



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	✓	↔	✓

ESG Disclosure Score NEW

ESG RISK RATING Updated Oct 08, 2021 19.55

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 26,169 cr
52-week high/low:	Rs. 2,213 / 1,265
NSE volume: (No of shares)	6.2 lakh
BSE code:	500043
NSE code:	BATAINDIA
Free float: (No of shares)	6.0 cr

Shareholding (%)

Promoters	53.0
FII	5.7
DII	28.0
Others	13.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.9	23.3	49.7	56.8
Relative to Sensex	8.1	13.6	26.9	8.4

Sharekhan Research, Bloomberg

Bata India Ltd

Bounceback Q2; Biz recovers to 95% of pre-covid level

Consumer Discretionary

Sharekhan code: BATAINDIA

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 2,036

Price Target: Rs. 2,370



Summary

- Bata India (Bata) posted a strong recovery in Q2FY2022 with business recovering to 95% of pre-COVID levels. Revenues stood at Rs. 614 crore (grew by 67% y-o-y), while strong cost-saving initiatives aided a strong improvement in OPM to 19.4%.
- Bata continued its retail expansion drive by opening more than 30 stores through franchisee route taking overall tally to over 270 stores. The company enhanced its portfolio in casual footwear across categories led by Floatz and a renewed range of North Star footwear.
- Post easing of lockdown, Bata saw growth in footfalls in its stores. Improved mobility in the coming quarter augurs well for a faster recovery.
- We maintain Buy with a revised PT of Rs. 2,370. The stock is currently trading at 55.8x/47.9x its FY2023E/24E EPS and 24.3x/20.8x its FY2023E/24E EV/EBIDTA.

Bata India (Bata) posted strong recovery in Q2FY2022 with business recovering to 95% of pre-COVID levels. The company witnessed a consistent increase in footfalls across retail outlets and growth in sales through e-Commerce platforms, besides expansion drive in tier 3-5 towns. Better operating leverage and cost-saving initiatives helped the company post a strong improvement in profitability with OPM standing at 19.4% in Q2FY2022 (versus 4.9% in Q2FY2021). Cash on books stood at over Rs. 800 crore.

Key positives

- Revenue grew by 67% y-o-y to Rs. 614 crore led by consistent improvement in footfalls.
- Retail footprint increased to over 270 stores from 234 stores in Q1FY22.

Key negatives

- Gross margins decreased by 328 bps q-o-q to 52.9%.

Management Commentary

- Opening up of the economy and aggressive vaccinations drove up n footfalls resulting in strong improvement in sales. Further, sustained store expansion (especially in smaller towns) and growth via e-Commerce platform aided strong growth.
- The company expects sales to further improve on the backdrop of the ongoing festive season with cautious optimism.
- The company continued to optimise its retail network and eyed cost-savings across rentals & operations, manufacturing, and drive efficiencies in its value chain.

Revision in estimates – We have fine-tuned our earnings estimates for FY023/24 to factor in better-than-expected performance in Q2FY22.

Our Call

View: Maintain Buy with revised price target of Rs. 2,370: Post the easing of the lockdown, the company has started witnessing a growth in footfalls in its stores. Improvement in mobility in the coming quarter augurs well for a faster recovery. Bata is focusing on expanding its presence through the e-Commerce/omni-channels and innovation in its product portfolio with new relevant variants to drive growth in the medium to long term. Under a new leadership, growth is expected to improve with revamped strategies, backed by strong liquidity position. The stock currently trades at 55.8x/47.9x its FY2023E/24E EPS and 24.3x/20.8x its FY2023E/24E EV/EBIDTA. We maintain a Buy on the stock with the revised price target of Rs. 2,370.

Key Risks

Emergence of third wave and frequent lockdowns will impact the recovery momentum and will act as a key risk to our earnings estimates.

Valuation (standalone)

Particulars	FY21	FY22E	FY23E	FY24E
Revenues	1,707	2,418	3,234	3,655
OPM (%)	9.4	23.5	28.6	29.2
Adjusted PAT	-76	225	469	547
EPS	-5.9	17.5	36.5	42.5
P/E (x)	-	116.3	55.8	47.9
P/B (x)	14.9	13.9	11.6	9.7
EV/EBIDTA (x)	-	37.8	24.3	20.8
RoNW (%)	-4.2	12.3	22.6	22.0
RoCE (%)	-0.2	8.7	14.3	14.3

Source: Company; Sharekhan estimates

Q2FY2022 –Strong recovery as lockdowns ease

Revenue stood at Rs. 614.1 crore in Q2FY2022 compared to Rs. 367.9 crore in Q2FY2021. Since the opening up of the economy and aggressive vaccination drive across the country, the company has continued its multiple measures to ensure customer safety, consumer relevant communication, product availability and drive channel expansion. All these have resulted in a consistent increase in footfalls across retail outlets, along with growth seen via e-commerce platforms and expansion drive in smaller Tier 3-5 towns. Gross margin stood at 52.9% versus 50.4% in Q2FY2021. This along with better operating leverage aided OPM improving to 19.4% in Q2FY2022 versus 4.9% in Q2FY2021. The company posted a PAT of Rs. 37.0 crore in Q2FY2022 as against a loss of Rs. 44.4 crore in Q2FY2021.

