

## Tough business scenario delaying material improvement in operational 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 ₹ 535+ crore, negative working capital cycle and generating RoCE of 30%+

**Q4FY23 Results:** Bata India reported a better-than-expected performance both on the revenue and profitability front in Q4FY23.

- Bata reported revenue growth of 17% YoY to ₹ 779 crore, which was above our estimate of ₹ 738 crore
- Gross margins improved 80 bps YoY to 58.4% (I-direct estimate: 56%) and is inching closer to pre-Covid level (Q4FY20 levels : 58.8%). EBITDA margins were down 100 bps YoY at 23.4% (I-direct estimate: 22.8%, Q4FY20: 22.4%). Absolute EBITDA increased 12% YoY to ₹ 182.1 crore (I-direct estimate: ₹ 168.4 crore)
- Lower other income in Q4FY23 (down 46% YoY to ₹ 9.9 crore) curtailed PAT growth to 4% YoY at ₹ 65.6 crore (higher than I-direct estimate: ₹ 53.3 crore)

**What should investors do?** Bata, in the last five years, has delivered ~15% 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.

**Target Price and Valuation:** We maintain our **HOLD** rating with a revised target price of ₹ 1680 i.e. 42x FY25E 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 offices led to demand green shoots for formal and fashion categories
- Bata is also tapping Tier III-V cities through the franchise route. It added 29 stores (mostly franchise and SIS) in Q4FY23 taking total Franchise and SIS store count to 750+ stores (~37% of store network). Majority of expansion to be asset light mode aiding improvement in return ratios
- Enhanced distribution reach through MBOs with a presence in 1350+ towns
- The company has driven premiumisation across top 200 stores with price range of ₹ 2999 to ₹ 4999 which would aid in margin enhancement

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

- We have a BUY rating with a target price of ₹ 1730/share



### Particulars

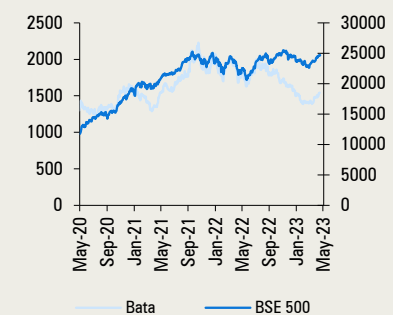
#### Stock Data

Particular	Amount
Market Capitalisation (₹ Crore)	19,677.6
Debt (FY23) (₹ Crore)	-
Cash (FY23) (₹ Crore)	531.2
EV (₹ Crore)	19,146.4
52 week H/L	2005/ 1381
Equity Capital (₹ Crore)	64.3
Face Value (₹)	5.0

### Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	53.0	50.2	50.2	50.2	50.2
FII	6.7	6.8	7.9	4.9	5.9
DII	27.4	30.1	29.0	31.6	30.6
Others	13.0	12.9	13.0	13.4	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

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### Key Financial Summary

₹ crore	FY20	FY21	FY22	FY23E	3 year CAGR (FY20-23)	FY24E	FY25E	2 year CAGR (FY23-25E)
Net Sales	2,928.4	3,053.5	2,387.7	3,451.6	5.6%	3,986.4	4,478.7	13.9%
EBITDA	477.3	829.8	418.5	793.8	18.5%	968.7	1,115.2	18.5%
PAT	329.7	327.0	103.0	323.0	-0.7%	424.0	513.5	26.1%
P/E (x)	59.7	60.2	191.1	60.9		46.4	38.3	
EV/Sales (x)	6.4	6.1	7.8	5.5		4.8	4.2	
EV/EBITDA (x)	39.5	22.6	44.7	24.1		19.8	17.0	
RoCE (%)	23.7	28.2	9.7	34.7		37.9	37.7	
RoE (%)	18.9	17.2	5.7	22.5		25.1	25.3	

