February 20, 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

Subject: Post Earnings Call

Dear Sir/Madam,

This is further to our letters dated February 9, 2023, February 14, 2023 and February 15, 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 Wednesday, February 15, 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
Company Secretary & Compliance Officer

Encl.: As Above

“Bata India Limited
Q3 FY ’23 Earnings Conference Call”
February 15, 2023

MANAGEMENT: **MR. GUNJAN SHAH – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – BATA INDIA LIMITED**
MR. SHAIBAL SINHA – DIRECTOR – 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 Bata India Limited Earnings Conference Call, hosted by Batlivala & Karani Securities India 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 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, ma'am.

Nikita Jain: Thank you, Yusuf. Good afternoon, participants. On behalf of B&K Securities, I would like to thank the management for giving us the opportunity to host the Q3 FY '23 Earnings Call. Today we have with us from the management, the MD and CEO, Mr. Gunjan Shah; Director, Mr. Shaibal Sinha; 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 welcome, everyone. Good afternoon to all of you. I have with me Mr. Gunjan Shah, who is MD and CEO, and Mr. Shaibal Sinha. We will directly jump into the presentation that has already been shared with the stock exchanges. We assume that you had gone through the same. We will navigate through the slides as well as the page numbers so that we stay synchronized. On the slide number two, we have the disclaimer. I'm sure you have gone through the same.

I now request Gunjan to take us through the presentation. Then we can do the Q&A round. Thanks, and over to you, Gunjan.

Gunjan Shah: Thank you, Nitin. Hi, everyone. Good afternoon, ladies, and gentlemen. I will jump into the presentation, which is starting with slide number seven. A quick update on the few levers that we've been talking for some time. Synchronization on portfolio, I think there has been a significant movement forward in terms of Juniors, highlights being synchronization continues to lead our growths by a good margin. Obviously, we are trying to bring in many more styles, especially in terms of pop colour as well as whites depending on the store cohorts, etcetera. as we penetrate them and see success in it.

The other piece that I will also talk about a little down the line Bata's Floatz, which is our washable specialty comfort compound footwear, which continues to show great momentum. It has now penetrated to almost 80% of our network and is at a annualized run-rate of almost something like, INR 60 crores already, product that was launched almost about 18 months back.

On expansion, franchise stores saw significant expansion and movement forward as I had even spoken last time to you all, and this quarter saw largest addition in our history, and we are hopeful that with the kind of momentum and the profitability we are seeing in this channel, we'll keep pushing this lever and the kind of possibility or opportunity that is there in the various markets across India and across pop strata.

Distribution business, we also saw expansion in terms of distributors while that business, and especially the mass categories have been under some amount of stress for the last three, four months, but our fundamentals still continue both in terms of town expansion as well as in terms of the right kind of distributors giving us access to potentials, and with hopefully the inflation subsiding, we should start seeing that momentum coming back to us.

On the marketing investments, we continue to invest. This quarter saw significant investment towards basically the festive season, driven by our varying portfolio as well as festive occasions. The campaign was run behind it, and we also saw the start of a sneaker campaign that is in first show right now. This is also backed by a continuous improvement that we see in the net promoter scores of consumers who interact with us in our stores, that has now reached almost 75-plus. We keep plugging at it. The gold standard on that stays in mid-80s, and that’s where we want to go.

On the digital footprint, there also, while it continues to lead growths, it is a double-digit contribution despite normalization and offline now significantly picking up. Large improvement that we see is basically in terms of our bata.in e-store of ours and that is now reaching a significant higher number of repeat customer usage, and therefore, much better realizations. Sneaker contribution is even higher, almost to one-third of our business that we do on bata.in and tells us, therefore, the kind of potential that is there. This has been also backed by significant improvements that we saw in terms of our consumer service that we do on bata.in.

Agile and efficient supply-chain, this is one big lever that has been taking some time for us to get into action. We see now momentum coming through. One large piece that we went through during this quarter is our largest warehouse out of the four retail warehouses has now gone into 3PL. Hopefully, will give us efficiencies as we go by and nimbleness in terms of manpower. Continuing on that line, Flexi Manpower, I’ve talked about this, and this continues with great momentum. Now close to almost 15% to 18% depending on the month is now Flexi Manpower in retail that allows us to have much better manning required during the high footfall time zones, while simultaneously maintaining the cost under control.

Last but not the least, we do continue improving in terms of our technology. Two large projects got undertaken during this quarter and which is ERP project as well as HPM. HPM for you all is basically High-performance merchandising. With the large store network, it’s very important that we build a science into the way we do merchandising for different cohorts, and while being -- this will help us basically automate the entire thing and an end-to-end -- right from forecasting to replenishment of stores will get automated through this. HPM will go live by mid of this year, that is 2023 around June and ERP is scheduled to go live in another nine months from now.

