

Bata India: Posted weak set of numbers for 2QFY21 due to the effect of the pandemic lockdown. Operating revenue was down 49% YoY, with an after tax loss of 44 cr. Operating margins were down to 4.9% from 25% in 2QFY20. Margins remain stressed overall due to the retail focused model which causes the company to incur heavy fixed costs during a period of distress. With the lockdown easing the company has restarted operations in more than 80% of its stores. Sales are expected to pick up with the festive season contributing towards growth in consumer discretionary spending. The company is net debt free and is able to see the current situation through without substantially changing its plans.

Expansion of coverage in tier 2/3 cities

Bata India has seen significant enhancement to its distribution channels reaching a milestone of 200 franchise stores and presence in 30,000 multi brand outlets. It has an overall target of opening 500 franchise stores. It has enhanced outreach with the launch & scaling up of three new hyper-local digital channels — Bata ChatShop, Bata Store-on-Wheels and Bata Home Delivery. The company is reaching a wider audience, especially in smaller towns and cities, while demand has been subdued in metros with semi-urban areas recovering faster. Bata India's efforts to increase their reach in these markets will help drive growth in the long term.

E-commerce to increase growth potential

The footwear market in India is expected to grow at 11% CAGR till 2024. The footwear industry in India is largely unorganized, one of the primary drivers of this growth is the expected shift towards organized and branded offerings. E-commerce channels are expected to gain importance in India with digitization and improvement of logistics channels in the country. Bata India has seen its online sales significantly improve, it is selling twice the number of pairs through e-commerce route as compared to 2018. The company has a presence in every major online retailer and enjoys sales through its own websites too. Bata is well placed to benefit in the long term from the move towards a digital India.

Cost cutting and premiumization

The management of Bata India has indicated a strong desire to maintain the cost cutting measures employed during the lockdown to optimize its operations further. The shift in portfolio from fashion and formal shoes towards casual and fitness categories has led to improvements in the average selling price per pair sold, which improved to Rs 620 in FY20 from Rs 560 in FY18. The lockdown and subsequent changes in consumer habits has been a bump in the road for the premiumization trend within the company, however we believe the managements focus towards implementing measures to improve efficiency will drive revenues and margins higher.

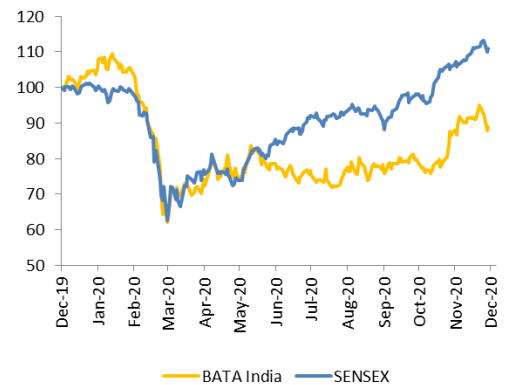
Rating Matrix

CMP	Rs1,578
Rating	HOLD
Target price	Rs1,685
Upside	6.79%
52 week H/L	Rs1,897 / 1,017
Face value	Rs5
Mar. Cap.	Rs202,816 Mn
Category	Mid Cap
Sector	Retail / Footwear

Shareholding pattern

	Dec-19	Mar-20	Jun-20	Sep-20
Promoters	52.96%	52.96%	52.96%	52.96%
FIIIs	11.13%	9.24%	6.91%	4.69%
DIIIs	21.33%	22.84%	24.76%	26.35%
Public	14.58%	14.96%	15.37%	16.00%

Relative Capital Market Strength



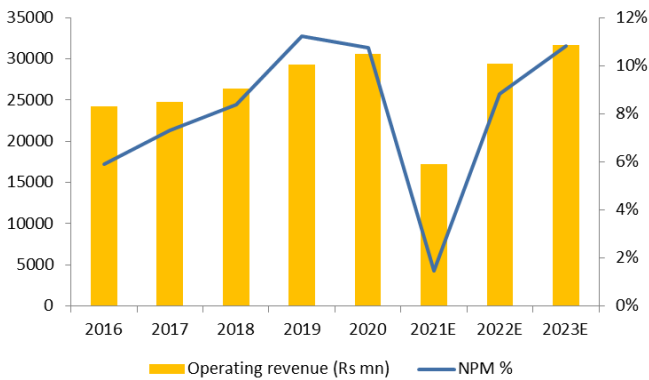
Key Financials Consolidated Snapshot (Rs. bn)

