Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Bata India Limited

Steady recovery in Q3; unfavourable mix hits margins

Consumer Discretionary | Sharekhan code: BATAINDIA | Result Update

Stock 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

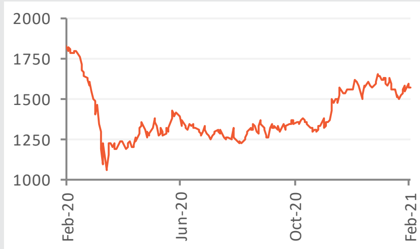
Company details

Market cap:	Rs. 20,102 cr
52-week high/low:	Rs. 1,897/1,017
NSE volume: (No of shares)	0.3 lakh
BSE code:	500043
NSE code:	BATAINDIA
Free float: (No of shares)	6.0 cr

Shareholding (%)

Promoters	53.0
FII	6.1
DII	26.1
Others	14.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.2	15.0	27.1	-12.8
Relative to Sensex	-7.3	-3.5	-7.3	-37.7

Sharekhan Research, Bloomberg

Summary

- Bata India's (Bata) Q3FY2021 business recovered to ~74% of pre-COVID levels, better than a 50% revival in Q2FY2021. Higher festive sales and target customer outreach led to a 67% growth q-o-q.
- Gross margins stood at 51.5% versus 61% in Q3FY20 affected by an unfavourable mix as formals and fashion categories yet to revive. OPM stood at 19% versus 4.9% in Q2FY21.
- Receding COVID-19 cases, improvement in market sentiments and likely improvement in mobility with opening up of commercial economy/education institutions would help business get to pre-COVID level in 5-6 months.
- We maintain a Buy on Bata India (Bata) with a revised PT of Rs. 1,765. Stock is currently trading at 47x its FY2023E EPS and 18.6x its FY2023 EV/EBIDTA.

Bata India's (Bata) Q3FY21 revenues recovered to 74% of pre-COVID levels at Rs. 614.7 crore. It grew by 67% q-o-q mainly on account of higher festive sales and target customer outreach. Sales through digitally enabled platforms like the Bata website, online marketplaces, Bata ChatShop, Bata Home Delivery and Bata Store on Wheels contributed over 15% of total revenues. In institutional & distribution business, the company won orders to supply safety & industrial shoes to companies in the cement, steel & railways sectors as the economy started to open up. Further, Bata continued expanding in smaller towns by appointing new channel partners. The company opened 45 new franchise stores in the quarter, taking the total to 221. Gross margins stood at 51.5% in Q3FY21 versus 61% in Q3FY20 affect by unfavourable mix as formals and fashion categories yet to revive. The company maintained its focus on cost saving measures through store rental optimisation and cutting down on discretionary spends. OPM stood at 19.1% in Q3FY2021 as against 31.7% in Q3FY2020. With a sequential recovery in sales, OPM improved from 4.9% in Q2FY2021. Focus on expanding the store base in tier 3/4 towns, sustained product launches/promotional activities, and emphasis on digital footprint bode well for the company from medium to long-term perspective. A strong recovery is anticipated in FY2022 while mid-teens growth is expected in FY2023. A recovery in sales and cost efficiencies would help Bata to post higher OPM in FY2022-23.

Key positives

- Essentials categories bounced back leading to overall volumes reaching 88% of pre-COVID levels.
- Digital initiatives helped enhance revenue contribution from digital channels to 15% of revenues in Q3 from 10% in Q2.
- To respond to semi-urban demand, the company opened 45 franchise stores in Q3.
- Manufacturing picked up from January 2021 onwards, as demand picked up and inched closure to pre-COVID levels.

Key negatives

- Unfavourable mix resulted in gross margins standing at 51.5% versus 60.7% in Q3FY2020

Our Call

View - Recommend Buy with an unchanged PT of Rs. 1,765: Bata is focusing on expanding its presence through e-Commerce/omni-channels and innovating its product portfolio with new relevant variants to drive growth in the medium to long term. Bata is a debt-free company with a strong cash balance of close to Rs. 800 crore as on H1FY2021, which along with a negative working capital and improving store fundamentals will help the company to improve growth prospects in long run. The government is also regulating cheap import of footwear (including leather footwear), which augurs well for the company from a long-term perspective. Stock is currently trading at 46.7x its FY2023E EPS. In view of this and long-term prospects, we maintain our Buy on the stock with an unchanged PT of Rs. 1,765.

Key risk

If the lockdowns sustain and normalisation takes longer than expected, it will further affect H2FY2021 earnings due to sustenance of store closures, resulting in an overall earnings disruption for FY2021.

