitive landscape cooling off anytime soon in the visible future?

Gunjan Shah: It's too early to say this Videesha. While BIS will play some role. But you know, right now what's happened is that obviously people like us who've got a very large domestic manufacturing base have managed to transition. Maybe some people have had some small hitches but otherwise not too much. And people who are otherwise depending on imports, etcetera, at the higher price points, etcetera, they have preponed inventory significantly. So we will have to wait and watch. I think it's now what the third or fourth month, August one onwards. So about the fourth month now that we are in. So we have to wait and watch on how that transition pans out. But too early to say right now. Right now it's like for business as usual.

Videesha Sheth: Okay, got it. And the second follow-up was if you can elaborate on the sourcing partner consolidation of 39%. I mean, while you stated that the rationale of undertaking the same was to reduce the complexity. But at the same time, are we increasing our exposure to a select set of partners?

Gunjan Shah: No, no. So it's still not going to be a very concentrated bit. I think we still have scope to go further. And which is why I said the target is to reduce by not only 45% by this year end, but another 20% going forward. We ideally would like to have in the range of about 50 to 60 partners going forward. So still we have a large number. So you can imagine what the number was. It was more than 100 going backwards. So that was exactly adding value. It does not give scale to our partners, etcetera, and that they can then invest behind either quality or in terms of as I said, the capacity, etcetera, that we need.

Videesha Sheth: Got it, got it. Thanks, that's all from my side.

Gunjan Shah: Thank you, Videesha.

Moderator: Thank you. The next question is from the line of Gaurav Jogani from JM Financials. Please go-ahead.

Gaurav Jogani: Sorry sir if my questions will be repetitive, I joined the call late. Sir, if you can maybe highlight about the demand conditions starting out in Q3, because we are hearing a lot of mixed feedback in terms of consumption, especially on the rural side, we are hearing some kind of recovery. However, the mid premium or the mid mass is kind of getting impacted. So any sense on the demand side will be really helpful?

Gunjan Shah: Yeah, I just made some commentary Gaurav on that, and I made it actually a reasonable amount of details which the situation right now will allow me on. Just a brief touch on it. Broadly at least the quarter gone by, September was much better than July. And I think what we saw was two other trends, very clearly Tier 2 downwards. So the smaller towns, etcetera, the mini metros relatively saw much better traction compared to the larger towns, but offset by another phenomenon which was premium continues to do much better than middle and mass.

Gaurav Jogani: Sure sir. ….[unclear speech]….

Moderator: Mr. Jogani, please use your handset. You are not very audible into the call.

Gaurav Jogani: Sir, I'm on the handset. Can you hear me?

Gunjan Shah: Now it's clear.

Gaurav Jogani: Yes. So sir, my second question was with regards to the gross margin but while we are seeing the good growth in the premium part of the portfolio, however, we have seen kind of an impact on the gross margin front. So is it to do with the increasing franchisee store contribution or is it to do with on the raw materials front?

Gunjan Shah: Yes. No, it's nothing to do with the raw materials. In fact, I had given a commentary, even if in the start in my presentation that while this quarter would have been as a showcase that it's been lower by about 140 basis points, we are reasonably comfortable in the medium term in gross margins. Couple of things, one is that franchise now is almost about 11%, 12%, as compared to the DOS business, the retail business. So it's now increasing. So franchise and e-commerce continue to outpace and therefore at a gross level, they do have an impact.

The other piece that has also been typical for this quarter has been also a lot of focus that we've done in terms of making sure that we clear off inventory, which also I showcased in my presentation. So we have dropped inventory significantly, and we want to keep tightening the gap and the lid on the inventory total overall. But in the medium term, you should be fine on the gross margins. Does that answer your question, Gaurav?

Moderator: Sir, I believe the line for Mr. Gaurav has dropped. We'll go on to the next question.

Gunjan Shah: Sure.

Moderator: The next question is from the line of Suket Kothari from Nirmal Bang Institutional Equities. Please go-ahead.

Suket Kothari: Okay. Yes. So I just had one question. I just wanted to understand for the so premium you have been saying it is doing well. We've seen the growth over the last one year. For the lower price point, the less than INR1,000 price points, what are the volumes in comparison to pre-COVID times? Can you give like an indication on what that number would be?

