Sharekhan by BNP PARIBAS

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Stock Update

Bata India Limited

Q4 shines on all fronts; eyeing recovery post unlock

Consumer Discretionary	Sharekhan code: BATAINDIA	Result 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. 1,633**	
Price Target: **Rs. 1,905**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

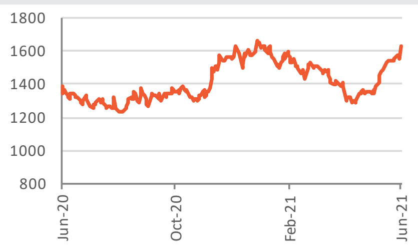
Company details

Market cap:	Rs. 20,989 cr
52-week high/low:	Rs. 1,897 / 1,017
NSE volume: (No of shares)	6.7 lakh
BSE code:	500043
NSE code:	BATAINDIA
Free float: (No of shares)	6.0 cr

Shareholding (%)

Promoters	53.0
FII	5.8
DII	26.0
Others	15.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	21.2	8.5	4.7	21.9
Relative to Sensex	15.5	6.5	-8.7	-34.1

Sharekhan Research, Bloomberg

Summary

- Bata India's (Bata) Q4FY2021 business recovered to ~95% of pre-COVID levels, better than a 74% revival in Q3FY2021. Due to the quarter's seasonality, revenue declined by 4% q-o-q.
- Gross margins stood at 53.1% versus 58.8% in Q4FY2020 affected by an unfavourable mix as formals and fashion categories are yet to revive. OPM stood at 19.0% versus 22.4% in Q4FY2020.
- Bata continued investing on brand-building (appointed Kartik Aryan as brand ambassador) and network expansion (opened 10 new stores and expanded its reach in the e-commerce and omni-channels).
- We maintain a Buy rating on stock with a revised PT of Rs. 1,905. Stock is currently trading at 46x its FY2023E EPS and 19.8x its FY2023 EV/EBIDTA.

Bata India's (Bata's) Q4FY21 revenues recovered to 95% of pre-COVID levels at Rs. 590 crore; better than our as well as the street's expectation of Rs. 567-570 crore. The strong recovery was on back of improved mobility backed by improving macros and opening up of offices during the quarter. However, the revenues were down by 4% on sequential basis as Q3 was boosted by higher festive sales. Gross margins stood at 53.1% in Q4FY21 versus 58.8% in Q4FY20 affect by an 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% in Q4FY2021 (maintained in-line with 19.1% achieve in Q3FY2021) as against 22.4% in Q4FY2020. This along with lower tax helped the company post a PAT of Rs. 40 crore during the quarter. The company continues to improve its ecommerce and omni-channel penetration by covering more pin codes across India. It also continued expanding retail network in tier 3-5 towns via franchisee route by opening 10 new franchisee stores and appointing new distributors to serve multi-brand stores. FY2021 was affected by lower sales of out-of-home consumption categories (including footwear) as lower mobility hit sales in most categories. Bata registered a 44% decline in revenues to Rs. 1707 crore and posted a loss of Rs. 76 crore in FY2021. With the risk of second wave receding most of the states are easing the lockdown norms. Governments in key states including Maharashtra, Gujarat and Madhya Pradesh have allowed offices to function at 100% capacity in locations where positivity rate is much lower. The vaccination drive is also happening at a good pace, which will help intercity mobility to improve at good pace in the coming months. Thus demand for footwear products is expected to improve in the coming quarters. Bata will continue to serve its customers at their doorstep via multiple channels – www.bata.in, marketplaces, home delivery, Bata Store-on-Wheels mobile kiosk activation in residential areas and Bata ChatShop (WhatsApp shopping) with same-day delivery promise from nearby stores. A 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 recovery in sales and cost efficiencies would help Bata to post higher OPM in FY2022-23. The company has strong liquidity position of close to Rs. 1100 crore, which will help it continue with the investments behind new store addition or improve its e-Commerce business.

Key positives

- Economy opening up saw strong bounce back sales leading to overall volumes reaching 95% of pre-COVID levels.
- The cost saving initiatives and rental negotiations helped OPM to sustain at 19% on Q-o-Q basis.
- The company has cash balance of Rs. 1,100 crore on its books.

Key negatives

- Unfavourable mix resulted in gross margins standing at 53.1% versus 58.8% in Q4FY2020.

Our Call

View - Recommend Buy with a revised PT of Rs. 1,905: We have reduced our earnings estimates for FY2022 to factor in the impact of localised lockdown on sales during the second wave. We have increased our estimates for FY2023 by 5% to factor in strong recovery led by pent-up demand. 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. Under the new leadership, growth is expected to improve with revamped strategies backed by strong liquidity position. The stock is currently trading at 46.3x its FY2023E EPS. In view of this and long-term prospects, we maintain our Buy on the stock with a revised price target of Rs. 1,905.

Key Risks

Frequent lockdowns and normalisation takes longer than expected, it will continue to have impact on the demand and sales of the company in the near to medium term.

