

**BUY**

Target Price: Rs 580

 CMP : Rs 530  
 Potential Upside : 9%

**MARKET DATA**

No. of Shares	: 129 mn
Free Float	: 47%
Market Cap	: Rs 68 bn
52-week High / Low	: Rs 614 / Rs 400
Avg. Daily vol. (6mth)	: 521,790 shares
Bloomberg Code	: BATA IB Equity
Promoters Holding	: 53%
FII / DII	: 6% / 23%

**BATA INDIA**

RETAIL

## Positive takeaways from media interaction

Mr. Gopalakrishnan, MD and CEO of Bata India, stated in an interview that impact of demonetization on Bata sales lasted for only two weeks; the company came back strongly, posting double-digit sales growth in Jan- Feb' 17. Over long term, the focus continues on key strategic changes like (i) expanding into smaller cities through franchise route, (ii) increasing its advertisement spend to appeal to younger customers and (iii) increasing its gross margin through premium product mix.

We believe that effective implementation of these initiatives coupled with improving macro environment in a category dominated by unorganized will improve the sales growth. We estimate 20% EPS CAGR over FY17-20E. Maintain **BUY** with TP of Rs 580 based on fwd P/E of 29x.

### Key highlights from media interactions

- Bata has 1,300 retail stores which contribute 80-85% to sales. The company plans to open 100 company-owned stores annually to improve its presence in larger cities. In tier 2/3 cities, it is likely to follow asset light model for expansion and guided for adding 50 franchise stores annually
- The company has 100 standalone stores for the premium licensed brand Hush Puppies, and sells over 1 mn pairs. The management has identified double-digit growth potential for the brand by expanding into smaller cities
- Increasing disposable income and higher consumption by younger consumers will lead to the premiumization of product mix, as per the management. Mr. Gopalakrishnan guided to increase the gross margin by 100bps
- Bata has appointed O&M as its advertising agency as the company looks at improving its brand appeal to younger consumers. Mr. Gopalakrishnan highlighted that the company is likely to increase its media spend from 1% of sales to about 2.5% of sales

### Financial summary (Standalone)

Y/E March	FY16	FY17E	FY18E	FY19E
Sales (Rs mn)	24,170	24,631	28,080	32,028
Adj PAT (Rs mn)	1,640	1,796	2,138	2,372
Con. EPS* (Rs)	-	-	-	-
EPS (Rs)	12.8	14.0	16.6	20.0
Change YOY (%)	(1.9)	9.5	19.0	20.3
P/E (x)	41.6	38.0	31.9	26.5
RcE (%)	14.9	14.5	15.6	16.9
RcCE (%)	18.1	19.3	21.2	22.8
EV/E (x)	24.1	23.4	18.5	15.3
DPS (Rs)	3.5	4.0	5.0	6.0

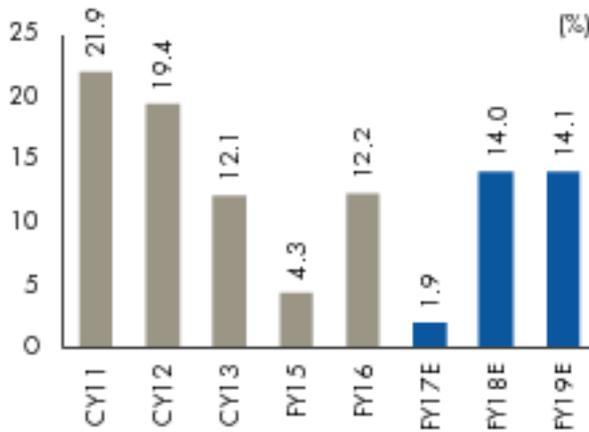
Source: \*Consensus broker estimates, Company, Axis Capital

### Key drivers

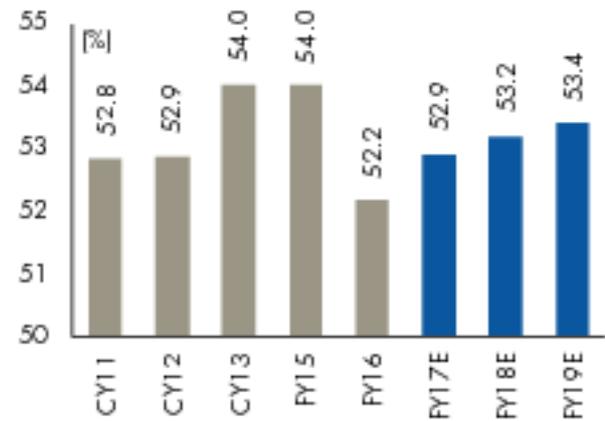
(%)	FY17E	FY18E	FY19E
Sales growth	1.9	14.0	14.1
Gross margin	52.9	53.2	53.4
EBITDA margin	11.2	12.2	13.0