Moving forward to the next chart, which is Page number 9 -- sorry -- Yes. Page number 9. Our expansion footprint continues while the milestone that you see overall 2,000 hits. I think franchise, I’ve spoken about the shop-in-shop and franchise, our efficient flexi channels, they continue to expand.

COCO, while you see a net addition of one, as I had mentioned a couple of quarters back, we are now into net additions. This quarter, we saw a little more muted like additions. We will want to see, as I have mentioned, a 20-80 ratio in terms of COCO versus franchisee view expansion.

This quarter, we saw also a significant action on some low-profitability/low-value adding stores to us, and that is why the net store addition stands at one. We are hopeful that we should again start seeing significant additions, as like last quarter was about 10.

Renovation, which drives same-store growth is something that continues and that is continuing to provide us momentum. We saw about 35 stores go -- undergo renovation. I have not been able to share a chart, while there are some highlights out there on certain key categories, but I'll at least comment on it. So Sneakers continue to grow faster than the overall business by almost something like 20 percentage points. Hush Puppies, the premiums portfolio of ours at an overall level grew again almost something like 20 percentage points, and with the exclusive Hush Puppies concept growing at almost something like 30 percentage points.

Comfit, also a brand of ours, which has been continuously giving us great lengths over several years, also grew significantly at about 22%. And Floatz, I have already mentioned, while the pay is negligible because it was a new product, but now contributes, as I'd said, at an annualized run-rate of almost INR 60 crores. We plan to take it up to hopefully INR 100 crores this year, and it had a sequential jump of 20%.

So, basically, the premium and obviously, the new collection was driving our growths from a category perspective. As I mentioned, mass categories do see -- have some kind of sluggishness in terms of demand with the kind of hit that they've taken in terms of GST as well as inflation that has impacted on that side. As that cycles back, we hope to see that momentum coming back.

In that breadth, as I mentioned, in the distribution business of ours, we continue to make sure that the right levers and the platforms continue. Whether it be in terms of footprint, and whether it be in terms of categories, our core category still continues to INR 1,000 coming back sooner rather than later.

On the digital side, penetration continues, I think a seasonal movement, but overall growth continues to outpace. Even this quarter, it grew -- have continued to grow fast. And I have mentioned, while Sneakers does extremely well in overall e-commerce, in bata.in has obviously grown by almost 100%, 200%, but in overall, e-commerce also grows by about 42%.

Women's category, so now we are trying to get into much more customized merchandise in e-commerce as well as making sure that we are able to have the right price points that we want to plug out there. On campaigns, we ran multiple campaigns, run across wedding occasions, the festive, as well as Sneakers, and I think that did result in basically us getting the same store growth into our stores.

Moving towards the next slide, which is number 14. Highlight, some of them I mentioned. NPS moves, human resource, we have implemented SAP. So technology is getting embedded in many ways. ERP, we are going ahead. As talked about it, we go live in another nine months. The project is on track. There's an exclusive team that have been manned behind it. High-performance merchandising shall give us significant benefits, not only in terms of better productivity of the merchant we put up in stores but also in terms of the kind of turns and inventory productivity that we get.

Flexi Manpower, I have talked about. We do see now a good amount of benefits coming through. While we saw some of it flowing into this quarter in terms of margin benefits on efficiencies, which are structural as well as taking benefits of some of the material price changes that we see. There are some stabilizations that we see in material price inflation and maybe in a couple of categories, some kind of a slight decline that we see as of now. We also obviously enhanced capacities where required from a warehouse perspective, etc. besides speaking it on a 3PL movement in the largest warehouse that I mentioned.

The last chart, obviously shows you the financial summary, right? Well evident to you, we see basically the revenue at 7% versus last year and obviously, at two years because that's a COVID phase. We see EBITDA moving obviously much faster than the PAT and that is because we had interest income, which is lower because of the dividend payout that we have done, right? A small mention, we had a VRS payout during this quarter and -- in one of our factories. That should hopefully help us in terms of better efficiencies going forward.

So thank you. That covers our presentation. Thank you so much.

Moderator: First question is from the line of Mr. Bhargav Buddhadev from Kotak Mutual Fund.

Bhargav Buddhadev: Sir, you alluded to the fact that there was some weakness being – sir, my first question is that in your opening remarks, you alluded to the fact that there has been some weakness on the mass side of the portfolio. So is it possible to sort of split your revenue into how have you done on the below INR 500 MRP segment and above INR 500 MRP segment?

Yes. Sir, in your opening remarks, you did mention that there was some weakness on the mass side of the portfolio. So is it possible to cut your revenues into how it has performed on the below MRP of INR 500 and above INR 500 MRP? How has been the performance?

