10th August, 2020
Q1FY21 RESULT UPDATE

Retail Equity Research

Bata India Limited

SELL

FMCG

BSE CODE: 500643 | NSE CODE: BATAINDIA
Bloomberg CODE: BATA:IN | SENSEX: 38,041

12M Investment period | Rating as per Mid Cap

CMP Rs.1,258 | TARGET Rs.1,100 | RETURN -13%
(Closing: 07-08-20)

KEY CHANGES: ***TARGET*** ↓ ***RATING*** ↓ ***EARNINGS*** ↓

Weak performance to continue in the short-term…

Bata India Ltd (BIL) is the largest retailer and leading manufacturer of footwear in India with ~1550 retail stores as of June 2020.

- **We downgrade our rating to SELL with revised Target of Rs.1,100 (earlier Rs1,400) factoring in the likely weak performance in the short-term due to COVID-19.**
- **Q1FY21 revenue de-grew sharply by 85%YoY owing to lockdown in April & May & and with nil production due to Covid-19 pandemic.**
- **Despite significant lease waivers (~50%), BIL reported Net loss of Rs.101cr Vs Net profit of Rs.100cr YoY due to sharp decline in gross margin (40.4% Vs 54.7%YoY), low sales and high fixed costs.**
- **With gradual relaxation in lockdown, BIL's 85% of the stores are now open, but prevailing uncertainties is impacting discretionary demand, (currently achieved ~35-40% of the pre-Covid business levels).**
- **We have cut down revenue/ earnings estimates to factor the impact of Covid-19, expect to grow at 4%/7% CAGR over FY20-22E.**
- **We believe, BIL will be able to revive its revenue growth trajectory when the economy is back to normal. We value BIL at 37x (above 3Yr Avg) on FY22 EPS.**

Covid-19 impacts the business significantly.

Q1FY21 revenue de-grew sharply by ~85% YoY owing to lock-down in April & May, and nil production due to Covid-19 pandemic. Usually Q1 is the strongest quarter on account of high demand due to school openings. However, the schools are now closed due to lock-down. Despite gradual relaxation in lockdowns, prevailing uncertainties are impacting the discretionary demand. Currently BIL's ~85% stores are open and the company has achieved ~35-40% of the pre-Covid business levels as per management. To generate demand in the current scenario, BIL has launched two new products to suit work at home, strengthening E-commerce channel, rolled out two new local hyper channels ('ChatShop' that allowes customers to shop remotely from neighborhood stores by interacting with store managers via WhatsAp & 'Stores on Wheels' that allows customers to shop at their doorstep). We have cut down our revenue estimates to factor the Covid-19 led lower demand scenario and expect revenue to grow at 4% CAGR over FY20-22E.

Decline in gross margin & high fixed costs impacts profitability

BIL reported a sharp decline in gross margin to 40.4% from 54.7% YoY. Despite significant lease waivers, the company reported Net loss of Rs.101cr Vs Net profit of Rs100cr YoY owing to lower sales and high fixed costs. BIL has been increasing its ASP (Average sale Price) for the past years which has been benefiting margins. We believe the current low discretionary demand scenario would give pressure to realisation in the short-term until the situation normalizes.

Valuation & Outlook

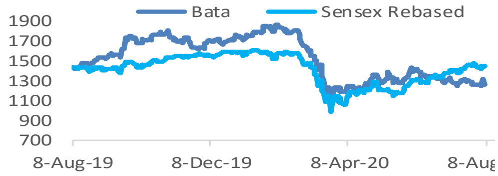
We believe, BIL will be able to revive its revenue growth trajectory when the economy is back to normal from current Covid-19 led scenario. However, owing to prevailing uncertainties and likely weak performance in the short-term, we downgrade our rating to SELL. The stock currently trades at 58x on our revised estimates. We value at 37x on FY22E PE (above 3Yr Avg) to arrive at a new Target of Rs1,100 (earlier Rs1,400),

Company Data	
Market Cap (Rs.cr)	15823
Enterprise Value (Rs.cr)	16111
Outstanding Shares (cr)	12.9
Free Float	47%
Dividend Yield	0.3%
52 week high Rs.	1897
52 week low Rs.	1017
6m average volume (cr)	0.01
Beta	0.9
Face value Rs.	5

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	53.0	53.0	53.0
FII's	11.3	11.1	6.9
MFs/Insti	21.7	21.3	24.8
Public	11.3	11.8	12.3
Others	2.7	2.8	2.66
Total	100	100	100
Promotor pledge	NIL	NIL	0.0%

