AXIS DIRECT

BATA INDIA

RETAIL

23 MAY 2017 Quarterly Update

BUY

Target Price: Rs 630

Sales growth recovers

Sales grew 8.7% YoY despite consumer fatigue in Mar'17 after an extended End of Season Sale (EoSS).Gross margin declined 220bpsYoY on higher EoSS contribution, but EBITDA margin decline eased to 76bps on positive operating leverage (staff, rent, and other expenses down 40bps, 30bps, and 80bps YoY). Adj. PAT grew 27% on lower depreciation (driven by store rationalization) and high tax base.

We see long-term benefits from key strategic changes like expanding into smaller cities through franchise model and focusing on increasing appeal to the youth and women (through higher advertising spends and new product launches). Even low- to mid-teen sales growth will help it to recover from 9-year low EBITDA margin of 11%. Maintain **BUY** with revised TP of Rs 630based on 29x fwd P/E (Rs 580 earlier).

CMP	: Rs 575
Potential Upside	: 10%

MARKET DATA

No. of Shares	: 129 mn
Free Float	: 47%
Market Cap	: Rs 74 bn
52-week High / Low	: Rs 614 / Rs 400
Avg. Daily vol. (6mth)	: 526,321 shares
Bloomberg Code	: BATA IB Equity
Promoters Holding	: 53%
FII / DII	: 7% / 21%

Key highlights

- **Sales growth despite customer fatigue post EoSS completion:**Double-digit sales growth in Jan-Feb'17 was onlypartially softened in Mar'17,as customers stayed away from shopping in general after the completion of an extended EoSS. Bata's sales grew 8.7%, while some apparel and footwear retailers faced pressure from weak demand in March (Relaxo sales grew 3%, Shoppers Stop sales grew 3%, Madura Lifestyle brands grew 4%)
- **Strategic changes inspire confidence in long run:**Management undertook store network rationalizationand has been focusing on expanding into smaller cities through the asset light franchise route. Bata is also working on increasing brand appeal to the youth by (i) new launches in sub-brands like *Power* and *Weinbrenner*, (ii) expanding communication reach as it plans to doubleits A&P budget in FY18 (Bata spent 1% of sales on advertising in FY16 vs. 9% by Relaxo), and (iii) getting associated with contemporary events like the fbb Colors Femina Miss India 2017. Bata, in our view, is also a key beneficiary of GST both from a rate perspective [footwear at >Rs1,000 is taxed (VAT + excise) at highest rate of 25%]as well as the expected shift from unorganized to organized

Financial summary (Standalone)

Y/E March	FY16	FY17P	FY18E	FY19E
Sales (Rs mn)	24,170	24,660	27,801	31,710
Adj PAT (Rs mn)	1,640	1,634	2,194	2,660
Con. EPS* (Rs)	-	-	15.3	18.2
EPS (Rs)	12.8	12.7	17.1	20.7
Change YOY (%)	(1.9)	(0.3)	34.2	21.2
P/E (x)	45.1	45.2	33.7	27.8
RoE (%)	14.9	13.0	15.7	17.1
RoCE (%)	18.1	18.9	21.0	22.8
EV/E (x)	26.2	25.5	20.5	16.3
DPS (Rs)	3.5	3.5	5.0	6.0

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

(%)	FY17P	FY18E	FY19E
Sales growth	2.0	12.7	14.1
Gross margin	52.8	53.1	53.4
EBITDA margin	11.0	12.2	13.0

Price performance

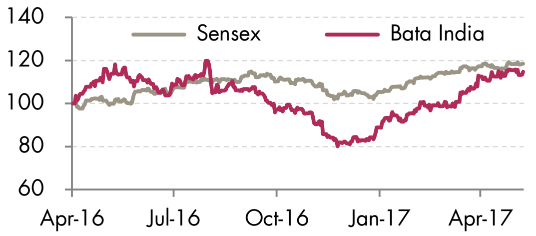
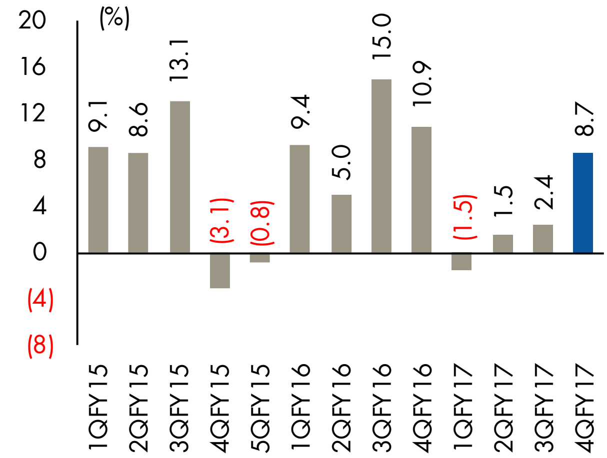


