

Accumulate

View: Expect gradual recovery; Upgrade to Accumulate

- Bata's Q3FY21 revenues were broadly in line with our estimate but EBITDA and PAT was a miss. Sequential recovery was encouraging.
- Continuous addition of stores, new promotional activities and procuring institutional contracts would help Bata to recover.
- Post re-opening of markets, most of the retail businesses have reached to pre-Covid level. With opening of schools and offices, we believe that Bata would also regain lost momentum.
- Our recent channel check suggests that the casual and sports category has bounced during the end of Q3FY21. We believe that the growth would continue in this category. Further, addressing supply constraints would help accelerate growth.
- We have downward revised our FY21E estimates to factor in Q3 results. However, we have increased our FY22/23E EPS estimates to factor in 1) re-opening of malls, schools, offices in the near term 2) favorable base, 3) New advertising campaigns and 4) increased e-commerce contribution. We value Bata at 60x FY23E EPS to arrive at a TP of Rs 1,697. Upgrade to Accumulate.

Operational performance was below estimate

Revenues fell 25.9% YoY to Rs 6.1bn in Q3FY21 – came in line. However, performance improved sequentially considering 84.7%/49% YoY deceleration in Q1/Q2FY21. Revenue growth was much lower than peers- Relaxo (+12%) and Khadim (flat). Bata's muted performance was on account of lower sales in formals and fashion categories on account of the pandemic. Casual, Fitness categories bounced back with company's overall volume reaching 88% of pre-Covid levels. Gross margin declined 910bps to 51.5%. Further 130/30/180bps increase in employee cost/rent/other expense resulted in 1260bps contraction in EBITDA margin to 19.1%. EBITDA declined 55.4% YoY to Rs 1171mn. RPAT declined 78%YoY to Rs 258mn. Excluding exceptional item of Rs 46.1mn related to VRS, APAT declined 74.1%YoY to Rs 304mn. Bata opened a total of 45 new franchise stores in Q3FY21, mainly in Tier 3/4 cities taking its total to 221 Franchise stores.

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	6,147	8,296	(25.9)	3,679	67.1
Total Expense	4,976	5,671	(12.2)	3,497	42.3
EBITDA	1,171	2,626	(55.4)	182	545.3
Depreciation	652	765	(14.7)	645	1.2
EBIT	519	1,861	(72.1)	(463)	(212.1)
Other Income	132	171	(22.6)	143	(7.8)
Interest	250	285	(12.2)	265	(5.7)
EBT	355	1,747	(79.7)	(585)	(160.7)
Tax	97	575	(83.2)	(141)	(168.6)
RPAT	258	1,172	(78.0)	(444)	(158.1)
APAT	304	1,172	(74.1)	(444)	(168.5)
			(bps)		(bps)
Gross Margin (%)	51.5	60.7	(913)	50.4	113
EBITDA Margin (%)	19.1	31.7	(1,260)	4.9	1,412
NPM (%)	4.2	14.1	(993)	(12.1)	1,626
Tax Rate (%)	27.3	32.9	(561)	24.1	317
EBIT Margin (%)	8.4	22.4	(1,399)	(12.6)	2103

CMP	Rs 1,569
Target / Upside	Rs 1,697 / 8%
NIFTY	15,107

Scrip Details

Equity / FV	Rs 643mn / Rs 5
Market Cap	Rs 202bn
	USD 3bn
52-week High/Low	Rs 1,845/ 1,000
Avg. Volume (no)	800,701
Bloom Code	BATA IN

Price Performance	1M	3M	12M
Absolute (%)	(5)	15	(14)
Rel to NIFTY (%)	(10)	(4)	(39)

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	53.0	53.0	53.0
MF/Banks/FIs	27.6	29.1	26.1
FIIIs	6.9	4.7	5.6
Public / Others	12.5	13.3	15.4

Valuation (x)

