

Resilient growth amid challenging times

Bata reported moderate revenue growth of 7.3% YoY to ₹ 722.0 crore despite a challenging market environment. However, it continues to enhance its spending on new initiatives with enhanced focus on categories like women & youth, refurbishing and redesigning existing store models and higher ad-spends. Gross profit continued to see improvement, with gross margins expanding 60 bps YoY to 54.4%. Constant efforts towards premiumisation of product portfolio have translated into better margins. Furthermore, controlled fixed cost efforts led EBITDA margins to improve 50 bps YoY to 13.5%. Lower tax rate (26.8% vs. 35.0% in Q2FY19) boosted profitability with PAT growing robustly by 27.4% YoY to ₹ 71.3 crore.

Premiumisation aiding gross margin expansion

Bata has constantly undertaken efforts towards transforming its brand image from a mass brand to a premium one through launch of new trendy collections, investing in marketing spends and redesigning existing store models. Recently, the company inaugurated its fifth experience centre store, with the aim of providing complete foot-care services like 360° foot scanning, customised insoles, medicated pedicure and shoe laundry. The store also offers a wide assortment of fashion and working women styles, premium collections and a sneaker studio. Enhanced share of premiumisation has led gross margins to improve significantly by 290 bps to 56% in FY17-19. The management has the long term aim to enhance the share of premium products by ~ 500 bps in the next two to three years (from current ~50%). We build in EBITDA margin expansion of 210 bps in FY19-22E, with gross margins expected to contribute ~150 bps.

Store expansion to drive revenue growth

Bata has a robust distribution network with ~1420 stores, including ~150 franchise stores. The company has charted out aggressive store expansion plans, mainly in Tier II/Tier III cities. In a bid to enhance the market share in smaller towns, the management intends to open ~ 500 franchise stores in the next five years.

Valuation & Outlook

Bata has a debt free and cash rich balance sheet with surplus cash at ~₹ 800 crore and a capital efficient business model with a negative working capital cycle. Having built a strong portfolio of premium brands, the management is focusing on maintaining a balance between volume growth and premiumisation. Furthermore, healthy store expansion plans (through franchise route) in non-metro cities is expected to provide growth impetus. We roll our estimate forward and bake in revenue and PAT CAGR of 11% and 20%, respectively, in FY19-22E. We have a **BUY** rating on the stock with a revised target price of ₹ 1955 (44.0x FY22E EPS of ₹ 44.4).



Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	21,785.5
Debt (FY19) (₹ Crore)	-
Cash (FY19) (₹ Crore)	839.1
EV (₹ Crore)	20,946.4
52 week H/L	1815 / 943
Equity Capital (₹ Crore)	64.3
Face Value (₹)	5

Key Highlights

- Management intends to open ~500 franchise stores in next five years
- Management aiming to enhance share of premium products by ~500 bps in the next two to three years (from current ~50%)
- Maintain BUY with target price of ₹ 1955

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Key Financial Summary

₹ crore	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Net Sales	2,928.4	3,227.4	3,626.3	4,036.1	11.3%
EBITDA	477.3	558.3	652.7	746.7	16.1%
PAT	329.7	424.8	499.0	570.6	20.1%
P/E (x)	66.1	51.3	43.7	38.2	
EV/Sales (x)	7.2	6.4	5.7	5.0	
EV/EBITDA (x)	43.9	37.1	31.4	27.1	
RoCE (%)	23.7	23.8	24.6	24.8	
RoE (%)	18.9	20.6	21.3	21.3	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q2FY20	Q2FY20E	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	Comments
Revenue	722.0	733.9	673.1	7.3	882.1	-18.2	Steady revenue growth driven by SSSG of 6.5%
Raw Material Expense	314.8	322.9	297.6	5.8	399.5	-21.2	
Gross Margin (%)	56.4	56.0	55.8	61 bps	54.7	168 bps	On account of higher proportion of value added products in the product mix, gross margins improved 60 bps YoY to 56.4%
Employee Expense	89.0	99.8	80.9	10.0	98.0	-9.2	Employee expenses declined 9% sequentially
Rental Expenses	9.7	95.0	94.4	-89.7	10.8	-9.5	
Other Expenses	123.1	113.8	112.8	9.1	130.9	-6.0	
EBITDA	185.4	102.5	87.4	112.1	243.0	-23.7	Reported EBITDA and margins higher owing to implementation of Ind-AS 116
EBITDA Margin (%)	25.7	14.0	13.0	1269 bps	27.5	-187 bps	Adjusted EBITDA grew 12% YoY to ₹ 97.8 crore
Depreciation	74.9	16.0	15.3	389.4	73.1	2.5	Adjusted EBITDA margins expanded 50 bps YoY to 13.5%
Interest	30.8	0.8	1.1	2,625.4	31.4	-1.9	
Other Income	17.7	15.6	14.9	18.9	16.9	4.6	
Exceptional Item	0.00	0.00	0.00	NA	0.00	NA	
PBT	97.4	101.3	85.8	13.5	155.5	-37.3	
Tax Outgo	26.09	25.5	30.1	-13.3	54.8	-52.4	
PAT	71.3	75.8	55.8	27.9	100.7	-29.1	Lower tax rate boosted PAT growth