Exhibit 1: Results update

	Quarter ended				
(Rs. mn)	Mar-17	Mar-16	YoY	Dec-16	QoQ
Total revenue	5,914	5,440	8.7	6,408	(7.7)
Raw material cost	2,714	2,376	14.2	3,039	(10.7)
(% of Net Sales)	45.9	43.7	222 bps	47.5	-154 bps
Employee cost	718	680	5.5	658	9.1
(% of Net Sales)	12.1	12.5	-37 bps	10.3	187 bps
Rent	941	881	6.7	899	4.7
(% of Net Sales)	15.9	16.2	-30 bps	14.0	188 bps
Other expenses	975	939	3.8	1,055	(7.7)
(% of Net Sales)	16.5	17.3	-79 bps	16.5	0 bps
EBIDTA	**567**	**563**	**0.7**	**757**	**(25.1)**
EBITDA margin (%)	9.6	10.4	-76 bps	11.8	-222 bps
Other income	122	101	20.7	190	(35.8)
PBIDT	**689**	**664**	**3.8**	**947**	**(27.3)**
Depreciation	166	206	(19.3)	162	2.8
Interest	16	5	224.1	5	192.5
PBT	**507**	**453**	**11.9**	**780**	**(35.0)**
Tax	147	170	(13.5)	186	(20.7)
Adjusted PAT	**359**	**282**	**27.3**	**522**	**(31.2)**
Extra ordinary income/ (exp.)	0	0	-	(217)	-
Reported PAT	**359**	**282**	**27.3**	**377**	**(4.7)**

