

## Store closure impacts performance...

The Covid-19 pandemic had an unprecedented impact on the retail industry, forcing temporary closure of physical stores from mid-March onwards in India. The same materially impacted Bata's performance in Q4FY20. Revenues de-grew 8.8% YoY to ₹ 619.7 crore (I-direct estimate: ₹ 629.6 crore). The management highlighted that for January-February, revenue grew steadily by 8.0% YoY (implying revenue de-growth ~42% YoY in March). Gross margins continued their positive trajectory and expanded 170 bps YoY to 58.8% owing to increased share of premium products. However, due to negative operating leverage (employee & other expenses up 235 bps each), EBITDA margins contracted 360 bps YoY to 10.3% (I-direct estimate: 11.0%). Absolute EBITDA de-grew 32.3% YoY to ₹ 64.0 crore. Lower other income (down 39% YoY to ₹ 17.1 crore) and higher effective tax rate (33% vs. 16.1% in Q4FY19) further impacted PAT (down 50% YoY to ₹ 44 crore).

## Enhanced online presence, new initiatives to aid growth revival

Covid-19 is expected to dramatically shift more customer traffic to digital channel. Bata has, over the past two years, focused on strengthening online presence by leveraging strong partnerships with e-commerce leaders like Myntra, Amazon & Flipkart as well as improving assortment on its own website. The company has rolled out a full suite of omni-channel solutions, allowing home delivery across 900+ stores (vs. 400 stores in FY19) in 1300 cites. Furthermore, it has provided customers an option to shop via WhatsApp chat with neighbored stores. Currently e-commerce contributes ~4-5% of overall sales and management expects the share to reach double digit gradually. Bata has re-opened ~400+ stores (~30%) and expects to open more stores as per the directives of authorities. Early trends indicate pent up demand towards low ticket size products such as slippers/open sandals (comfort products) and healthy demand for sports shoes (Power brand). Formal and fashion footwear categories would be impacted most and with fewer social gatherings it will take some time for demand revival.

## Valuation & Outlook

Owing to a weak Q4, Bata exited FY20 with moderate revenue growth rate of 4.3% YoY. Strategy of premiumising product portfolio has yielded positive results for Bata with gross margins expanding 430 bps to 57.6% in FY17-20. Unfavourable product mix (shift towards mass category) may deteriorate gross margins for FY21E. The company has re-negotiated rental agreement with ~50% of high street landlords for the next nine months and is in constant engagement with others for the same. We bake in revenue and PAT CAGR of 7% and 18%, respectively, over FY20-22E. Bata has a debt free balance sheet with surplus cash at ~₹ 960 crore and a capital efficient business model with a negative working capital cycle. We believe that with its strong brand patronage and pan-India retail reach, Bata India should be able to revive its revenue growth trajectory as and when the impact of the Covid-19 is phased out. We have a **HOLD** recommendation on the stock with a revised target price of ₹ 1430 (40x FY22E EPS).



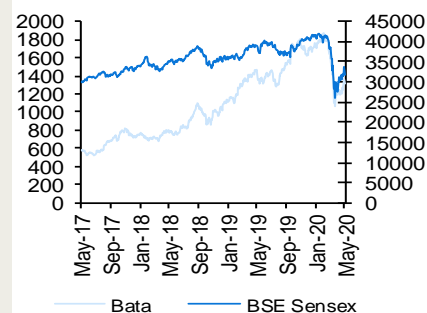
### Particulars

Particular	Amount
Market Capitalisation (₹Crore)	16,451.6
Debt (FY 20) (₹Crore)	-
Cash (FY 20) (₹Crore)	962.3
EV (₹Crore)	15,489.3
52 week H/L	1897 / 1017
Equity Capital (₹Crore)	64.3
Face Value (₹)	5

### Key Highlights

- Before disruption owing to COVID-19, revenue grew by 8% YoY in Jan-Feb
- Maintain HOLD with revised target price of ₹ 1430 (40x FY22E EPS)