Shaibal Sinha: We couldn't get your name.

Bhargav Buddhadev: This is Bhargav from Kotak.

Shaibal Sinha: Thank you, Bhargav.

Gunjan Shah: Okay. Hi, Bhargav. Yes. We will try and give you some indication of it because we do have also -- because we do changeovers across seasons in terms of various articles, etc. but a price point analysis shows that basically less than INR 1,000 and within that less than INR 500 and INR 500 to INR 1,000 has actually seen the decline from a contribution perspective by almost about 10 percentage points, obviously made up by the greater than INR 1,000. Greater than INR 2,000 is the one that's growing fastest.

Another way of giving your indication is obviously our brands. The ones that I talked about, Sneakers, an ASP of about INR 2,000. Hush Puppies, ASP is about INR 4,000. Your Floatz is an ASP of about INR 1,400, and Comfit is an ASP of about INR 2,100. So these are the ones that you could see very clearly how they're grown and that shows up in terms of proceeds and online that I talked about from a price point perspective.

Bhargav Buddhadev: And, sir, what would be in terms of contribution of the less than INR 500 MRP portfolio for us? Would it be very large?

Gunjan Shah: Less than INR 500 would be roughly around 25% I would say, about 22% now.

Bhargav Buddhadev: Okay. Okay. Understood. Secondly, sir, you mentioned about the ERP implementation. In the next nine months, you expect to go live. So the last time we did this implementation, obviously, the experience wasn't that great. So is it fair to say that this time around we've plugged those loopholes, and also if you could share who's the software partner?

Gunjan Shah: No. Absolutely. In fact, even the -- even everyone involved, whether it's the global management as well as the India Board, all of us in the management, etc., have been very cognizant and aware of these entire things that happened a few years back. It's obviously in a very different context, in a very different structure, etc. So as I said, many earnings that have been obviously understood and incorporated. One of the largest thesis for sure is to make sure that two large things to indicate to you, one is that we have created an exclusive team structure to make sure that there is a dedicated focus that is there towards the entire understanding of as and when to be processed, and therefore, whatever that goes behind it.

I'll not get you into too many details on it but the second big piece that we are making sure is getting incorporated against the other piece which is to do with making sure that we have also done it module-wise so that we do it in a phased manner rather than boiling the entire ocean. So what we will be doing is the first piece that will go live from nine months from now approximately is going to be only the finance module, right? So the operational, etc., so we don't boil the entire ocean all over. By the subsequent modules, as we gain confidence and stability in the previous one, we'll cascade immediately afterwards but it's not like, at hold of any issues whatsoever. We don't anticipate anything, and obviously, we have engaged consultants, etc., to work even better this time.

Bhargav Buddhadev: Okay. And is it fair to say that this other expenditure run rate which is now at about INR 180-odd crores or INR 700 crores on an annualized basis versus maybe INR 500 crores pre-COVID, is it primarily on account of these modules getting implemented? Is that a one-time element over here or how should we read into that?

Gunjan Shah: Other expenses is a bunch of many things.

Shaibal Sinha: Yes.

Gunjan Shah: Shaibal, do you want to add anything?

Shaibal Sinha: Yes. Yes. So the other expenses include quite a few things, which are included in it, which is the legal and professional cost. You also have the technical services agreements, the royalties which go into this, marketing expenditure is included in this, the rent cost is included in this, so more or less these are all the expenses we've bunched. There is no one-off of this which we did in the last quarter. Other than that, it's more or less normalized expenses.

Bhargav Buddhadev: So, sir, the reason I'm asking is because the run rate has increased significantly versus pre-COVID. So what is it that we are doing different in this other expenditure?

Gunjan Shah: Yes. So run rate has increased because during COVID time -- pre-COVID…

Bhargav Buddhadev: No, no. pre-COVID…

Gunjan Shah: We had certain kind of concessions which we had taken in terms of rentals, which is -- which has been normalized now and…

Bhargav Buddhadev: No, no. I'm referring to pre-COVID period. Before the rental concessions came into play.

Gunjan Shah: The occupancy cost is probably one of them. Marketing cost has gone up also pre-COVID if you compare it.

Shaibal Sinha: Right.

Gunjan Shah: And so I think there are two large pieces that are there in this, one is basically the entire piece on IT and there are multiple platforms of IT that are getting into this, one is the entire engine that we have created for our e-commerce engine, right, and which was almost absent pre-COVID. Second two are the large projects which are ERP in HPM but a few other smaller ones. So that's one big piece.

The other one is marketing, which I have spoken about. We will want to make sure that we keep plugging and investing behind marketing, and that is something that is structurally would continue going up. Obviously, it should not be very varying in the long-range versus turnover but there are the two large items. Some of them are related to turnover, so Hush Puppies in terms of royalty, etc., which are all more related to certain category sales, etc.