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			FY22E
	Old	New	% Change	Old	New	% Change	Introduced
Revenue	3,302.6	3,227.4	-2.3	3,780.9	3,626.3	-4.1	4,036.1
EBITDA	578.0	558.3	-3.4	695.7	652.7	-6.2	746.7
EBITDA Margin (%)	17.5	17.3	-20 bps	18.4	18.0	-40 bps	18.5
PAT	440.8	424.8	-3.6	533.6	499.0	-6.5	570.6
EPS (₹)	34.3	33.0	-3.5	41.5	38.8	-6.5	44.4

Source: Company, ICICI Direct Research

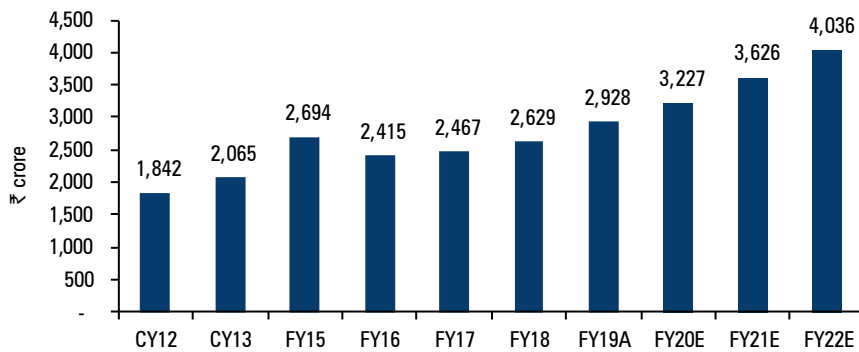
Exhibit 3: Impact of implementation of Ind-AS 116

	Q2FY20 (without impact of IND AS-116)	Q2FY20 (with impact of IND AS-116)	% Change
Net Sales	722.0	722.0	-
Lease Rentals	95.9	9.7	(89.9)
EBITDA	97.8	185.4	89.6
EBITDA Margin (%)	13.5	25.7	1213 bps
Depreciation Expense	17.6	74.8	326.0
Finance Expense	0.9	30.8	3,523.5
PAT	71.1	71.3	0.4