### Price Chart



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### Key Financial Summary

₹crore	FY19	FY20E	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	2,928.4	3,053.5	2,748.1	3,520.3	7.4%
EBITDA	477.3	829.8	656.8	969.8	8.1%
PAT	329.7	327.0	244.4	458.3	18.4%
P/E (x)	49.9	50.3	67.3	35.9	
EV/Sales (x)	5.3	5.1	5.6	4.3	
EV/EBITDA (x)	32.7	18.7	23.5	15.7	
RoCE (%)	23.7	28.2	17.6	28.1	
RoE (%)	18.9	17.2	11.7	19.5	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Revenue	619.7	629.6	679.4	-8.8	829.6	-25.3	Revenue for January-February grew 8% YoY
Raw Material Expense	255.6	264.4	291.4	-12.3	326.4	-21.7	
Gross Margin (%)	58.8	58.0	57.1	165 bps	60.7	-191 bps	On account of higher proportion of value added products in the product mix, gross margins improved 165 bps YoY to 58.8%
Employee Expense	91.9	88.1	84.9	8.3	97.5	-5.7	
Rental Expenses	16.9	94.4	96.9	-82.6	13.0	30.0	Adjusting for Ind-AS 116, rental expenses declined 5% YoY to ₹ 91.0 crore
Other Expenses	116.4	113.3	111.7	4.2	130.2	-10.6	
EBITDA	138.9	69.3	94.5	46.9	262.6	-47.1	Reported EBITDA and margins higher owing to implementation of Ind-AS 116
EBITDA Margin (%)	22.4	11.0	13.9	850 bps	31.6	-924 bps	Adjusted EBITDA de-grew 33% YoY to ₹ 64.0 crore
Depreciation	71.4	16.1	16.6	330.1	76.5	-6.6	Adjusted EBITDA margins contracted 360 bps YoY to 10.3%
Interest	27.1	0.5	0.6	4,512.2	28.5	-4.8	
Other Income	17.1	16.2	27.9	-38.8	17.1	0.3	
Exceptional Item	0.00	0.00	0.00	NA	0.00	NA	
PBT	57.5	68.8	105.3	-45.4	174.7	-67.1	
Tax Outgo	19.79	11.1	16.9	16.8	58.2	-66.0	Higher tax rate owing to write off in deferred tax asset
PAT	37.7	57.7	88.3	-57.3	116.5	-67.7	Adjusted PAT was at ₹ 44.0 crore, down 50% YoY

Source: Company, ICICI Direct Research

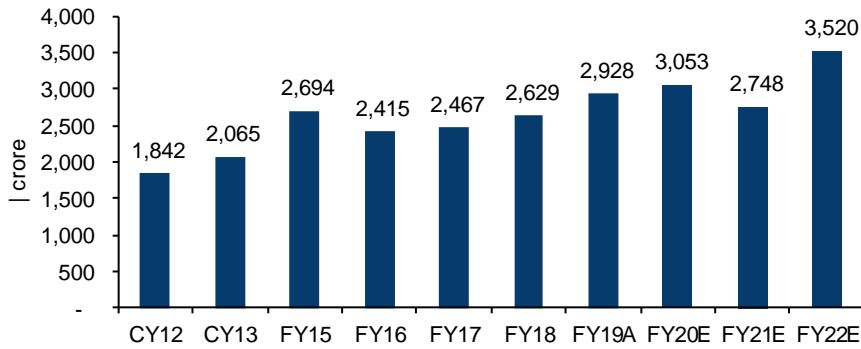
**Exhibit 2: Change in estimates**

₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	2,828.9	2,748.1	-2.9	3,554.8	3,520.3	-1.0	
EBITDA	364.9	656.8	80.0	620.3	969.8	56.4	Higher EBITDA and EBITDA margins owing to incorporation of Ind-AS 116
EBITDA Margin (%)	12.9	23.9	1100 bps	17.4	27.6	1010 bps	
PAT	266.6	244.4	-8.3	466.0	458.3	-1.6	
EPS (₹)	20.7	19.0	-8.1	36.3	35.7	-1.8	