## Key takeaways of Q4FY23 results

- On the demand front, the management indicated that over the last few quarters demand for casual and comfortable footwear was witnessing consistent demand. The demand for non-occasion wear footwear has been increasing and footfall across the retail segment has been improving
- On the network expansion front, Bata opened 29 stores during Q4FY23. The expansion is mostly through franchisee and SIS stores. The company currently has 2050 EBOs and store in store (SIS). Bata currently has 415+ franchise stores. 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 1350 towns for the first time
- Among categories, the company continued to enhance its focus on sneakers and has now implemented sneaker studios in 360+ stores. Bata continues to pursue fast paced growth in the sneakers category. The company expanded Floatz collection to 1000+ stores and Floatz achieved highest ever quarterly turnover with launch of Floatz 2.0 collection
- 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 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 22 stores in Q4FY23 with 111 store renovations in FY23 (capex of ₹ 20-50 lakh per store) and expects an improvement in same store sales growth (SSSG) in the renovated stores
- The management highlighted that it registered growth over pre-Covid levels for all key metrics and across all business channels of EBOs, MBOs and e-commerce
- On the strategy front, the company is planning to focus on volume based growth with premiumisation of certain categories. The company has driven premiumisation across top 200 stores with price range of ₹ 2999 to ₹ 4999 which would aid in margin enhancement
- The share of COCO stores has reduced from 76% in March 2021 to 60%+ in March 2023 due to higher share of new stores being opened on a franchise basis. 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 1350+ towns. On account of expansion in retail touch points and recovery in SSSG, we build in revenue CAGR of 14% in FY23-25E
- **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**

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue	778.6	738.4	665.2	17.0	900.0	-13.5	Revenue above estimates driven by improved demand for casual and comfortable footwear
Raw Material Expense	323.8	324.9	282.1	14.8	407.0	-20.4	
Gross Margin (%)	58.4	56.0	57.6	81 bps	54.8	363 bps	Reported gross margins improved 80 bps YoY on back of calibrated better product mix but still below pre-covid level of 58.8%
Employee Expense	103.9	103.4	95.2	9.2	102.9	1.0	
Rental Expenses	0.0	0.0	0.0	-	0.0	-	
Other Expenses	168.8	141.8	125.7	34.3	184.1	-8.3	
EBITDA	182.1	168.4	162.2	12.2	206.0	-11.6	
EBITDA Margin (%)	23.4	22.8	24.4	-100 bps	22.9	49 bps	
Depreciation	76.5	76.8	71.7	6.7	75.3	1.6	
Interest	27.2	29.2	24.5	11.1	28.6	-4.9	
Other Income	9.9	7.9	18.7	-46.8	7.5	32.5	
Exceptional Item	0.00	0.00	0.00	NA	0.00	NA	
PBT	88.3	70.3	84.7	4.2	109.6	-19.5	
Tax Outgo	22.67	17.0	21.6	4.8	26.5	-14.5	
PAT	65.6	53.3	63.1	4.0	83.1	-21.1	

Source: Company, ICICI Direct Research

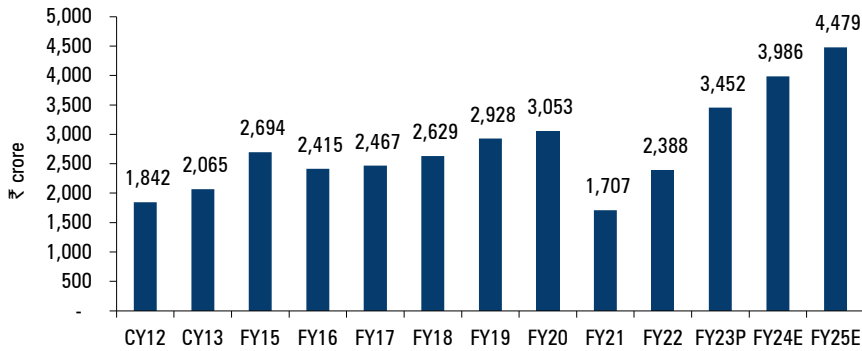
**Exhibit 2: Change in estimates**

(₹ Crore)	FY23P	FY24E			FY25E
	Actual	Old	New	% Change	Introduced
Revenue	3,451.6	3,947.2	3,986.4	1.0	4,478.7
EBITDA	793.8	955.2	968.7	1.4	1,115.2
EBITDA Margin (%)	23.0	24.2	24.3	10 bps	24.9
PAT	323.0	420.9	424.0	0.7	513.5
EPS (₹)	25.1	32.7	33.0	0.9	40.0