### Price performance

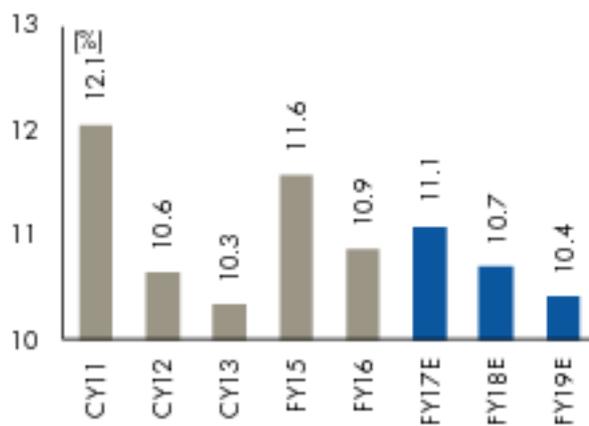


**Exhibit 1: Sales growth**


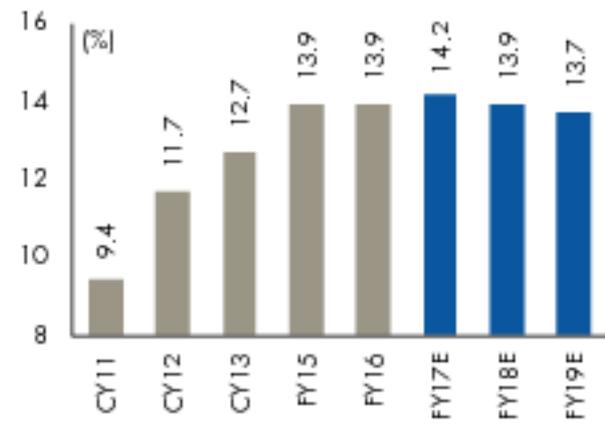
Source: Company, Axis Capital

**Exhibit 2: Gross margin**


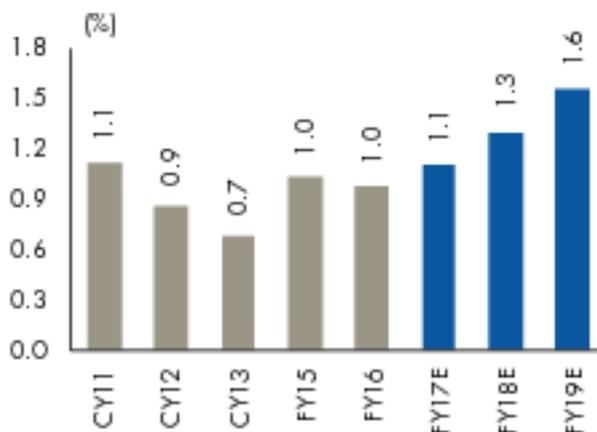
Source: Company, Axis Capital

**Exhibit 3: Employee cost to sales**


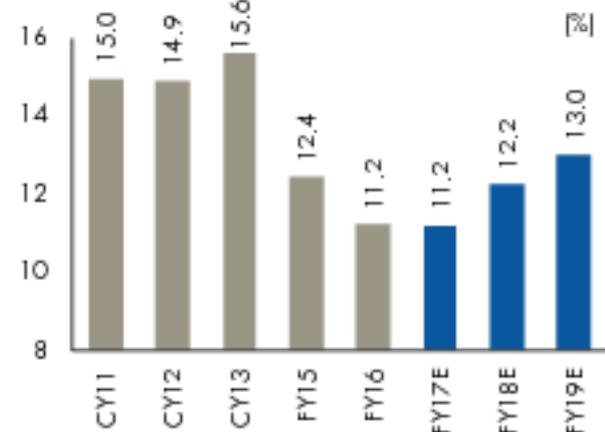
Source: Company, Axis Capital

**Exhibit 4: Rent to sales**


Source: Company, Axis Capital

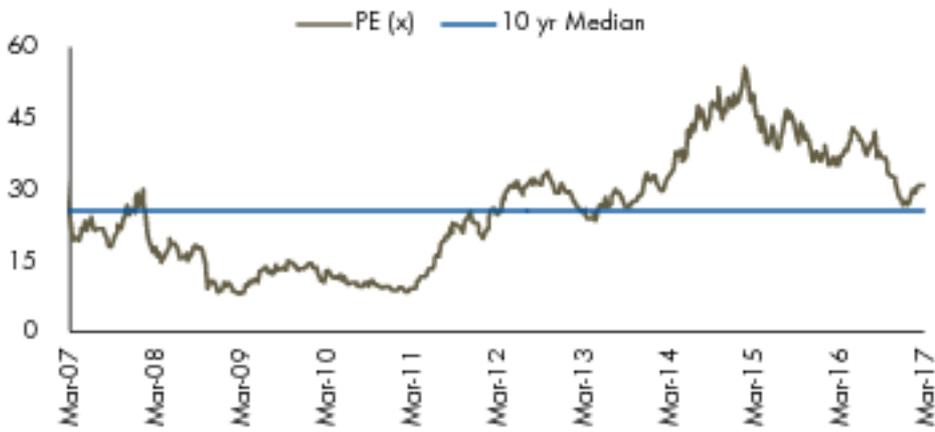
**Exhibit 5: A&P to sales**


Source: Company, Axis Capital

**Exhibit 6: EBITDA margin**


Source: Company, Axis Capital

**Exhibit 7: 1-year forward PE**



Source: Company Axis Capital

## Financial summary (Standalone)

### Profit & loss (Rs mn)

Y/E March	FY16	FY17E	FY18E	FY19E
Net sales	24,170	24,631	28,080	32,028
Other operating income	11	13	14	15
<b>Total operating income</b>	<b>24,181</b>	<b>24,644</b>	<b>28,094</b>	<b>32,043</b>
Cost of goods sold	(11,560)	(11,601)	(13,141)	(14,925)