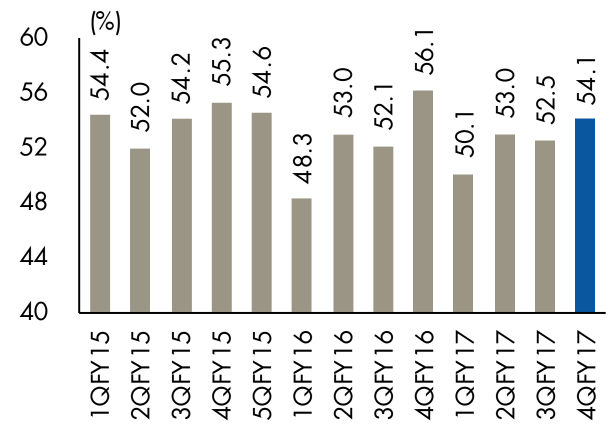
Source: Company, Axis Capital

Exhibit 2: Sales growth



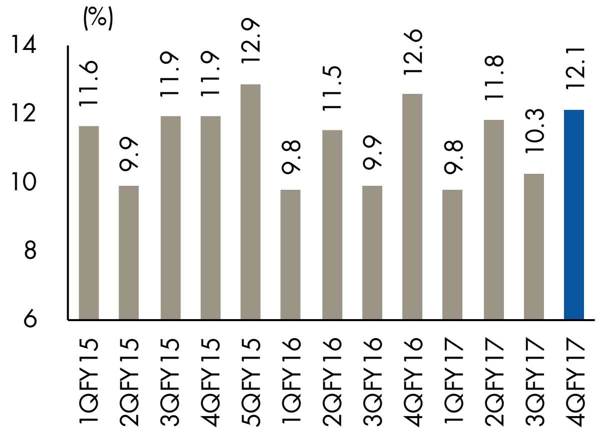
Source: Company, Axis Capital

Exhibit 3: Gross margin



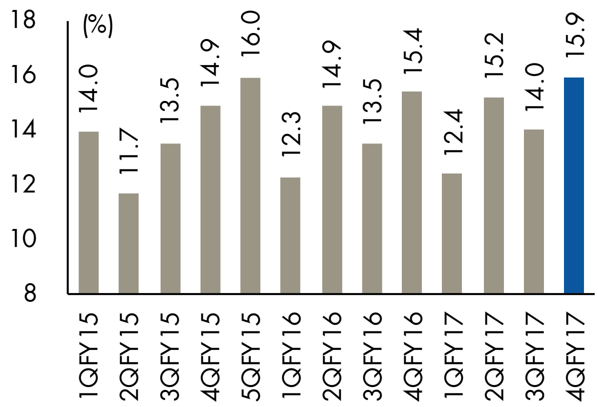
Source: Company, Axis Capital

Exhibit 4: Employee cost to sales



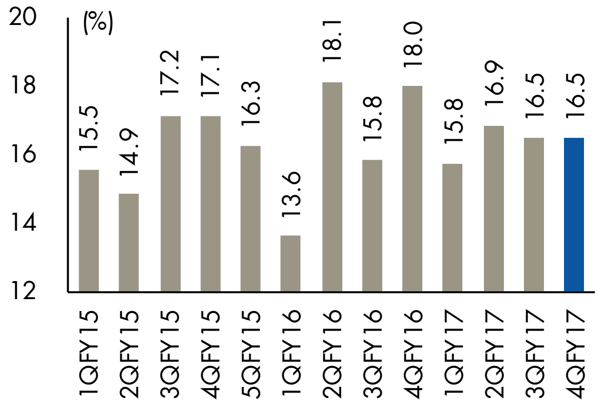
Source: Company, Axis Capital

Exhibit 5: Rent to sales



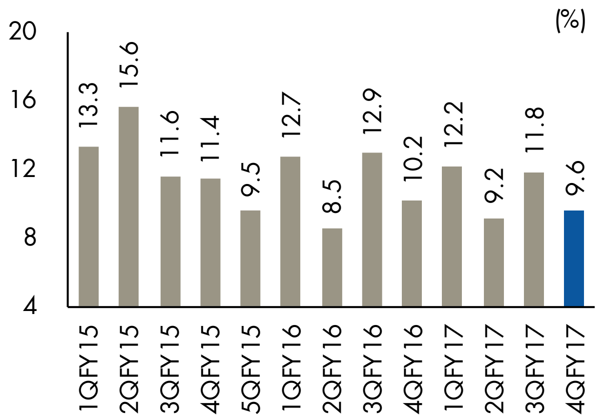
Source: Company, Axis Capital

Exhibit 6: Other expense to sales



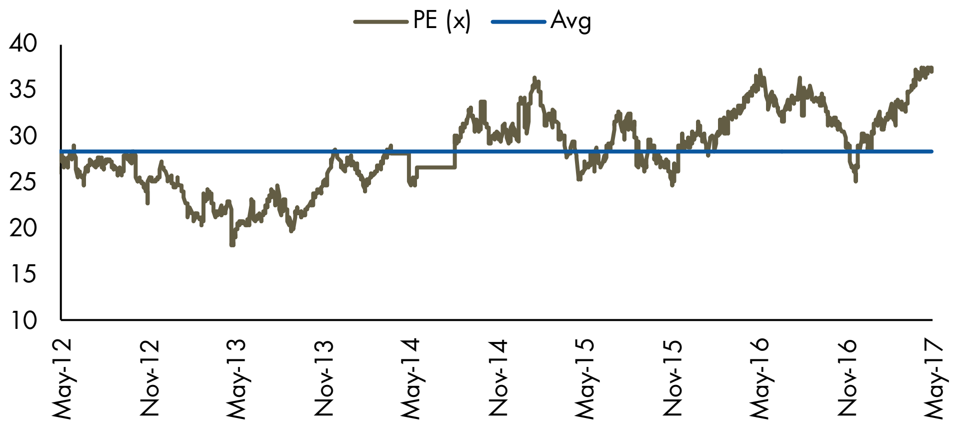
Source: Company, Axis Capital

Exhibit 7: EBITDA margin



Source: Company, Axis Capital

Exhibit 8: 1-year forward PE



Source: Company Axis Capital

Financial summary (Standalone)

Profit &loss (Rs mn)

Y/E March	FY16	FY17P	FY18E	FY19E
Net sales	24,170	24,660	27,801	31,710
Other operating income	11	11	12	14
Total operating income	**24,181**	**24,672**	**27,814**	**31,724**
Cost of goods sold	(11,560)	(11,632)	(13,039)	(14,777)
Gross profit	12,620	13,039	14,775	16,947
Gross margin (%)	*52.2*	*52.9*	*53.1*	*53.4*
Total operating expenses	(9,914)	(10,324)	(11,394)	(12,823)
EBITDA	**2,706**	**2,715**	**3,381**	**4,124**
EBITDA margin (%)	*11.2*	*11.0*	*12.2*	*13.0*
Depreciation	(752)	(650)	(683)	(790)
EBIT	**1,954**	**2,065**	**2,698**	**3,334**
Net interest	(17)	(40)	(15)	(15)
Other income	301	574	567	593
Profit before tax	**2,984**	**2,383**	**3,250**	**3,912**
Total taxation	(797)	(748)	(1,056)	(1,252)
Tax rate (%)	*26.7*	*31.4*	*32.5*	*32.0*
Profit after tax	2,187	1,634	2,194	2,660
Minorities	-	-	-	-
Profit/ Loss associate co(s)	(613)	-	-	-
Adjusted net profit	1,640	1,634	2,194	2,660
Adj. PAT margin (%)	*6.8*	*6.6*	*7.9*	*8.4*
Net non-recurring items	613	-	-	-
Reported net profit	2,253	1,634	2,194	2,660