Valuation (Standalone) Rs cr

Particulars	FY20*	FY21*	FY22E*	FY23E*
Revenues	3,053	1,707	2,353	3,163
OPM (%)	27.2	9.4	23.5	28.6
Adjusted PAT	327	-76	214	453
% y-o-y growth	*-0.8*	*-*	*-*	*112.2*
EPS	25.4	-5.9	16.6	35.3
P/E (x)	64.2	-	98.2	46.3
P/B (x)	11.1	11.9	11.2	9.4
EV/EBIDTA (x)	23.7	82.0	31.0	19.8
RoNW (%)	17.9	-	11.7	22.1
RoCE (%)	14.8	-	8.4	14.0

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

Revenue recovered by 95%, operating margins declined by 19% y-o-y: Q4FY2021 revenue declined by 5% y-o-y to Rs. 589.9 crore. Recovery was strongest in Q4FY2021 as compared to ~74% in Q3, ~50% in Q2 and ~15% recovery in Q1FY21. Recovery was in part due to growth in digital platforms and store expansion in smaller towns. Gross margins contracted by 565 bps to 53.1%, largely led by an unfavourable product mix. OPM stood flat on sequential basis at 19% but contracted by 339 bps y-o-y. Decline in OPM on y-o-y basis was mainly due to decline in gross margins and a 70 bps increase in employee expenses. Operating profit declined by 19.2% to Rs. 112.1 crore. Other income was lower at Rs. 14.4 crore versus Rs. 17.1 crore in Q4FY2020. PAT for the quarter increased by 37.5%/6.8% on a QoQ/y-o-y basis on account of lower depreciation (-5% QoQ/-13.3% y-o-y) and lower finance costs (-3.4% QoQ/-10.9% y-o-y). PAT margin came in at 6.8% for Q4FY2021, versus 4.8% in Q3FY2021 and 6.1% in Q4FY2020.

Other key highlights

- As schools remained closed and offices resumed partially only, demand for formal footwear was muted which led to an unfavourable product mix.
- Ecommerce and omni-channel facilities expanded by covering more locations and making a wider portfolio available on all market places.
- Cost-savings measures in the form of reduced store rentals by collaborating with landlords, controlling discretionary spends and improving operational efficiencies continued during Q4.
- Bata expanded its retail network by opening a total of 10 new franchise stores during Q4, taking the total store count to 228 up from 221 in Q3. 3 stores were closed during the quarter.
- First collection for FY21 - 'Relaxed Workwear' – which offers a good combination of formal and comfort features launched in Q4 across various brands.
- Bollywood actor Kartik Aryan appointed as the brand ambassador of Bata India.
- The company has appointed Mr. Gunjan Shah as its new Chief Executive officer. He takes over from Sandeep Kataria who has been elevated as the Global CEO of Bata Brands. Mr. Shah has extensive experience of working across varied sectors spanning Consumer Durables, Telecom and FMCG. His previous stint was with Britannia as Chief Commercial Officer and was one of key pillars behind developing strong marketing strategies and expanding distribution for Britannia (especially in the rural market)
- The company has also appointed Ms. Vidhya Srinivasan as a Director Finance and CFO (KMP) (whole-time director) of the Company for a period of 5 consecutive years with immediate effect.

Result Snapshot (Standalone) Rs cr

Particulars	Q4FY21	Q4FY20	Y-o-Y %	Q3FY21	Q-o-Q %
Net Revenues	589.9	619.7	-4.8	614.7	-4.0
COGS	276.7	255.6	8.2	298.0	-7.2
Employee expenses	91.3	91.9	-0.6	81.1	12.6
Other expenses	109.8	133.4	-17.7	118.5	-7.4
Total expenses	477.8	480.9	-0.6	497.6	-4.0
Operating profit	112.1	138.8	-19.2	117.1	-4.3
Other Income	14.4	17.1	-15.9	13.2	8.9
EBITDA	126.5	155.9	-18.9	130.3	-2.9
Interest expenses	24.2	27.1	-10.9	25.0	-3.4
Depreciation & Amortization	62.0	71.4	-13.3	65.2	-5.0
PBT	40.4	57.4	-29.6	40.1	0.7
Tax	0.2	19.8	-98.9	10.9	-98.1
Adjusted PAT	40.2	37.6	6.8	29.2	37.5
Exceptional/ one off (net of taxes)	-10.9	0.0	-	-3.4	-
Reported PAT	29.3	37.6	-22.1	25.8	13.5
Adj. EPS	3.1	2.9	6.8	2.3	37.5
			BPS		**BPS**
GPM (%)	53.1	58.8	-565	51.5	157
OPM (%)	19.0	22.4	-339	19.1	-5

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'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. The beginning of FY022 is expected to be uncertain, but strong vaccination programme and dropping cases would help in strong recovery prior to the festive season. Low per capita consumption at 1.66 pair per annum, a lower share of exports, and higher unorganised play provide a huge opportunity for top brands to scale-up operations in the near to medium term.

■ Company outlook - Strong recovery expected in FY2023

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 were gradually picking up on weekly basis with improvement in inter-city/state mobility. Business recovered to 95% of pre-COVID levels in Q4. However, the second wave will affect Q1FY2022. Having said that receding cases and a strong vaccination drive will lead to faster recovery in the quarters ahead. Business expected to revert to pre-COVID levels by festive season and momentum will sustain. The margins are expected to recover in FY2022/23, driven by improving product mix, operating efficiencies, cost-saving initiatives and stronger recovery in demand.

■ Valuation - Recommend Buy with a revised price target of Rs. 1,905

We have reduced our earnings estimates for FY2022 to factor in the impact of localised lockdown on sales during the second wave. We have increased our estimates for FY2023 by 5% to factor in strong recovery led by pent-up demand. 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. Under the new leadership, growth is expected to improve with revamped strategies backed by strong liquidity position. The stock is currently trading at 46.3x its FY2023E EPS. In view of this and long-term prospects, we maintain our Buy on the stock with a revised price target of Rs. 1,905.

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Relaxo Footwears	90	81.8	62.4	55.2	48.5	38.7	29.6	25.5	27.6
Bata India	-	98.2	46.3	82	31	19.8	-	8.4	14

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 228 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
Gunjan Shah	CEO
Vidhya Srinivasan	Director finance & CFO
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 (old data)

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

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;