Source: Company, ICICI Direct Research

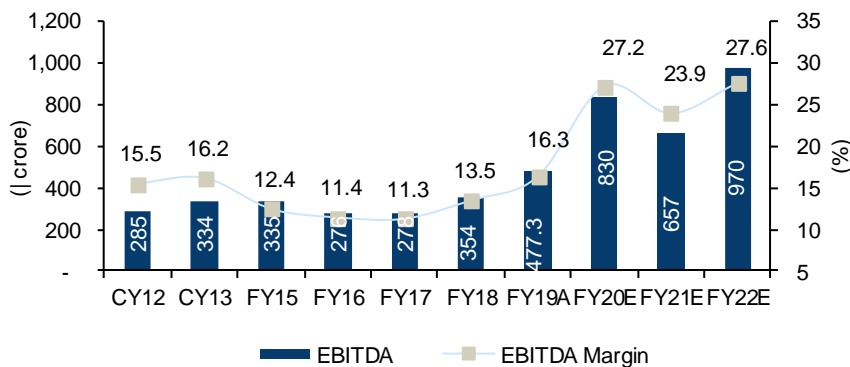
## Financial story in charts

Exhibit 3: Revenue trend



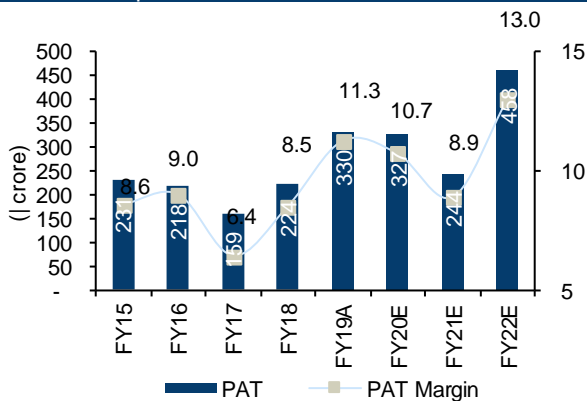
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA trend



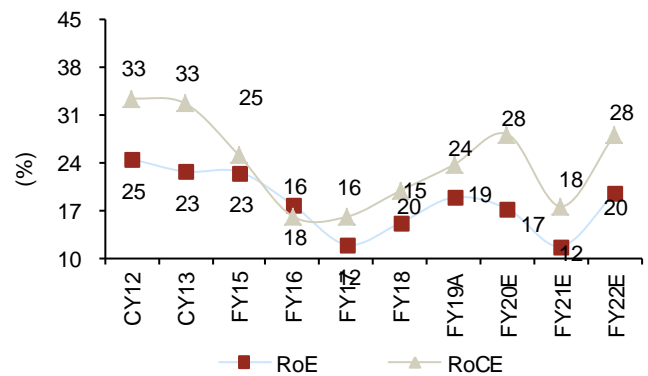
Source: Company, ICICI Direct Research

Exhibit 5: Net profit trend



Source: Company, ICICI Direct Research

Exhibit 6: Return ratio trend



Source: Company, ICICI Direct Research

Exhibit 7: Valuation

	Sales Growth (₹cr)	EPS (%)	PE (₹)	EV/EBITDA (%)	RoNW (x)	RoCE (%)		
FY 19A	2928.4	11.4	25.7	47.3	49.9	32.7	18.9	23.7
FY 20E	3053.5	4.3	25.4	-0.8	50.3	18.7	17.2	28.2
FY 21E	2748.1	-10.0	19.0	-25.3	67.3	23.5	11.7	17.6
FY 22E	3520.3	28.1	35.7	87.6	35.9	15.7	19.5	28.1