Particulars	FY20	FY21E	FY22E	FY23E
Operating income	30.6	18.4	29.4	32.2
EBITDA	8.4	3.4	7.0	8.4
EBITDA Margin	27.6%	18.5%	23.9%	26%
PAT	3.3	0.36	2.7	3.6
NPM (%)	10.8%	2%	9.2%	11%
EPS (Rs)	25.6	2.8	21.2	28.1
RoE (%)	17.4%	1.9%	12.9%	15.3%
P/S (x)	5.0	11	6.9	6.3
P/E (x)	47	-	74	56
P/BV (x)	8.1	10.6	9.6	8.6

Changes in product portfolio

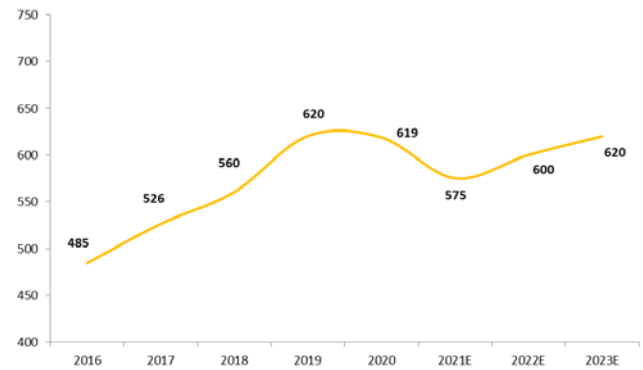
Bata India has in recent years seen a shift in its product mix, moving away from its traditional men's wear segment towards women's and casual wear. The company has recognized the importance of establishing a presence in the fastest growing and most profitable segments for footwear, with advertising and targeted awareness campaigns the company has managed to shift its brand identity away from men's formal wear to becoming associated with trends and fashion. The lockdown has negatively impacted the premium products of the company, with consumption habits shifting towards need based over wants. We can see this effect on the company's average realizations, however with demand returning and the festive season to enhance purchasing we believe the company will get back on track with its premiumization strategy.

Projected revenue



Source: Company, Choice international research

Average realization (Rs / Pair sold)

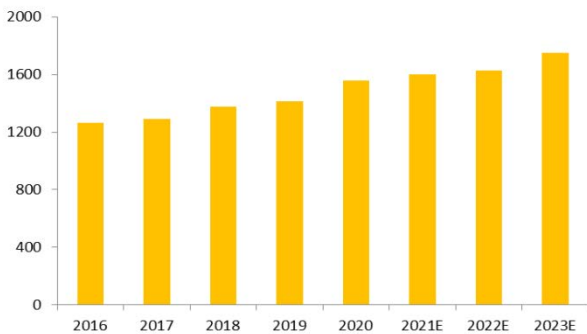


Source: Company, Choice international research

Focus on retail presence over other channels

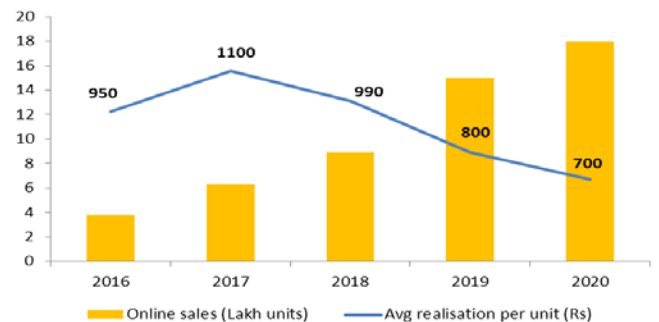
The company has laid out a plan of opening 500 franchise owned stores, with 200 currently open. Retail is the primary distribution channel of the company accounting for 84% of revenue. The covid-19 lockdown has hit the retail aspect of the company the worst, despite easing restrictions the company does not yet have all its stores fully operational. The insistence of focusing on company owned and franchise owned stores over wholesale is expected to somewhat negatively impact the overall sales potential due to shifting trends. E-commerce has seen significant gains in volumes in recent years, with all signs pointing towards an e-commerce led growth for the future due to changing consumer habits. We believe Bata India would need some alterations to its strategy in this regard.