Price Performance	3 Month	6 Month	6 Month
Absolute Return	-2.6%	-31.7%	-11.9%
Absolute Sensex	20.2%	-7.5%	1.9%
Relative Return*	-22.9%	-24.1%	-13.8%

***over or under performance to benchmark index**



Standalone (cr)	FY20A	FY21E	FY22E
Sales	3,053	2,225	3,324
Growth (%)	4.3	-27.1	49.4
EBITDA	828	376	898
EBITDA Margin (%)	27.1	16.9	27.0
Adj. PAT	333	24	382
Growth (%)	1.0	-92.8	1482.6
Adj. EPS	25.9	1.9	29.7
Growth (%)	1.0	-92.8	1482.6
P/E	48.8	673.8	42.6
P/B	8.6	8.7	7.4
EV/EBITDA	20.0	43.3	17.8
ROE (%)	18.3	1.3	18.8
D/E	0.7	0.5	0.3

Vincent Andrews
Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

Rs cr)	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Sales	**134.8**	**882.1**	**-84.7%**	**619.7**	**-78.2%**
EBITDA	**-86.06**	**242.97**	**-135.4%**	**138.83**	**-162.0%**
EBITDA margins %	-0.6	0.3	30bps	0.2	780bps
Depreciation	73.07	73.01	0.1%	71.44	2.3%
EBIT	**-159.1**	**170.0**	**-193.6%**	**67.4**	**-336.1%**
Interest	27.84	31.35	-11.2%	27.12	2.6%
Other Income	52.0	16.9	207.3%	17.1	204.2%
Exceptional Items	0.00	0.00	NA	0.00	NA
PBT	**-134.9**	**155.5**	**-186.8%**	**57.4**	**-335.2%**
Tax	-33.87	55.87	-160.6%	21.91	-254.6%
Reported PAT	**-101.1**	**99.7**	**-201.4%**	**35.5**	**-385.0%**
Adjustments	0.00	0.00	NA	0.00	NA
Adj PAT	**-101.1**	**99.7**	**-201.4%**	**35.5**	**-385.0%**
No. of Shares	12.85	12.85	0.0%	12.85	0.0%
EPS (Rs)	**-7.9**	**7.8**	**-201.4%**	**2.8**	**-385.0%**

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs cr	**FY21E**	**FY22E**	**FY21E**	**FY22E**	**FY21E**	**FY22E**
Revenue	*3,314*	*3,727*	*2,225*	*3,324*	*-32.9%*	*-10.8%*
EBITDA *	*577*	*658*	*376*	*898*	*-34.9%*	*36.5%*
Margins (%) *	*17.4%*	*17.7%*	*16.9%*	*27.0%*	*(50bps)*	*940bps*
Adj. PAT	*429*	*489*	*24*	*382*	*-94.4%*	*-22.0%*
EPS	*33.4*	*38*	*1.9*	*29.7*	*-94.4%*	*-21.9%*

*Not comparable due to IND-AS change

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	**2,629**	**2,928**	**3,053**	**2,225**	**3,324**
% change	6.6	11.4	4.3	-27.1	49.4
EBITDA	**354**	**477**	**828**	**376**	**898**
% change	27.4	34.9	73.5	-54.6	139.1
Depreciation	60	64	284	315	342
EBIT	**293**	**413**	**544**	**61**	**556**
Interest	4	4	118	117	117
Other Income	51	69	69	89	76
PBT	**340**	**478**	**495**	**33**	**516**
% change	45.5	40.6	3.5	-93.4	1,482.6
Tax	116.4	148.6	162.0	8.5	134.1
Tax Rate (%)	34.2%	31.1%	32.7%	26.0%	26.0%
Reported PAT	223.6	329.6	333.0	24.1	381.6
Adj*	**0**	**0**	**0**	**0**	**0**
Adj PAT	223.6	329.6	333.0	24.1	381.6
% change	23.9	47.4	1.0	-92.8	1,482.6
No. of shares (cr)	12.9	12.9	12.9	12.9	12.9
Adj EPS (Rs.)	**17**	**26**	**26**	**2**	**30**
% change	23.9	47.4	1.0	-92.8	1482.6
DPS (Rs.)	**4**	**4**	**4**	**4**	**4**
CEPS (Rs.)	22.1	30.6	48.0	26.4	56.3

