

Recent initiatives taking time to improve performance

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 2000+ stores. Bata has a vision to open 500 franchise stores over the next few years (current: 390).

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

Q3FY23 Results: Bata continued to register a subdued performance in Q3FY23 with sales growing at a mere 3% CAGR over pre-Covid levels

- Bata reported single digit revenue growth of 7% YoY to ₹ 900.0 crore, which was below our estimate of ₹ 930.5 crore (consensus estimate: ₹ 960 crore)
- Gross margins improved 210 bps YoY to 54.8% (I-direct estimate: 56.5%). It continues to be well below Q3FY20 levels (~60%). EBITDA margins were at 22.9%, up 285 bps YoY (I-direct estimate: 24.8%, Q3FY20: 31.6%). Absolute EBITDA came in at ₹ 206.0 crore (I-direct estimate: ₹ 230.8 crore), which is just 78% of pre-Covid levels
- PAT grew 15% YoY to ₹ 83.1 crore (I-direct estimate: ₹ 100 crore). However, on a three-year CAGR basis, the company witnessed de-growth of 11%

What should investors do? Bata, in the last five years, has delivered ~16% CAGR return. Focus on cost reduction, omni channel, product mix change (higher share of casual footwear) and calibrated expansion of retail network through franchisee route can be structurally positive. However, new initiatives are taking longer to deliver material improvement in performance in a tough macro and competitive environment. Hence, growth could be constrained in near to medium term.

Target Price and Valuation: We change our rating on the stock from BUY to HOLD and value Bata at ₹ 1640 i.e. 50x FY24E EPS.

Key triggers for future price performance:

- Casual footwear portfolio and renewed sneaker category is leading to improved revenue recovery (~20% of sales). Also, reopening of schools and offices led to demand green shoots for formal and fashion categories
- Bata is also tapping Tier III-V cities through franchise route. It added ~80 stores in FY22 and further 39 in Q3FY23 taking total store count to 390+ franchise stores (~18% of store network). Over the next two years, it is aiming to increase the franchisee store share to ~30%
- Enhanced distribution reach through MBOs with a presence in 1150+ 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 ₹ 1730/share



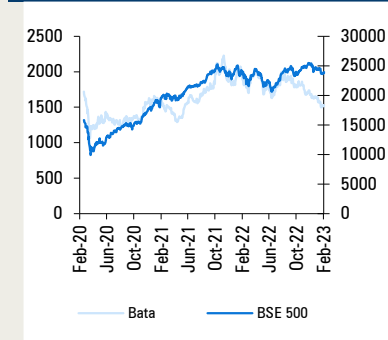
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	18,957.9
Debt (FY22) (₹ Crore)	-
Cash (FY22) (₹ Crore)	964.7
EV (₹ Crore)	17,993.2
52 week H/L	2040/ 1464
Equity Capital (₹ Crore)	64.3
Face Value (₹)	5.0

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	53.0	53.0	50.2	50.2	50.2
FII	6.0	6.7	6.8	7.9	4.9
DII	27.5	27.4	30.1	29.0	31.6
Others	13.6	13.0	12.9	13.0	13.4

Price Chart



Key risks

Key Risk: (i) Higher sales of discretionary products can improve revenue growth (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%	3,388.7	3,947.2	28.6%
EBITDA	829.8	161.2	415.6		776.0	955.2	51.6%
PAT	327.0	-90.2	100.9		312.6	420.9	
P/E (x)	58.0	-	187.9		60.6	45.0	
EV/Sales (x)	5.9	10.5	7.5		5.5	4.7	
EV/EBITDA (x)	21.7	110.8	43.3		23.9	19.3	
RoCE (%)	28.2	-5.9	9.6		34.5	37.5	
RoE (%)	17.2	-5.1	5.6		21.9	24.8	

