

October 4, 2017

₹ 710

Bata India (BATIND)

On a strong footing...

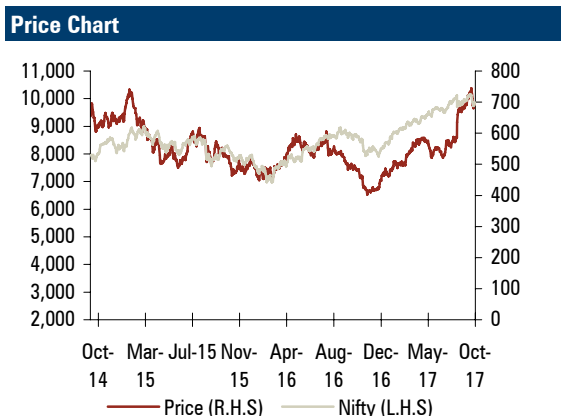
Rating matrix		
Rating	:	Buy
Target	:	₹ 880
Target Period	:	12 months
Potential Upside	:	24%

What's changed?	
Target	Changed from ₹ 700 to ₹ 880
EPS FY18E	Changed from ₹ 17.5 to ₹ 17.9
EPS FY19E	Changed from ₹ 21.8 to ₹ 22.0
EPS FY20E	Introduced at ₹ 28.4
Rating	Unchanged

Key financials				
(₹ crore)	FY17	FY18E	FY19E	FY20E
Net Sales	2,467	2,755	3,158	3,632
EBITDA	278	350	428	529
Net Profit	159	230	283	365
EPS (₹)	12.4	17.9	22.0	28.4

Valuation summary				
	FY17	FY18E	FY19E	FY20E
P/E	57.5	39.7	32.2	25.0
Target P/E	71.3	49.3	39.9	31.0
EV to EBITDA	31.0	24.3	19.7	15.8
Price to book	6.9	6.1	5.3	4.6
RONW (%)	12.0	15.3	16.5	18.3
ROCE (%)	16.0	18.4	20.1	21.8

Stock data	
Particular	Amount
Market Capitalisation (₹ Crore)	9,125.5
Debt (FY17) (₹ Crore)	-
Cash (FY17) (₹ Crore)	622.6
EV (₹ Crore)	8,502.9
52 week H/L	750 / 400
Equity Capital (₹ Crore)	64.3
Face Value (₹)	5



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- Bata India is a major player in the Indian footwear market with a presence across men's, women's and kid's footwear segment with price points ranging from the mass market to the premium category. It has a pan-India presence with the largest network of retail stores in the footwear industry with ~1300 stores in both metros and Tier I, Tier 2 cities. This enables it to garner a higher market share compared to other competitors
- Over the past couple of years, with the change in consumer preferences, Bata has constantly focused on tapping the fashion conscious youth, working women and children through introduction of latest and trendier styles of footwear. In the recent past, Bata has launched stylish ranges such as 'European Collection' and 'The Buckline'. Bata's gradual shift towards premiumisation is evident since average realisation per footwear rose 8% YoY to ₹ 530/pair in FY17. Consequently, due to the improved product mix, gross profit per footwear increased 10% YoY to ₹ 280/pair in FY17
- In addition, Bata is also focusing on increasing its online presence through innovations to provide a user friendly shopping experience on mobile application and websites with interactive interfaces. Bata plans to expand its online presence via placement of online kiosks in major retail stores, tie up with payment banks and increasing the presence of product offerings through partner websites. In FY17, Bata sold 6.3 lakh pairs of footwear (3.8 lakh in FY16) through online channel and achieved revenue of ₹ 69.2 crore (₹ 36 crore in FY16)
- With green shoots visible in Q1FY18, we believe the management is on the right track to achieve healthy topline growth via: a) retail expansion through franchisee route in Tier II & Tier III cities and b) improved visual merchandising, refurbishment of existing stores and new styles of footwear to drive SSSG. In addition, constant enhancement of the product mix through increase in share of premium products will aid operating margins

Retail expansion, enhanced product mix to drive growth

To tap the opportunities and expand its footprints in Tier II and Tier III markets, it intends to open 50 new stores in FY18 via the franchisee route. Alongside, the company also plans to set up 100 new retail stores via the company owned company operated (COCO) format to increase its presence in malls and high street locations. The capex per store required would be around ₹ 2-2.5 crore including inventory. Going forward, we believe the company's robust cash flow from operations will enable to fund its capex through internal accruals, keeping the company virtually debt free. We expect revenue growth to pick up from Q3FY18 onwards driven by the ensuing festive season. We introduce FY20 estimates and expect sales to grow at 14% CAGR in FY17-20E while EBITDA is expected to grow at 25% CAGR in the same period on the back of higher proportion of premium products. Subsequently, this is expected to translate into enhanced ROCE from 16% in FY17 to 22% in FY20E. Given the strong revenue and earnings growth trajectory we continue to maintain our **BUY** recommendation with a target price of ₹ 880 (31.0x FY20 EPS of ₹ 28.4).