Gunjan Shah: I don't have it handy right now Suket. Over the last year, it's dropped from about slightly less than I think about 38% to about 31% now this quarter, but my guess would be it would have been in the ballpark of about 50%. So yeah, it's a big comedown from pre-COVID kind of levels.

Suket Kothari: And any trajectory on how we are looking at getting this back to the pre-COVID or higher than the greater number, or any timeline even internally placed for our company.

Gunjan Shah: Which is what I mentioned Suket in my presentation, this entire thing on value proposition, both merchandise as well as in terms of communication, where we are wanting to make sure the value proposition comes through. So that's what we can or want to do, making sure that we bring in the products which are competitive at a competitive price point, which allow the consumer to feel enticed to open their wallets, and obviously communicate it aggressively to consumers.

Suket Kothari: Okay, sir. And just one more question on the EBITDA margin -- sorry, gross margin EBITDA margin. So you mentioned that there are investments that are being made like even the high capex plans that you are putting in the automation and all of that. And so this will go on for how long the investments which will be taken out from the margins?

Nitin Bagaria: Capex.

Gunjan Shah: So this is in line with the comment that I made to another participant on this, on the capex in the plants. Is that what you're saying?

Suket Kothari: Yeah, yeah. So the investments are being -- investments is one of the reasons you also said why margins have been a little lower as they used to be.

Gunjan Shah: Okay. So it will not be a big deviation from our capex trend lines. It was just that it was more in context of where we are investing in manufacturing. But on our total capex trend lines, there will be no big deviation that I foresee.

Suket Kothari: Okay. Okay. Thanks, that answer my questions.

Gunjan Shah: In fact, we are largely done with the capex that we had taken two large projects on IT in the --

Suket Kothari: Right, right.

Gunjan Shah: Over the last about, let's say 1.5 years. So those are largely done with.

Suket Kothari: Okay. Okay. Thank you, sir.

Gunjan Shah: Thank you.

Moderator: Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha Stock Broking Limited. Please go ahead.

Kunal Bhatia: Yes, sir. Thank you so much for the opportunity. Sir, first of all, I just wanted to know currently what would be the revenue share from the franchises. And secondly, so you did mention about consolidating a bit on the sourcing end. So are we looking at increasing the in-house production as a percentage of overall? And if you could -- in light of that, could you give us what would be your capex for the next two-to-three-year period?

Gunjan Shah: Okay. So I'll order in the reverse sequence, I'll answer in the reverse sequence Kunal. On IHM, as I mentioned that we've got parallel strategies, right? IHM is right now about 25%, sourcing partners is about 75% right? In IHM, we want to go in the direction of high capex automated, less labor, and how do you say that we have a technology bent, right? On the sourcing partner side, we want to make sure that we consolidate.

As I had responded to another participant, it is more in terms of complexity reduction than anything else. We want to have larger engagements with a few partners, but still they will be in the range of about 60 odd partners that we can still bring it down to, right? So there will be a large enough base where we can have different capabilities, obviously geographically be closer to demand, while making sure that you have got large economic of scale running with these partners, so that they can then also help us in terms of product development as well as quality management systems, etcetera.

So I think they are parallel tracks, one doesn't take off from the other. Let me put it that way. On your first question, which is on channel on franchise saliency, I did mention that. Franchise now has crossed the -- it's about in the ballpark of about 11%, 12% of the retail, direct the DOS business, COCO business. So it's now becoming larger and larger as it keeps growing faster.

Kunal Bhatia: Okay. And sir we also saw this time the receivables going up. So what was our -- was there any particular reason for the same?

Gunjan Shah: Okay. I think it's an eccentric thing, but I don't see anything structured like this, should be back to normal in no time. It's just to do with maybe the marketplace businesses, etcetera, going up a little because of the season, etcetera.

Kunal Bhatia: Okay. Okay. Fine, sir. Thank you so much.

Gunjan Shah: Thank you.

Moderator: Thank you. The next question is from the line of Ankit Kedia from PhillipCapital. Please go-ahead.

Ankit Kedia: So first question is in the presentation talking about Hush Puppies, where the contract is renewed for next 10 years. What is the license fee we are paying for Hush Puppies, and which are the brands in the system are we paying the license fee for, if you can just quantify that?

