Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Bata India Limited

Expanding footprint in the right areas

Consumer Discretionary | Sharekhan code: BATAINDIA | Company Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 1,564**	
Price Target: **Rs. 1,765**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

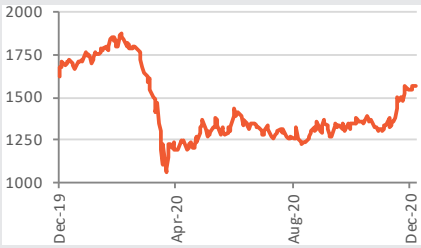
Company details

Market cap:	Rs. 20,102 cr
52-week high/low:	Rs. 1,897 / 1,017
NSE volume: (No of shares)	9.6 lakh
BSE code:	500043
NSE code:	BATAINDIA
Free float: (No of shares)	6.0 cr

Shareholding (%)

Promoters	53.0
FII	4.7
DII	26.4
Others	16.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	15.3	19.5	11.5	-7.4
Relative to Sensex	8.2	0.6	-21.2	-20.7

Sharekhan Research, Bloomberg

Summary

- We maintain our Buy recommendation on Bata India (Bata) with a revised PT of Rs. 1,765. The stock is currently trading at 46x its FY2023E EPS and 18.4x its FY2023 EV/EBIDTA.
- Bata's performance is inching close to pre-pre-covid levels with good demand for footwear products in the urban market during the festive season and sustained higher demand in tier-3 and tier-4 towns (business recovered to 50% in Q2FY2021).
- Mr.Sandip Kataria's elevation as global CEO provides large opportunities for Bata in export markets, and the company can leverage upon its global expertise/styles to remain competitive in the domestic market.
- Focus on expanding base in tier-3 and tier-4 towns through the franchise route (200 stores), sustained new product launches/promotional activities, and emphasis on digital footprint (currently contributes ~10% to revenue) bode well for the company from the medium to long-term perspective.

Bata India's (Bata) sales volumes are picking up on week-on-week (w-o-w) basis, with intensity of Coronavirus reducing and improvement in inter-city/state mobility. Demand has remained higher in tier-3 and tier-4 towns, while it is improving in urban markets. The festive season was good with pick-up in demand for footwear products (including casuals/party wear) in metros and top cities. According to industry reports, mobility ratio of India is improving as capacity in offices/work stations is improving and malls/parks are opening up in most parts of the cities. The only segment that is yet to see significant recovery is school shoes, which will see uptick in demand once education institutions start opening up in most states. We expect sports and casual footwear to gain strong traction in the coming quarters. Bata's business recovered to 31% of pre-Covid level in H1FY2021 (recovered to ~50% in Q2FY2021). We expect the business to recover to 90-95% in H2FY2021 (with marginal growth anticipated in Q4). Focus on expanding the store base in tier-3 and tier-4 towns, sustained new product launches/promotional activities, and emphasis on digital footprint bode well for the company from medium to long-term perspective. Strong recovery is anticipated in FY2022, with revenue reaching close to FY2020 levels, while mid-teens growth is anticipated in FY2023. The company has strong cash balance of Rs. 800 crore as H1FY2021; and with strong recovery anticipated in FY2022/FY2023, we expect cash flows to further improve in the medium term. This can be utilised for investing in addition to new stores and promotional activities.

Our Call

View - Retain Buy with a revised PT of Rs. 1,765: We have fine-tunned our earnings estimates for FY2021/FY2022/FY2023 to factor in higher-than-earlier expected sales in H2FY2021 with pick-up in festive demand and optimism building up towards launch of the vaccine in early FY2022.Bata is focusing on expanding its presence through e-commerce/omni-channel and innovating its product portfolio with new relevant variants to drive growth in the medium to long term. Further, the company will benefit from the shift from non-branded to branded products. The government is also regulating the cheap import of footwear (including leather footwear), which augurs well for the company from a long-term perspective. The stock is currently trading at 46x its FY2023E EPS and 18.4x its FY2023 EV/EBIDTA. We maintain our Buy recommendation on the stock with a PT of Rs. 1,765 (valuing the stock at 52x its FY2023E EPS).

Key Risks

Increased frequency of local lockdowns and normalisation in the business environment taking longer time than the expected time would act as a key risk to our earnings estimates.

