

Near term challenges to persist...

Results for Q1FY21 were materially impacted due to; a) closure of stores for major period during quarter (~45 days), b) absence of school shoes sale (that forms significant part of Q1 revenues), c) nearly non-existent demand for formal, fashion footwear categories. Q1FY21 revenue fell 85% YoY to ₹ 135 crore (vs. estimated de-growth of 75% YoY). Post lockdown relaxations, stores re-opened gradually but operations were impacted owing to frequent lockdowns and restrictions mandated by local administrations. Bata undertook rationalisation of fixed overheads with employee & other expenses down 14% & 57% YoY to ₹ 85 crore & ₹ 56.0 crore, respectively. Further, it secured significant lease rental waivers (~50%) leading to cost saving of ₹ 50.1 crore. Despite a sharp reduction in operating overheads, EBITDA losses came in higher than our estimates owing to significant contraction in gross margins (down 1430 bps YoY to 40.4%). Subsequently, EBITDA loss came in at ₹ 86.1 crore (I-direct estimate: loss of ₹ 56.2 crore). Though ~85% of stores are currently operational, we expect reinstatement to pre-Covid sales levels to take a couple of quarters.

Expanding wholesale channel to capture growth in new towns

In a bid to strengthen its wholesale distribution channel (~12% of revenues) Bata has significantly ramped up its touch-points with Bata now servicing ~30,000 multi-branded outlets. This enables the company to leverage its brand strength in newer towns (added ~175 new towns and expects to grow it further in FY21E). In FY20, it added ~52 franchisee stores mainly in tier III/IV cities. Bata has reiterated its vision of opening 500 franchisee stores by 2023 and reaching in towns with population of less than 2 lakh.

Focus on new initiatives to revitalise demand

With Covid-19 expected to dramatically shift more customer traffic to digital channel, Bata has rolled out a full suite of Omni-channel solutions, allowing home delivery across 900+ stores (vs. 400 stores in FY19) in 1300 cities. Apart from strengthening its e-commerce channel, the company has rolled out two new hyper local channels: a) 'Bata ChatShop' (allowing customers to shop remotely from neighbourhood stores by interacting with store managers via WhatsApp) and b) 'store on wheels' (temporary stores are set-up in association with RWAs in residential localities). The above initiatives would assist Bata in revenue growth revival. Aligning with the current demand scenario, Bata has tweaked its product portfolio by launch of collections such as fitness-at-home, Easy-wash & Work-from-Home.

Valuation & Outlook

Demand revival for Bata is contingent upon traction during the festive season. Formal and fashion footwear demand is likely to remain muted in the near term due to fewer social gatherings. We expect demand recovery to be gradual. Bata has a debt free balance sheet with surplus cash at ~₹ 960 crore and a capital efficient business model. We believe 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 reiterate **HOLD** recommendation on the stock with a revised target price of ₹ 1380 (40x FY22E EPS, previous TP: ₹ 1430).

Key Financial Summary

₹ crore	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	2,928.4	3,053.5	2,179.6	3,432.8	6.0%
EBITDA	477.3	829.8	426.1	942.3	6.6%
PAT	329.7	327.0	130.8	440.0	16.0%
P/E (x)	49.0	49.4	123.6	36.7	
EV/Sales (x)	5.2	5.0	7.0	4.4	
EV/EBITDA (x)	32.1	18.3	35.6	15.9	
RoCE (%)	23.7	28.2	6.3	27.9	
RoE (%)	18.9	17.2	6.6	19.6	

Source: Company, ICICI Direct Research



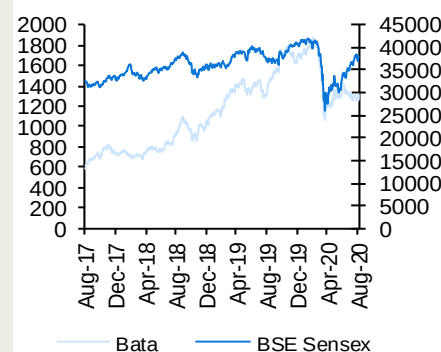
Particulars

Particular	Amount
Market Capitalisation (₹Crore)	16,168.8
Debt (FY 20) (₹Crore)	-
Cash (FY 20) (₹Crore)	962.4
EV (₹Crore)	15,206.5
52 week H/L	1897 / 1017
Equity Capital (₹Crore)	64.3
Face Value (₹)	5

