

Aligning business model with consumer trends

About the stock: Bata India is a major player in the Indian footwear market with a presence across men's, women's and kid's footwear segment. It has a pan-India presence with the largest network of retail stores having 1700+ stores. Bata has a vision to open 500 franchise stores over the next few years (current: 300).

- It has a robust balance sheet with healthy cash and bank balance worth ₹ 946+ crore, negative working capital cycle and generating RoCE of 20%+

Q1FY23 Results: Reported revenue, profitability were below expectations. Revenue recovery rate was at 107% vs. ~98% in Q4FY22, 101% in Q3FY22 (I-direct estimate: 110%).

- On favourable base, it reported sales growth of 253% YoY to ₹ 943 crore
- Key positive has been that company has maintained gross margins on a QoQ basis at 57.0% (I-direct estimate: 57%) on the back of calibrated price hikes and better product mix. EBITDA margins came in below our estimate at 26%. EBITDA was at ₹ 244.6 crore (I-direct estimate: ₹ 271 crore)
- PAT came in at ₹ 119 crore (I-direct estimate of ₹ 139 crore)

What should investors do? Bata, over the last five years, has delivered ~25% CAGR return. Focus on cost reduction, omni channel, change in product mix (higher proportion of casual footwear) and calibrated expansion of retail network through asset light franchisee can be structurally positive. Also, the company has utilised its surplus cash reserves towards special dividend (₹ 54.5/share, ₹ 700 crore payout with dividend yield of ~ 3%). This would significantly boost RoCE, going forward.

Target Price and Valuation: We maintain **BUY** recommendation on the stock and value Bata at ₹ 2225 i.e. 51x FY24E EPS.

Key triggers for future price performance:

- Casual footwear portfolio and renewed sneaker category is leading to strong revenue recovery (~20% of sales). Also, reopening of schools and offices has led to demand green shoots for formal and fashion categories
- Bata is also tapping Tier III-V cities through franchise route, has added ~80 stores in FY22 and further 20 in Q1FY23 taking total store count to 320+ franchise stores (~18% of store network). Over the next two years, it is aiming to increase the franchisee store share to ~ 30%
- It has significantly enhanced its distribution reach through MBOs with a presence in 1100+ towns
- Bata has scaled up its digital initiatives with e-commerce revenues now 2.5x of pre-Covid levels

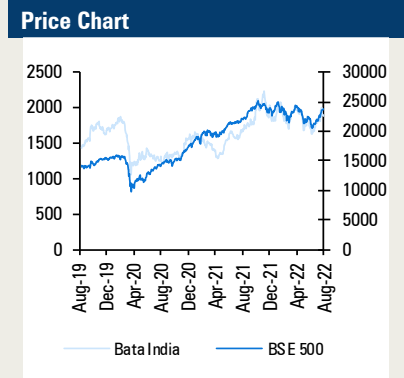
Alternate Stock Idea: Apart from Bata, in our retail coverage we also like Trent.

- Inherent strength of brands (Westside, Zudio, Star, Zara) and proven business model position Trent as a preferred pick
- We have a BUY rating with a target price of ₹ 1620/share



Particulars	
Particular	Amount
Market Capitalisation (₹ Crore)	24,600.3
Debt (FY22) (₹ Crore)	-
Cash (FY22) (₹ Crore)	964.7
EV (₹ Crore)	23,635.5
52 week H/L	2226/ 1592
Equity Capital (₹ Crore)	64.3
Face Value (₹)	5.0

Shareholding pattern					
	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	53.0	53.0	53.0	53.0	50.2
FII	5.2	5.4	6.0	6.7	6.8
DII	27.3	28.0	27.5	27.4	30.1
Others	14.5	13.7	13.6	13.0	12.9



Key risks

Key Risk: (i) Lower sales of discretionary products can subdue revenues (ii) Raw material inflation can pressurise margins

Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Key Financial Summary

₹ crore	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	3,053.5	1,707.3	2,387.7	-0.9%	3,348.0	4,010.3	29.6%
EBITDA	829.8	161.2	415.6		897.3	1,110.8	63.5%
PAT	327.0	-90.2	100.9		419.5	560.1	
P/E (x)	75.2	-	243.8		58.6	43.9	
EV/Sales (x)	7.7	13.8	9.9		7.2	6.0	
EV/EBITDA (x)	28.5	145.8	56.9		26.9	21.5	
RoCE (%)	28.2	-5.9	9.6		40.0	41.8	
RoE (%)	17.2	-5.1	5.6		27.4	29.5	

Key takeaways of recent quarter

- On a favourable base, Bata reported revenue growth of 253% YoY to ₹ 943.0 crore (I-direct estimate: ₹ 970 crore). The revenue recovery rate (107%) appears weak compared to other lifestyle retailers. Bata continued its retail expansion drive in tier III-V cities through franchisee route (added ~20+ stores taking the total store count to 320+ franchisee stores)
- Bata has maintained its gross margins on a sequential basis at 57.0% (I-direct estimate: 57%) on the back of calibrated price hikes and improvement in product mix. However, EBITDA margins came in below our estimates at 26% (I-direct estimate: 28.0%) mainly on account of lower than anticipated revenue growth. Ensuing EBITDA was at ₹ 244.6 crore (I-direct estimate: ₹ 271 crore, Q1FY22: ₹ (-) 34 crore). EBITDA remained constant compared to pre-Covid levels
- The company believes there is uptick in demand and particularly demand for fashionable, trendy yet functional footwear has risen significantly. In order to cater to the consumer demand trend, it has enhanced the casual footwear portfolio and renewed sneaker category by rolling out new Sneaker Studios in 125 stores, which has led the growth recovery
- Bata is consciously driving sales by making its products available through digitally enabled platforms like its own website, online market places and Omni channel home delivery. Sales through online platforms continued their growth trajectory, which was 2.5x of pre-Covid levels (10% of sales)
- The company continued with its store renovation strategy as it wants to provide enhanced customer experience, which normally leads to increased revenues. During Q1FY23, the company renovated 60 stores
- The company is aiming to enhance preference of the Bata brand bouquet among the youth. It has continued to make investment in large marketing campaigns to inspire youth and engage with them
- Bata appears to be lagging its peers and its revenue recovery rate (107% for Q1FY23) is weaker compared to other lifestyle retailers. However, going forward, we expect sales to pick up pace driven by healthy store additions (bake in ~180 new stores in FY23-24E) and focus on fast growing categories such as sportswear. We build in revenue CAGR of 30% in FY22-24E
- Bata continues to penetrate newer towns through franchise operated stores and distribution led business model (MBOs). The revenue contribution from these channels has increased significantly to more than 20% currently vs. 10-12% in pre-Covid levels. The company aspires to reach 500 franchise stores over the next few years. Majority of the store expansion is expected to be franchise driven (70-80%). It has significantly enhanced its distribution reach through MBOs and having a presence in 1100+ towns. On account of significant expansion in retail touch points and recovery in SSSG, we build in volume CAGR of 18% in FY22-24E (on a favourable base)
- **Initiatives like casualisation of product portfolio, asset light retail foot print expansion through franchise outlets, enhanced digital footprint and calibrated investments in brand promotion focussed on engaging with the younger generation are expected to provide momentum to volume growth and revenues for Bata over the next few years. Further the company is continuously working on implementing cost savings across its network which would enable it to improve the profitability metrics**

