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Moderation in demand is where the shoe pinches footwear majors

Valuations factoring in second-half recovery are in the expensive zone

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Notwithstanding lower growth rates recorded in the first quarter (Q1) of 2023-24 (FY24), which spanned from April to June, footwear stocks have seen some gains in the past two trading sessions. Bata India saw an increase of approximately 5 per cent, driven by positive expectations surrounding a potential tie-up in the sports/athleisure segment. This development is viewed favourably due to the segment's higher growth rates.

The optimistic sentiment, combined with the anticipation of a recovery in the latter half of the financial year, has rubbed off on other listed footwear industry leaders as well.

Campus Activewear and Khadim India both closed Friday's trading session with gains of 4 per cent each. Although brokerage firms hold a positive outlook on their long-term prospects, they also recognise the potential for a slowdown in discretionary spending, a moderation in growth, and elevated valuations that could affect their prospects in the short term.

While Bata's stock price surged on the possibility of a strategic alliance, its results for the June quarter were disappointing. The company achieved mere 2 per cent year-on-year (Y-o-Y) growth in sales, with the increase attributed to a 3 per cent rise in average selling prices, offset by a 1 per cent decline in volumes.

Nirmal Bang Research suggests that the recovery in the lower-priced category (below ₹1,000) has lagged, discretionary spending remains subdued, and end-of-season sales occurred earlier than anticipated. As a result, Bata experienced limited revenue growth on a Y-o-Y basis. The brokerage also indicates that there was pent-up demand in the base quarter, i.e., Q1 of 2022-23 (FY23).

In addition to expanding its retail footprint, Bata's venture into the athleisure segment and its potential strategic partnership could present a larger opportunity. However, Nuvama Research maintains a 'hold' rating.

Analysts from the firm state that while Bata's initiatives are ongoing, a definitive shift in its perception as an aspirational brand, a big ask, is crucial for sustained growth. Although increased online and wholesale contributions may edge up growth, they are unlikely to alter its trajectory significantly. Campus Activewear also fell short with 5 per cent revenue growth. This growth was entirely attributed to price increases, despite volumes remaining flat during the quarter. Improved average prices were the result of higher sales in the premium segment, combined with reduced raw material costs, leading to higher gross margins.

While demand trends have been weak in the past year, the company indicated that sales in the latter half of the year could pick up due to favourable monsoon, election-related spending, and festival-season demand.

JM Financial Research anticipates further improvement in the trajectory of operating profit margins as input cost pressures ease and the second half historically fares better in terms of sales and product mix. Although margin build-back is progressing as planned, the pace of volume recovery is a key monitorable for the stock, according to the brokerage. The Q1FY24 results of the largest listed footwear player, Metro Brands, were broadly in line with Street estimates. However, key operational metrics, especially like-for-like growth, disappointed.

The company recorded 15 per cent growth in sales, driven by store expansions and higher realisations. The share of products priced above ₹3,000 has grown to 49 per cent, up from the previous 34 per cent, over the past three years (from 2019-20 to Q1FY24). Conversely, the share of products priced between ₹500 and ₹1,000 has more than halved to 8 per cent during the same period.

Although gross margins remained healthy at 59.1 per cent, they decreased by 84 basis points (bps) over the year-ago quarter, primarily due to inventory clean-up in the Fila brand. Operating profit margins saw a decline of 417 bps due to higher employee and other expenses.

Motilal Oswal Research suggests that same-store sales growth may be negative for the quarter due to pent-up demand during the previous year. While the brokerage holds a positive view on the company's long-term prospects due to strong store economics, it acknowledges short-term risks such as growth moderation, potential losses in the Fila brand, and margin moderation.

Relaxo Footwears demonstrated strong performance in the quarter, achieving an 11 per cent Y-o-Y increase in sales. A quarter of this growth is attributed to volumes, which rose following price adjustments aimed at aligning with competitors. The company's volumes were previously impacted by high inflation and an increase in the goods and services tax rate during the first nine months of FY23.

However, analysts Akhil Parekh and Kevin Shah of Centrum Broking say that the company has nearly recouped the entire lost market share in the fourth quarter of FY23/Q1FY24 through its price correction measures.

GROWTH WORRIES
(Q1FY24 figures in ₹ crore)

	Bata India	Relaxo Footwears	Metro Brands	Campus Activewear	Khadims
Net sales	958.2	738.8	582.5	353.8	158.0
Change %	1.6	10.7	14.7	4.8	-4.9
Operating profit	252.8	114.8	201.0	66.4	19.8
Change %	-0.5	27.2	4.6	6.7	2.2
Margin (%)	26.4	15.5	34.5	18.8	12.5
Change (basis points)	-55	201	-333	34	86

Change is Y-o-Y
Source: Capitaline, Compiled by BS Research Bureau