Moderator: The next question is from the line of Gaurav Jogani from Axis Capital.

Gaurav Jogani: Thank you for the opportunity, sir. Sir, my first question is with regards to if we compare the store expansion versus the pre-COVID level till now, the store expansion roughly has been in the range of around 19% to 20%. However, if we compare the sales likewise, during the same period, the sales has just increased by 8 odd percent, so which clearly shows a drag in terms of the sales, in terms of the per store basis or whichever way you want to look at it.

If you can help us out which particular segments are getting impacted and which particular categories are getting impacted, and are these structural impact or once the situation normalize, do we hope to get them normalized?

Gunjan Shah: Yes. No. Sure, Gaurav. So couple of things, right? One is that when you see store expansion, our focus stores which are on average giving us turnovers in the range of about INR 1.7 crores to INR 2 crores now, right, have actually still not, how do you say, while we have stopped declining on them, which is a COVID effect, but we are still not significantly added versus pre-COVID levels. So it's the wrong comparison from that perspective. Obviously, it is -- I can't blame you for it. I am sharing that information.

The piece that have seen the expansion and which is what I have been emphasizing on in the long run is going to be extremely beneficial and capital efficient is going to be the franchise stores and that is where you see a lot of addition. Most of these by default are in smaller cohorts but give us long-term access as well as brand equity building in those cohorts, whether it's mostly in Tier 3 to Tier 5 towns, and that is where we see from a consumer perspective, productivity per store of roughly around 50% of where our focus stores are at about INR 1 crore. What we realize is turnover, right, is about 65% of it. So that is where the reported financial number will be, while obviously the absolute profit that we earn per pair, still is comparable or in fact even better, as I mentioned in franchise.

The -- so that's where the big difference lies in your inference versus this. As I mentioned, however, the COCO stores will expand. It is something that we have also been a little more circumspect because of the COVID period. But last two quarters, as you would deduce from the numbers, the reductions have obviously eliminated and going forward, we should see a decent amount of addition in the range of about 10 to 12 stores in COCO alone, but broadly in the range of about 20-80 ratio between retail and COCO and franchise.

Gaurav Jogani: Sure. Just one query…

Gunjan Shah: Did I answer your question?

Gaurav Jogani: Yes. Sir, that pretty much clarifies a lot of things. Sir, just one clarification that I request here. If -- you mentioned that only one COCO store was added during the quarter, so there were also -- store closures also during this quarter in COCO?

Gunjan Shah: Absolutely. We added -- I don't handily have it. We added about 12, 14 stores this quarter, but we also closed many unprofitable or smaller stores or maybe converted them to franchise but largely closed them, right, which is to the extent, therefore, net addition is one, but we should not see that -- these are temporal things that we do when we do analyses of stores in terms of this thing, but broadly, got the accurate number here. The additions are basically 18. The closures are 17.

Gaurav Jogani: And, sir, just one more question with regards to this. As you mentioned, while the contribution from the franchisee stores is 50% lower. However, on a profitability basis, they are in fact better or in par with the COCO stores. So just one follow-up here because if you see in terms of the margins also versus the pre-COVID levels, while I understand the impact will be higher on the margins and the margins have declined by around 500 bps but when I see the EBITDA margins, it's actually declined by around 850 bps. So which is the part where we're missing? Why the flow through from the franchisee is not translating into the EBITDA levels?

Gunjan Shah: Okay. Couple of things, right, and I'll also request Shaibal to add in. Couple of things on this front, right? One is that there is a significant impact of inflation as well as GST, which I've mentioned earlier, GST for INR 1,000, etc., you all are aware of it. That impacted for us over 50% of the portfolio perspective. And while we took commensurate action, etc., we had to also ensure that we remained in line with consumer trends, so in a balanced manner. And that is basically now hopefully ironing out, and we should see benefits of that flowing through as I mentioned, at least on the material inflation, and GST now get cycled into the base. That's one big piece that will be a differential versus, let's say, a pre-head clear start.

On a franchise fee, they are absolute profitable, right? But however, we need to -- may take into account the fact that basically there is a certain amount of impact that we are carrying through inflation as well as this that we had to balance out on. So as we continue gaining scale and get turnover significantly ahead of pre-COVID levels, we will see that flowing through into our this thing. Yes. Shaibal, you may also add here.

Shaibal Sinha: Yes. Plus what also has happened if you compare it with the pre-COVID levels, we have been investing quite a bit on the digital side of our business where the channel mix is also evolving and undergoing a change. And when we see the profitability in -- other than the retail where -- the profitability is much lower. So that is also impacting the overall margins at the operating level.