Source: Company, ICICI Direct Research

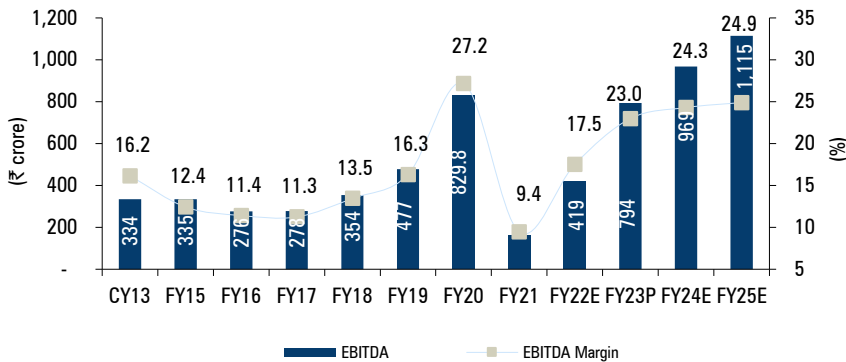
## Financial story in charts

Exhibit 3: Revenue trend



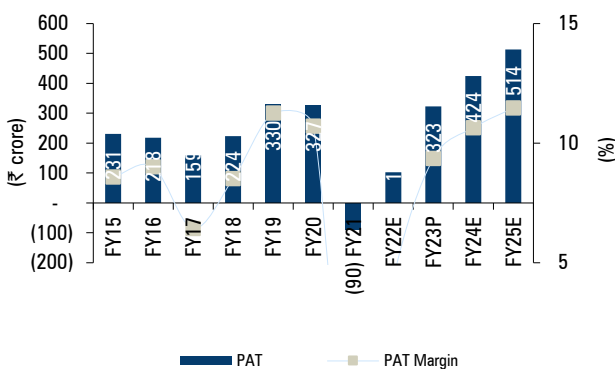
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA trend



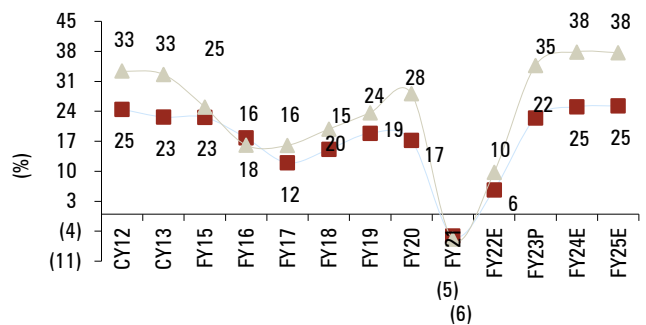
Source: Company, ICICI Direct Research

Exhibit 5: Net profit trend



Source: Company, ICICI Direct Research

Exhibit 6: Return ratio trend



Source: Company, ICICI Direct Research

Exhibit 7: Valuation

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY22	2387.7	39.9	8.0	LP	191.1	44.7	5.7	9.7
FY23P	3451.6	44.6	25.1	213.6	60.9	24.1	22.5	34.7
FY24E	3986.4	15.5	33.0	31.3	46.4	19.8	25.1	37.9
FY25E	4478.7	12.4	40.0	21.1	38.3	17.0	37.7	37.8

Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 8: Profit and loss statement ₹ crore

(Year-end March)	FY22	FY23P	FY24E	FY25E
<b>Total operating Income</b>	<b>2,387.7</b>	<b>3,451.6</b>	<b>3,986.4</b>	<b>4,478.7</b>
Growth (%)	39.9	44.6	15.5	12.4
Raw Material Expenses	1,086.8	1,513.6	1,674.3	1,858.7
Gross Margins (%)	54.5	56.1	58.0	58.5
Employee Expenses	378.7	418.7	474.4	519.5
Mfg, Admin & selling Exps	503.7	725.5	869.0	985.3
Total Operating Expenditure	1,969.2	2,657.8	3,017.7	3,363.5
<b>EBITDA</b>	<b>418.5</b>	<b>793.8</b>	<b>968.7</b>	<b>1,115.2</b>
Growth (%)	159.6	89.7	22.0	15.1
Depreciation	242.0	294.8	328.7	349.9
Interest	92.8	107.9	113.2	119.4
Other Income	56.0	38.7	39.9	40.3
Exceptional Item	0.0	0.0	0.0	0.0
PBT	139.7	429.8	566.7	686.2
Growth (%)	-223.6	207.7	31.8	21.1
Total Tax	36.7	106.8	142.6	172.7
<b>PAT</b>	<b>103.0</b>	<b>323.0</b>	<b>424.0</b>	<b>513.5</b>
Growth (%)	-214.2	LP	31.3	21.1
<b>EPS (₹)</b>	<b>8.0</b>	<b>25.1</b>	<b>33.0</b>	<b>40.0</b>