Source: Company, ICICI Direct Research

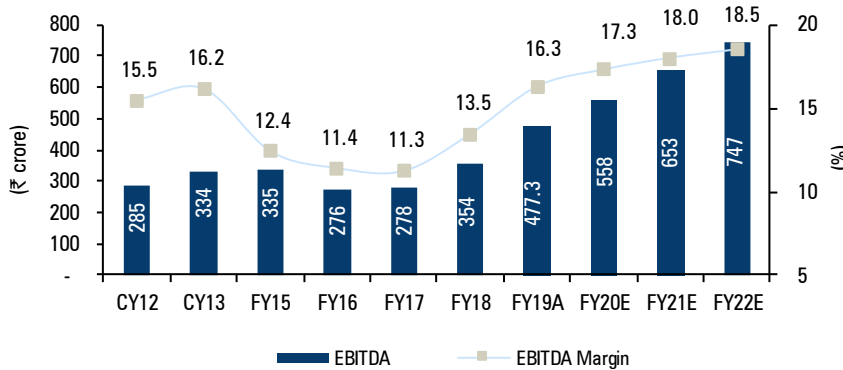
Financial story in charts

Exhibit 4: Revenue trend



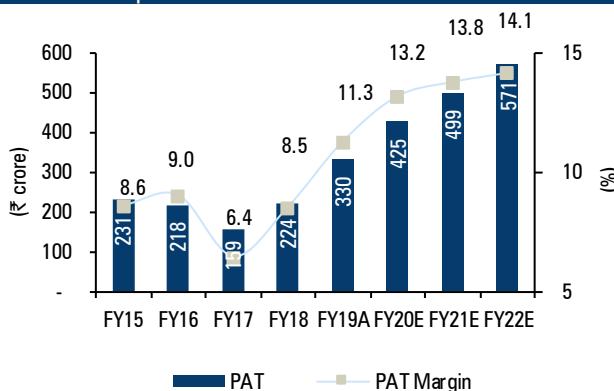
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA and EBITDA margin trend



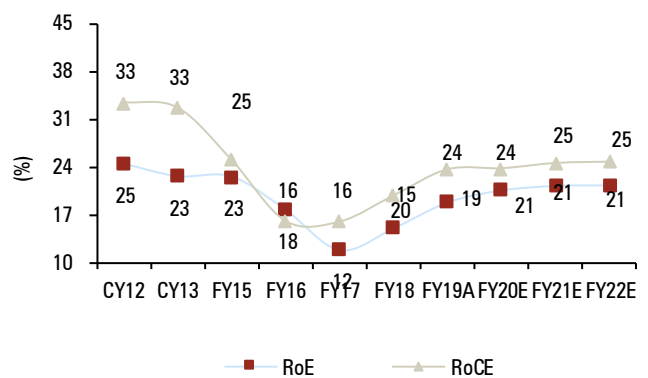
Source: Company, ICICI Direct Research

Exhibit 6: Net profit trend



Source: Company, ICICI Direct Research

Exhibit 7: Return ratio trends



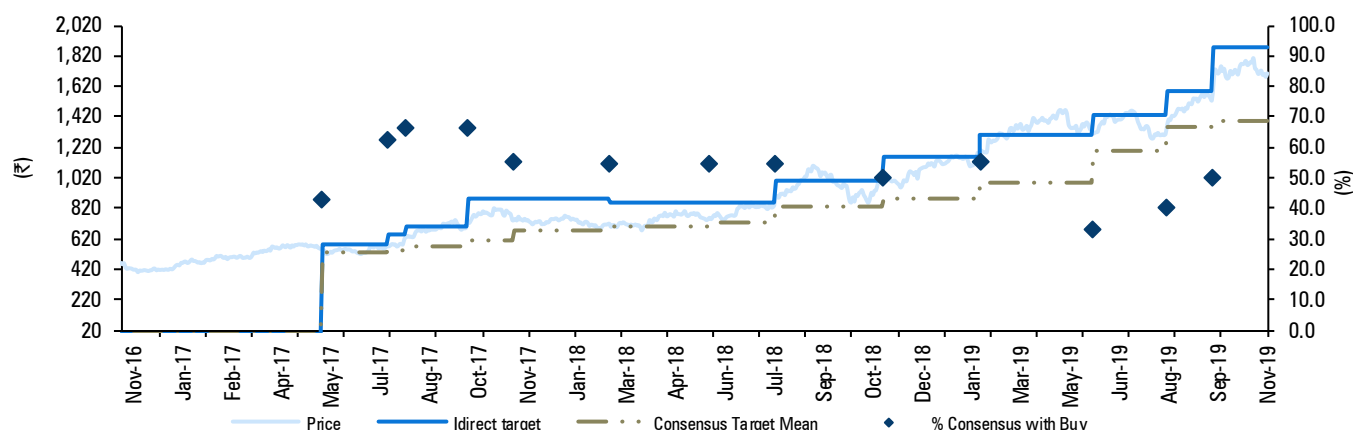
Source: Company, ICICI Direct Research

Exhibit 8: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19A	2928.4	11.4	25.7	47.3	66.1	43.9	18.9	23.7
FY20E	3227.4	10.2	33.0	28.8	51.3	37.1	20.6	23.8
FY21E	3626.3	12.4	38.8	17.5	43.7	31.4	21.3	24.6
FY22E	4036.1	11.3	44.4	14.4	38.2	27.1	21.3	24.8