Gaurav Jogani: Sir, so if I understand then in the inference that while we are making investments in terms of many things right now, so once when scale comes back, you will see the profitability also reverting back to the pre-COVID levels? Is that understanding right?

Gunjan Shah: So basically, just to expand it further, yes. Your understanding is right. The question -- some of them -- so just to give you an example, let's say the entire piece of bata.in is just one example, right? There is a significant investment in creating a platform as well an engine as well as the kind of capabilities that are required to service consumer online. But now that has to get appropriated or amortized over a certain size of turnover that is now gaining scale as we iron out teams, make sure that the consumer experience is matched up to what they are expecting in general across various e-commerce platforms, that turnover scale will start flowing into the bottom line. So, yes, it is investment for the future, but right now it is as Shaibal said, diluted.

Gaurav Jogani: Sir, one last question, if I may just ask here. Sir, so while we have seen the -- as for with legal participant, that the quarterly run-rate has significantly increased because of the investments that we're doing right now. But do you expect these levels to sustain, or it will moderate going ahead in the coming years?

Gunjan Shah: No. We obviously measure for productivity. While investment can be for a certain gestation period but eventually, they do have to be measured and hopefully delivered against the productivity. Therefore, percentage productivity is something that we will want to aggressively improve upon. Yes.

Shaibal Sinha: Yes. Plus I think these investments we've been doing now for the last two years, and we would like to actually continue for some time because as Gunjan said in the beginning that's like, for instance, ERP, we are taking in modules. So if the Phase I gets over, then we'll get into the Phase II and Phase III. So to get across all the functions which will get covered under the ERP. Similarly, for other areas of digitization, we would contribute to invest in that.

Moderator: The next question, line of Mr. Samraat Jadhav from Prosperity Wealth Advisors.

Samraat Jadhav: So my simple question is that how many stores are we planning to add in JF? And specifically, are we focusing on what are towns or all across?

Gunjan Shah: So as I mentioned, roughly -- so last year, we would have added basically about 120-odd stores, right, for in that sense…

Samraat Jadhav: That's including the…

Gunjan Shah: Right? This year, you would be wanting to have a little more aggressive number but broadly in the ballpark of about 170 and as I said, 20-80 ratio between COCO and franchise.

Samraat Jadhav: Right.

Gunjan Shah: See, it's also dependent on making sure that we see a right opportunity, and it's a right kind of a balance between the location, the commercial, and etc. So we're not fixated on it, we don't have a limitation in terms of how many, but that's the broad target that we have started off this year with or next year.

Samraat Jadhav: Okay. And any new product addition which we have done, or we are focusing on?

Gunjan Shah: Sorry, what was that question?

Samraat Jadhav: Any new product addition which we are focusing on because I think in the entire thing, we have heard more about sneakers only. So are we focusing only on that, or we have added some new products also?

Gunjan Shah: I just mentioned that when I made my presentation, Samraat, that basically Floatz had been a big addition. A large part of the effort that is there is always towards -- and that was a priority, especially for the last about six, eight months as we got out of COVID, that we wanted to refresh our entire portfolio to our consumers, etc. There is a significant shift that we have done. We can see acknowledgment of it from the consumers.

From a new product perspective, Floatz has been a big addition. I think a big priority is towards making sure that that gets penetrated, and obviously significantly enhanced. We are investing in holds, even the capability that is required so that we get even better collection going. Some of those images, we've tried to put up in the Investor Day but a lot broader.

The third piece that was I think the activity and a project that we've started just before COVID hit us was the entire piece on apparel, and that's the project that we're working on. We will hopefully have an update for you next quarter as we progress on that project, but we plan to go live on it in H2.

Samraat Jadhav: Great. Last question. The vision INR 500 for franchisees is for till what year?

Gunjan Shah: So we had started off that with a three-year planning of traction, etc., that we have seen and obviously kind of capability that we have built-up in terms of managing different business model as well as running it efficiently, we hope to see it earlier than -- sooner rather than later, hopefully before this next -- hopefully, the next calendar year ends before that. So we had started off with our three-year plan. I think in about two years, two months or two years, three months, we should get done with it, hopefully.

Moderator: The next question is from the line of Mr. Aliasgar Shakir from Motilal Oswal Financial Services Limited.

Aliasgar Shakir: Yes. Thanks for the opportunity. Few questions. First on the revenue. So you mentioned that about 22% of our business comes from production below INR 500, which is where we see sluggish demand. Can you just share I mean what categories would this be? I'm just trying to understand will this be mostly open footwear and probably even school footwear. Just trying to understand if it's only industry impact or we have also premiumize our portfolio because of which some of the lower end of the category has been more impacted?