Number of stores in operation



Source: Company, Choice international research

Sales through online channels



Source: Company, Choice international research

Consolidated Quarterly Snapshot

Rs.Mn	Q2FY21	Q1FY21	QoQ%	Q2FY20	YoY%	H1FY21	H1FY20	YoY%
Revenue from operations	3678.73	1350.75	172%	7219.61	-49%	5029.48	16047.16	-69%
Cost of materials	278.86	1.74	15926%	731.15	-62%	280.60	1108.70	-75%
Purchase of stock in trade	1090.74	352.08	210%	3302.91	-67%	1442.82	6125.98	-76%
changes in inventory	455.12	449.47	1%	(886.15)	-151%	904.59	(89.19)	-1114%
Employee expenses	826.45	847.62	-2%	890.14	-7%	1674.07	1870.53	-11%
Other expenses	846.10	558.49	51%	1328.07	-36%	1404.59	2744.60	-49%
EBITDA	181.46	(858.65)	-121%	1853.49	-90%	(677.19)	4286.54	-116%
Depreciation	644.64	730.77	-12%	748.79	-14%	1375.41	1478.93	-7%
Other income	144.44	520.42	-72%	177.11	-18%	664.86	345.79	92%
EBIT	(318.74)	(1069.00)	-70%	1281.81	-125%	(1387.74)	3153.40	-144%
Finance cost	265.35	278.37	-5%	307.70	-14%	543.72	621.21	-12%
PBT	(584.09)	(1347.37)	-57%	974.11	-160%	(1931.46)	2532.19	-176%
Tax	(140.93)	(338.52)	-58%	261.07	-154%	(479.45)	809.42	-159%
PAT	(443.16)	(1008.85)	-56%	713.04	-162%	(1452.01)	1722.77	-184%
Reported EPS	(3.45)	(7.85)	-56%	5.55	-162%	(11.30)	13.40	-184%
EBITDA margin	4.9%	-63.6%	6850 Bps	25.7%	(2074) Bps	-13.5%	26.7%	(4018) Bps
PAT margin	-12.0%	-74.7%	6264 Bps	9.9%	(2192) Bps	-28.9%	10.7%	(3961) Bps

Bata India Ltd Peer set (TTM)

Companies	CMP	M. Cap (Rs. Mn)	ROE	ROCE	EPS	BVPS	EBIDTA Margin (%)	NPM (%)
Bata India Ltd	1578.0	202,816	0.7%	13%	0.9	132.2	17.2%	0.6%
Relaxo Footwears Ltd	811.2	201,536	14.9%	25%	8.3	55.3	18.4%	9.9%
Mirza International Ltd	57.1	6,863	1.9%	15%	1.0	51.0	12.4%	1.2%
Sreeleathers Ltd	146.0	3,673	4.0%	6%	5.3	133.0	20.1%	14.2%
Liberty Shoes Ltd	152.8	2,603	-5.5%	13%	-5.6	101.9	7.5%	-1.9%
Khadim India Ltd	125.7	2,258	-44.4%	-10%	-45.6	102.7	-6.0%	-15.9%
Average		-4.7%	10.4%				11.6%	1.3%
Companies	P/E (x)	P/Bv (x)	P/Sales(x)	EV/EBIDTA (x)	D/E	PAT(Rs. Mn)	EBIDTA(Rs. Mn)	Sales (Rs. Mn)
Bata India Ltd	1,767.5	11.9	10.4	58.0	0.0	115	3,357	19,543
Relaxo Footwears Ltd	98.2	14.7	9.7	53.2	0.1	2,053	3,817	20,799
Mirza International Ltd	58.7	1.1	0.7	7.5	0.4	117	1,242	10,020
Sreeleathers Ltd	27.4	1.1	3.9	19.0	0.0	134	190	947
Liberty Shoes Ltd	-27.5	1.5	0.5	10.0	0.7	(95)	373	4,983
Khadim India Ltd	-2.8	1.2	0.4	-11.3	0.7	(820)	(308)	5,151
Average	320.3	5.3	4.3	22.7	0.3			

Company overview

Bata India is the largest retailer and leading manufacturer of footwear in India and is a part of the Bata Shoe Organization. Incorporated as Bata Shoe Company Private Limited in 1931, the company was set up initially as a small operation in Konnagar (near Calcutta) in 1932. The Company went public in 1973 when it changed its name to Bata India Limited.

The company retails through over 1600 company and franchise owned stores. The company also operates a large non retail distribution network through its urban wholesale division and caters to millions of customers through over 30,000 dealers. Bata India is the largest footwear retailer in India, offering footwear, accessories and bags across brands such as Bata, Hush Puppies, Naturalizer, Power, Marie Claire, Weinbrenner, North Star, Scholl, Bata Comfit and Bubblegummer.

