Result Update

Bata India

Accumulate

DART
DOLAT ANALYSIS & RESEARCH THEMES
IN-DEPTH• PRECISE• ACTIONABLE

CMP	₹ 753
Target / Upside	₹ 824/9%
BSE Sensex	34,644
NSE Nifty	10,515
Scrip Details	
Equity / FV	₹ 7,643mn/₹ 5/-
Market Cap	₹ 97bn
	USD 1.4bn
52-week High/Low	₹ 833/511
Avg. Volume (no)	671,659
NSE Symbol	BATAINDIA
Bloomberg Code	BATA IN
Shareholding Pattern Mar'18 (%)	
Promoters	53.0
MF/Banks/FIs	25.5
FIIs	6.2
Public / Others	15.3

Valuation (x)

	FY18	FY19E	FY20E
P/E	43.3	36.7	31.1
EV/EBITDA	25.7	20.8	17.2
ROE	15.9	16.8	17.5
ROCE	22.9	24.1	25.4

Estimates (₹mn)

	FY18	FY19E	FY20E
Net Sales	26,293	28,987	32,801
EBITDA	3,538	4,219	4,971
PAT	2,236	2,636	3,112
EPS (₹)	17.4	20.5	24.2

Revenue traction lower than peers

Bata's Q4FY18 results came broadly in line with our estimates. We anticipated lower revenue growth for Bata compared to Relaxo (+18%)and Khadim (+31%) based on our recent channel checks. In addition, margin improvement benefiting from implementation of GST, was in line with our anticipation. Going ahead, we believe that Bata sales growth would remain lower vs peers, mainly due to increased competition, better and economic offerings by peers. Nevertheless, its new offerings in select segments would gain traction. Further, premiumization, implementation and cost saving would continue which would accelerate profitability ahead of the sales. We have revised FY19E and FY20E estimates to ₹ 20.5 and ₹ 24.2. Valuing Bata at 35x FY20E EPS to arrive at a TP of ₹ 824. Maintain Accumulate.

Operational performance was in line

Revenues increased 6.9% YoY to ₹ 6.3bn in Q4FY18 - came in line with our estimates. This was mainly attributed to increased focus on fashion & casual collections. Gross margin expanded by 180bps to at 55.9%. Further, a 70bps increase in employee expense was completely offset by 170bps/60bps decline in rent/other expense. Consequently, EBITDA margin expanded by 340bps to 13% - came in line with our estimate. EBITDA stood at ₹ 823mn, up 45.1% YoY. The company is gaining the most from change in duty to GST. RPAT jumped 23.8% YoY to ₹ 485mn.After adjusting OCI, APAT increased by 44.9% to ₹ 521mn - came in line with our estimate.

Results broadly in line with our channel check

Our channel checks beheld key brands like "Hush puppies" are losing market share due to unavailability of sizes. However, demand for the brand has not declined over the period. We also observed that as the store level inventory management of Bata is facing challenges, Khadim would benefit in the ensuing quarters. We believe that our observation at the ground level was accurate. Although neither the channel trader nor the company confirmed about the shift in market from unorganised to organized, we believe the organised market is growing faster compared to unorganised. We believe that until Bata resolves its store level product management strategy, Khadim and Relaxo would outpace the company in terms of sales.

Q4FY18 Result (₹Mn)

Particulars	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Net Sales	**6323**	**5914**	6.9	**6740**	(6.2)
Total Expenditure	**5500**	**5347**	2.9	**5625**	(2.2)
PBIDT (Excl OI)	**823**	**567**	45.1	**1115**	(26.2)
Other Income	137	122	12.6	107	27.8
Depreciation	169	166	1.3	154	9.3
EBIT	**792**	**522**	51.5	**1068**	(25.9)
Interest	20	16	30.7	5	311.9
PBT	**771**	**507**	52.2	**1063**	(27.4)
Tax	250	147	69.8	381	(34.3)
APAT	**521**	**359**	44.9	**682**	(23.6)
RPAT	**485**	**392**	23.8	**705**	(31.2)
			bps		bps
Gross Profit (%)	55.9	54.1	180	55.1	80
Employee Exp (%)	12.8	12.1	70	10.3	250
Rent (%)	14.2	15.9	(170)	13.3	90
Other exp (%)	15.9	16.5	(60)	14.9	100
EBITDA (%)	13.0	9.6	340	16.5	(350)
PAT (%)	7.7	6.6	105	10.5	(278)