Gunjan Shah: I will -- hi Ankit. I cannot share that information Ankit for obvious reasons. But it's -- I don't see a big aberration whatsoever because of the renewal. That was the direction of the question.

Ankit Kedia: Sure. My second question is on the new sizing system which has been proposed. Last two years we have seen some disruptions in the footwear industry. First, it was GST got implemented. Then it was BIS, and now the sizing system. Do you see that getting implemented next year could have a major disruption?

Gunjan Shah: Well, actually, I think it's a great initiative, and in fact, we will want to embrace it just like we have embraced BIS. BIS, I have already commented, right. We had an absolutely seamless transition. And as I commented to another participant, we'll wait and watch how it pans out. But from a Bata perspective, we've been absolutely, how do you say seamless, and we were anyways involved in the whole setting of standards.

And in similar manner, even in the sizing system, which is [unclear speech] our team, my quality head, as well as the designing head is a part of this entire process with the government. So we are actually looking forward to it. It makes it much easier for the consumer. There are a lot of consumers who get confused between the US and UK sizes, and this will make it much more easier. Besides the fact that I mean, we will get a little technical, but the fact is that the size is not just about the length of the foot, but also of the girth, etcetera. So this will try and take those Indian specifics into mind while designing sizes, etcetera. So I think it's good for the industry, I would say.

Ankit Kedia: Sir, but when someone imports the footwear, as you said right in BIS while the imports have been curbed, will that get impacted as well? And will this all the footwear sold will be of the new sizing? How does that work is implemented?

Gunjan Shah: You are right, you are right. It will have some impact on that, because see the girth and the ball is very different, and therefore the last that goes into it, which is why I said this might become a technical discussion, so I can have it offline with you Ankit. So there can be some implication, we have to see how far it goes, how much is the adoption that is being, and how much does the government sponsor it, etcetera. So it's still early stages on that front. So I'll keep you updated, and maybe we can have a separate chat on it.

Ankit Kedia: Sure. And sir thank you for the elaborate presentation. Really appreciate the data point shared this time.

Gunjan Shah: Thank you, Ankit.

Moderator: Thank you. The next question is a follow-up question from Sameer Gupta from India Infoline. Please go-ahead.

Sameer Gupta: Hi sir, and thanks for taking a follow up. Just wanted to understand this price point below INR1,000, the weakness here in more detail. So a drop from 50% before COVID to 30% now, it's a very large drop. So is it a very sub category specific issue or what is the data telling? Is it like more pronounced in metro Tier 1s? Is it more pronounced in categories which are Gen Z specific, or is it like a more pronounced because Bata is losing share in this segment to let's say private labels of modern retailers like Zudio or Westside, etcetera. Some data would be helpful in understanding.

Gunjan Shah: Okay. So let me try and give it to you this way, Sameer, right? So there are multiple how do you say inflection points that are there in this long journey, right? While as I said that there is a differentiation, so two, three things are, let's say, for example, very large differentiation that has happened to the whole industry, right. One is the GST came in, and the GST demarketed INR1,000. So what that frustrated was immediately everything that was in the border line between, let's say, for example, INR850 MRP upwards, right, suddenly just to be margin neutral had to move to almost INR1,000. Yeah.

The second thing that happened was that late '21 coming out of COVID, and almost the full of '22, there was significant raw material inflation. So most probably right up until quarter three or so of '22, '23, the whole of industry went through a significant price increase. It's not premiumization, it's not a portfolio mix, but price increase. So article to article prices got increased.

So the GST plus the material inflation significantly led to obviously a jacking up of prices. Now that's obviously had its impact in terms of how some articles migrated. So it's not just a question that it's apple to apple. There is a migration that happened a portfolio for one price point below INR1,000 to another. Are you with me on this?

Sameer Gupta: Sort of, go ahead and finish your view that happening.

Gunjan Shah: Yeah. The second thing that's happened is obviously this kind of inflation has been seen by consumers all across, and which is where now the predisposition is towards trying to ensure that we are able to get more and more affordability going back to consumers, while they obviously need to also become a far more comfortable in terms of opening up their wallets, especially the middle and mass segment.