Key takeaways of Q3FY23 results

- The management highlighted that the business environment continues to be tough with demand in the mass category continuing to remain sluggish owing to inflationary pressures. Festive & wedding season demand drove footfalls and sneakers continued their growth momentum
- On the network expansion front, Bata opened one new company owned company operated (COCO) stores. The expansion through franchisee stores also continued with the company adding 39 new franchisee stores. The company currently has 2021 EBOs and store in store (SIS). Bata currently has 390+ franchise stores and expects the highest number of franchisee stores to be added in FY23. The company is aiming to open 30+ franchise stores per quarter. On the multi brand outlets (MBO) front, the management highlighted that it had crossed 1150 towns for the first time
- Among categories, the company continued to enhance its focus on sneakers and has now implemented sneaker studios in 353 stores. Bata continues to pursue fast paced growth in the sneakers category. The company expanded Floatz collection to 1000+ stores and is planning Floatz 2.0 collection launch in Q4FY23
- In order to pursue aggressive revenue growth, the company is investing in enhancing the brand awareness. Bata's current advertisement expenses are higher than pre-Covid levels. The company is planning to gradually take the advertisement expense to 3% + in ensuing quarters
- The company continued with its store renovation strategy as it wants to provide enhanced customer experience, which normally leads to increased revenues. Bata is also working on improving the productivity of stores. The company has renovated 35 stores in Q3FY23 with 89 store renovations in 9MFY23 (capex of ₹ 20-50 lakh per store) and expects an improvement in same store sales growth (SSSG) in the renovated stores
- The company is aiming to enhance preference of the Bata brand bouquet among the youth. It has continued to make investments in large marketing campaigns to inspire youth and engage with them
- On the strategy front, the company is planning to focus on volume based growth with premiumisation of certain categories. Bata is aiming to add new products at price points that it recently vacated due to recent price increases
- The share of COCO stores has reduced from 76% in March 2021 to 64% in December 2022 due to higher share of new stores being opened on a franchise basis. The rentals as a percentage of revenues are expected to decline owing to higher number of store opening expected on a franchise basis
- 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 1150+ towns. On account of 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 focused 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 gradually improve the profitability metrics**

Exhibit 1: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	900.0	930.5	841.3	7.0	829.8	8.5	Revenue below estimates. Sales has grown at a CAGR of mere 3% over pre-covid levels
Raw Material Expense	407.0	404.8	398.2	2.2	373.5	9.0	
Gross Margin (%)	54.8	56.5	52.7	211 bps	55.0	-21 bps	Reported gross margins improved 210 bps YoY on back of calibrated price hikes and better product mix.
Employee Expense	102.9	108.9	105.0	-2.0	107.0	-3.8	
Rental Expenses	0.0	0.0	0.0	-	0.0	-	
Other Expenses	184.1	186.1	169.5	8.6	188.3	-2.2	
EBITDA	206.0	230.8	168.6	22.2	161.0	28.0	
EBITDA Margin (%)	22.9	24.8	20.0	285 bps	19.4	349 bps	
Depreciation	75.3	76.5	61.6	22.2	73.6	2.3	
Interest	28.6	28.8	23.3	22.7	27.2	5.1	
Other Income	7.5	8.4	13.5	-44.4	8.0	-5.9	
Exceptional Item	0.00	0.00	0.00	NA	0.00	NA	
PBT	109.6	133.8	97.2	12.7	68.2	60.8	
Tax Outgo	26.50	33.7	24.9	6.3	17.1	55.0	
PAT	83.1	100.1	72.3	14.9	51.1	62.8	