Balance sheet (Rs mn)

Y/E March	FY16	FY17P	FY18E	FY19E
Paid-up capital	643	643	643	643
Reserves & surplus	11,188	12,610	14,030	15,762
Net worth	11,830	13,253	14,673	16,405
Borrowing	400	402	422	443
Other non-current liabilities	1,029	1,040	1,245	1,187
Total liabilities	**13,259**	**14,694**	**16,340**	**18,035**
Gross fixed assets	7,498	7,779	9,229	10,679
Less: Depreciation	(4,483)	(5,133)	(5,816)	(6,606)
Net fixed assets	3,015	2,646	3,413	4,073
Add: Capital WIP	196	312	312	312
Total fixed assets	3,212	2,958	3,725	4,385
Total Investment	2,554	4,642	4,642	5,142
Inventory	6,789	7,054	8,179	8,675
Debtors	696	671	852	799
Cash & bank	901	617	506	1,968
Loans & advances	409	294	306	349
Current liabilities	4,205	4,532	4,724	6,328
Net current assets	4,691	4,372	5,385	5,729
Other non-current assets	2,803	2,723	2,589	2,780
Total assets	**13,259**	**14,694**	**16,340**	**18,035**

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 15 months

Cash flow (Rs mn)

Y/E March	FY16	FY17P	FY18E	FY19E
Profit before tax	2,984	2,383	3,250	3,912
Depreciation & Amortisation	752	650	683	790
Chg in working capital	*(474)*	*111*	*(784)*	*869*
Cash flow from operations	2,044	2,192	1,540	3,741
Capital expenditure	*(404)*	*(396)*	*(1,450)*	*(1,450)*
Cash flow from investing	(1,160)	(1,895)	(883)	(1,357)
Equity raised/ (repaid)	-	-	-	-
Debt raised/ (repaid)	-	*2*	*20*	*21*
Dividend paid	*(502)*	*(542)*	*(774)*	*(928)*
Cash flow from financing	(519)	(580)	(769)	(922)
Net chg in cash	365	(284)	(111)	1,462

Key ratios

Y/E March	FY16	FY17P	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	12.8	12.7	17.1	20.7
CEPS (Rs)	23.4	17.8	22.4	26.8
DPS (Rs)	3.5	3.5	5.0	6.0
Dividend payout ratio (%)	20.0	27.5	29.3	29.0
GROWTH				
Net sales (%)	12.2	2.0	12.7	14.1
EBITDA (%)	1.0	0.3	24.5	22.0
Adj net profit (%)	(1.9)	(0.3)	34.2	21.2
FDEPS (%)	(1.9)	(0.3)	34.2	21.2
PERFORMANCE				
RoE (%)	14.9	13.0	15.7	17.1
RoCE (%)	18.1	18.9	21.0	22.8
EFFICIENCY				
Asset turnover (x)	2.8	2.9	3.0	3.2
Sales/ total assets (x)	1.4	1.3	1.4	1.4
Working capital/ sales (x)	0.1	0.2	0.2	0.1
Receivable days	10.5	9.9	11.2	9.2
Inventory days	115.4	117.3	122.2	114.7
Payable days	55.2	67.7	53.0	65.7
FINANCIAL STABILITY				
Total debt/ equity (x)	-	-	-	-
Net debt/ equity (x)	(0.3)	(0.4)	(0.3)	(0.4)
Current ratio (x)	2.1	2.0	2.1	1.9
Interest cover (x)	113.4	51.2	179.9	222.3
VALUATION				
PE (x)	45.1	45.2	33.7	27.8
EV/ EBITDA (x)	26.2	25.5	20.5	16.3
EV/ Net sales (x)	2.9	2.8	2.5	2.1
PB (x)	6.2	5.6	5.0	4.5
Dividend yield (%)	0.6	0.6	0.9	1.0
Free cash flow yield (%)	2.2	2.4	0.1	3.1

Source: Company, Axis Capital

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HOLD	Between 10% and -10%
SELL	Less than -10%

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