I don't think largely a lot of this hit has been taken in the distribution business. So that doesn't have as much of a play most probably. But yes, they can be obviously cannibalization with certain competitors, etcetera, all the play. But it's a very fragmented market, right? I mean, the top 30 players are only about 25% of the business.

Sameer Gupta: So sir, just to follow-up here. I mean, the person who's buying or the people who are buying these products at these prices that they're still buying it in the last two, three years. So it's not coming to Bata, and we are losing share. So I mean, even if I'm downgrading, why am I not downgrading it to Bata? So that's -- I mean, is there a structural challenge with the brand in this price point or how do you read this?

Gunjan Shah: Yeah. So that's a very difficult to read in the fact that basically whether it's the same article or not, which is why I said there's a migration of articles. It's happened across industry. So whatever industry data we see, we see that there is a dissonance between value versus volume. But yes, there is possibility of obviously consumers being there, and there are people who are wanting to offer that. So private labels would have gone up, etcetera, etcetera.

Sameer Gupta: And is there any action now, I mean, whatever happened has happened, but now are we taking any action to get this back, or at least stabilize this? Because every quarter the share is going down. And the growth is also -- it's not like the premium category is going like 15%, 20%. So this is actually declining one of our basis.

Gunjan Shah: No, the premium category is actually grow. They are growing at actually pretty at double digit over several years now, right, even compared to let's say pre-COVID. But you're right, I mean, that does require, we have to make sure that we straddle the margins as well as the cost proposition right to consumers. And which is what the entire presentation that I made on affordability Sameer was towards that we want to tackle it while we make sure that the brand imagery as well as the margin profile gets maintained.

Sameer Gupta: Got it, sir. I'll probably take this offline. I just wanted to understand that slide in a more detailed manner.

Gunjan Shah: Sure, thank you Sameer.

Moderator: Thank you. The next question is from the line of Rajiv Bharati from Nuvama. Please go-ahead.

Rajiv Bharati: Yes. Thanks for the opportunity. Sir on slide seven on Hush Puppies. So is it because you're spending on more on COCO stores and that count has grown by 20%, but your revenue is still up 4%. So are these one is, are these stores smaller than the usual ones? And because we are spending our money there, why the turnover is still lacking there First-off.?

Gunjan Shah: Yes. No, so that's more to do with recently of store opening. See what's happened is that the Hush Puppies network had been largely static till about, let's say about let's say five, six quarters back. And then we have obviously started expanding pretty aggressively. So it takes time for these stores to build up their franchise.

But per se, we see obviously Hush Puppies both on its own in the concept panel network, as well as within the Bata network, continue to grow better. And we obviously wanted to do much better, and that will continue going forward. So I don't see that as a big correlation. Obviously, once the store stabilizes, then the full turnover potential comes through, once the franchise is created within the vicinity.

Rajiv Bharati: Sure. And is it possible to call out what is the saliency of Hush Puppies in your entire business currently or how it was pre-COVID?

Gunjan Shah: It's about 20% -- actually in mid double digits.

Rajiv Bharati: Sure. Sure. And does let's say the situation with Clarks currently that does it help us accelerate on this further to capture the market, let's say,

Gunjan Shah: No, we always look forward to opportunities. Obviously, consumers do place Hush Puppies in a certain consumption or a consideration set. And these are all opportunities that we will want to tackle in. But I'll not specifically comment on a competitor, etcetera. But we are pretty robust and that's why we have invested more and more beyond expansion of Hush Puppies.

Rajiv Bharati: Great, thanks a lot, and great work on the disclosure improvement. Thank you.

Gunjan Shah: Thank you Rajiv.

Rajiv Bharati: Thank you.

Moderator: Thank you. That was the last question. I would now like to hand the conference over to Mr. Rahul Arora for closing comments.

Rahul Arora: Thank you, sir. But I'd like to thank Gunjan and Nitin for giving us this opportunity once again. I think it's been a very insightful discussion, and I think the presentation very well appreciated as well. Again, festive greetings to everyone, and thank you once again to the management for allowing us to host this call. Thanks, Gunjan.

Moderator: Thanks.

Gunjan Shah: Thank you everyone.

Moderator: Thank you, everyone. On behalf of Nirmal Bang Equities, that concludes this conference call. Thank you for joining us and you will now disconnect your lines.