Valuations (Standalone) Rs cr

Particulars	FY19	FY20*	FY21E*	FY22E*	FY23E*
Revenue	2,928	3,053	1,890	3,036	3,492
OPM (%)	16.3	27.2	18.5	25.0	26.7
Adjusted PAT	330	327	30	326	436
% YoY growth	47.4	-0.8	-90.7	-	33.9
EPS (Rs.)	25.6	25.4	2.4	25.4	33.9
P/E (x)	61.0	61.5	-	61.7	46.1
P/B (x)	11.5	10.6	11.0	9.8	8.4
EV/EBIDTA (x)	35.3	22.8	44.9	22.8	18.4
RoNW (%)	20.4	17.9	1.6	16.8	19.6
RoCE (%)	19.4	15.0	3.1	10.7	12.3

*Source: Company; Sharekhan estimates, *OPM is calculated including the impact of IND AS 116*

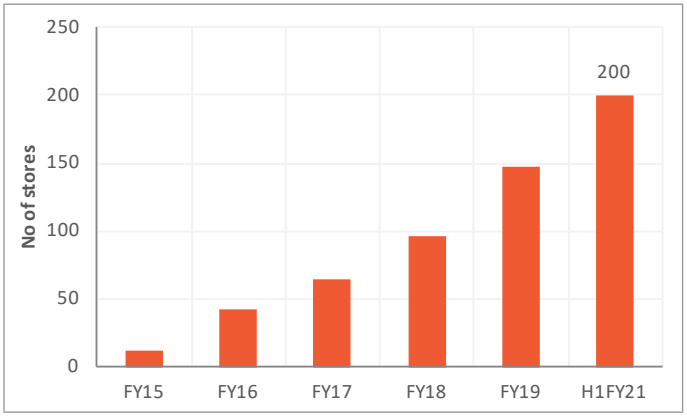
Mr. Sandip Kataria becoming the global CEO opens global doors for the Indian entity:

Bata Corporation (parent company of Bata India) has appointed its India Chief Executive Officer (CEO), Mr.Sandeep Kataria as its Global CEO. Mr. Kataria is the first Indian to be elevated in this role.An Indian CEO taking over as a Global CEO provides lot of opportunity for Indian entities to improve their growth prospects in India. Globally, Bata operates through almost 6,000 stores with presence in around 70 countries. Along with India, countries such as Colombia, Italy, Chile, and Pakistan are some of the key markets for the global entity. Bata can leverage upon the trends and market expertise of these countries to further improve its growth prospects in the long run. Further, the Indian entity can become one of the important export hubs for global markets. Currently, exports constitute a very small portion of Bata's overall revenue. With Mr.Kataria's elevation as the Global CEO, the company will have a new CEO on board of the domestic entity.

Store opening through franchisee model in tier-3 and tier-4 towns:

Bata has witnessed increasing demand in tier-3 and tier-4 towns with more and more consumers willing to visit nearby stores rather than going to stores in the nearby large town. Sensing this as an opportunity, Bata has decided to open around 100 stores in FY2021 (large part of it will be opened in smaller cities and towns) largely through the franchisee route. Bata has 200 stores under operation through the franchisee route (in the past one and half year, more than 50 stores were added through this route). The company also leveraged upon the opportunity to expand its presence via distributor-led, multi-brand outlet route. The Company is working towards a vision of 500 stores through the franchise network in the country by increasing its reach in towns with a population of less than 2 lakh.