	FY21E	FY22E	FY23E
P/E	(353.0)	68.2	55.5
EV/EBITDA	95.3	24.8	21.1
ROE (%)	(3.0)	15.0	16.3
RoACE (%)	1.7	13.1	14.3

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	18,015	29,725	32,698
EBITDA	1,959	7,394	8,493
PAT	(571)	2,956	3,637
EPS (Rs.)	(4.4)	23.0	28.3

VP - Research: Sachin Bobade
 Tel: +91 22 40969731
 E-mail: sachinb@dolatcapital.com

Associate: Nikhat Koor
 Tel: +91 22 40969764
 E-mail: nikhatk@dolatcapital.com

Exhibit 1: Actual V/s Estimates Variance (%)

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	6,147	5,828	5.5	
EBITDA	1,171	1,291	(9.3)	
EBITDA margin %	19.1	22.2	(31.0)	RM cost was higher than our estimate
APAT	304	444	(31.5)	Lower than estimated other income and cascading effect of lower EBITDA

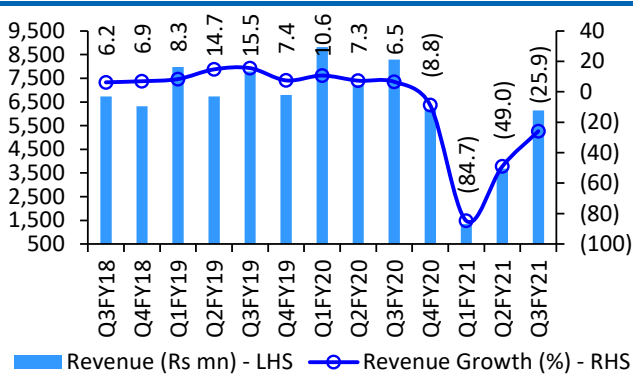
Source: Company, DART (Reported numbers)

Exhibit 2: Change in estimates

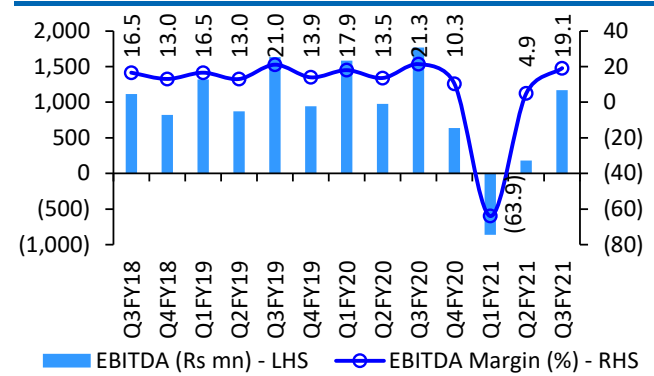
Rs Mn	FY21E			FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	18,015	19,237	(6.3)	29,725	27,893	6.6	32,698	30,683	6.6
EBITDA	1,959	3,054	(35.8)	7,394	6,882	7.4	8,493	7,908	7.4
EBITDA Margin (%)	10.9	15.9	(500bps)	24.9	24.7	20bps	26.0	25.8	20bps
PAT	(571)	197	NM	2,956	2,587	14.3	3,637	3,214	13.1
EPS (Rs)	(4.4)	1.5	NM	23.0	20.1	14.3	28.3	25.0	13.1

Source: Company, DART

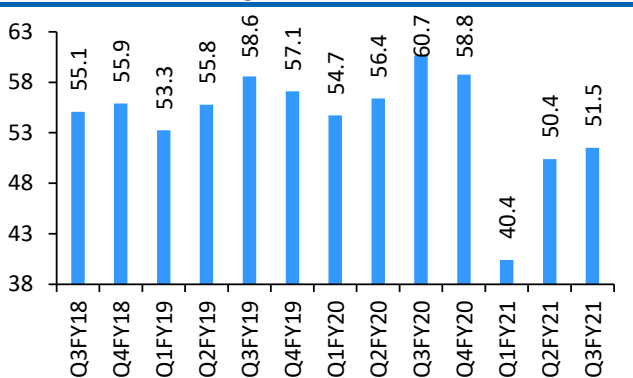
We have revised our FY21E revenue estimates downwards to factor in Q3 performance and delay in opening of malls. However, we have upward revised our FY22/23E revenue estimates to factor in addition of franchise stores, re-opening of schools & offices and new advertisement campaigns. In line with the revision in revenues, we have upward revised our EBITDA and APAT estimates.