Source: Company, ICICI Direct Research

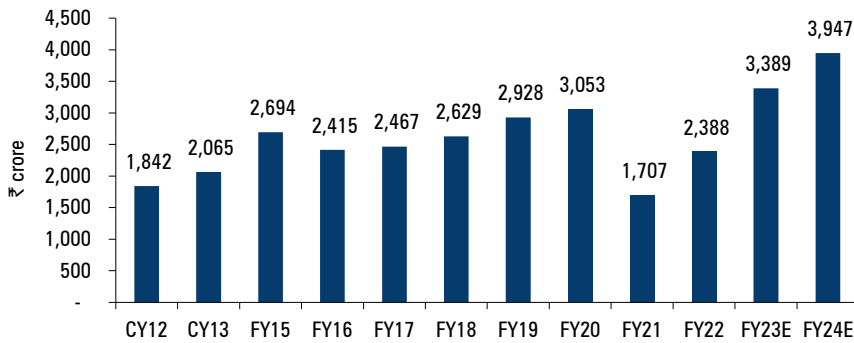
Exhibit 2: Change in estimates

(₹ Crore)	FY22	FY23E			FY24E		
	Actual	Old	New	% Change	Old	New	% Change
Revenue	2,387.7	3,446.1	3,388.7	-1.7	4,127.8	3,947.2	-4.4
EBITDA	415.6	816.7	776.0	-5.0	1,081.5	955.2	-11.7
EBITDA Margin (%)	17.4	23.7	22.9	-80 bps	26.2	24.2	-200 bps
PAT	100.9	347.5	312.6	-10.0	530.3	420.9	-20.6
EPS (₹)	7.9	27.0	24.3	-9.9	41.3	32.7	-20.7

Source: Company, ICICI Direct Research

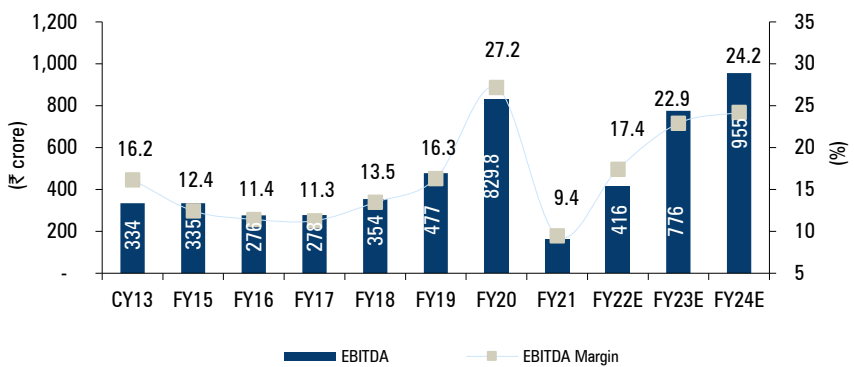
Financial story in charts

Exhibit 3: Revenue trend



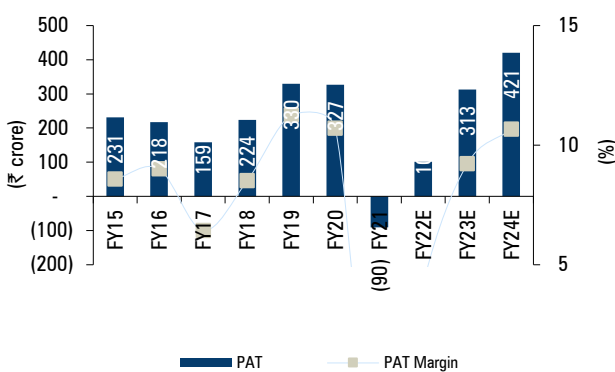
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA trend



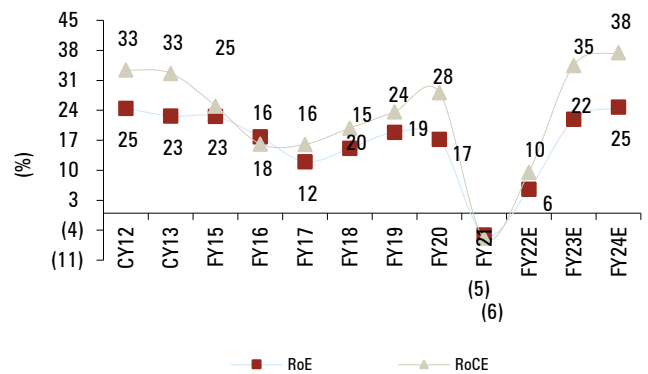
Source: Company, ICICI Direct Research

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	58.0	21.7	17.2	28.2
FY21	1707.3	-44.1	-7.0	PL	NA	110.8	-5.1	-5.9
FY22	2387.7	39.9	7.9	LP	187.9	43.3	5.6	9.6
FY23E	3388.7	41.9	24.3	209.9	60.6	23.9	21.9	34.5
FY24E	3947.2	16.5	32.7	34.6	45.0	19.3	24.8	37.5