Key Highlights

- Q1FY21 nearly a washout quarter due to closure of stores and weak demand for formal & fashion shoes
- Maintain HOLD with revised target price of ₹ 1380 (40x FY22E EPS)

Price Chart



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Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Revenue	134.8	232.1	882.1	-84.7	619.7	-78.2	Store closures materially impacted topline growth
Raw Material Expense	80.3	104.4	399.5	-79.9	255.6	-68.6	
Gross Margin (%)	40.4	55.0	54.7	-1431 bps	58.8	-1835 bps	Gross margins contracted sharply owing to unfavorable product mix
Employee Expense	84.8	78.9	98.0	-13.5	91.9	-7.8	
Rental Expenses	0.0	12.1	10.8	-100.0	16.9	-100.0	Secured significant lease rental waivers
Other Expenses	55.8	92.8	130.9	-57.4	116.4	-52.0	
EBITDA	-86.1	-56.2	243.0	PL	138.9	PL	Negative operating leverage and low gross margins led to company reporting EBITDA loss
EBITDA Margin (%)	-63.9	-24.2	27.5	-9144 bps	22.4	-8630 bps	
Depreciation	73.1	52.6	73.1	0.0	71.4	2.3	
Interest	27.8	19.6	31.4	-11.2	27.1	2.6	
Other Income	52.0	15.7	16.9	207.3	17.1	204.2	Other income higher owing to adjustment of lease rental waiver (~₹30.0 crore)
Exceptional Item	0.00	0.00	0.00	NA	0.00	NA	
PBT	-135.0	-112.6	155.5	PL	57.5	PL	
Tax Outgo	-33.87	0.0	54.8	-161.8	19.8	-271.1	
PAT	-101.1	-112.6	100.7	PL	37.7	PL	

Source: Company, ICICI Direct Research

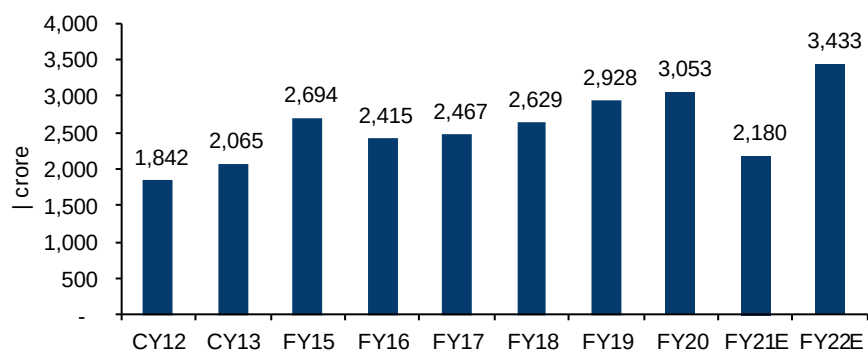
Exhibit 2: Change in estimates

(₹Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	2,748.1	2,179.6	-20.7	3,520.3	3,432.8	-2.5	Factoring in the Q1FY 21 results, we sharply downgrade FY 21E estimates
EBITDA	656.8	426.1	-35.1	969.8	942.3	-2.8	
EBITDA Margin (%)	23.9	19.6	-435 bps	27.5	27.5	-10 bps	
PAT	244.4	130.8	-46.5	458.3	440.0	-4.0	
EPS (₹)	19.0	10.2	-46.4	35.7	34.2	-4.1	