Opened 200th franchise store in Q2FY2021

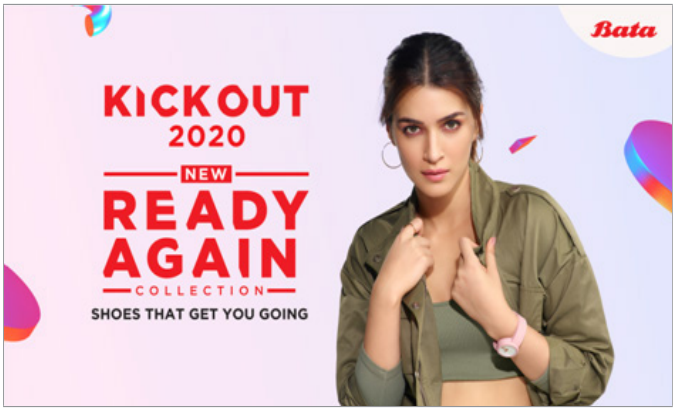


Source: Company, Sharekhan Research

New Campaign #Kickout2020 launched to bring positive sentiments among consumers

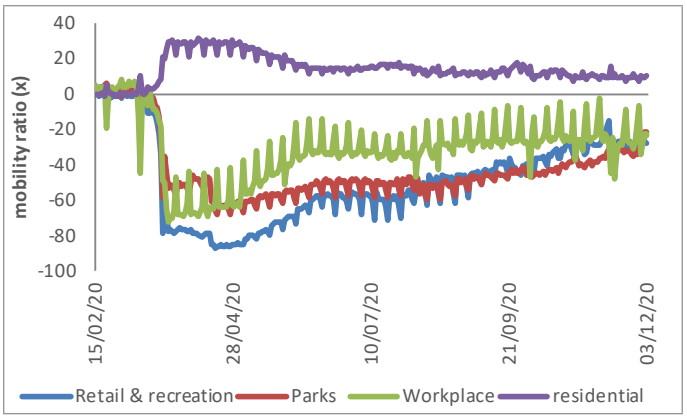
2020 was dampener for all footwear companies, as out-of-home consumption was badly affected by the lockdown and sustained spread of Coronavirus. However, to beat the pandemic blues and spread positivity, Bata has launched its first big campaign of the year – #KickOut2020. The campaign launch is also accompanied by the launch of its new collection – 'Ready Again', which comprises a wide variety of footwear to go with every outfit and occasion. 'Ready Again' collection caters to casuals, festive, fitness, dress, and fashion, with all the comfortable and stylish designs. With opening up of offices/work stations gradually with 40-50% capacity and shopping malls/retail stores, India's mobility ratio is gradually improving on w-o-w basis. With the launch of the vaccine by the first half of 2021, we expect the mobility ratio to improve considerably in the coming months. This would result in an increase in out-of-home consumption items such as branded apparel and footwear. However, we expect higher demand would be sustained for casuals and sports/fitness footwear in the near term.

New campaign - #Kickout 2020



Source: Company, Sharekhan Research

India's mobility ratio improving on a weekly basis



Source: Google Data Intelligence; Sharekhan Research

Digitally enabled channels continue to gain good traction:

Newly launched digitally enabled channels such as Bata ChatShop, Bata Home Delivery, and Bata Store on Wheels contribute over 10% to store revenue. These new channels allow customers to shop remotely from neighbourhood stores over WhatsApp, get a product home delivered if not available in the visited store and invite Bata to set-up a 'mobile kiosk' in their housing complexes/societies, displaying a curated selection and tablets, and allowing ordering from a wider assortment, respectively.

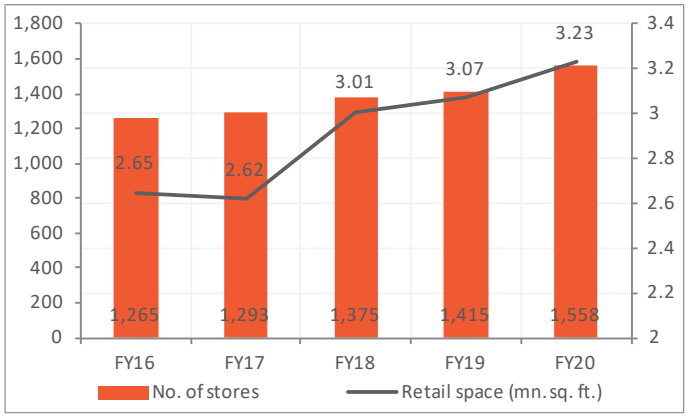
Source: Company

Government trying to put a hold on cheap footwear imports:

Around 60-63% of leather imports come from neighbouring country, China. So, this factor poses the biggest challenge to Indian players. The Department for Promotion of Industry and Internal Trade (DPIIT) has come out with quality-control norms for different leather footwear, including anti-riot shoes, with a view to contain imports and production of sub-standard products in the country. Leather safety boots and shoes, canvas shoes rubber sole, sports footwear, and derby shoes are also included in the list. According to thenotification, the products would have to confirm to the specified standards and bear the standard mark under a licence from the Bureau of Indian Standards (BIS). The items cannot be produced, sold/traded, imported, and stocked unless they have BIS mark.