Key quarterly highlights

- ♦ Bata continued with its retail expansion drive in tier 3-5 cities through franchise route, taking the overall tally to over 270 as on date. The company continued to expand distribution business across 49 new towns.
- ♦ The company enhanced its portfolio in casual footwear section across categories led by Floatz and renewed range of North Star footwear. It launched 240 new lines across clusters.
- ♦ It also launched a major campaign of the year — ‘Step Ahead’— along with a new collection, which is resonating well with consumers. It focused on scaling up presence of its e-store, Bata.in, with an expanded range.
- ♦ Online sales have been a major revenue driver in recent times. Sales through digitally enabled services continued its momentum and contributed ~14% of total sales in the quarter. Expansion across all leading marketplaces with full range & assortment, powered via the Omnichannel technology.
- ♦ Successful vaccination of entire staff with the first dose and expect double vaccination to be completed in the current quarter.

Results (standalone)

	Rs cr				
Particulars	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)
Revenues	614.1	367.9	66.9	267.0	130.0
COGS	289.4	182.5	58.6	117.1	147.2
Employee expenses	89.7	82.6	8.5	88.8	1.0
Other expenses	116.0	84.5	37.3	95.2	21.8
Total expenses	495.0	349.7	41.5	301.1	64.4
Operating profit	119.1	18.2	-	-34.0	-
Other Income	11.5	14.3	-20.1	12.2	-5.9
EBITDA	130.6	32.5	-	-21.8	-
Interest expenses	22.0	26.5	-17.3	23.0	-4.5
Depreciation & Amortization	58.6	64.5	-9.1	50.1	17.0
PBT	50.0	-58.5	-	-94.9	-
Tax	13.0	-14.1	-	-23.6	-
Reported PAT	37.0	-44.4	-	-71.3	-
EPS (Rs.)	2.9	-3.5	-	-5.5	-
			bps		bps
GPM (%)	52.9	50.4	248	56.2	-328
OPM (%)	19.4	4.9	-	-	-
NPM (%)	6.0	-	-	-	-
Tax rate (%)	25.9	24.1		24.8	

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Long-term growth prospects of the footwear industry are intact

India is the world's second-largest footwear manufacturer after China, accounting for 9% of the world's market with 22 billion pairs. The domestic market forms ~90% to the overall footwear market in India. It was badly affected by the lockdowns during the pandemic. The beginning of FY2022 was dull, but a strong vaccination drive and a fall in cases would help in robust recovery prior to the festive season. Low per capita consumption at 1.66 pairs p.a., lower share of exports, and higher unorganised play provide a huge opportunity for top brands to scale-up of operations in the near to medium term.

■ Company outlook - Strong recovery expected in FY2023

Bata has been focusing on increasing its omni-channel presence and adding relevant products to its portfolio to drive demand in the near term. Sales volumes were gradually picking up on a weekly basis with improvement in inter-city/state mobility. Business recovered to 95% of pre-COVID levels in Q2FY2022. Having said that, receding cases and a strong vaccination drive will lead to faster recovery in the quarters ahead. Business is expected to revert to pre-COVID levels by the festive season and momentum will sustain. Margins are expected to recover in FY2022/FY2023, driven by improving product mix, operating efficiencies, cost-saving initiatives, and stronger recovery in demand.

■ Valuation - maintain Buy with revised price target of Rs. 2,370

Post the easing of the lockdown, the company has started witnessing a growth in footfalls in its stores. Improvement in mobility in the coming quarter augurs well for a faster recovery. Bata is focusing on expanding its presence through the e-Commerce/omni-channels and innovated in its product portfolio with new relevant variants to drive growth in the medium to long term. Under a new leadership, growth is expected to improve with revamped strategies, backed by strong liquidity position. The stock currently trades at 55.8x/47.9x its FY2023E/24E EPS and 24.3x/20.8x its FY2023E/24E EV/EBIDTA. We maintain a Buy on the stock with the revised price target of Rs. 2,370.

Peer Comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21E	FY22E	FY23E
Relaxo Footwears	115.0	105.4	81.7	70.6	62.5	50.6	29.5	25.3	27.0
Bata India	-	116.3	55.8	-	37.8	24.3	-0.2	8.7	14.3

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 234 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 and CFO
Nitin Bagaria	Company Secretary

Source: Company

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)

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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 deteriorating 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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