

Stronger than expected revenue recovery....

About the stock: Bata India is a major player in the Indian footwear market with a presence across men's, women's and kid's footwear segment. It has a pan-India presence with the largest network of retail stores in the footwear industry with 1500+ stores. Bata has a vision to open 500 franchise stores by 2023.

- It has a robust b/s with healthy cash and bank balance worth ₹ 865+ crore (as on H1FY22), negative working capital cycle, generating RoCE of 23%+

Q2FY22 Results: Bata India reported strong operational numbers in Q2FY22 with revenue recovery rate reaching 85% of pre-Covid levels vs. 51% in Q2FY21 (estimated: 78%).

- On a benign base, reported revenue growth of 67% YoY to ₹ 614.1 crore
- EBITDA margins came in better than our estimates at 19.4% (Q2Y21: 4.9%)
- Tracking the strong operational performance, the company reported PAT worth ₹ 37.0 crore (Q2FY21: (-) ₹ 44.3 crore)

What should investors do? Bata has, over the last one year, delivered ~55% return. Bata's focus on cost reduction, omni channel, change in product mix (higher proportion of casual footwear) and calibrated expansion of retail network through asset light franchisee route can be structurally positive.

Target Price and Valuation: We maintain **BUY** recommendation on the stock and value Bata at ₹ 2380 i.e. 50x FY24E EPS

Key triggers for future price performance:

- On a net basis, we expect the company to add ~240 stores in FY22-24E taking the total store count to 1765 stores
- Bata is also tapping into Tier III-V cities through the franchise route and has added 35+ stores in Q2FY22 taking total store count to 270+ franchise stores (16% of store network). Over the next two years, it is aiming to increase the franchisee store share to ~ 30%
- Bata has scaled up its digital initiatives with e-commerce contributing ~14% in Q2FY22 from a low single digit share in FY20. It has introduced ~5000 new styles on its website
- Bata appears to be well placed to benefit from normalisation of demand scenario. We expect the company to reach pre-Covid levels in Q3FY22
- We build in earnings CAGR of 17% in FY20-24E with higher RoCE of 33%+

Alternate Stock Idea: Apart from Bata, in our retail coverage we also like Trent.

- Inherent strength of brands (Westside, Zudio, Star, Zara) and proven business model position Trent as a preferred pick
- We have a BUY with a target price of ₹ 1300/share

Key Financial Summary

₹ crore	FY20	FY21	4 year CAGR (FY16-20)	FY22E	FY23E	FY24E	4 year CAGR (FY20-24E)
Net Sales	3,053.5	1,707.3	6.0%	2,591.7	3,608.4	4,283.9	8.8%
EBITDA	829.8	161.2	31.0%	562.4	1,017.6	1,208.1	9.8%
PAT	327.0	-90.2	10.7%	170.8	495.2	610.6	16.9%
P/E (x)	81.4	-		155.7	53.7	43.6	
EV/Sales (x)	8.4	14.9		9.9	7.0	5.9	
EV/EBITDA (x)	30.9	158.3		45.4	25.0	20.8	
RoCE (%)	28.2	-5.9		14.8	32.1	33.0	
RoE (%)	17.2	-5.1		9.1	22.5	23.5	

Source: Company, ICICI Direct Research



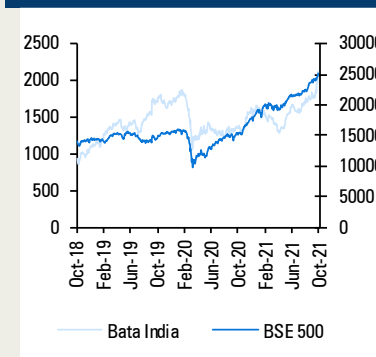
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	26,605.3
Debt (FY21) (₹ Crore)	-
Cash (FY21) (₹ Crore)	1,093.8
EV (₹ Crore)	25,511.5
52 week H/L	2213 / 1263
Equity Capital (₹ Crore)	64.3

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	53.0	53.0	53.0	53.0	53.0
FII	5.6	5.3	5.2	5.2	5.4
DII	26.4	26.0	27.3	27.3	28.0
Others	15.1	15.7	14.5	14.5	13.7

Price Chart



Key risks

Key Risk: (i) Extended lockdown can impact sales of discretionary products and lead to lower sales (ii) Raw material inflation can subdue margins

Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Key takeaways of recent quarter