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	1,707.3	2,387.7	3,388.7	3,947.2
Growth (%)	-44.1	39.9	41.9	16.5
Raw Material Expenses	837.5	1,086.9	1,501.2	1,736.7
Gross Margins (%)	50.9	54.5	55.7	56.0
Employee Expenses	339.8	378.7	416.8	465.8
Mfg, Admin & selling Exps	368.8	506.5	694.7	789.4
Total Operating Expenditure	1,546.1	1,972.1	2,612.7	2,991.9
EBITDA	161.2	415.6	776.0	955.2
Growth (%)	-80.6	157.8	86.7	23.1
Depreciation	264.7	241.9	283.7	317.5
Interest	103.5	92.8	110.4	114.8
Other Income	94.0	55.9	32.2	39.5
Exceptional Item	-4.6	0.0	0.0	0.0
PBT	-117.6	136.8	414.1	562.4
Growth (%)	-123.3	-221.1	202.7	35.8
Total Tax	-27.4	35.9	101.5	141.6
PAT	-90.2	100.9	312.6	420.9
Growth (%)	-127.6	LP	209.9	34.6
EPS (₹)	-7.0	7.9	24.3	32.7

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit After Tax	-90.2	100.9	312.6	420.9
Add: Depreciation	264.7	241.9	283.7	317.5
(Inc)/dec in Current Assets	323.6	-275.2	-379.4	-228.3
Inc/(dec) in CL and Provisions	-47.3	74.1	196.7	105.0
Others	0.0	0.0	0.0	0.0
CF from operating activities	450.8	141.8	413.7	615.1
(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	-397.3
CF from financing activities	-259.2	-259.9	-920.4	-397.3
Net Cash flow	131.4	-129.1	-586.7	137.8
Opening Cash	962.4	1,093.8	964.7	378.0
Closing Cash	1,093.8	964.7	378.0	515.7

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	64.3	64.3	64.3	64.3
Reserve and Surplus	1,695.5	1,750.0	1,362.2	1,635.8
Total Shareholders funds	1,759.8	1,814.2	1,426.5	1,700.0
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	2,520.7	2,794.2
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	1,114.1	1,276.1
Debtors	79.4	71.7	139.3	162.2
Loans and Advances	194.7	189.8	257.5	300.0
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	378.0	515.7
Total Current Assets	2,039.5	2,185.6	1,978.3	2,344.3
Current Liabilities	531.3	605.2	801.9	906.9
Provisions	10.7	10.9	10.9	10.9
Total Current Liabilities	542.0	616.1	812.8	917.8
Net Current Assets	1,497.5	1,569.5	1,165.4	1,426.4
Deferred Tax Assets	138.4	104.9	104.9	104.9
Application of Funds	2,792.1	2,908.4	2,520.7	2,794.2

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	-7.0	7.9	24.3	32.7
Cash EPS	13.6	26.7	46.4	57.4
BV	136.9	141.2	111.0	132.3
DPS	4.0	4.0	54.5	11.5
Cash Per Share	85.1	75.1	29.4	40.1
Operating Ratios				
EBITDA Margin (%)	9.4	17.4	22.9	24.2
PBT Margin (%)	-6.9	5.7	12.2	14.2
PAT Margin (%)	-5.3	4.2	9.2	10.7
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	21.9	24.8
RoCE	-5.9	9.6	34.5	37.5
RoIC	-13.6	11.9	30.0	35.7
Valuation Ratios (x)				
P/E	-	187.9	60.6	45.0
EV / EBITDA	110.8	43.3	23.9	19.3
EV / Net Sales	10.5	7.5	5.5	4.7
Market Cap / Sales	11.1	7.9	5.6	4.8
Price to Book Value	10.8	10.4	13.3	11.2
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	3.8	3.5	2.4	2.6
Quick Ratio	2.6	2.1	1.1	1.2

Source: Company, ICICI Direct Research

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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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