Financial summary

Profit and loss statement				
₹ Crore				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Total operating Income	2,467.2	2,754.9	3,158.5	3,632.2
Growth (%)		11.7	14.7	15.0
Raw Material Expenses	1,152.8	1,267.2	1,444.8	1,624.6
Employee Expenses	272.7	303.0	360.1	414.1
Mfg, Admin & selling Exps	764.0	834.7	925.4	1,064.2
Total Operating Expenditure	2,189.5	2,405.0	2,730.3	3,102.9
EBITDA	277.6	349.9	428.2	529.3
Growth (%)	0.7	26.0	22.4	23.6
Depreciation	65.0	74.1	83.4	94.0
Interest	4.0	2.8	3.2	3.6
Other Income	46.6	55.1	63.2	75.9
Exceptional Item	-21.7	0.0	0.0	0.0
PBT	233.6	328.1	404.7	507.6
Growth (%)	15.0	28.5	23.4	25.4
Total Tax	74.8	98.4	121.4	142.1
PAT	158.8	229.6	283.3	365.4
Growth (%)	-27.0	44.7	23.4	29.0
EPS (₹)	12.4	17.9	22.0	28.4

Source: Company, ICICIdirect.com Research

Cash flow statement				
₹ Crore				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Profit After Tax	158.8	229.6	283.3	365.4
Add: Depreciation	65.0	74.1	83.4	94.0
(Inc)/dec in Current Assets	-25.7	-62.3	-175.3	-212.6
Inc/(dec) in CL and Provisions	88.8	29.0	84.6	60.6
Others	0.0	0.0	0.0	0.0
CF from operating activities	286.9	270.5	276.0	307.4
(Inc)/dec in Fixed Assets	-28.8	-140.0	-131.9	-125.4
(Inc)/dec in CWIP	-10.9	21.4	1.7	1.4
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
Others	-11.3	3.1	-12.7	0.0
CF from investing activities	-51.0	-115.5	-142.9	-124.1
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	-55.6	-53.3	-65.7	-84.8
CF from financing activities	-55.6	-53.3	-65.7	-84.8
Net Cash flow	180.3	101.7	67.4	98.5
Opening Cash	340.6	520.9	622.6	690.0
Closing Cash	520.9	622.6	690.0	788.5

Source: Company, ICICIdirect.com Research

Balance sheet				
₹ Crore				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Liabilities				
Equity Capital	64.3	64.3	64.3	64.3
Reserve and Surplus	1,261.0	1,437.3	1,654.9	1,935.6
Total Shareholders funds	1,325.2	1,501.6	1,719.2	1,999.8
Total Debt	-	-	-	-
Deferred Tax Liability	-	-	-	-
Minority Interest / Others	-	-	-	-
Total Liabilities	1,325.2	1,501.6	1,719.2	1,999.8
Assets				
Gross Block	404.1	544.1	675.9	801.4
Less: Accu Depreciation	138.2	212.3	295.7	389.8
Net Block	265.9	331.8	380.2	411.6
Capital WIP	24.3	8.5	6.8	5.4
Intangible Assets under develop	5.6	-	-	-
Total Fixed Assets	295.8	340.3	387.0	417.1
Investments	5.0	5.0	5.0	5.0
Inventory	705.4	754.8	865.3	1,025.0
Debtors	67.1	75.5	86.5	99.5
Loans and Advances	175.1	179.1	227.4	261.5
Other Current Assets	52.8	53.4	58.8	64.6
Cash	520.9	622.6	690.0	788.5
Total Current Assets	1,521.3	1,685.3	1,928.0	2,239.2
Current Liabilities	581.6	606.6	686.9	742.5
Provisions	15.6	19.6	23.9	28.9
Total Current Liabilities	597.2	626.2	710.8	771.3
Net Current Assets	924.1	1,059.1	1,217.2	1,467.8
Deferred Tax Assets	100.4	97.3	110.0	110.0
Application of Funds	1,325.2	1,501.6	1,719.2	1,999.8

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Per share data (₹)				
EPS	12.4	17.9	22.0	28.4
Cash EPS	17.4	23.6	28.5	35.7
BV	103.1	116.8	133.8	155.6
DPS	3.5	3.6	4.4	5.7
Cash Per Share	40.5	48.4	53.7	61.3
Operating Ratios				
EBITDA Margin (%)	11.3	12.7	13.6	14.6
PBT Margin (%)	9.5	11.9	12.8	14.0
PAT Margin (%)	6.4	8.3	9.0	10.1
Inventory days	101.2	100.0	100.0	103.0
Debtor days	10.0	10.0	10.0	10.0
Creditor days	161.8	154.0	155.0	150.0
Return Ratios (%)				
RoE	12.0	15.3	16.5	18.3
RoCE	16.0	18.4	20.1	21.8
RoIC	19.9	26.3	27.7	30.3
Valuation Ratios (x)				
P/E	57.5	39.7	32.2	25.0
EV / EBITDA	31.0	24.3	19.7	15.8
EV / Net Sales	3.4	3.0	2.6	2.3
Market Cap / Sales	3.7	3.3	2.8	2.5
Price to Book Value	6.9	6.1	5.3	4.6
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.5	2.7	2.7	2.9
Quick Ratio	1.4	1.5	1.5	1.6

Source: Company, ICICIdirect.com Research

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Sell: -10% or more;



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