Gross profit	12,620	13,043	14,952	17,118
<i>Gross margin (%)</i>	<i>52.2</i>	<i>53.0</i>	<i>53.2</i>	<i>53.4</i>
Total operating expenses	(9,914)	(10,290)	(11,516)	(12,961)
<b>EBITDA</b>	<b>2,706</b>	<b>2,752</b>	<b>3,436</b>	<b>4,158</b>
<i>EBITDA margin (%)</i>	<i>11.2</i>	<i>11.2</i>	<i>12.2</i>	<i>13.0</i>
Depreciation	(752)	(653)	(769)	(877)
<b>EBIT</b>	<b>1,954</b>	<b>2,099</b>	<b>2,666</b>	<b>3,281</b>
Net interest	(17)	(15)	(15)	(15)
Other income	301	518	516	517
<b>Profit before tax</b>	<b>2,984</b>	<b>2,603</b>	<b>3,167</b>	<b>3,783</b>
Total taxation	(797)	(807)	(1,029)	(1,210)
<i>Tax rate (%)</i>	<i>26.7</i>	<i>31.0</i>	<i>32.5</i>	<i>32.0</i>
Profit after tax	2,187	1,796	2,138	2,572
Minorities	-	-	-	-
Profit/ Loss associate co(s)	(613)	-	-	-
Adjusted net profit	1,640	1,796	2,138	2,572
<i>Adj. PAT margin (%)</i>	<i>6.8</i>	<i>7.3</i>	<i>7.6</i>	<i>8.0</i>
Net non-recurring items	613	-	-	-
Reported net profit	2,253	1,796	2,138	2,572