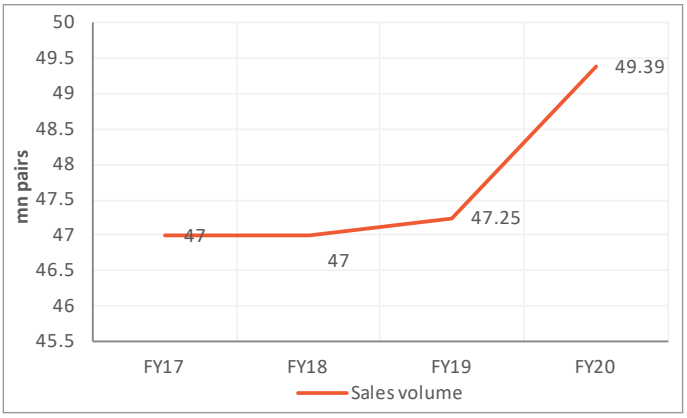
Financials in charts

Sustained retail expansion



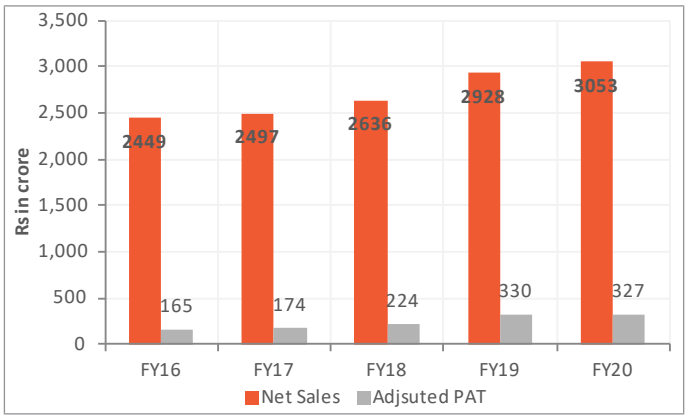
Source: Company, Sharekhan Research

Sales volume reached close to 50mn pairs in FY2020



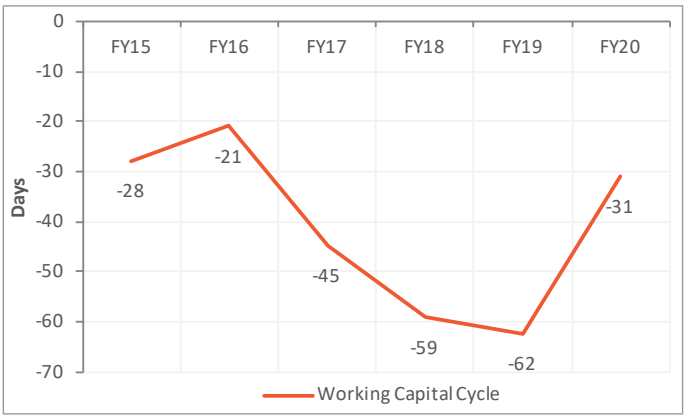
Source: Company, Sharekhan Research

Trend in revenues & PAT



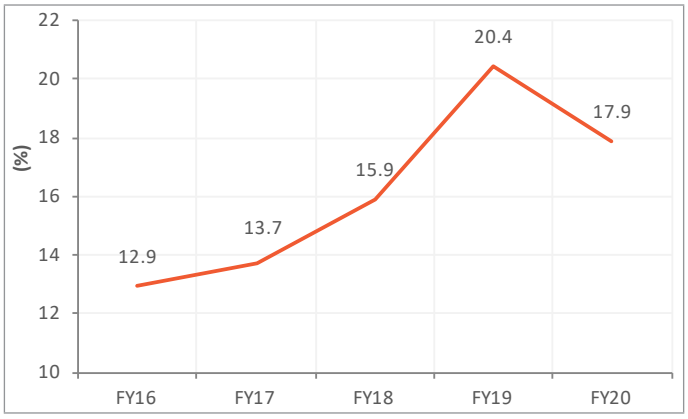
Source: Company, Sharekhan Research

Negative working capital



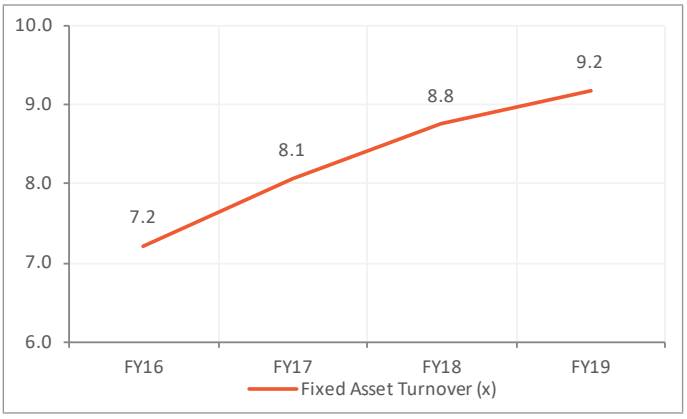
Source: Company, Sharekhan Research

Sustained improvement in RoE(%)