Gunjan Shah: Okay. That's actually a lot of questions within that one question, Ali, but we'll try and see if we can address that, right? So one is that a large part of it by default, right, while I had given a commentary on below INR 1,000, right, but even INR 500 remains the same commentary. So large part of the below INR 500 would be open footwear by default, right?

I don't think we've got closed shoes that are -- there are too many articles that are there, right, in that range? The piece that has to do with that is that they got disproportionately impacted because of both material price inflation as well as in terms of the GST impact. So some of it, not all of it, right, we had to take up prices, etc., and that would have had its impact.

There is some kind of a category construct that we also keep observing, which is also showing a similar kind of an impact. We are hopeful as we cycle and things normalize, we should see that coming back on that front. Simultaneously, our premiumization strategy continues. So that is independent of this. So while we don't want to penetrate down pop strata, etc., franchise multi-brand outlets, even digital does help us and that will keep expanding us in terms of these categories and the volumes that we get from it. But our premiumization in general from a same-store perspective, that perspective, that objective will continue, and which is to get in a better value proposition to consumer, better styles, and obviously the category that we can write on. Some of them I mentioned in my presentation.

Aliasgar Shakir: Just quick follow-up here. So is school footwear also a category that has been sluggish? I mean any factor around there?

Gunjan Shah: No. So, yes. You mentioned that school piece. School is not such a big thing from a last quarter perspective for our business, right? Schools does have a large impact between March to June, right? Broadly, while it says throughout the year, etc. but there is a spike that will happen during that time, largely to do with academic year change, etc.

What I had mentioned especially in the last quarter was that this year while we saw school bounce back, I don't think it's a pricing phenomenon, etc. We did see a big shift in the kind of portfolio of school shoes that were being demanded by consumers, and we were caught a little unaware, especially coming out of COVID and the kind of decency trends not available in a normal year we would have.

This time, obviously, we are much better prepared, we are far more confident. And just to give you a flavor, the sporty kind of school shoes is now gaining much more favour compared to a little more traditional kind of shoes that were there earlier, with the buckles and stuff like that. And therefore, that is what we are now obviously expanding our range towards, and we are very optimistic of the coming school season. From a last quarter perspective, school is not such a big phenomenon.

Aliasgar Shakir: Second question on your margins. So your gross margins, now I think we are at a stable quarter, but despite that, if I compare with pre-COVID, we are almost 500 bp down despite entire premiumization narrative as well. So is it that we have not fully passed on the raw material increase that you just spoke about and maybe this will only revive as we see softening of raw material prices or you think there is improve here in the next few quarters irrespective of it?

Gunjan Shah: So it's a combination of at least previous two questions that were discussed, right? One is the point that you made which that -- which I had also commented on, which is that for the March price items, while we did take price increases, right, the kind of inflation clubbed with GST, there was some amount of impact on margins that we had there, right, and which we'll iron out hopefully as time goes forward.

The second piece is also channel mix, right, and some of the growth channel, etc., they are a different business model. So, for example, franchise, my gross margin line takes a compromise but at at an EBITDA level, I still more than make up for it. So that comment, we had discussed on that time. And some of the other new channels where we are investing in as we gain scale, while the gross margin line shows some amount of impact, but at an EBITDA level, it comes back to us.

Aliasgar Shakir: Okay. So the EBITDA margin, as you mentioned previously, should over time come back to the previous pre-COVID level, but it's not going to be very quickly. I understand. I mean, as we gain scale, it may happen, right?

Gunjan Shah: Thank you. Yes.

Shaibal Sinha: Yes.

Aliasgar Shakir: Just last one question if I can add in. We are growing quite aggressively in the Sneaker category, which is a very large category online. So just wanted to understand our strategy in terms of online, and what is the contribution today coming specifically from Sneaker.

Gunjan Shah: Okay. So that's couple of things, right? So one is that as we have continued on the speaker journey, it has also given us a lot of learnings and that is in many ways, right, from backend, to frontend, to consumer, to designs, to price points, and which brand we want to promote. Some of them, we have already actioned and leveraged upon which is giving us results. Some of them, we still have to do because they take a slightly more longer-term lead time, especially the brand piece, etc.

The piece on online, so that's showing up. Now, Sneakers, let's say, tell about a year back was slightly dilutive on gross margin compared to the rest of the portfolio. Now it has started becoming accretive. That comes with scale, that comes with better understanding of product and pricing profiles, etc. The piece on online, online does lead sneakers. It is at least about 500 basis-points contribution higher. And within that bata.in as I mentioned, is almost one-third of our sales from Sneakers.

So on a puritanically basis, I mean I keep asking the team that if we can do that on bata.in, why don't we do it in our stores? So it's a question for hopefully getting some of the other pillars into the place to keep going on that journey.

Moderator: The next question is from the line of Mr. Gaurav Jogani. Please go ahead.

