

View: Challenging times ahead; Downgrade to Sell

- Bata's Q4FY20 financial performance was below our estimate. Lock down not only impacted the revenue performance but also impaired margins significantly.
- Given that 25-30% of Bata stores are in malls, the company would take longer to witness revamp in footfalls, which would severely impact profitability.
- Bata witnessed strong revenue growth in past couple of years, mainly led by increase in ASP's. We believe that the expected downtrading would pressurize ASP's going ahead.
- Though significant negative impact is expected on sales; costs like rent, other operation related costs would not decline in the same proportion. Hence Bata would take abnormally longer time to restore margins posted in pre-Covid period.
- We have revised our FY21E and FY22E EPS estimates at Rs 20.8 (-28.3%) and Rs 23.1 (-26.1%), respectively. We believe that the company would suffer due to 1) restrictions on footfalls in malls, 2) unfavorable base, 3) expected downtrading and 4) less scope for further growth in ASP's, given unfavorable economic environment. In addition, we believe that the re-negotiation in rent structure would be a challenge for Bata, which would hamper operational performance and profitability. We value Bata at 45x FY22E EPS to arrive at a TP of Rs 1040. Downgrade to SELL.

Operational performance was below estimate

Revenues fell 8.8% YoY to Rs 6.2bn in Q4FY20 primarily attributed to Covid-19 led disruption – marginally below our estimates. Gross margin expanded by 160bps to 58.8%. However, rent expenses/ employee costs/ other expenses increased 60/230/240bps respectively. Consequently, comparable EBITDA margin contracted 360bps to 10.3%. EBITDA increased 46.9% YoY to Rs 1.4bn- came below our estimate. Comparable EBITDA declined 32.4% YoY to Rs 639mn. APAT plunged 57.4% YoY to Rs 376mn-came below our estimates. Comparable APAT declined 50.2% YoY to Rs 440mn.

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	6,197	6,794	(8.8)	8,296	(25.3)
Total Expense	4,809	5,849	(17.8)	5,671	(15.2)
EBITDA	1,388	945	46.9	2,626	(47.1)
Depreciation	714	166	329.6	765	(6.6)
EBIT	674	779	(13.5)	1,861	(63.8)
Other Income	171	279	(38.8)	171	0.3
Interest	271	6	4512.2	285	(4.8)
EBT	574	1,052	(45.5)	1,747	(67.2)
Tax	198	169	16.7	575	(65.6)
RPAT	376	883	(57.4)	1,172	(67.9)
APAT	376	883	(57.4)	1,172	(67.9)
			(bps)		(bps)
Gross Margin (%)	58.8	57.1	165	60.7	(191)
EBITDA Margin (%)	22.4	13.9	849	31.7	(925)
NPM (%)	6.1	13.0	(692)	14.1	(806)
Tax Rate (%)	34.5	16.1	1835	32.9	154
EBIT Margin (%)	10.9	11.5	(59)	22.4	(1156)

CMP	Rs 1,275
Target / Downside	Rs 1,040 / 18%
BSE Sensex	30,673
NSE Nifty	9,039

Script Details

Equity / FV	Rs 643mn / Rs 5
Market Cap	Rs 164bn
	USD 2bn
52-week High/Low	Rs 1,895/Rs 1,000
Avg. Volume (no)	1,094,760
NSE Symbol	BATAINDIA
Bloomberg Code	BATA IN

Shareholding Pattern Mar'20(%)

Promoters	53.0
MF/Banks/FIs	21.7
FII's	11.7
Public / Others	13.6

Valuation (x)

	FY20A	FY21E	FY22E
P/E	50.1	61.2	55.2
EV/EBITDA	20.1	21.9	20.0
ROE (%)	17.9	13.4	13.3
RoACE (%)	18.6	12.4	12.7

Estimates (Rs mn)

	FY20P	FY21E	FY22E
Revenue	30,535	29,618	31,396
EBITDA	8,297	7,397	7,998
PAT	3,269	2,676	2,969
EPS (Rs.)	25.4	20.8	23.1

VP Research: Sachin Bobade

Tel: +91 22 40969731

E-mail: sachinb@dolatcapital.com

Associate: Nikhat Koor

Tel: +91 22 40969764

E-mail: nikhatk@dolatcapital.com

Exhibit 1: Actual V/s Estimates Variance (%)