### Balance sheet (Rs mn)

Y/E March	FY16	FY17E	FY18E	FY19E
Paid-up capital	643	643	643	643
Reserves & surplus	11,188	12,382	13,768	15,438
Net worth	11,830	13,024	14,410	16,080
Borrowing	400	420	441	463
Other non-current liabilities	1,029	456	1,237	694
<b>Total liabilities</b>	<b>13,259</b>	<b>13,901</b>	<b>16,088</b>	<b>17,238</b>
Gross fixed assets	7,498	8,948	10,398	11,848
Less: Depreciation	(4,483)	(5,136)	(5,906)	(6,782)
Net fixed assets	3,015	3,812	4,492	5,066
Add: Capital WIP	196	106	107	108
Total fixed assets	3,212	3,918	4,599	5,174
Total investment	2,554	3,054	3,554	4,054
Inventory	6,789	7,113	7,812	8,860
Debtors	696	451	780	589
Cash & bank	901	1,086	1,415	1,052
Loans & advances	409	271	309	352
Current liabilities	4,205	4,541	5,103	5,758
Net current assets	4,691	4,481	5,315	5,197
Other non-current assets	2,803	2,448	2,620	2,813
<b>Total assets</b>	<b>13,259</b>	<b>13,901</b>	<b>16,088</b>	<b>17,238</b>

Source: Company, Axis Capital Note: #The company has changed its financial year ending to March from December. Thus, the current financial year will be for 13 months

### Cash flow (Rs mn)

Y/E March	FY16	FY17E	FY18E	FY19E
Profit before tax	2,984	2,603	3,167	3,783
Depreciation & Amortisation	752	653	769	877
<i>Chg in working capital</i>	<i>(474)</i>	<i>177</i>	<i>104</i>	<i>(981)</i>
<b>Cash flow from operations</b>	<b>2,044</b>	<b>2,123</b>	<b>2,511</b>	<b>1,966</b>
<i>Capital expenditure</i>	<i>(404)</i>	<i>(1,360)</i>	<i>(1,451)</i>	<i>(1,451)</i>
<b>Cash flow from investing</b>	<b>(1,160)</b>	<b>(1,341)</b>	<b>(1,435)</b>	<b>(1,434)</b>
<i>Equity raised/ (repaid)</i>	-	-	-	-
<i>Debt raised/ (repaid)</i>	-	20	21	22
<i>Dividend paid</i>	<i>(502)</i>	<i>(602)</i>	<i>(752)</i>	<i>(902)</i>
<b>Cash flow from financing</b>	<b>(519)</b>	<b>(596)</b>	<b>(746)</b>	<b>(895)</b>
Net chg in cash	365	185	330	(363)

### Key ratios

Y/E March	FY16	FY17E	FY18E	FY19E
<b>OPERATIONAL</b>				
FDEPS (Rs)	12.8	14.0	16.6	20.0
CEPS (Rs)	23.4	19.1	22.6	26.8
DPS (Rs)	3.5	4.0	5.0	6.0
Dividend payout ratio (%)	20.0	28.6	30.1	30.0
<b>GROWTH</b>				
Net sales (%)	12.2	1.9	14.0	14.1
EBITDA (%)	1.0	1.7	24.8	21.0
Adj net profit (%)	(1.9)	9.5	19.0	20.3
FDEPS (%)	(1.9)	9.5	19.0	20.3
<b>PERFORMANCE</b>				
RoE (%)	14.9	14.5	15.6	16.9
RoCE (%)	18.1	19.3	21.2	22.8
<b>EFFICIENCY</b>				
Asset turnover (x)	2.8	2.7	2.9	3.0
Sales/ total assets (x)	1.4	1.4	1.4	1.4
Working capital/ sales (x)	0.1	0.1	0.1	0.1
Receivable days	10.5	6.7	10.1	6.7
Inventory days	115.4	118.6	115.6	116.0
Payable days	55.2	58.4	57.5	57.1
<b>FINANCIAL STABILITY</b>				
Total debt/ equity (x)	-	-	-	-
Net debt/ equity (x)	(0.3)	(0.3)	(0.3)	(0.3)
Current ratio (x)	2.1	2.0	2.0	1.9
Interest cover (x)	113.4	139.9	177.8	218.7
<b>VALUATION</b>				
PE (x)	41.6	38.0	31.9	26.5
EV/ EBITDA (x)	24.1	23.4	18.5	15.3
EV/ Net sales (x)	2.7	2.6	2.3	2.0
PB (x)	5.8	5.2	4.7	4.2
Dividend yield (%)	0.7	0.8	0.9	1.1
Free cash flow yield (%)	2.4	1.1	1.6	0.8

Source: Company, Axis Capital

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<b>HOLD</b>	Between 10% and -10%
<b>SELL</b>	Less than -10%

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