- On a favourable base, Bata reported revenue growth of 67% YoY to ₹ 614.1 crore (I-direct estimate: ₹ 570.2 crore). Revenue recovery rate has improved to ~85% vs. 30% in Q1FY22. The company witnessed a consistent increase in footfalls across its retail outlet along with strong growth in e-commerce platforms. Bata continued its retail expansion drive in tier III-V cities through franchisee route (added ~35+ stores taking the total store count to 270 franchisee stores). E-commerce contributed ~14% of overall sales in Q2FY22
- On account of improved product mix (higher proportion of formal/fashion footwear), gross margins improved 250 bps YoY to 52.9% (I-direct estimate: 53.0%) but still remains below pre-Covid levels (~56%). The company continues to rationalise fixed overheads across rentals and manufacturing operations. On account of positive operating leverage, EBITDA margins came in at 19.4% (I-direct estimate: 18%, Q2FY21: 4.9%). On a low base, absolute EBITDA grew 6.6x YoY to ₹ 119.1 crore (I-direct estimate: ₹ 102.1 crore, highest EBITDA in the last six quarters)
- Tracking the strong operational performance, the company reported PAT worth ₹ 37.0 crore (Q2FY21: (-) ₹ 44.3 crore, I-direct estimate: ₹ 28.3 crore)
- Bata has devised new strategies that would aid in providing thrust to revenue growth. It is tweaking the product portfolio in favour of casual footwear that is experiencing higher demand. It has enhanced its casual footwear portfolio and launched 240 new lines across clusters
- Bata is strengthening its wholesale distribution channel (~12% of revenues) with the company now servicing ~25000 multi branded outlets. This enables it to leverage its brand strength in newer towns (continued its distribution business across 49 new towns in Q2FY22)
- Bata's core product portfolio includes formal and fashion footwear category. While open footwear and slippers category witnessed a speedy recovery (as witnessed in financials of Relaxo), fewer social gatherings and office/school closures had a material impact on the performance of Bata in FY21. ASPs declined ~14% to ₹ 535/pair with gross margin declining 660 bps YoY in FY21. With a gradual opening of economy, we expect premiumisation story to resume and bake in 11% blended realisation CAGR in FY21-24
- The company witnessed an increase in working capital requirements in H1FY22 owing to healthy inventory stocking for the upcoming festive demand. It continues to have robust cash & investments worth ₹ 865 crore (as on H1FY22) to fund capex and working capital requirements

Exhibit 1: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Revenue	614.1	570.2	367.9	66.9	267.0	130.0	Recovery rate improved to 85% of pre-covid levels vs. 51% in Q2FY21
Raw Material Expense	289.4	268.0	182.5	58.6	117.1	147.2	
Gross Margin (%)	52.9	53.0	50.4	248 bps	56.2	-328 bps	GM's improved 250 bps YoY, however still remains below pre-covid levels.
Employee Expense	89.7	94.1	82.6	8.5	88.8	1.0	
Rental Expenses	0.0	5.7	0.1	-100.0	0.0	#DIV/0!	
Other Expenses	116.0	100.3	84.5	37.2	95.2	21.8	
EBITDA	119.1	102.1	18.1	556.3	-34.0	-450.1	Reported highest EBITDA in the last six quarters
EBITDA Margin (%)	19.4	17.9	4.9	1446 bps	-12.7	3213 bps	
Depreciation	58.6	54.0	64.5	-9.1	50.0	17.2	
Interest	22.0	23.4	26.5	-17.3	23.0	-4.5	
Other Income	11.5	13.2	14.4	-20.7	12.2	-5.9	
Exceptional Item	0.00	0.00	0.00	NA	0.00	NA	
PBT	50.0	37.8	-58.4	-185.6	-94.8	-152.7	
Tax Outgo	12.97	9.5	-14.1	-192.1	-23.7	-154.7	
PAT	37.0	28.3	-44.3	-183.5	-71.1	-152.0	

Source: Company, ICICI Direct Research

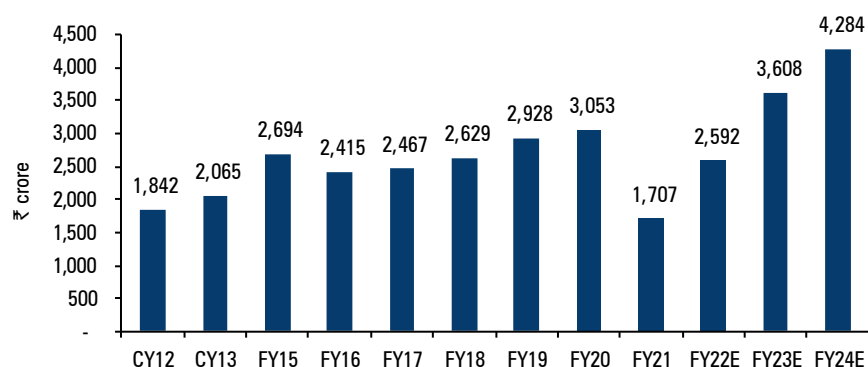
Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			FY24E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	2,591.7	2,591.7	0.0	3,608.4	3,608.4	0.0	4,283.9	4,283.9	0.0
EBITDA	562.4	562.4	0.0	1,017.6	1,017.6	0.0	1,208.1	1,208.1	0.0
EBITDA Margin (%)	21.7	21.7	0 bps	28.2	28.2	0 bps	28.2	28.2	0 bps
PAT	170.8	170.8	0.0	495.2	495.2	0.0	610.6	610.6	0.0
EPS (₹)	13.3	13.3	0.0	38.5	38.5	0.0	47.5	47.5	0.0