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 8: Profit and loss statement		₹ crore			
(Year-end March)	FY19A	FY20E	FY21E	FY22E	
<b>Total operating income</b>	<b>2,928.4</b>	<b>3,053.5</b>	<b>2,748.1</b>	<b>3,520.3</b>	
Growth (%)	11.4	4.3	-10.0	28.1	
Raw Material Expenses	1,284.3	1,296.3	1,217.4	1,524.3	
Employee Expenses	331.1	376.4	384.7	426.0	
Mfg, Admin & selling Exps	835.8	551.0	489.2	600.2	
Total Operating Expenditure	2,451.2	2,223.7	2,091.3	2,550.5	
<b>EBITDA</b>	<b>477.3</b>	<b>829.8</b>	<b>656.8</b>	<b>969.8</b>	
Growth (%)	34.8	73.9	-20.8	47.7	
Depreciation	64.0	295.8	290.9	311.6	
Interest	3.5	117.7	105.2	122.9	
Other Income	68.5	68.8	66.0	77.4	
Exceptional Item	0.0	0.0	0.0	0.0	
PBT	478.3	485.1	326.7	612.8	
Growth (%)	40.6	1.4	-32.7	87.6	
Total Tax	148.6	158.2	82.3	154.4	
<b>PAT</b>	<b>329.7</b>	<b>327.0</b>	<b>244.4</b>	<b>458.3</b>	
Growth (%)	47.3	-0.8	-25.3	87.6	
<b>EPS (₹)</b>	<b>25.7</b>	<b>25.4</b>	<b>19.0</b>	<b>35.7</b>	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement		₹ crore			
(Year-end March)	FY19A	FY20E	FY21E	FY22E	
Profit After Tax	329.7	327.0	244.4	458.3	
Add: Depreciation	64.0	295.8	290.9	311.6	
(Inc)/dec in Current Assets	-53.6	-76.2	-75.5	-157.9	
Inc/(dec) in CL and Provision	66.0	-142.9	-68.1	123.4	
Others	0.0	0.0	0.0	0.0	
<b>CF from operating activities</b>	<b>406.1</b>	<b>403.6</b>	<b>391.6</b>	<b>735.5</b>	
(Inc)/dec in Fixed Assets	-84.1	-84.3	-40.0	-80.0	
(Inc)/dec in CWIP	-5.2	-2.6	0.0	0.0	
(Inc)/dec in Investments	0.0	0.0	0.0	0.0	
Others	-4.4	-1,034.1	0.0	0.0	
<b>CF from investing activities</b>	<b>-93.7</b>	<b>-1,121.0</b>	<b>-40.0</b>	<b>-80.0</b>	
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	-62.1	840.6	-281.8	-433.3	
<b>CF from financing activities</b>	<b>-62.1</b>	<b>840.6</b>	<b>-281.8</b>	<b>-433.3</b>	
Net Cash flow	250.4	123.2	69.8	222.2	
Opening Cash	588.7	839.1	962.3	1,032.1	
<b>Closing Cash</b>	<b>839.1</b>	<b>962.3</b>	<b>1,032.1</b>	<b>1,254.3</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet		₹ crore			
(Year-end March)	FY19A	FY20E	FY21E	FY22E	
<b>Liabilities</b>					
Equity Capital	64.3	64.3	64.3	64.3	
Reserve and Surplus	1,682.3	1,832.3	2,018.0	2,280.7	
Total Shareholders funds	1,746.5	1,896.6	2,082.3	2,344.9	
Total Debt	-	-	-	-	
Deferred Tax Liability	-	-	-	-	
Others	-	1,249.0	1,249.0	1,249.0	
<b>Total Liabilities</b>	<b>1,746.5</b>	<b>3,145.6</b>	<b>3,331.3</b>	<b>3,593.9</b>	
<b>Assets</b>					
Gross Block	567.2	651.5	691.5	771.5	
Less: Accu Depreciation	252.6	316.9	384.6	458.7	
Net Block	314.6	334.6	306.8	312.8	