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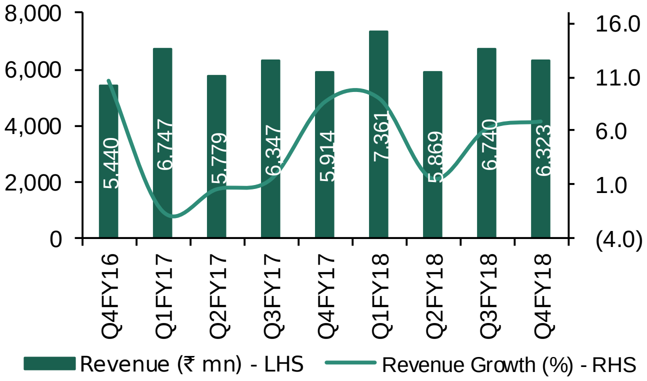
DOLAT CAPITAL

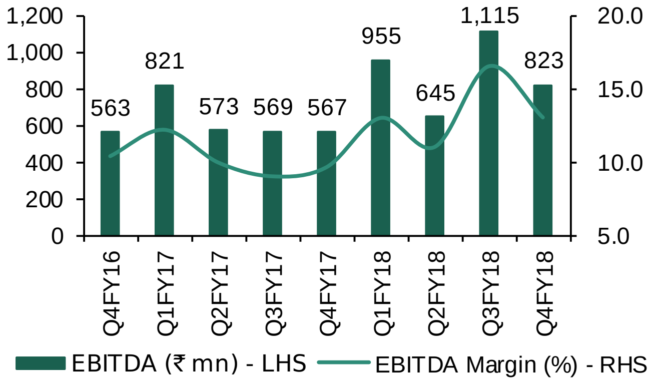
May 23, 2018

Exhibit 1: Revenue Trend



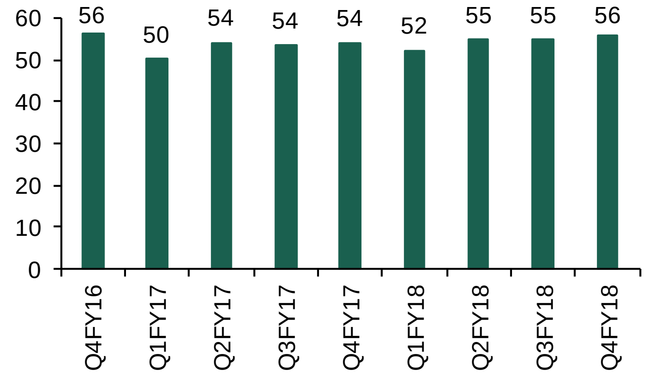
Source: DART, Company

Exhibit 2: EBITDA Trend



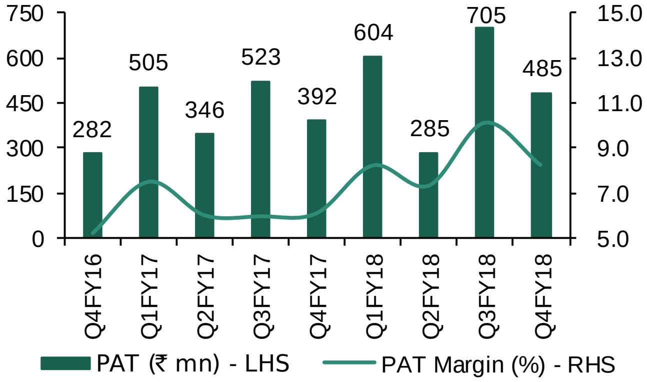
Source: DART, Company

Exhibit 3: Gross Margin Trend (%)