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	943.0	970.9	267.0	253.1	665.2	41.8	Revenue miss was mainly owing to tapering of growth momentum in later part of the quarter.
Raw Material Expense	409.1	417.5	117.1	249.5	282.1	45.0	
Gross Margin (%)	56.6	57.0	56.2	45 bps	57.6	-98 bps	Reported gross margins maintained close to its pre-covid levels, despite RM inflationary pressure and change in channel mix
Employee Expense	104.8	106.8	88.8	18.0	95.2	10.1	
Rental Expenses	0.0	0.0	0.0	-	0.0	-	
Other Expenses	184.4	174.8	95.2	93.8	125.7	46.7	
EBITDA	244.6	271.9	-34.0	-819.3	162.2	50.8	
EBITDA Margin (%)	25.9	28.0	-12.7	3868 bps	24.4	155 bps	
Depreciation	69.3	77.4	50.0	38.6	71.7	-3.3	
Interest	24.9	26.0	23.0	8.3	24.5	1.6	
Other Income	9.3	18.3	12.2	-23.9	18.7	-50.4	
Exceptional Item	0.00	0.00	0.00	NA	0.00	NA	
PBT	159.7	186.8	-94.8	LP	84.7	88.4	
Tax Outgo	40.34	47.0	-23.7	LP	21.6	86.5	
PAT	119.3	139.8	-71.1	LP	63.1	89.1	Three year PAT CAGR : 6%

Source: Company, ICICI Direct Research

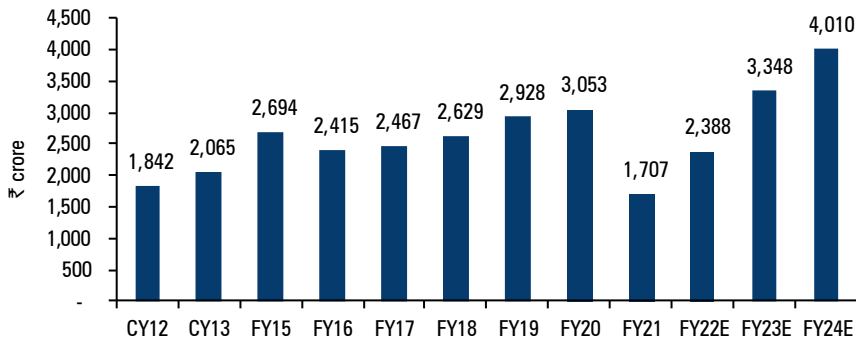
Exhibit 2: Change in estimates

(₹ Crore)	FY22E	FY23E			FY24E		
	Actual	Old	New	% Change	Old	New	% Change
Revenue	2,387.7	3,348.0	3,348.0	0.0	3,974.8	4,010.3	0.9
EBITDA	415.6	910.7	897.3	-1.5	1,101.0	1,110.8	0.9
EBITDA Margin (%)	17.4	27.2	26.8	-40 bps	27.7	27.7	0 bps
PAT	100.9	422.1	419.5	-0.6	557.4	560.1	0.5
EPS (₹)	7.9	32.8	32.6	-0.5	43.4	43.6	0.4