Source: Company, ICICI Direct Research

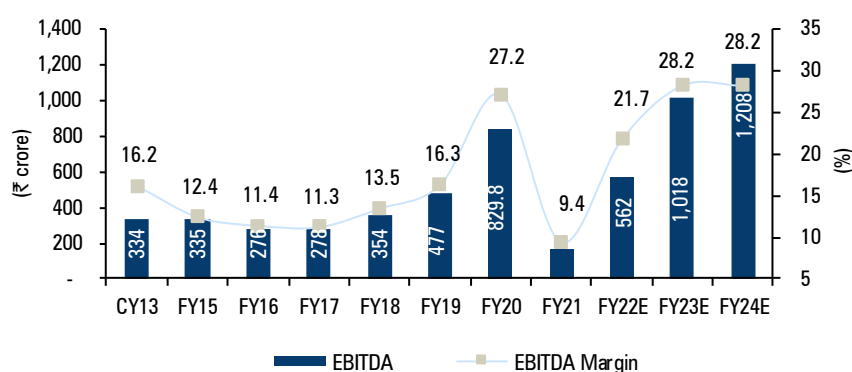
Financial story in charts

Exhibit 3: Revenue trend



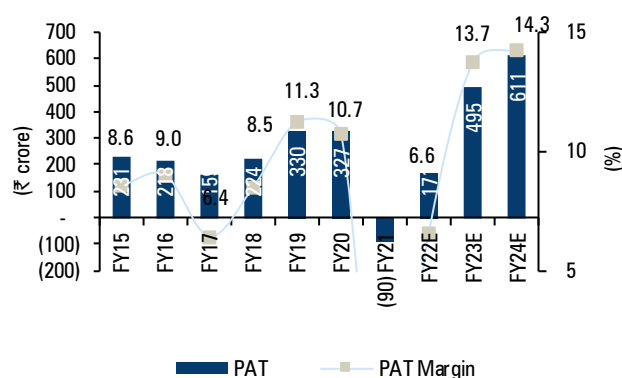
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA trend



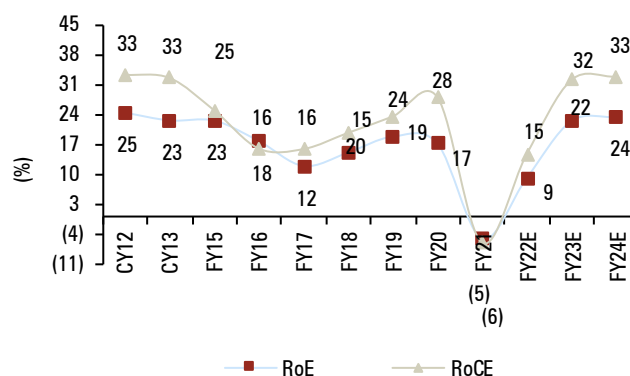
Source: Company, ICICI Direct Research

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)	(%)	(%)
FY20	3053.5	4.3	25.4	-0.8	81.4	30.9	17.2	28.2
FY21	1707.3	-44.1	-7.0	PL	NA	158.3	-5.1	-5.9
FY22E	2591.7	51.8	13.3	LP	155.7	45.4	9.1	14.8
FY23E	3608.4	39.2	38.5	189.9	53.7	25.0	22.5	32.1
FY24E	4283.9	18.7	47.5	23.3	43.6	20.8	23.5	33.0