Source: Company, Sharekhan Research

Fixed asset turnover saw sustained improvement



Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector Outlook - Long-term growth prospects of the footwear industry are intact:** India is the second largest footwear manufacturer after China, accounting for 9% of the world market with 22 billion pairs. The domestic market contributes ~90% to the overall footwear market in India. The domestic footwear market was badly affected by the lockdown during the pandemic environment (Q1 was worst affected). Closure of retail stores and restriction of out-of-home mobility affected sales in Q1FY2021. However, with easing of lockdown norms and gradual opening of retail stores/malls, footwear sales gained some momentum in Q2. With the ongoing festive season and gradual opening of the economy, we expect the footwear industry to come back to pre-COVID levels (at least in the value segment). Having said that, low per capita consumption at 1.66 pairs per annum, lower share of exports, and higher unorganised play provide a large opportunity for top brands to scale up their operations in the near to medium term.

■ **Company Outlook - Strong recovery expected in FY2022:** Bata has been focusing on increasing its omni-channel presence and adding relevant products to its portfolio to drive demand in the near term. The company's sales volumes are picking up on weekly basis with intensity of the Coronavirus reducing and improvement in inter-city/state mobility. Demand has remained higher in tier 3/4 towns, while it is improving in urban markets. The festive season was good with pick-up in demand for footwear products (including casuals/party wear) in metros and top cities.Bata's business recovered to 31% of pre-Covid level in H1FY2021 (recovered to ~50% in Q2FY2021). We expect the business to recover to 90%-95% in H2FY2021 (with marginal growth anticipated in Q4).Lower operating leverage will put margins under pressure in FY2021. However, the same is expected to recover in FY2022, driven by improving product mix, operating efficiencies, cost-saving initiatives and stronger recovery in demand.

■ **Valuation - Retain Buy with a revised PT of Rs. 1,765:** We have fine-tunned our earnings estimates for FY2021/FY2022/FY2023 to factor in higher-than-earlier expected sales in H2FY2021 with pick-up in festive demand and optimism building up towards the launch of the vaccine in early FY2022.Bata is focusing on expanding its presence through the e-commerce/omni-channel and innovating its product portfolio with new relevant variants to drive growth in the medium to long term. Further, the company will benefit from the shift from non-branded to branded products. The government is also regulating cheap import of footwear (including leather footwear), which augurs well for the company from a long-term perspective. The stock is currently trading at 46x its FY2023E EPS and 18.4x its FY2023 EV/EBIDTA. We maintain our Buy recommendation on the stock with a PT of Rs. 1,765 (valuing the stock at 52x its FY2023E EPS).

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Relaxo Footwears	77.3	55.5	46.4	43.1	32.2	27.3	23.1	28.2	26.3
Bata India	-	61.6	46.0	44.8	22.7	18.4	3.1	10.7	12.3

Source: Company, Sharekhan estimates

About company

Bata is the largest retailer and manufacturer of footwear in India. The company has a retail network of over 1,600 stores, including 200 franchised stores, which sell total of ~47 million pairs of footwear annually. The retail channel contributes ~82% to the company's total revenue, whereas the balance 18% is contributed by multi-brand outlets, wholesale, and the e-commerce channel. Bata currently has a 15% value market share in the organised footwear market.

Investment theme

Bata has rebranded itself as a modern footwear player recently. This will help the company to report double-digit revenue growth in the long run. With the implementation of GST, there is a shift from unbranded to branded products, which provides further scope for Bata in the Rs. 55,000 crore-60,000 crore footwear market in India, of which ~50% is unbranded. Consistent store expansion, investment behind the brand, mid to high single-digit SSSG, and premiumisation strategies would be key growth drivers for Bata in the near to medium term.

Key Risks

- Slowdown in discretionary demand: Any slowdown in SSSG due to fall in demand/footfalls would affect revenue growth.
- Increased competition in highly penetrated categories: Heightened competition would act as a threat to revenue growth.

Additional Data

Key management personnel

Ashwani Windlass	Chairman
Rajeev Gopalakrishnan	Managing Director
Sandeep Kataria	Chief Executive Officer
Ram Kumar Gupta	Chief Financial Officer
Nitin Bagaria	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	5.1
2	Aditya Birla Sun Life Asset Management Co Ltd	3.4
3	Aditya Birla Sun Life Trustee Co Pvt Ltd	2.7
4	Kotak Mahindra Asset Management Co	2.3
5	FundRock Management Co SA	1.9
6	Axis Asset Management Co	1.5
7	Tata Asset Management Ltd	1.3
8	DSP Investment Managers Pvt Ltd	1.3
9	IDFC Mutual Fund	1.0
10	Vanguard Group Inc	0.9

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

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