Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Bata India Ltd

Broadening growth horizons

Consumer Discretionary	Sharekhan code: BATAINDIA
Reco/View: **Buy** ↔	CMP: **Rs. 1,914**	Price Target: **Rs. 2,370** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We maintain Buy on stock with an unchanged PT of Rs. 2,370. Bata trades at 52.5x/45x its FY2023E/FY2024E EPS and 22.8x/19.6x its FY2023E/FY2024E EV/EBIDTA.
- Bata is eyeing growth through its strategic levers of maintaining a relevant product portfolio, expanding its network, becoming an aspirational brand for youth, increasing digital footprint, creating an efficient supply chain, and curbing costs.
- Casuals' portfolio fetched 30% of pre-COVID revenue; share has risen to 40% now. Bata aims to build a portfolio with focus on casualisation.
- Bata had 270 franchise stores in mid-November; it plans to add over 150 more, taking store count to over 500 in 2-3 years.

Bata India Limited (Bata) witnessed a consistent increase in footfalls across retail outlets and growth in sales through e-Commerce platforms in Q2FY2022 with business recovering to 95% of pre-COVID levels. The company expects sales to further improve on the backdrop of the ongoing festive season with cautious optimism. However, likely emergence of third wave of COVID-19 would be risk to the recovery in the near term. With strategic levers in place, we expect Bata's revenue to deliver 29% CAGR over FY2021-24 and ROE/ROCE to significantly improve to 22%/14% by FY2024.

- **Strategic levers to aid in strong growth** – The company has identified certain strategic levers, which will help the company achieve growth in FY2022 and thereon. The levers include maintaining a relevant portfolio, network expansion, becoming an aspirational brand for the youth, increasing digital footprint, creating an efficient supply chain, and bringing costs under control. Bata aims to focus on all these levers along with the right technology, process and talent, and responsibility towards the stakeholders of the company.
- **Casualisation to gain importance** – The company aims to build a portfolio focusing on casualisation. Bata launched 240 new lines across clusters in Q2FY2022, with a focus on enhanced casual portfolio including Floatz and renewed range of North Star. The company also introduced Sneaker Studio as a pilot project in select stores, providing customers a collection of nine brands under one roof. The company plans to expand the studios eventually. Casuals portfolio contributed 30% to the pre-COVID revenue and has risen to 40% currently.
- **Strong revenue growth with improvement in returns** – Bata's revenue is expected to deliver 29% CAGR over FY2021-24 to Rs. 3,655 crore on the back of its strategic levers supported by the network expansion strategy undertaken by the company. With cost efficiencies in place coupled with a better revenue mix. With cost efficiencies in place coupled with a better revenue mix, operating profit is expected to report 88% CAGR over FY2021-24 to Rs. 1,067 crore and OPM is expected to increase to 29.2% from 9.4% in FY2021. The company is expected to register net profit of over Rs. 500 crore as against a loss reported in FY2021. ROE/ROCE to significantly improve to 22%/14% by FY2024.

Our Call

View: Maintain Buy with an unchanged price target of Rs. 2,370 – Post the easing of the lockdown, Bata has started witnessing 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 52.5x/45x its FY2023E/FY2024E EPS and 22.8x/19.6x its FY2023E/FY2024E EV/EBIDTA. We maintain Buy on the stock with an unchanged price target (PT) 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) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	1,707	2,418	3,234	3,655
OPM (%)	9.4	23.5	28.6	29.2
Adjusted PAT	-76	225	469	547
EPS (Rs.)	-5.9	17.5	36.5	42.5
P/E (x)	-	109.3	52.5	45.0
P/B (x)	14.0	13.0	10.9	9.1
EV/EBIDTA (x)	96.2	35.5	22.8	19.6
RoNW (%)	-	12.3	22.6	22.0
RoCE (%)	-	8.7	14.3	14.3

Source: Company; Sharekhan estimates

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 19.55

Updated Oct 08, 2021

Low Risk

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

Source: Morningstar

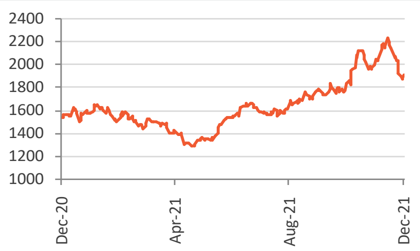
Company details

Market cap:	Rs. 24,600 cr
52-week high/low:	Rs. 2,262 / 1,265
NSE volume: (No of shares)	6.1 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	-6.3	8.0	23.5	24.1
Relative to Sensex	-3.7	7.5	11.6	-6.9

Sharekhan Research, Bloomberg

Well poised for strong growth through strategic levers

Bata has identified six strategic levers that will aid in the company's growth in FY2022 and the years to come. The levers include:

- Portfolio evolution – The company aims to introduce new products and maintains a portfolio that is relevant to consumers' current as well as future demand.
- Expansion via franchisee and distribution – The company plans to continue expanding its distribution and franchisee network with a focus on expanding in tier 3 and tier 5 towns.
- Bring back marketing investments and get youth to brand Bata – Bata aims to become an aspirational brand among youth and will accelerate its advertisement spends to build the company's brand image.
- Explode digital footprint – Contribution from the digital channel currently comprises a minimal share of revenue. The company aims to expand its digital footprint, thus creating a new avenue for income.
- Supply chain – Bata plans to have an end-to-end agile and efficient supply chain and the company will be taking various initiatives on this front in the coming period.
- Cost control – With raw-material prices on an uptrend, the company has implemented various initiatives to bring costs under control.