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	6,197	6,438	(3.7)	
EBITDA	1,388	1,681	(17.4)	Cascading effect of lower revenue and higher than estimated employee cost and other expenses
EBITDA margin %	22.4	26.1	(370)	
APAT	376	606	(38.0)	

Source: Company, DART (Reported numbers)

Exhibit 2: Change in estimate

Rs Mn	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	29,618	32,576	(9.1)	31,396	35,182	(10.8)
EBITDA	7,397	8,984	(17.7)	7,998	9,836	(18.7)
EBITDA Margin (%)	25.0	27.6	(260)	25.5	28.0	(250)
PAT	2,676	3,731	(28.3)	2,969	4,018	(26.1)
EPS (Rs)	20.8	29.0	(28.3)	23.1	31.3	(26.1)

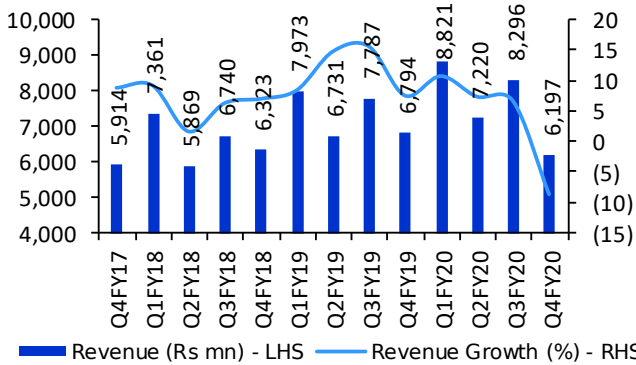
Source: Company, DART

We have revised our FY21E revenue estimates downwards to factor in extended lock down and delay in opening of malls. Also, we have downward revised our FY22E revenue estimates as we believe that the sales would take longer to normalize given expected downtrading in the system. In line with the reduction in revenues, we have downward revised our EBITDA and APAT estimates, as operational synergies would disappear in low ASP zone.

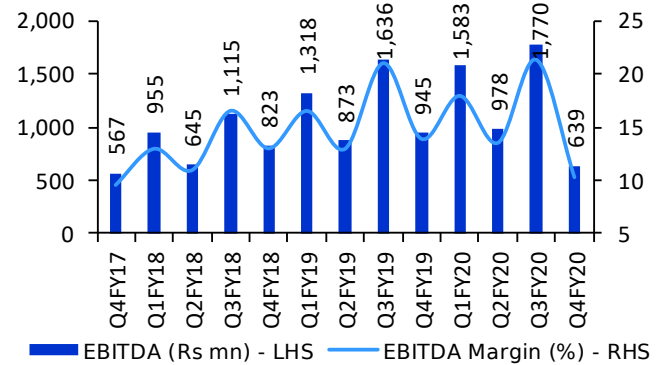
Exhibit 3: Financial table-Reported and Comparable

Particulars (Rs mn)	Q4FY20	Q4FY19	Reported			Comparable	
			YoY (%)	Q3FY20	QoQ (%)	Q4FY20	YoY (%)
Net Sales	6,197	6,794	(8.8)	8,296	(25.3)	6,197	(8.8)
Total Expenditure	4,809	5,849	(17.8)	5,671	(15.2)	5,558	(5.0)
RM Cost	2,556	2,915	(12.3)	3,264	(21.7)	2,556	(12.3)
Employee Exp	919	849	8.3	975	(5.7)	919	8.3
Rent	169	969	(82.6)	130	29.8	918	(5.2)
Other Exp	1,164	1,117	4.3	1,302	(10.5)	1,164	4.3
PBIDT (Excl OI)	1,388	945	46.9	2,626	(47.1)	639	(32.4)
Other Income	171	279	(38.8)	171	0.3	171	(38.8)
Depreciation	714	166	329.6	765	(6.6)	149	(10.3)
EBIT	845	1,058	(20.1)	2,032	(58.4)	661	(37.5)
Interest	271	6	NM	285	(4.8)	2	(65.8)
PBT	574	1,052	(45.5)	1,747	(67.2)	659	(37.4)
Tax	198	169	16.7	575	(65.6)	219	29.3
APAT	376	883	(57.4)	1,172	(67.9)	440	(50.2)
RPAT	376	883	(57.4)	1,172	(67.9)	440	(50.2)
EPS (adj)	2.9	6.9	(57.4)	9.1	(67.9)	3.4	(50.2)
			bps		bps		bps
Gross Profit (%)	58.8	57.1	160	60.7	(190)	58.8	160
Employee Exp (%)	14.8	12.5	230	11.7	310	14.8	230
Rent (%)	2.7	14.3	(1,150)	1.6	120	14.8	60
Other exp (%)	18.8	16.4	240	15.7	310	18.8	240
EBITDA (%)	22.4	13.9	850	31.7	(920)	10.3	(360)
PAT (%) Adj	6.1	13.0	(692)	14.1	(806)	7.1	(589)