Source: Company, ICICI Direct Research

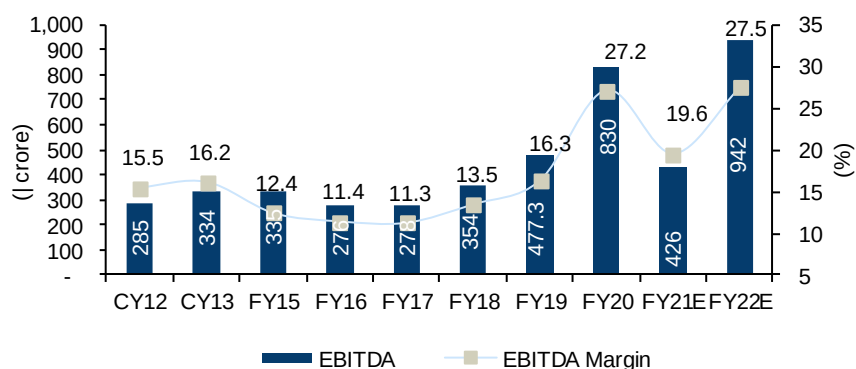
Financial story in charts

Exhibit 3: Revenue trend



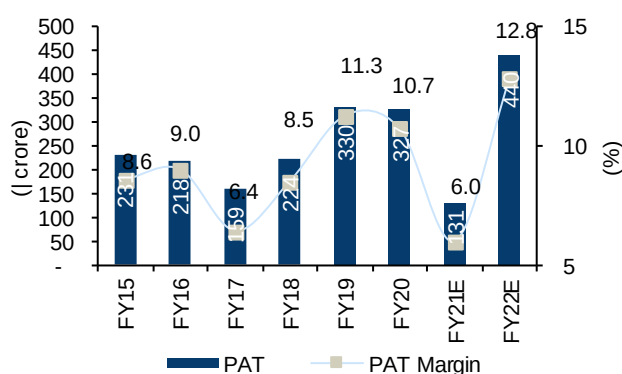
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA trend



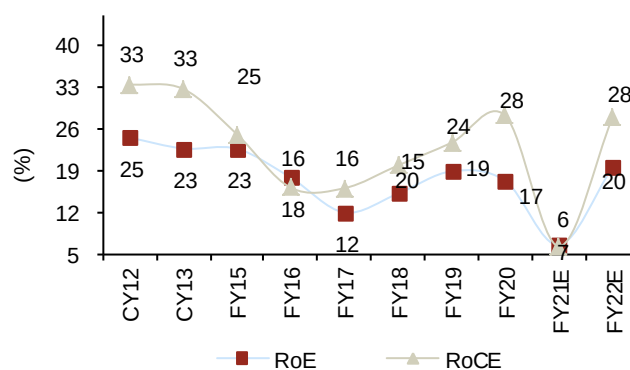
Source: Company, ICICI Direct Research

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	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY 19	2928.4	11.4	25.7	47.3	49.0	32.1	18.9	23.7
FY 20	3053.5	4.3	25.4	-0.8	49.4	18.3	17.2	28.2
FY 21E	2179.6	-28.6	10.2	-60.0	123.6	35.6	6.6	6.3
FY 22E	3432.8	57.5	34.2	236.5	36.7	15.9	19.6	27.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement					₹ crore	
(Year-end March)	FY19	FY20	FY21E	FY22E		
Total operating income	2,928.4	3,053.5	2,179.6	3,432.8		
Growth (%)	11.4	4.3	-28.6	57.5		
Raw Material Expenses	1,284.3	1,296.3	1,052.7	1,486.4		
Employee Expenses	331.1	376.4	326.9	415.4		
Mfg, Admin & selling Exps	835.8	550.9	373.8	588.7		
Total Operating Expenditure	2,451.2	2,223.6	1,753.5	2,490.5		
EBITDA	477.3	829.8	426.1	942.3		
Growth (%)	34.8	73.9	-48.7	121.1		
Depreciation	64.0	295.8	300.1	315.1		
Interest	3.5	117.7	122.7	117.9		
Other Income	68.5	68.8	171.5	79.0		
Exceptional Item	0.0	0.0	0.0	0.0		
PBT	478.3	485.2	174.8	588.3		
Growth (%)	40.6	1.4	-64.0	236.5		
Total Tax	148.6	158.2	44.1	148.2		
PAT	329.7	327.0	130.8	440.0		
Growth (%)	47.3	-0.8	-60.0	236.5		
EPS (₹)	25.7	25.4	10.2	34.2		