Exhibit 3: Revenue Trend


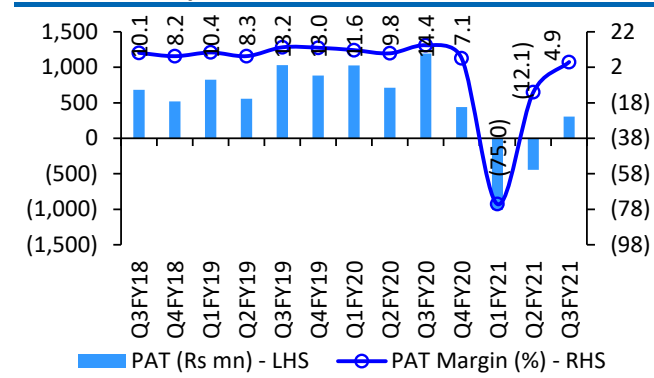
Source: Company, DART

Exhibit 4: EBITDA Trend


Source: Company, DART, (Q1 to Q4FY20 are comparable numbers)

Exhibit 5: Gross margin Trend (%)


Source: Company, DART

Exhibit 6: Net profit trend


Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	30,535	18,015	29,725	32,698
Total Expense	22,237	16,056	22,331	24,205
COGS	12,963	8,909	13,511	14,928
Employees Cost	3,764	3,392	3,962	4,194
Other expenses	5,510	3,755	4,858	5,083
EBIDTA	8,297	1,959	7,394	8,493
Depreciation	2,958	2,690	2,857	3,057
EBIT	5,340	(731)	4,537	5,436
Interest	1,177	1,071	1,125	1,181
Other Income	688	988	682	782
Exc. / E.O. items	0	0	0	0
EBT	4,851	(814)	4,094	5,037
Tax	1,582	(243)	1,138	1,401
RPAT	3,269	(571)	2,956	3,637
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	3,269	(571)	2,956	3,637

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	643	643	643	643
Minority Interest	0	0	0	0
Reserves & Surplus	18,323	17,866	20,231	23,140
Net Worth	18,966	18,509	20,874	23,783
Total Debt	0	0	0	0
Net Deferred Tax Liability	11,407	11,407	11,407	11,407
Total Capital Employed	30,373	29,916	32,281	35,190

Applications of Funds

Net Block	13,673	11,583	9,726	7,669
CWIP	199	199	199	199
Investments	50	50	50	50
Current Assets, Loans & Advances	22,315	23,115	30,264	35,974
Inventories	8,737	5,053	8,337	9,171
Receivables	612	373	616	677
Cash and Bank Balances	9,623	14,898	18,114	22,825
Loans and Advances	1,177	625	1,031	1,134
Other Current Assets	2,166	2,166	2,166	2,166
Less: Current Liabilities & Provisions	5,864	5,031	7,959	8,702
Payables	5,031	4,175	6,889	7,577
Other Current Liabilities	833	856	1,070	1,124
<i>sub total</i>				
Net Current Assets	16,451	18,084	22,306	27,272
Total Assets	30,373	29,916	32,281	35,190