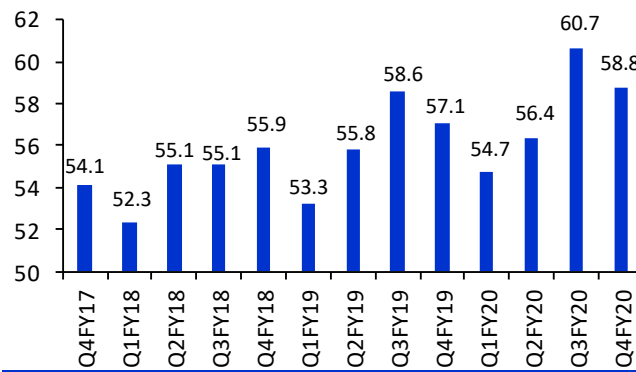
Source: Company, DART

Exhibit 4: Revenue Trend


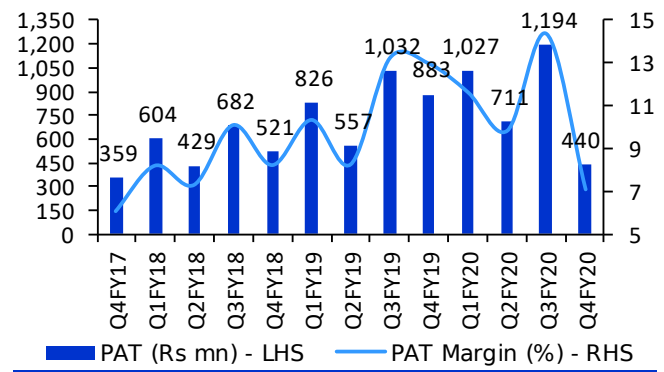
Source: Company, DART

Exhibit 5: EBITDA Trend


Source: Company, DART, (Q1 to Q4FY20 are comparable numbers)

Exhibit 6: Gross margin Trend (%)


Source: Company, DART

Exhibit 7: Net profit trend


Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20P	FY21E	FY22E
Revenue	29,284	30,535	29,618	31,396
Total Expense	24,512	22,237	22,222	23,398
COGS	12,843	12,963	12,545	13,360
Employees Cost	3,311	3,764	3,947	4,090
Other expenses	8,358	5,510	5,730	5,948
EBIDTA	4,773	8,297	7,397	7,998
Depreciation	640	2,958	3,048	3,229
EBIT	4,133	5,340	4,349	4,769
Interest	35	1,177	1,236	1,298
Other Income	685	688	688	688
Exc. / E.O. items	0	0	0	0
EBT	4,783	4,851	3,802	4,159
Tax	1,486	1,582	1,125	1,190
RPAT	3,297	3,269	2,676	2,969
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	3,297	3,269	2,676	2,969

Balance Sheet

(Rs Mn)	FY19A	FY20P	FY21E	FY22E
Sources of Funds				
Equity Capital	643	643	643	643
Minority Interest	0	0	0	0
Reserves & Surplus	16,823	18,323	20,464	22,839
Net Worth	17,465	18,966	21,107	23,482
Total Debt	0	12,491	12,491	12,491
Net Deferred Tax Liability	(73)	(1,084)	(1,084)	(1,084)
Total Capital Employed	17,393	30,373	32,514	34,889

Applications of Funds

Net Block	3,146	13,673	13,425	12,996
CWIP	173	199	199	199
Investments	50	50	50	50
Current Assets, Loans & Advances	20,321	22,315	26,073	29,280
Inventories	8,391	8,737	8,097	8,583
Receivables	653	612	778	825
Cash and Bank Balances	8,390	9,623	14,008	16,621
Loans and Advances	941	1,177	1,024	1,085
Other Current Assets	1,946	2,166	2,166	2,166
Less: Current Liabilities & Provisions	6,296	5,864	7,234	7,636
Payables	5,276	5,031	6,099	6,465
Other Current Liabilities	1,020	833	1,135	1,171
Net Current Assets	14,025	16,451	18,840	21,644
Total Assets	17,393	30,373	32,514	34,889