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					₹ crore	
(Year-end March)	FY19	FY20	FY21E	FY22E		
Profit After Tax	329.7	327.0	130.8	440.0		
Add: Depreciation	64.0	295.8	300.1	315.1		
(Inc)/dec in Current Assets	-53.6	47.2	39.5	-238.0		
Inc/(dec) in CL and Provision	66.0	-142.9	-126.8	168.2		
Others	0.0	0.0	0.0	0.0		
CF from operating activities	406.1	527.0	343.5	685.3		
(Inc)/dec in Fixed Assets	-84.1	-84.4	-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	-1.2	0.0	0.0		
CF from investing activities	-93.7	-88.1	-40.0	-80.0		
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	-315.6	-264.8	-425.5		
CF from financing activities	-62.1	-315.6	-264.8	-425.5		
Net Cash flow	250.4	123.3	38.7	179.9		
Opening Cash	588.7	839.1	962.4	1,001.1		
Closing Cash	839.1	962.4	1,001.1	1,181.0		

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet					₹ crore	
(Year-end March)	FY19	FY20	FY21E	FY22E		
Liabilities						
Equity Capital	64.3	64.3	64.3	64.3		
Reserve and Surplus	1,682.3	1,832.4	1,931.8	2,184.0		
Total Shareholders funds	1,746.5	1,896.7	1,996.1	2,248.2		
Total Debt	-	-	-	-		
Deferred Tax Liability	-	-	-	-		
Others	-	1,249.0	1,249.0	1,249.0		
Total Liabilities	1,746.5	3,145.7	3,245.1	3,497.2		
Assets						
Gross Block	567.2	640.0	680.0	760.0		
Less: Accu Depreciation	252.6	305.3	372.0	449.5		
Net Block	314.6	334.6	308.0	310.5		
Capital WIP	17.3	19.9	19.9	19.9		
Intangible Assets under deve	-	-	-	-		
Total Fixed Assets	331.9	354.5	327.9	330.3		
Investments	5.0	5.0	5.0	5.0		
Inventory	839.1	873.7	865.8	1,034.5		
Debtors	65.3	61.2	71.7	75.2		
Loans and Advances	198.4	239.2	196.2	260.9		
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	962.4	1,001.1	1,181.0		
Total Current Assets	2,032.1	2,231.6	2,230.9	2,648.7		
Current Liabilities	714.2	578.5	451.7	619.9		
Provisions	18.0	10.8	10.8	10.8		
Total Current Liabilities	732.2	589.2	462.5	630.7		
Net Current Assets	1,299.9	1,642.4	1,768.4	2,018.0		
Deferred Tax Assets	109.8	111.0	111.0	111.0		
Application of Funds	1,746.5	3,145.7	3,245.1	3,497.2		

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios					₹ crore	
(Year-end March)	FY19	FY20	FY21E	FY22E		
Per share data (₹)						
EPS	25.7	25.4	10.2	34.2		
Cash EPS	30.6	48.5	33.5	58.8		
BV	135.9	147.6	155.3	174.9		
DPS	4.0	6.3	2.4	12.0		
Cash Per Share	65.3	74.9	77.9	91.9		
Operating Ratios						
EBITDA Margin (%)	16.3	27.2	19.6	27.5		
PBT Margin (%)	16.3	15.9	8.0	17.1		
PAT Margin (%)	11.3	10.7	6.0	12.8		
Inventory days	104.6	104.4	145.0	110.0		
Debtor days	8.1	7.3	12.0	8.0		
Creditor days	175.0	141.7	130.0	133.0		
Return Ratios (%)						
RoE	18.9	17.2	6.6	19.6		
RoCE	23.7	28.2	6.3	27.9		
RoIC	36.5	35.2	13.2	41.4		
Valuation Ratios (x)						
P/E	49.0	49.4	123.6	36.7		
EV / EBITDA	32.1	18.3	35.6	15.9		
EV / Net Sales	5.2	5.0	7.0	4.4		
Market Cap / Sales	5.5	5.3	7.4	4.7		
Price to Book Value	9.3	8.5	8.1	7.2		
Solvency Ratios						
Debt/EBITDA	0.0	0.0	0.0	0.0		
Debt/ Equity	0.0	0.0	0.0	0.0		
Current Ratio	2.8	3.8	4.8	4.2		
Quick Ratio	1.6	2.3	3.0	2.6		

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

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