Valuations (Standalone) Rs cr

Particulars	FY19	FY20*	FY21E*	FY22E*	FY23E*
Revenues	2,928	3,053	1,675	2,814	3,293
OPM (%)	16.3	27.2	16.5	26.0	28.1
Adjusted PAT	330	327	-24	305	432
% YoY growth	47.4	-0.8	-	-	41.5
EPS	25.6	25.4	-1.9	23.8	33.6
P/E (x)	61.2	61.7	-	66.0	46.7
P/B (x)	11.6	10.6	11.4	10.2	8.7
EV/EBIDTA (x)	35.4	22.9	53.8	23.6	18.6
RoNW (%)	20.4	17.9	-	16.3	20.1
RoCE (%)	19.4	15.0	1.5	10.4	12.5

Source: Company; Sharekhan estimates
**estimates include the impact of Ind-AS 116*

Revenue declined by 49%, margins remained impacted: Q3FY2021 revenue declined by 26% y-o-y to Rs. 614.7 crore. Recovery was stronger at 74% from ~50% in Q2 and ~15% recovery in Q1FY21. Digitally enabled channels contributed over 15% of store revenues. Gross margins slumped by 913bps to 51.5%, largely led by an unfavourable product mix (higher contribution from value-added products). OPM stood at 19.1% in Q3FY2021 as against 31.7% in Q3FY2020. With a sequential recovery in sales, the OPM improved from 4.9% in Q2FY2021. Operating profit declined by 55% to Rs. 117.1 crore. Other income was lower at Rs. 13.2 crore versus Rs. 17.1 crore in Q3FY2020. The company has posted an adjusted profit of ~Rs. 30 crore after two sustained quarter of losses affected by the pandemic.

Other key highlights

- In terms of the portfolio mix, the formals (incl. school business) and fashion categories remained subdued as mobility is yet to reach to pre-covid levels. The casual, fitness and essentials categories bounced back leading to company's overall volume reaching 88% of pre-Covid levels.
- Bata continued to double down on its focus on cost-savings measures by working closely with landlords for store rentals optimization, controlling discretionary spends and looking for productivity-enhancing measures. Rent and other expenses fell by 14% and 18%, respectively.
- Bata sales through digital platform like Bata website, online marketplaces, Bata ChatShop, Bata Home Delivery and Bata Store on Wheels contributed over 15% of total revenues (improved from 10% in Q2).
- Manufacturing picked up from January 2021 onwards, as demand picked up and inched closure to pre-COVID levels.
- Bata opened a total of 45 new franchise stores, taking the total to 221.

Results (Standalone) Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Net Revenues	614.7	829.6	-25.9	367.9	67.1
COGS	298.0	326.4	-8.7	182.5	63.3
Employee expenses	81.1	97.5	-16.8	82.6	-1.9
Rent	11.2	13.0	-14.0	0.1	-
Other expenses	107.3	130.2	-17.6	84.5	27.0
Total expenses	497.6	567.1	-12.2	349.7	42.3
Operating profit	117.1	262.6	-55.4	18.2	-
Other Income	13.2	17.1	-22.6	14.3	-7.8
EBITDA	130.3	279.7	-53.4	32.5	-
Interest expenses	25.0	28.5	-12.2	26.5	-5.7
Depreciation & Amortization	65.2	76.5	-14.7	64.5	1.2
PBT	40.1	174.7	-77.0	-58.5	-
Tax	10.9	57.5	-81.1	-14.1	-
Adjusted PAT	29.2	117.2	-75.1	-44.4	-
Exceptional/ one off (net of taxes)	-3.4	0.0	-	0.0	-
Reported PAT	32.6	117.2	-72.2	-44.4	-
Adj. EPS	2.3	9.1	-75.1	-3.5	-
			bps		**bps**
GPM (%)	51.5	60.7	-913	50.4	113
OPM (%)	**19.1**	**31.7**	**-**	**4.9**	**-**

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – 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's 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 (Q1 was the worst affected). Closure of retail stores and restriction to 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 and Q3. With scare of the Coronavirus receding, footwear demand should further improve in the coming quarters. Low per capita consumption at 1.66 pair p.a., lower share of exports, and higher unorganised play provide huge opportunity for top brands to scale up operations in the near to medium term.

■ Company Outlook – Strong recovery expected in FY2022

Bata has been focusing on increasing omni-channel presence and adding relevant products to its portfolio to drive demand in the near term. Sales volumes are gradually 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/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. Bata's business recovered to 74% of pre-COVID levels in Q3FY2021 (recovered to ~50% in Q2FY2021). Business expected to come back to pre-COVID levels in another 5-6 months. 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 – Recommend Buy with an unchanged PT of Rs. 1,765

Bata is focusing on expanding its presence through e-Commerce/omni-channels and by innovating its product portfolio with new relevant variants to drive growth in the medium to long term. Bata is a debt-free company with a strong cash balance of close to Rs. 800 crore as on H1FY2021, which along with a negative working capital and improving store fundamentals will help the company to improve its growth prospects in long run. The government is also regulating cheap import of footwear (including leather footwear), which augurs well for the company from a long-term perspective. Stock is currently trading at 46.7x its FY2023E EPS. In view of this and long-term prospects, we maintain our Buy on the stock with an unchanged PT of Rs. 1,765.

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoE (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Relaxo Footwears	86.4	63.7	53.4	49.5	37.6	32.0	25.6	29.0	26.9
Bata India	-	66.0	46.7	53.8	23.6	18.6	1.5	10.4	12.5

Source: Sharekhan Research

About company

Bata is the largest retailer and manufacturer of footwear in India. The company has a retail network of over 1,400 stores, including 221 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 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. 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
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
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

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

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

---

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;