Source: Company, ICICI Direct Research

Exhibit 9: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 10: Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Bata (BN) B.V.	30-Sep-19	52.96%	68.1	0.00
2	Life Insurance Corporation of India	30-Sep-19	4.55%	5.8	1.93
3	Kotak Mahindra Asset Management Company Ltd.	30-Sep-19	4.16%	5.3	-0.23
4	Aditya Birla Sun Life AMC Limited	30-Sep-19	2.99%	3.8	0.07
5	Tata Asset Management Limited	30-Sep-19	1.91%	2.5	-0.11
6	DSP Investment Managers Pvt. Ltd.	30-Sep-19	0.87%	1.1	0.00
7	American Century Investment Management, Inc.	30-Sep-19	0.86%	1.1	-0.87
8	The Vanguard Group, Inc.	30-Sep-19	0.81%	1.0	0.00
9	HDFC Asset Management Co., Ltd.	30-Sep-19	0.78%	1.0	0.00
10	Robeco Institutional Asset Management B.V.	30-Sep-19	0.77%	1.0	-0.04

Source: Reuters, ICICI Direct Research

Exhibit 11: Recent Activity

BUY			SELL		
Investor Name	Value	Shares	Investor Name	Value	Shares
Life Insurance Corporation of India	47.1	1.9	Fidelity International	-53.6	-2.6
Invesco Hong Kong Limited	3.9	0.2	American Century Investment Management, Inc.	-21.2	-0.9
Goldman Sachs Asset Management International	3.2	0.1	Kotak Mahindra Asset Management Company Ltd.	-5.5	-0.2
Axis Asset Management Company Limited	2.4	0.1	Tata Asset Management Limited	-2.6	-0.1
Canara Robeco Asset Management Company Ltd.	2.1	0.1	State Street Global Advisors (US)	-1.6	-0.1

Source: Reuters, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Promoter	53.0	53.0	53.0	53.0	53.0
FII	9.2	10.8	11.6	12.7	11.7
DII	22.3	22.4	21.5	20.4	21.7
Others	15.5	13.9	13.9	13.9	13.6

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19A	FY20E	FY21E	FY22E
Total operating Income	2,928.4	3,227.4	3,626.3	4,036.1
Growth (%)	11.4	10.2	12.4	11.3
Raw Material Expenses	1,284.3	1,387.8	1,548.5	1,707.3
Employee Expenses	331.1	371.2	409.8	452.0
Mfg, Admin & selling Exps	835.8	910.1	1,015.4	1,130.1
Total Operating Expenditure	2,451.2	2,669.1	2,973.6	3,289.4
EBITDA	477.3	558.3	652.7	746.7
Growth (%)	34.8	17.0	16.9	14.4
Depreciation	64.0	68.0	76.4	84.8
Interest	3.5	3.2	3.6	4.0
Other Income	68.5	80.7	94.3	104.9
Exceptional Item	0.0	0.0	0.0	0.0
PBT	478.3	567.9	667.1	762.8
Growth (%)	40.6	18.7	17.5	14.4
Total Tax	148.6	143.1	168.1	192.2
PAT	329.7	424.8	499.0	570.6
Growth (%)	47.3	28.8	17.5	14.4
EPS (₹)	25.7	33.0	38.8	44.4

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY19A	FY20E	FY21E	FY22E
Profit After Tax	329.7	424.8	499.0	570.6
Add: Depreciation	64.0	68.0	76.4	84.8
(Inc)/dec in Current Assets	-53.6	-120.9	-152.0	-156.2
Inc/(dec) in CL and Provisions	66.0	35.2	95.2	81.6
Others	0.0	0.0	0.0	0.0
CF from operating activities	406.1	407.0	518.5	580.8
(Inc)/dec in Fixed Assets	-84.1	-80.0	-80.0	-80.0
(Inc)/dec in CWIP	-5.2	11.9	1.1	0.9
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
Others	-4.4	-0.2	0.0	0.0
CF from investing activities	-93.7	-68.4	-78.9	-79.1
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Others	-62.1	-111.2	-213.1	-243.6
CF from financing activities	-62.1	-111.2	-213.1	-243.6
Net Cash flow	250.4	227.5	226.5	258.0
Opening Cash	588.7	839.1	1,066.6	1,293.1
Closing Cash	839.1	1,066.6	1,293.1	1,551.2