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	57.5	50.5	54.5	54.3
EBIDTA Margin	27.2	10.9	24.9	26.0
EBIT Margin	17.5	(4.1)	15.3	16.6
Tax rate	32.6	29.8	27.8	27.8
Net Profit Margin	10.7	(3.2)	9.9	11.1
(B) As Percentage of Net Sales (%)				
COGS	42.5	49.5	45.5	45.7
Employee	12.3	18.8	13.3	12.8
Other	18.0	20.8	16.3	15.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	4.5	(0.7)	4.0	4.6
Inventory days	104	102	102	102
Debtors days	7	8	8	8
Average Cost of Debt				
Payable days	60	85	85	85
Working Capital days	197	366	274	304
FA T/O	2.2	1.6	3.1	4.3
(D) Measures of Investment				
AEPS (Rs)	25.4	(4.4)	23.0	28.3
CEPS (Rs)	48.4	16.5	45.2	52.1
DPS (Rs)	7.5	(0.9)	4.6	5.7
Dividend Payout (%)	29.6	20.0	20.0	20.0
BVPS (Rs)	147.6	144.0	162.4	185.0
RoANW (%)	17.9	(3.0)	15.0	16.3
RoACE (%)	18.6	1.7	13.1	14.3
RoAIC (%)	35.9	(4.1)	31.1	41.0
(E) Valuation Ratios				
CMP (Rs)	1569	1569	1569	1569
P/E	61.7	(353.0)	68.2	55.5
Mcap (Rs Mn)	201,666	201,666	201,666	201,666
MCap/ Sales	6.6	11.2	6.8	6.2
EV	192,043	186,768	183,552	178,841
EV/Sales	6.3	10.4	6.2	5.5
EV/EBITDA	23.1	95.3	24.8	21.1
P/BV	10.6	10.9	9.7	8.5
Dividend Yield (%)	0.5	(0.1)	0.3	0.4
(F) Growth Rate (%)				
Revenue	4.3	(41.0)	65.0	10.0
EBITDA	73.8	(76.4)	277.4	14.9
EBIT	29.2	(113.7)	(720.8)	19.8
PBT	1.4	(116.8)	(603.1)	23.0
APAT	(0.8)	(117.5)	(617.4)	23.0
EPS	(0.8)	(117.5)	(617.4)	23.0
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	5,797	6,832	5,933	7,620
CFI	(855)	(600)	(1,000)	(1,000)
CFE	(3,709)	(957)	(1,716)	(1,909)
FCFF	4,942	6,232	4,933	6,620
Opening Cash	8,390	9,623	14,898	18,114
Closing Cash	9,623	14,898	18,114	22,825

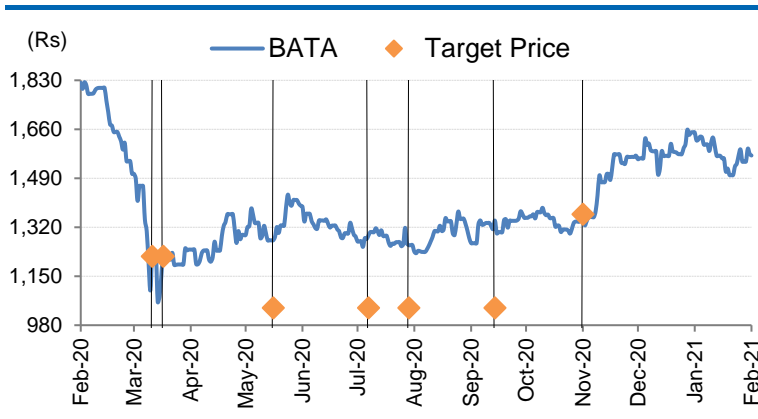
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Mar-20	Accumulate	1,219	1,233
Mar-20	Sell	1,219	1,231
May-20	Sell	1,040	1,275
Jul-20	Sell	1,040	1,292
Aug-20	Sell	1,040	1,258
Sep-20	Sell	1,040	1,343
Nov-20	Sell	1,365	1,367

*Price as on recommendation date

DART Team

Purvag Shah **Managing Director** **purvag@dolatcapital.com** **+9122 4096 9747**

Amit Khurana, CFA **Head of Equities** **amit@dolatcapital.com** **+9122 4096 9745**

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

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Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