Gaurav Jogani: Thank you for the follow-up, sir. So my one question is with regards to the distribution business. We have taken a lot of expansion in terms of the town coverage and also in terms of the weighted distribution that we are doing. If you can throw some light, how this has improved versus the pre-COVID levels now and how the contribution has increased for us in the overall scheme of business.

Gunjan Shah: Right. So a few numbers, Gaurav. It is growing significantly higher; I would say almost 30% plus versus pre-COVID. We are also seeing now it contributes to roughly around 14% to 15% of our turnover. This would have been about 11% or so let's say pre-COVID. More importantly, there we have also seen on an overall basis, while for the, let's say, nine months of this fiscal year, we have significantly outpaced whatever we track as market category growths, right? Last quarter, where actually some amount of pressure was seen September onwards, there has been some relaxation in terms of credit periods as well as discounts in the market, we have refrained from it, that's prudent. While it has given us some amount of short-term pressure, I feel it will also help us bounce back much faster as things normalize in the future. So does that answer your question?

Gaurav Jogani: Sure, sure, sure. That helped, sir. And, sir, just one more on the part of the big cost savings measures that you've been highlighting in terms of getting the supply chain right, also in terms of the Flexi Manpower that you have adopted, plus getting better near to the sourcing areas also. So if you can help us quantify what kind of savings these have generated for us over the last, say, a couple of years or whatever timestamp that you want to allude to?

Gunjan Shah: That's the question that I have also for my team, Gaurav. But let me try and see how best I can address it, right? See, these last two years, obviously, we saw savings during COVID, etc. I'm not going to repeat all of that but those were mostly one-offs. There were some structural ones in terms of unprofitable stores, etc., etc., and that -- some of it is a continuous exercise that you keep bringing out as time goes by.

The pieces that have been harping upon and hopefully, I will give you a lot more updates going forward, I'll touch upon a few of them. So, Flexi Manpower, I have talked about it. It allows me to basically have the right kind of manpower as per footfall profiles, and therefore, paired in much better efficiency while delivering better service to consumers. That is now contributing to 15%. That was close to about less than 3% pre-COVID. That will show up as FSG keeps going up in terms of percentage to turnover, and therefore, productivity of that cost line item.

The second piece is, in terms of 3PL, right? We have taken our largest warehouse that handle roughly around 40% of our volumes to 3PL. That will show up in terms of not only immediate benefits in the next, let's say 12 months, but structural benefits over multiple quarters and years, right? In terms of managing that much more efficiently and expanding the entire 3PL across several other warehouses of ours, right? So that is one big lever that should start impacting.

There are pieces to do with, let's say, freight, etc. We do see the fee on that and there is a lot of work and action that is being worked upon, and we will talk to you about concrete issues on that front. We will also want to ensure that we have started seeing immediate benefits on certain other cost lines which are fixed-cost in our in-house manufacturing, the VRS that we ran last quarter will also give us, and but some other pulls also on the fixed-cost side in terms of a manufacturing piece.

And last but not the least is also in terms of material prices, etc. As we see those trends much better, we will want to make sure that, that flows into our margins also as time goes by.

Shaibal Sinha: Yes.

Gunjan Shah: Shaibal, if you'll add?

Shaibal Sinha: And just to add, we are doing lot of savings in various kind of areas. At the same time, we are also investing quite a bit of money in our technology. We are investing quite a bit of money in marketing in order to make sure that we also ramp up in the areas where we want to ramp up. In the digitization also, we are investing a lot of money, so but that's how we are balancing the overall cost also of the organization.

Moderator: The next question is from the line of Mr. Girish Pai from Nirmal Bang.

Girish Pai: You've grown sales by 18.5% in the 3Q of FY '23 versus say 3Q quarter of FY '20. How much has that contributed in volume?

Gunjan Shah: Okay. So basically -- Hi, Girish, by the way. So, basically, these seem as I said basically, some amount of demand sluggishness in this quarter from those price point perspective. So the volumes have been muted comparatively. While we grew volumes by almost 7% in September quarter, this quarter has been about minus 5%. So, broadly, we would be at around point -- positive 2%, 3%, versus pre-COVID, let's say, July to December.

Girish Pai: Okay. And I go back to the discussion around the other expenses. It used to be about 16% of sales in 3Q FY '20. Today or rather in 3Q FY '23 it's 20%. This bridge of this 400-basis point, how much of that has been contributed by higher-tech expenses and royalty and also marketing spends. Like I had to spend to -- sales ratio. How much is that increased by between the 3Q pre-COVID and 3Q now? And similarly, tech expenses or digitization expenses, what was that in the pre-pandemic phase and what is it now?