Source: DART, Company

Exhibit 4: Net Profit Trend



Source: DART, Company

Exhibit 5: Change in estimates

₹ Mn	**FY19E**			**FY20E**		
	New	**Previous**	**Change (%)**	**New**	**Previous**	**Change (%)**
Revenue	28,987	29,797	*(2.7)*	32,801	34,271	*(4.3)*
EBITDA	4,219	4,373	*(3.5)*	4,971	5,406	*(8.0)*
EBITDA Margin (%)	14.6	14.7	*(10)*	15.2	15.8	*(60)*
PAT	2,636	2,742	*(3.9)*	3,112	3,397	*(8.4)*
EPS	20.5	21.3	*(3.9)*	24.2	26.4	*(8.4)*

Source: Company, DART

Income Statement (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
Net Sales	**24,672**	**26,293**	**28,987**	**32,801**
Other income	466	508	508	508
Total Income	**25,138**	**26,801**	**29,496**	**33,310**
Total Expenditure	**21,895**	**22,755**	**24,768**	**27,830**
RM Consumed	11,529	11,959	13,097	14,755
Employee Exp	2,727	2,954	3,256	3,685
Manufacturing Exp	705	830	944	1,036
Selling & Admin Exp	6,312	6,548	6,958	7,775
Misc Exp	623	464	512	579
EBIDTA (Excl. OI)	**2,776**	**3,538**	**4,219**	**4,971**
EBIDTA (Incl. OI)	**3,243**	**4,046**	**4,728**	**5,480**
Interest	40	42	42	42
EBDT	**3,202**	**4,004**	**4,686**	**5,438**
Depreciation	650	604	678	705
PBT & EO Items	2,552	3,400	4,008	4,733
Extra Ordinary Exps/(Inc.)	217	0	0	0
PBT	**2,336**	**3,400**	**4,008**	**4,733**
Tax	748	1,164	1,373	1,621
Net Profit	**1,587**	**2,236**	**2,636**	**3,112**
Net Profit (Adj.)	**1,804**	**2,236**	**2,636**	**3,112**

Balance Sheet (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
Sources of Funds				
Equity Capital	643	643	643	643
Share Premium	501	501	501	501
Reserves	12,109	13,643	15,534	17,766
Net Worth	**13,253**	**14,787**	**16,678**	**18,910**
Other Long Term Liabilities	**1,040**	**1,040**	**1,040**	**1,040**
Total Capital Employed	**14,292**	**15,827**	**17,717**	**19,950**
Applications of Funds				
Gross Block	4,040	4,930	5,130	5,330
Less: Acc Depreciation	1,380	1,985	2,662	3,367
Net Block	**2,660**	**2,945**	**2,468**	**1,963**
CWIP	242	121	121	121
Investments	50	50	50	50
Current Assets, Loans & Advances				
Inventories	7,054	7,621	8,090	9,154
Sundry Debtors	672	886	859	972
Cash and Bank Balance	5,209	5,884	9,076	11,367
Loans and Advances	561	1,031	877	993
Other Current Assets	1,775	1,836	1,836	1,836
sub total	15,271	17,258	20,738	24,321
Less: Current Liabilities & Provisions				
Current Liabilities	705	526	784	887
Sundry Creditors	4,072	4,792	5,646	6,389
Provisions	157	282	282	282
sub total	4,933	5,600	6,712	7,558
Net Curr Assets	10,337	11,658	14,026	16,763
Net Deferred Tax	1,004	1,053	1,053	1,053
Total Assets	**14,292**	**15,827**	**17,717**	**19,950**

E – Estimates

Cash Flow (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
Profit before tax	**2,336**	**3,400**	**4,008**	**4,733**
Depreciation & w.o.	650	604	678	705
Net Interest Exp	(40)	42	42	42
Direct taxes paid	(652)	(1,164)	(1,373)	(1,621)
Change in Working Capital	542	(710)	824	(447)
Extra Ordinary	(267)	(54)	0	0
(A) CF from Opt. Activities	**2,569**	**2,118**	**4,179**	**3,412**
Capex	(477)	(769)	(200)	(200)
Free Cash Flow	**2,092**	**1,349**	**3,979**	**3,212**
(B) CF from Invt. Activities	**(477)**	**(769)**	**(200)**	**(200)**
Interest exp net	252	(42)	(42)	(42)
Dividend Paid (Incl. Tax)	(449)	(632)	(745)	(880)
(C) CF from Financing	**(288)**	**(674)**	**(787)**	**(922)**
Net Change in Cash	1,804	675	3,192	2,290
Opening Cash balances	3,405	5,209	5,884	9,076
Closing Cash balances	5,209	5,884	9,076	11,367