Source: Company, ICICI Direct Research

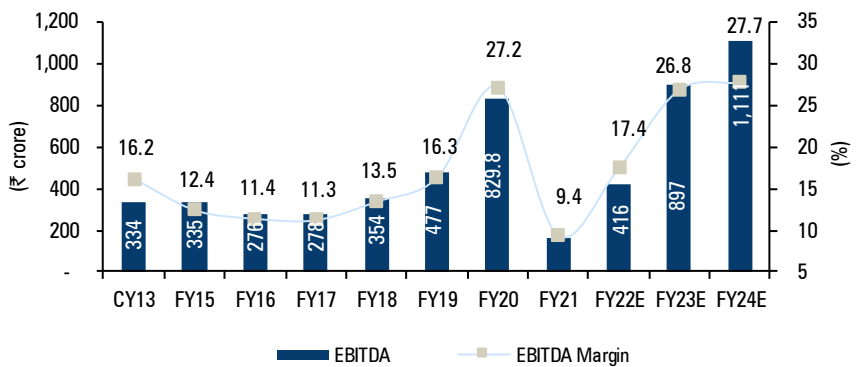
Financial story in charts

Exhibit 3: Revenue trend



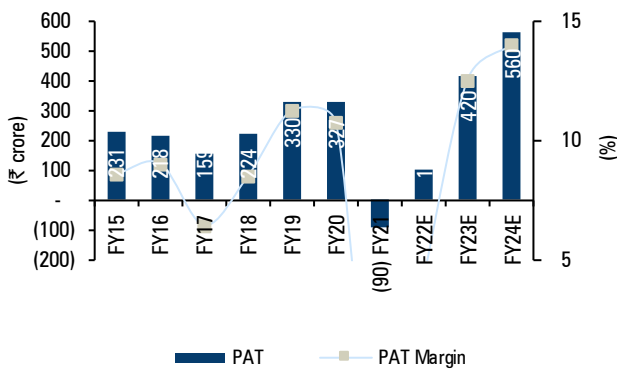
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA trend



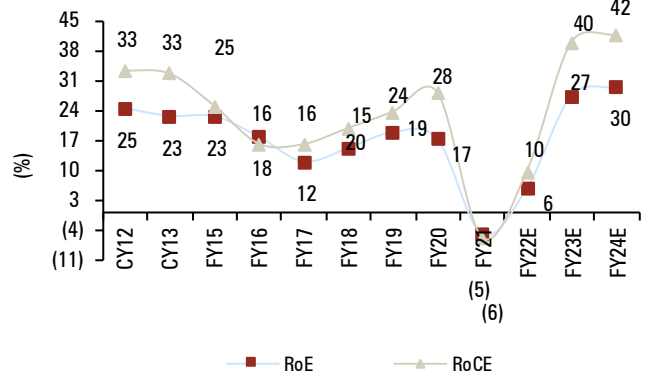
Source: Company, ICICI Direct Research

Exhibit 5: Net profit trend



Source: Company, ICICI Direct Research

Exhibit 6: Return ratio trend



Source: Company, ICICI Direct Research

Exhibit 7: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	3053.5	4.3	25.4	-0.8	75.2	28.5	17.2	28.2
FY21	1707.3	-44.1	-7.0	PL	NA	145.8	-5.1	-5.9
FY22E	2387.7	39.9	7.9	LP	243.8	56.9	5.6	9.6
FY23E	3348.0	40.2	32.6	315.8	58.6	26.9	27.4	40.0
FY24E	4010.3	19.8	43.6	33.5	43.9	21.5	29.5	41.8

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Total operating Income	1,707.3	2,387.7	3,348.0	4,010.3	
Growth (%)	-44.1	39.9	40.2	19.8	
Raw Material Expenses	837.5	1,086.9	1,443.0	1,704.4	
Gross Margins (%)	50.9	54.5	56.9	57.5	
Employee Expenses	339.8	378.7	418.5	481.2	
Mfg, Admin & selling Exps	368.8	506.5	589.3	713.8	
Total Operating Expenditure	1,546.1	1,972.1	2,450.8	2,899.4	
EBITDA	161.2	415.6	897.3	1,110.8	
Growth (%)	-80.6	157.8	115.9	23.8	
Depreciation	264.7	241.9	283.7	317.5	
Interest	103.5	92.8	110.4	114.8	
Other Income	94.0	55.9	56.9	68.2	
Exceptional Item	-4.6	0.0	0.0	0.0	
PBT	-117.6	136.8	560.1	746.8	
Growth (%)	-123.3	-221.1	309.4	33.3	
Total Tax	-27.4	35.9	140.6	186.7	
PAT	-90.2	100.9	419.5	560.1	
Growth (%)	-127.6	LP	315.8	33.5	
EPS (₹)	-7.0	7.9	32.6	43.6	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Profit After Tax	-90.2	100.9	419.5	560.1	
Add: Depreciation	264.7	241.9	283.7	317.5	
(Inc)/dec in Current Assets	323.6	-275.2	-361.2	-274.2	
Inc/(dec) in CL and Provisions	-47.3	74.1	171.5	116.2	
Others	0.0	0.0	0.0	0.0	
CF from operating activities	450.8	141.8	513.5	719.5	
(Inc)/dec in Fixed Assets	-16.4	-73.0	-80.0	-80.0	
(Inc)/dec in CWIP	-13.7	28.4	0.0	0.0	
(Inc)/dec in Investments	0.0	0.1	0.0	0.0	
Others	-30.0	33.5	0.0	0.0	
CF from investing activities	-60.1	-10.9	-80.0	-80.0	
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	-259.2	-259.9	-920.4	-446.0	
CF from financing activities	-259.2	-259.9	-920.4	-446.0	
Net Cash flow	131.4	-129.1	-486.9	193.5	
Opening Cash	962.4	1,093.8	964.7	477.8	
Closing Cash	1,093.8	964.7	477.8	671.3	