Capital WIP	17.3	19.9	19.9	19.9	
Intangible Assets under deve	-	-	-	-	
Total Fixed Assets	331.9	354.5	326.7	332.6	
Investments	5.0	5.0	5.0	5.0	
Inventory	839.1	873.7	941.1	1,060.9	
Debtors	65.3	61.2	60.2	77.2	
Loans and Advances	198.4	239.2	247.3	267.5	
Other Non-Current Assets	-	1,032.9	1,032.9	1,032.9	
Other Current Assets	90.3	95.2	96.1	97.1	
Cash	839.1	962.3	1,032.1	1,254.3	
Total Current Assets	2,032.1	2,231.5	2,376.9	2,757.0	
Current Liabilities	714.2	578.5	510.3	633.7	
Provisions	18.0	10.8	10.8	10.8	
Total Current Liabilities	732.2	589.2	521.1	644.5	
Net Current Assets	1,299.9	1,642.3	1,855.8	2,112.5	
Deferred Tax Assets	109.8	111.0	111.0	111.0	
<b>Application of Funds</b>	<b>1,746.5</b>	<b>3,145.6</b>	<b>3,331.3</b>	<b>3,593.9</b>	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios					
(Year-end March)	FY19A	FY20E	FY21E	FY22E	
<b>Per share data (₹)</b>					
EPS	25.7	25.4	19.0	35.7	
Cash EPS	30.6	48.4	41.6	59.9	
BV	135.9	147.6	162.0	182.4	
DPS	4.0	6.3	4.6	12.5	
Cash Per Share	65.3	74.9	80.3	97.6	
<b>Operating Ratios</b>					
EBITDA Margin (%)	16.3	27.2	23.9	27.6	
PBT Margin (%)	16.3	15.9	11.9	17.4	
PAT Margin (%)	11.3	10.7	8.9	13.0	
Inventory days	104.6	104.4	125.0	110.0	
Debtor days	8.1	7.3	8.0	8.0	
Creditor days	175.0	141.7	130.0	133.0	
<b>Return Ratios (%)</b>					
RoE	18.9	17.2	11.7	19.5	
RoCE	23.7	28.2	17.6	28.1	
RoIC	36.5	35.2	23.4	42.2	
<b>Valuation Ratios (x)</b>					
P/E	49.9	50.3	67.3	35.9	
EV / EBITDA	32.7	18.7	23.5	15.7	
EV / Net Sales	5.3	5.1	5.6	4.3	
Market Cap / Sales	5.6	5.4	6.0	4.7	
Price to Book Value	9.4	8.7	7.9	7.0	
<b>Solvency Ratios</b>					
Debt/EBITDA	0.0	0.0	0.0	0.0	
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	2.8	3.8	4.6	4.3	
Quick Ratio	1.6	2.3	2.8	2.6	

Source: Company, ICICI Direct Research

**Exhibit 12: ICICI Direct coverage universe (Retail)**

Company	CMP		Rating	M Cap		EPS (₹)			P/E(x)			EV/EBITDA(x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)		(₹crore)	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	
Bata	1280	1430	HOLD	16451	25.4	19.0	35.7	50.3	67.3	35.9	18.7	23.5	15.7	28.2	17.6	28.1	17.2	11.7	19.5	
Titan	890	1150	BUY	79217	17.1	14.7	24.0	51.9	60.7	37.2	34.8	41.3	25.2	27.5	20.1	27.6	21.6	16.3	21.9	
Trent	457	560	BUY	16217	3.5	1.0	7.8	132.3	469.0	58.4	29.3	39.4	21.8	15.9	10.4	19.5	5.1	1.4	10.6	
ABFRL	108	140	BUY	8397	1.4	0.6	3.5	79.0	184.8	30.9	19.4	25.2	14.9	9.7	7.4	14.8	6.9	2.9	14.6	

Source: Company, ICICI Direct Research

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Sell: <-15%



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