Gunjan Shah: Okay. So that's a pretty detailed question, Girish. Broadly, between the three, it accounts for 90% of it. What we will try and do is maybe we can offline, try and revert back…

Shaibal Sinha: Yes.

Gunjan Shah: On the exact contribution between the three. I'm sure we can share that with you. That's not a problem.

Shaibal Sinha: Yes.

Girish Pai: Okay. Lastly, did I hear you say something that you got some ambitions on the apparel side and how large are those ambitions like? You want apparel to become what percentage of your turnover, say, three years down the road? Or did I hear you right, in first place?

Gunjan Shah: No. You heard me right, that we are. So there is a little context to this. We had started a certain amount of project on this. It's an area that we will have to make sure that we get our act right, right? It is a very adjacent area from a consumer shopping perspective, and therefore, it's, how do you say, there's an adjacent lever instead we can do with our retail network etc. So that's what attracts us because besides the fact that it's a very large and a fast-growing profit pool, both in terms of revenues, as well as, obviously in profitability. So that is what attracts us. Concrete plans on this, etc., we will get back to you. But the reason that we are even talking and putting effort, we have developed an exclusive team behind this, is because we see a material impact if we are able to do this well over a period of time.

Moderator: The next question is from the line of Mr. Shubham Thorat from Perpetual Investment Advisors.

Shubham Thorat: So just one question from my end, before that one clarification. So I just missed your initial remarks on ASP front. So if you can reiterate on that bit? And if you can comment on the average ASP for your portfolio for this quarter?

Gunjan Shah: Okay. Both the questions are related to ASP. So, Shubham, ASP is for the overall portfolio fixed at about INR 770 -- Yes, INR 772 for the quarter. It is sequentially as well as versus last year, up by about 13%. However, unlike, let's say, the first half of this year, it is all being driven by premiumization and no sequential price increases that we have taken. Does that answer your question?

Shubham Thorat: And my second question is on the -- that you mentioned that the material cost inflation and the GST impact has been quite severely impacted your March portfolio. And you had mentioned in your presentation that the material cost is continuously coming down right now. So how do you think it will affect that March portfolio? And how do -- when do you think the demand in that category would return back?

Gunjan Shah: We can't give forward-looking statements. Some of it is project some of this is extrapolating the future, which we are not which we'll wait and watch. But, however, on the materials price sense, right, there is some amount of stability, and in certain categories like basically, PU as well as EVA, we do see and even rubber, we do see some amount of decline. So that obviously should aid, if that sustains, but at early signs. So let's keep our fingers crossed on that front.

Moderator: The next question is from the line of Mr. Vikas Jain from Equirus Securities.

Vikas Jain: Sir, just continuing with the last question, when you said that there has been some decline in key raw material that we consume. Was there an impact on the gross margins coming from consumption of [inaudible 0:51:10] quarter and is there any further hyper inventory there into the system which might have an impact going ahead as well?

Gunjan Shah: We can't quantify that. However, it is a -- see, these two or three materials that I've mentioned have seen some signs of decline. We will have to wait and watch how that pans out over, let's say, a slightly more extended period of time because then it makes impact, both from our the refresh of our cost perspective as well as from a scale perspective, once it spreads across a significant part of our portfolio from our FG cost perspective. So we'll have to wait and watch on it, but right now, at least the inflationary upward curve seems to have flattened out. So that certainly is encouraging for us.

Vikas Jain: Sure. And just with respect to a strategy perspective, if the price decline in the raw materials continue, would there be some pass on to the consumers to pull the demand where we are seeing the stretcher that is the mass category?

Gunjan Shah: Okay. We basically will -- we will have to evaluate this as on a case-by-case basis, right? As I've said, our premiumization strategy will continue but, on a case, -by-case basis where we see benefits of obviously, competitiveness and competitor actions also, we will evaluate those. So it will be difficult for me to comment immediately on it.

Vikas Jain: And just one last question, just from where do you see our business only in FY '24 and '25 onwards as to like, if things normalize, where do we see our business with extended network and the franchisees and all that we are opening, where do you see a growth on an annual perspective, the number that we can achieve in FY '24 and FY '25, any broad numbers would also do?

Gunjan Shah: There will be -- we don't give forward-looking statements. We do have a strategy which is over three years as well as five years. We seem to be on track on it both not only from a number's perspective but more importantly, even from a lever as well as some of the investments that we have talked about, they will fuel future growth. We definitely want to get back to pre-COVID CAGRs and maybe even higher.

Moderator: In the interest of time, we will take this as the last question. I now hand the conference over to Ms. Nikita Jain for the closing comments.

Nikita Jain: Thank you, Yusuf. Thank you, management. Thank you, participants, for taking the time off and joining the call. Have a good day.

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

Nitin Bagaria: Thank you.

Gunjan Shah: Thank you.