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
(Year-end March)	FY19A	FY20E	FY21E	FY22E
Liabilities				
Equity Capital	64.3	64.3	64.3	64.3
Reserve and Surplus	1,682.3	1,995.9	2,281.8	2,608.7
Total Shareholders funds	1,746.5	2,060.1	2,346.0	2,673.0
Total Debt	-	-	-	-
Deferred Tax Liability	-	-	-	-
Minority Interest / Others	-	-	-	-
Total Liabilities	1,746.5	2,060.1	2,346.0	2,673.0
Assets				
Gross Block	567.2	647.2	727.2	807.2
Less: Accu Depreciation	252.6	320.5	396.9	481.6
Net Block	314.6	326.6	330.3	325.5
Capital WIP	17.3	5.4	4.3	3.5
Intangible Assets under develop	-	-	-	-
Total Fixed Assets	331.9	332.1	334.6	329.0
Investments	5.0	5.0	5.0	5.0
Inventory	839.1	910.8	1,023.3	1,139.0
Debtors	65.3	79.6	89.4	99.5
Loans and Advances	198.4	232.4	261.1	290.6
Other Current Assets	90.3	91.2	92.1	93.0
Cash	839.1	1,066.6	1,293.1	1,551.2
Total Current Assets	2,032.1	2,380.5	2,759.1	3,173.3
Current Liabilities	714.2	746.6	823.5	899.5
Provisions	18.0	20.7	39.2	44.7
Total Current Liabilities	732.2	767.4	862.6	944.2
Net Current Assets	1,299.9	1,613.1	1,896.5	2,229.1
Deferred Tax Assets	109.8	110.0	110.0	110.0
Application of Funds	1,746.5	2,060.1	2,346.0	2,673.0

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
(Year-end March)	FY19A	FY20E	FY21E	FY22E
Per share data (₹)				
EPS	25.7	33.0	38.8	44.4
Cash EPS	30.6	38.3	44.8	51.0
BV	135.9	160.3	182.5	208.0
DPS	4.0	7.1	13.6	15.5
Cash Per Share	65.3	83.0	100.6	120.7
Operating Ratios				
EBITDA Margin (%)	16.3	17.3	18.0	18.5
PBT Margin (%)	16.3	17.6	18.4	18.9
PAT Margin (%)	11.3	13.2	13.8	14.1
Inventory days	104.6	103.0	103.0	103.0
Debtor days	8.1	9.0	9.0	9.0
Creditor days	175.0	170.0	170.0	170.0
Return Ratios (%)				
RoE	18.9	20.6	21.3	21.3
RoCE	23.7	23.8	24.6	24.8
RoIC	36.5	43.0	47.6	51.1
Valuation Ratios (x)				
P/E	66.1	51.3	43.7	38.2
EV / EBITDA	43.9	37.1	31.4	27.1
EV / Net Sales	7.2	6.4	5.7	5.0
Market Cap / Sales	7.4	6.8	6.0	5.4
Price to Book Value	12.5	10.6	9.3	8.2
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.8	3.1	3.2	3.4
Quick Ratio	1.6	1.9	2.0	2.2

Source: Company, ICICI Direct Research

Exhibit 17: ICICI Direct coverage universe (Retail)

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Bata India (BATIND)	1,695	1,955	Buy	22,035	25.7	33.0	38.8	66.1	51.3	43.7	43.9	37.1	31.4	23.7	23.8	24.6	18.9	20.6	21.3
Titan Company (TITIND)	1,165	1,350	Buy	103,427	15.8	18.6	23.0	73.7	62.8	50.6	47.9	45.2	36.3	32.4	28.7	30.3	23.2	23.0	24.1
Trent	520	600	Buy	17,279	2.9	3.4	5.2	182.1	154.0	99.2	77.8	60.3	45.9	10.1	9.9	12.0	5.8	4.5	6.7
ABFRL	208	240	Buy	16,088	4.2	2.3	3.6	50.1	90.7	57.8	32.0	27.4	22.0	10.7	12.3	15.1	22.5	11.0	14.8

Source: Reuters, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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