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Liabilities					
Equity Capital	64.3	64.3	64.3	64.3	
Reserve and Surplus	1,695.5	1,750.0	1,469.1	1,833.1	
Total Shareholders funds	1,759.8	1,814.2	1,533.3	1,897.4	
Total Debt	-	-	-	-	
Deferred Tax Liability	-	-	-	-	
Others	1,032.3	1,094.2	1,094.2	1,094.2	
Total Liabilities	2,792.1	2,908.4	2,627.5	2,991.6	
Assets					
Gross Block	643.1	716.1	796.1	876.1	
Less: Accu Depreciation	354.9	412.7	476.4	543.9	
Net Block	288.2	303.3	319.7	332.2	
Capital WIP	33.6	5.2	5.2	5.2	
Intangible Assets under develop	-	-	-	-	
Total Fixed Assets	321.8	308.5	324.8	337.4	
Investments	5.0	4.9	4.9	4.9	
Inventory	608.2	870.9	1,100.7	1,296.5	
Debtors	79.4	71.7	137.6	164.8	
Loans and Advances	194.7	189.8	254.5	304.8	
Other Non-Current Assets	829.4	920.7	920.7	920.7	
Other Current Assets	63.4	88.5	89.4	90.3	
Cash	1,093.8	964.7	477.8	671.3	
Total Current Assets	2,039.5	2,185.6	2,059.9	2,527.6	
Current Liabilities	531.3	605.2	776.7	892.9	
Provisions	10.7	10.9	10.9	10.9	
Total Current Liabilities	542.0	616.1	787.7	903.8	
Net Current Assets	1,497.5	1,569.5	1,272.3	1,623.8	
Deferred Tax Assets	138.4	104.9	104.9	104.9	
Application of Funds	2,792.1	2,908.4	2,627.5	2,991.6	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	-7.0	7.9	32.6	43.6
Cash EPS	13.6	26.7	54.7	68.3
BV	136.9	141.2	119.3	147.6
DPS	4.0	4.0	54.5	15.3
Cash Per Share	85.1	75.1	37.2	52.2
Operating Ratios				
EBITDA Margin (%)	9.4	17.4	26.8	27.7
PBT Margin (%)	-6.9	5.7	16.7	18.6
PAT Margin (%)	-5.3	4.2	12.5	14.0
Inventory days	130.0	133.1	120.0	118.0
Debtor days	17.0	11.0	15.0	15.0
Creditor days	191.6	153.2	158.0	158.0
Return Ratios (%)				
RoE	-5.1	5.6	27.4	29.5
RoCE	-5.9	9.6	40.0	41.8
RoIC	-13.6	11.9	39.9	45.9
Valuation Ratios (x)				
P/E	-	243.8	58.6	43.9
EV / EBITDA	145.8	56.9	26.9	21.5
EV / Net Sales	13.8	9.9	7.2	6.0
Market Cap / Sales	14.4	10.3	7.3	6.1
Price to Book Value	14.0	13.6	16.0	13.0
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	3.8	3.5	2.6	2.8
Quick Ratio	2.6	2.1	1.2	1.4

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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