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Total operating Income	1,707.3	2,591.7	3,608.4	4,283.9
Growth (%)	-44.1	51.8	39.2	18.7
Raw Material Expenses	837.5	1,132.6	1,537.2	1,829.2
Gross Margins (%)	50.9	56.3	57.4	57.3
Employee Expenses	339.8	362.8	425.8	492.6
Mfg, Admin & selling Exps	368.8	533.9	627.9	754.0
Total Operating Expenditure	1,546.1	2,029.3	2,590.8	3,075.8
EBITDA	161.2	562.4	1,017.6	1,208.1
Growth (%)	-80.6	248.9	80.9	18.7
Depreciation	264.7	284.3	310.1	351.5
Interest	103.5	109.4	117.6	125.9
Other Income	94.0	59.6	72.2	85.7
Exceptional Item	-4.6	0.0	0.0	0.0
PBT	-117.6	228.4	662.0	816.3
Growth (%)	-123.3	-302.1	189.9	23.3
Total Tax	-27.4	57.6	166.8	205.7
PAT	-90.2	170.8	495.2	610.6
Growth (%)	-127.6	LP	189.9	23.3
EPS (₹)	-7.0	13.3	38.5	47.5

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit After Tax	-90.2	170.8	495.2	610.6
Add: Depreciation	264.7	284.3	310.1	351.5
(Inc)/dec in Current Assets	323.6	-188.7	-390.9	-274.1
Inc/(dec) in CL and Provisions	-47.3	58.7	170.8	128.3
Others	0.0	0.0	0.0	0.0
CF from operating activities	450.8	325.1	585.2	816.4
(Inc)/dec in Fixed Assets	-16.4	-80.0	-80.0	-80.0
(Inc)/dec in CWIP	-13.7	0.0	0.0	0.0
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
Others	-30.0	0.0	0.0	0.0
CF from investing activities	-60.1	-80.0	-80.0	-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	-259.2	-266.3	-404.7	-478.7
CF from financing activities	-259.2	-266.3	-404.7	-478.7
Net Cash flow	131.4	-21.1	100.5	257.7
Opening Cash	962.4	1,093.8	1,072.7	1,173.2
Closing Cash	1,093.8	1,072.7	1,173.2	1,430.9

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	64.3	64.3	64.3	64.3
Reserve and Surplus	1,695.5	1,814.9	2,136.8	2,533.7
Total Shareholders funds	1,759.8	1,879.2	2,201.1	2,598.0
Total Debt	-	-	-	-
Deferred Tax Liability	-	-	-	-
Others	1,032.3	1,032.3	1,032.3	1,032.3
Total Liabilities	2,792.1	2,911.5	3,233.4	3,630.3
Assets				
Gross Block	643.1	723.1	803.1	883.1
Less: Accu Depreciation	354.9	424.3	503.0	589.5
Net Block	288.2	298.8	300.1	293.5
Capital WIP	33.6	33.6	33.6	33.6
Intangibe Assets under develop	-	-	-	-
Total Fixed Assets	321.8	332.4	333.7	327.1
Investments	5.0	5.0	5.0	5.0
Inventory	608.2	766.9	1,038.0	1,232.4
Debtors	79.4	106.5	148.3	176.1
Loans and Advances	194.7	197.0	274.2	325.6
Other Non-Current Assets	829.4	829.4	829.4	829.4
Other Current Assets	63.4	64.0	64.7	65.3
Cash	1,093.8	1,072.7	1,173.2	1,430.9
Total Current Assets	2,039.5	2,207.0	2,698.4	3,230.2
Current Liabilities	531.3	590.0	760.8	889.1
Provisions	10.7	10.7	10.7	10.7
Total Current Liabilities	542.0	600.7	771.5	899.8
Net Current Assets	1,497.5	1,606.3	1,926.9	2,330.4
Deferred Tax Assets	138.4	138.4	138.4	138.4
Application of Funds	2,792.1	2,911.5	3,233.4	3,630.3

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios

(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	-7.0	13.3	38.5	47.5
Cash EPS	13.6	35.4	62.7	74.9
BV	136.9	146.2	171.3	202.1
DPS	4.0	4.0	13.5	16.6
Cash Per Share	85.1	83.5	91.3	111.3
Operating Ratios				
EBITDA Margin (%)	9.4	21.7	28.2	28.2
PBT Margin (%)	-6.9	8.8	18.3	19.1
PAT Margin (%)	-5.3	6.6	13.7	14.3
Inventory days	130.0	108.0	105.0	105.0
Debtor days	17.0	15.0	15.0	15.0
Creditor days	191.6	160.0	158.0	158.0
Return Ratios (%)				
RoE	-5.1	9.1	22.5	23.5
RoCE	-5.9	14.8	32.1	33.0
RoIC	-13.6	21.3	48.4	52.5
Valuation Ratios (x)				
P/E	-	155.7	53.7	43.6
EV / EBITDA	158.3	45.4	25.0	20.8
EV / Net Sales	14.9	9.9	7.0	5.9
Market Cap / Sales	15.6	10.3	7.4	6.2
Price to Book Value	15.1	14.2	12.1	10.2
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	3.8	3.7	3.5	3.6
Quick Ratio	2.6	2.4	2.2	2.2

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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