Important Ratios

Particulars	Mar17	Mar18	Mar19E	Mar20E
(A) Measures of Performance (%)				
EBIDTA Mgn (excl. O.I.)	11.3	13.5	14.6	15.2
EBIDTA Mgn (incl. O.I.)	13.1	15.4	16.3	16.7
Interest / Sales	0.2	0.2	0.1	0.1
EBDT Margin	13.0	15.2	16.2	16.6
Tax/PBT	32.0	34.2	34.2	34.2
Net Profit Margin	6.4	8.5	9.1	9.5
(B) As Percentage of Net Sales				
Raw Material	46.7	45.5	45.2	45.0
Employee Expenses	11.1	11.2	11.2	11.2
Manufacturing Exp	2.9	3.2	3.3	3.2
Selling & Admin Exp	25.6	24.9	24.0	23.7
Provisions & Write Offs	2.5	1.8	1.8	1.8
(C) Measures of Financial Status				
Debtors Period (days)	9.9	12.3	10.8	10.8
Closing stock (days)	104.4	105.8	101.9	101.9
Inventory Turn. Ratio (x)	3.5	3.4	3.6	3.6
Fixed Assets Turnover (x)	6.1	5.3	5.7	6.2
WC Turnover (x)	2.4	2.3	2.1	2.0
Non-Cash WC (₹ Mn)	5,128	5,774	4,950	5,397
(D) Measures of Investment				
EPS (₹.)	12.4	17.4	20.5	24.2
CEPS (₹.)	19.1	22.1	25.8	29.7
DPS (₹.)	3.5	4.0	4.4	4.8
Dividend Payout (%)	28.3	23.0	21.5	20.0
Book Value (₹.)	103.1	115.1	129.8	147.1
RoANW (%)	14.2	15.9	16.8	17.5
RoACE (%)	18.8	22.9	24.1	25.4
RoAIC (%)	27.4	36.2	43.6	55.4
(E) Valuation Ratios				
CMP (₹.)	753	753	753	753
P/E (x)	61.0	43.3	36.7	31.1
Market Cap. (₹. Mn.)	96,776	96,776	96,776	96,776
MCap/ Sales (x)	3.9	3.7	3.3	3.0
EV (₹. Mn.)	91,517	90,842	87,650	85,360
EV/Sales (x)	3.7	3.5	3.0	2.6
EV/EBDITA (x)	33.0	25.7	20.8	17.2
P/BV (x)	7.3	6.5	5.8	5.1
Dividend Yield (%)	0.5	0.5	0.6	0.6

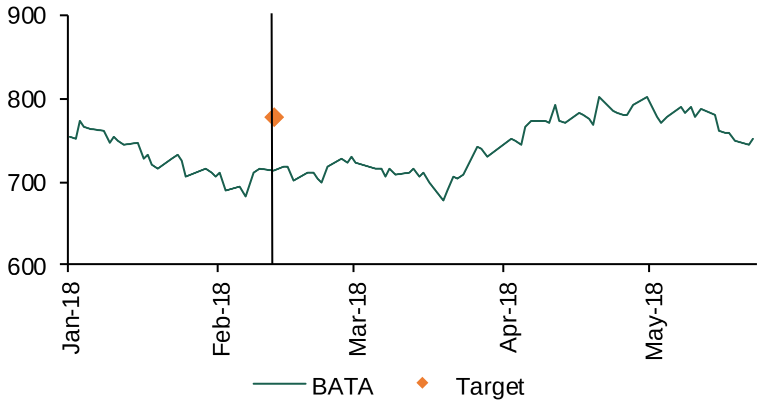
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
Feb-18	Accumulate	778	715

** As on Recommendation Date*

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