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	589	839	962	988	1040
Accounts Receivable	89	65	61	67	73
Inventories	762	839	874	623	921
Other Cur. Assets	289	289	334	216	323
Investments	5	5	5	5	5
Gross Fixed Assets	491	573	1906	2106	2306
Net Fixed Assets	293	311	1360	1246	1103
CWIP	12	17	20	15	15
Intangible Assets	2	4	7	7	7
Def. Tax (Net)	105	110	111	111	115
Other Assets	0	0	0	0	0
Total Assets	**2145**	**2479**	**3735**	**3278**	**3603**
Current Liabilities	636	678	572	371	627
Provisions	30	54	17	23	35
Debt Funds	0	0	1249	1015	744
Other Liabilities	0	0	0	0	0
Equity Capital	64	64	64	64	64
Reserves & Surplus	1414	1682	1832	1804	2133
Shareholder's Fund	1479	1747	1897	1868	2197
Total Liabilities	**2145**	**2479**	**3735**	**3278**	**3603**
BVPS (Rs.)	**115**	**136**	**148**	**145**	**171**

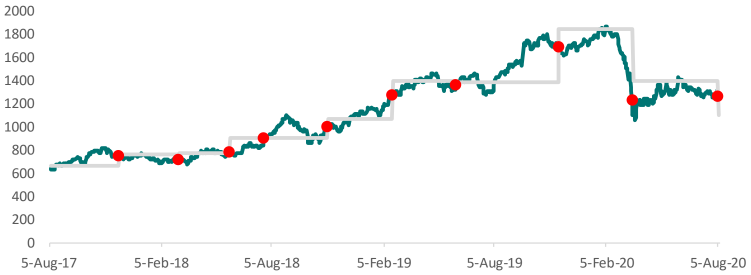
CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	**284**	**394**	**384**	**86**	**453**
Non-cash adj.	-1	-87	263	370	384
Changes in W.C	-54	37	-68	64	-53
C.F. Operation	**229**	**344**	**580**	**520**	**783**
Capital exp.	-71	-87	-86	-195	-200
Change in inv.	0	-246	-167	0	0
Other invest.CF	-16	56	65	104	-90
C.F - Investment	**-87**	**-277**	**-187**	**-91**	**-290**
Issue of equity	0	0	0	0	0
Issue/repay debt	0	0	-338	-234	-271
Dividends paid	-52	-52	-97	-52	-52
Other finance.CF	-4	-4	-1	-117	-117
C.F - Finance	**-75**	**-63**	**-436**	**-403**	**-440**
Chg. in cash	68	4	-44	25	53
Closing cash	589	839	962	988	1,040

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	13.5	16.3	27.1	16.9	27.0
EBIT margin (%)	11.2	14.1	17.8	2.7	16.7
Net profit mgn.(%)	8.5	11.3	10.9	1.1	11.5
ROE (%)	15.9	20.4	18.3	1.3	18.8
ROCE (%)	0.1	0.1	0.1	0.0	0.1
W.C & Liquidity					
Receivables (days)	10.8	9.6	7.6	10.5	7.7
Inventory (days)	224.0	227.5	241.1	282.3	197.0
Payables (days)	187.5	186.7	176.0	177.9	127.3
Current ratio (x)	2.6	2.8	3.8	4.8	3.6
Quick ratio (x)	1.1	0.2	0.1	0.3	0.3
Turnover & Leverage					
Gross asset T.O (x)	5.9	5.5	5.0	3.2	4.2
Total asset T.O (x)	1.3	1.3	1.0	0.6	1.0
Int. coverage ratio (x)	69.9	116.5	4.6	0.5	4.8
Adj. debt/equity (x)	0.0	0.0	0.7	0.5	0.3
Valuation					
EV/Sales (x)	6.0	5.3	5.4	7.3	4.8
EV/EBITDA (x)	44.3	32.3	20.0	43.3	17.8
P/E (x)	72.7	49.3	48.8	673.8	42.6
P/BV (x)	11.0	9.3	8.6	8.7	7.4

Recommendation Summary



Dates	Rating	Target
28th May 2018	Buy	900
23rd July 2018	Hold	900
5th Nov 2018	Hold	1068
20th Feb 2019	Accumulate	1404
3rd June 2019	Hold	1390
19th Nov 2019	Hold	1850
20th March 2020	Accumulate	1400
10th August 2020	Sell	1100

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:
Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.
Accumulate: Partial buying or to accumulate as CMP dips in the future.
Hold: Hold the stock with the expected target mentioned in the note.
Reduce: Reduce your exposure to the stock due to limited upside.
Sell: Exit from the stock.
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