Source: Company, ICICI Direct Research

### Exhibit 9: Cash flow statement ₹ crore

(Year-end March)	FY22	FY23P	FY24E	FY25E
Profit After Tax	103.0	323.0	424.0	513.5
Add: Depreciation	242.0	294.8	328.7	349.9
(Inc)/dec in Current Assets	-275.2	-10.1	-620.7	-217.8
Inc/(dec) in CL and Provisions	74.1	-29.2	318.8	83.3
Others	0.0	0.0	0.0	0.0
<b>CF from operating activities</b>	<b>143.9</b>	<b>578.5</b>	<b>450.9</b>	<b>728.9</b>
(Inc)/dec in Fixed Assets	-73.0	-96.2	-80.0	-80.0
(Inc)/dec in CWIP	28.4	1.4	0.0	0.0
(Inc)/dec in Investments	0.1	4.4	0.0	0.0
Others	33.5	-143.7	0.0	0.0
<b>CF from investing activities</b>	<b>-10.9</b>	<b>-234.2</b>	<b>-80.0</b>	<b>-80.0</b>
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	-264.9	-775.0	-433.0	-448.0
<b>CF from financing activities</b>	<b>-264.9</b>	<b>-775.0</b>	<b>-433.0</b>	<b>-448.0</b>
Net Cash flow	-131.9	-430.6	-62.1	200.9
Opening Cash	1,093.8	961.8	531.2	469.1
<b>Closing Cash</b>	<b>961.9</b>	<b>531.2</b>	<b>469.1</b>	<b>669.9</b>

Source: Company, ICICI Direct Research

### Exhibit 10: Balance Sheet ₹ crore

(Year-end March)	FY22	FY23P	FY24E	FY25E
<b>Liabilities</b>				
Equity Capital	64.3	64.3	64.3	64.3
Reserve and Surplus	1,747.1	1,373.9	1,625.0	1,965.5
Total Shareholders funds	1,811.3	1,438.2	1,689.2	2,029.8
Total Debt	-	-	-	-
Deferred Tax Liability	-	-	-	-
Others	1,094.2	1,246.4	1,246.4	1,246.4
<b>Total Liabilities</b>	<b>2,905.5</b>	<b>2,684.6</b>	<b>2,935.7</b>	<b>3,276.2</b>
<b>Assets</b>				
Gross Block	716.1	812.2	892.2	972.2
Less: Accu Depreciation	412.7	476.4	545.1	620.0
Net Block	303.3	335.8	347.1	352.3
Capital WIP	5.2	3.8	3.8	3.8
Intangible Assets under develop	-	-	-	-
Total Fixed Assets	308.5	339.6	350.9	356.0
Investments	4.9	0.5	0.5	0.5
Inventory	870.9	904.6	1,288.7	1,447.9
Debtors	71.7	82.6	163.8	184.1
Loans and Advances	189.8	148.7	303.0	340.4
Other Non-Current Assets	920.7	1,056.0	1,056.0	1,056.0
Other Current Assets	88.5	95.2	96.1	97.1
Cash	961.8	531.2	469.1	669.9
Total Current Assets	2,182.7	1,762.2	2,320.7	2,739.4
Current Liabilities	605.2	579.4	898.2	981.5
Provisions	10.9	7.6	7.6	7.6
Total Current Liabilities	616.1	587.0	905.8	989.1
Net Current Assets	1,566.6	1,175.2	1,415.0	1,750.3
Deferred Tax Assets	104.9	113.3	113.3	113.3
<b>Application of Funds</b>	<b>2,905.5</b>	<b>2,684.6</b>	<b>2,935.7</b>	<b>3,276.2</b>

Source: Company, ICICI Direct Research

### Exhibit 11: Key ratios

(Year-end March)	FY22	FY23P	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	8.0	25.1	33.0	40.0
Cash EPS	26.8	48.1	58.6	67.2
BV	140.9	111.9	131.4	157.9
DPS	4.0	54.2	13.5	13.5
Cash Per Share	74.8	41.3	36.5	52.1
<b>Operating Ratios</b>				
EBITDA Margin (%)	17.5	23.0	24.3	24.9
PBT Margin (%)	5.9	12.5	14.2	15.3
PAT Margin (%)	4.3	9.4	10.6	11.5
Inventory days	133.1	120.0	118.0	118.0
Debtor days	11.0	15.0	15.0	15.0
Creditor days	153.2	158.0	158.0	158.0
<b>Return Ratios (%)</b>				
RoE	5.7	22.5	25.1	25.3
RoCE	9.7	34.7	37.9	37.7
RoIC	12.2	35.6	34.8	37.8
<b>Valuation Ratios (x)</b>				
P/E	191.1	60.9	46.4	38.3
EV / EBITDA	44.7	24.1	19.8	17.0
EV / Net Sales	7.8	5.5	4.8	4.2
Market Cap / Sales	8.2	5.7	4.9	4.4
Price to Book Value	10.9	13.7	11.6	9.7
<b>Solvency Ratios</b>				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	3.5	3.0	2.6	2.8
Quick Ratio	2.1	1.5	1.1	1.3

Source: Company, ICICI Direct Research

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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%



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