E – Estimates

Important Ratios

Particulars	FY19A	FY20P	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	56.1	57.5	57.6	57.4
EBIDTA Margin	16.3	27.2	25.0	25.5
EBIT Margin	14.1	17.5	14.7	15.2
Tax rate	31.1	32.6	29.6	28.6
Net Profit Margin	11.3	10.7	9.0	9.5
(B) As Percentage of Net Sales (%)				
COGS	43.9	42.5	42.4	42.6
Employee	11.3	12.3	13.3	13.0
Other	28.5	18.0	19.3	18.9
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.7	0.6	0.5
Interest Coverage	116.5	4.5	3.5	3.7
Inventory days	105	104	100	100
Debtors days	8	7	10	10
Average Cost of Debt		18.9	9.9	10.4
Payable days	66	60	75	75
Working Capital days	175	197	232	252
FA T/O	9.3	2.2	2.2	2.4
(D) Measures of Investment				
AEPS (Rs)	25.6	25.4	20.8	23.1
CEPS (Rs)	30.6	48.4	44.5	48.2
DPS (Rs)	4.8	7.5	4.2	4.6
Dividend Payout (%)	18.7	29.6	20.0	20.0
BVPS (Rs)	135.9	147.6	164.2	182.7
RoANW (%)	20.4	17.9	13.4	13.3
RoACE (%)	20.7	18.6	12.4	12.7
RoAIC (%)	46.1	35.9	22.2	25.9
(E) Valuation Ratios				
CMP (Rs)	1275	1275	1275	1275
P/E	49.7	50.1	61.2	55.2
Mcap (Rs Mn)	163,834	163,834	163,834	163,834
MCap/ Sales	5.6	5.4	5.5	5.2
EV	155,444	166,702	162,317	159,704
EV/Sales	5.3	5.5	5.5	5.1
EV/EBITDA	32.6	20.1	21.9	20.0
P/BV	9.4	8.6	7.8	7.0
Dividend Yield (%)	0.4	0.6	0.3	0.4
(F) Growth Rate (%)				
Revenue	11.4	4.3	(3.0)	6.0
EBITDA	34.9	73.8	(10.9)	8.1
EBIT	40.9	29.2	(18.5)	9.6
PBT	40.7	1.4	(21.6)	9.4
APAT	47.5	(0.8)	(18.1)	11.0
EPS	47.5	(0.8)	(18.1)	11.0
Cash Flow				
(Rs Mn)	FY19A	FY20P	FY21E	FY22E
CFO	3,485	6,973	8,956	7,305
CFI	(822)	(855)	(2,800)	(2,800)
CFF	(157)	(4,885)	(1,771)	(1,892)
FCFF	2,663	6,118	6,156	4,505
Opening Cash	5,884	8,390	9,623	14,008
Closing Cash	8,390	9,623	14,008	16,621

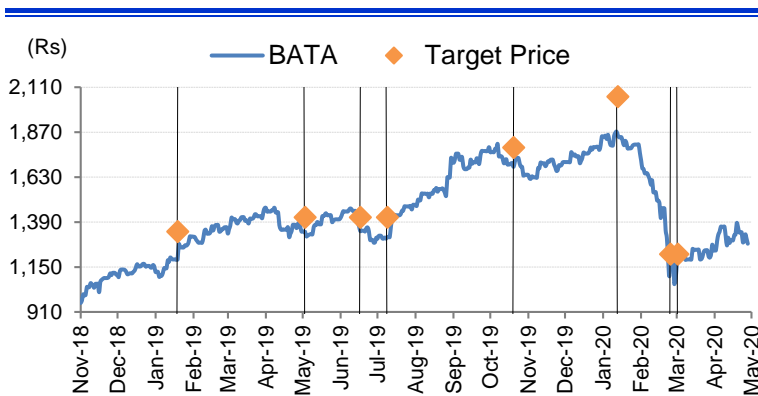
E – Estimates

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 (Rs.)	Price (Rs.)
Feb-19	Accumulate	1,339	1,191
May-19	Accumulate	1,415	1,338
Jul-19	Accumulate	1,415	1,342
Aug-19	Accumulate	1,415	1,310
Nov-19	Accumulate	1,788	1,685
Feb-20	Accumulate	2,060	1,854
Mar-20	Accumulate	1,219	1,233
Mar-20	Sell	1,219	1,231

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
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Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
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CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	kapil@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