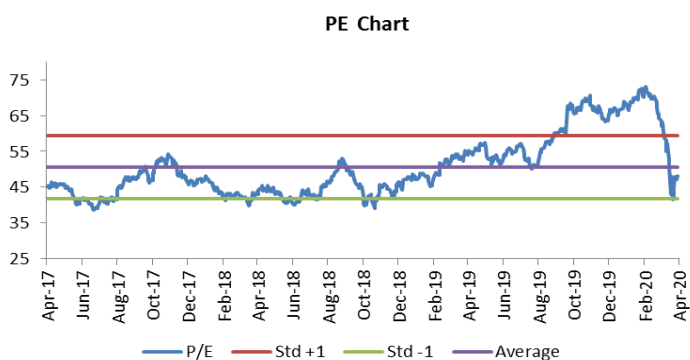
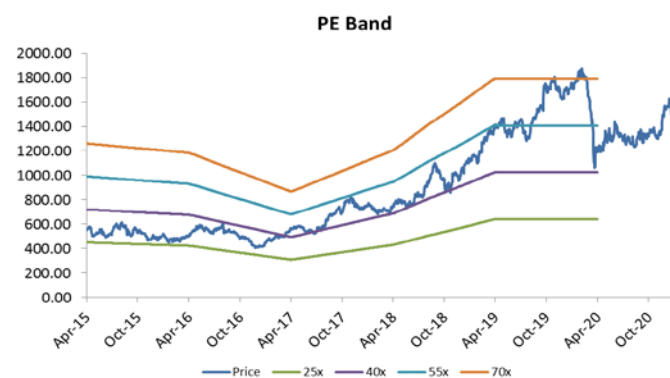
Outlook and valuation

The global footwear market is valued at approx. USD 220 Billion and is expected to exceed USD 260 Billion by 2023, growing at 2.5% CAGR. India is the second largest producer of footwear in the world, next to China and has an ever-growing domestic market. Consumption of footwear in India is nascent compared to the rest of the world and the existing industry is fragmented with 50% of market share taken by the unorganized sector. Bata India's leading retail coverage and brand recognition puts it in a good position to reap the benefits as the industry consolidates towards organized retail channels.

Bata India has a retail oriented model which allows the company to focus on its goal of increasing its revenue through more premium offerings and increased coverage in non metro cities. Presently the company has a network of 1600 stores with 200 being franchise stores, the long term plan of the management is to open 500 franchise stores across the country. The covid-19 pandemic and subsequent lockdown has severely impacted Bata India's earnings and outlook. Despite opening more than 80% of its stores, footfall remains muted and consumer habits look to be shifting towards digital channels.

The company had employed a premiumization strategy which involved shifting focus away from men's formal and office wear, towards women's and casual wear shoes. While we believe the strategy to be sound, there are concerns in the short term over consumer habits changing.

Bata India is currently trading at P/E of 56x as per FY23E earnings, based on the company's focus on retail growth, eventual revival of consumer spending and keeping in mind the current market valuations we assign a **"HOLD"** rating to Bata India with a target price of **Rs1685**



Choice's Rating Rationale

The price target for a large cap stock represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as Outperform (Buy), the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as Underperform (Reduce, Sell), the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as Neutral (Hold).

BUY	Absolute Return >15%
Hold	Absolute Return Between 0-15%
Reduce	Absolute Return 0 To Negative 10%
Sell	Absolute Return > Negative 10%

Equity Research Team

Name	Designation	Email id
Sundar Sanmukhani	Head of Research – Fundamental	sanmukhanis@choiceindia.com
Satish Kumar	Research Analyst	satish.kumar@choiceindia.com
Rajnath Yadav	Research Analyst	rajnath.yadav@choiceindia.com
Ankit Pareek	Research Associate	ankit.pareek@choiceindia.com
Siddhi Acharya	Research Intern	siddhi.acharya@choiceindia.com
Yug Tibrewal	Research Intern	yug.tibrewal@choiceindia.com

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Choice Equity Broking Pvt. Ltd.

Choice House, Shree Shakambhari Corporate Park, Plt No: -156-158,
J.B. Nagar, Andheri (East), Mumbai - 400 099.

+91-022-6707 9999

+91-022-6707 9959

www.choiceindia.com



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