All levers are anchored around two large-valued systems. Firstly, right talent, processes as well as technology platforms are in place and, secondly, sustainability is to be considered as an ecosystem towards the company's stakeholders.

Increasing focus on casualisation

The company aims to build a portfolio focusing on casualisation and has taken various steps towards increasing casual footwear. The company launched Sneaker Studio as a pilot project in select stores. The stores provide customers a collection of nine brands under one roof. The company plans to expand the studios eventually. Moreover, Bata plans to increase line width across brands, led by Power and North Star. With things opening up, the company is looking at adding new lines and, therefore, newness and new collections are coming back. The company launched 240 new lines across clusters and aims to further launch new collections. Bata launched Floatz, which received phenomenal demand and was out of stock within a short period of its launch. As stated by management, the company should be back with revised supplies by the end of December. Casuals portfolio contributed 30% to pre-COVID revenue and has risen to 40% currently. Management has guided that the ratio is expected to further go up as the casuals portfolio spans a much wider portfolio.

Growth in physical and digital presence

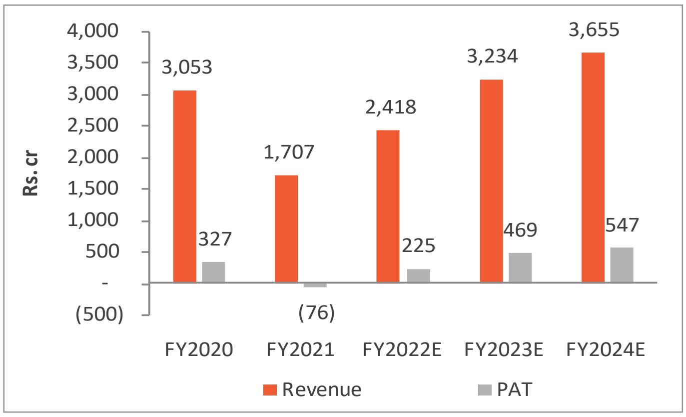
The company operates through three formats – own stores, franchisee stores, and MBO. The company is present across 1,500+ EBOs in 950+ towns and operates across all footwear segments. Bata expanded its MBO network from ~700 towns in FY2019 end to ~1,000 towns in September 2021. The company opened 16 new franchisee stores in Q2FY2022, taking the store count to 250 at quarter end; and by mid-November, the network increased to 270 stores. The company plans to add over 150 stores and take the store count to over 500 in the next 2-3 years. Franchisee contribution is expected to be ~30% in the coming 2-3 years. Management has guided that margins are similar across formats with margins of franchisees being slightly higher. The e-commerce channel has grown both in terms of sequential growth and contribution to overall revenue. Considering Q4FY2020 as base, the company's ecommerce channel has registered q-o-q growth of 3.7x. During the same period, contribution from e-commerce has risen from 5% to 14% in H1FY2022.

Demand and raw-material outlook remain uncertain

Overall demand recovery is currently at 85%, while recovery from schools and colleges is at 60-65%. Demand in the coming months will be influenced by various factors such as opening up of schools and colleges, any resurgence of COVID-19 led lockdowns, or restrictions, which will impact mobility. Raw-material prices of certain inputs have risen, while prices of certain inputs have remained stable. The company has mitigated the impact of raw-material inflation through price increases and other measures such as material substitution and reduction of expenses, among others.

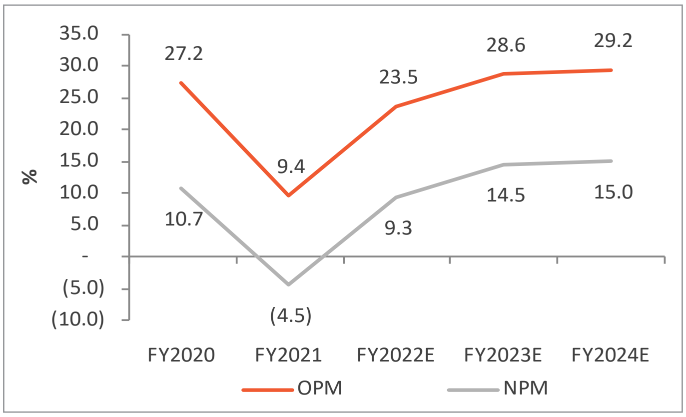
Financials in charts

Strong recovery in revenue and PAT



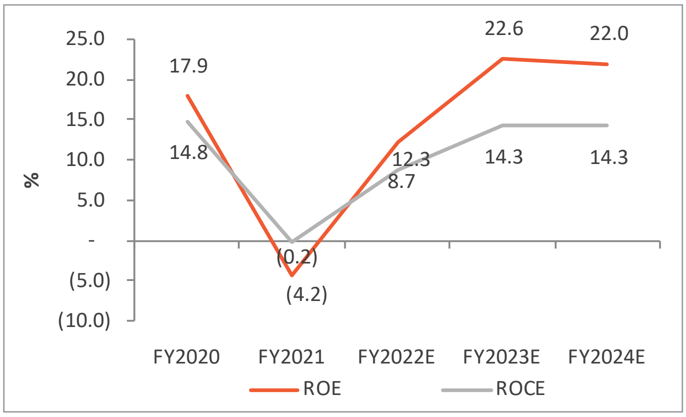
Source: Company, Sharekhan Research

OPM and NPM to expand significantly



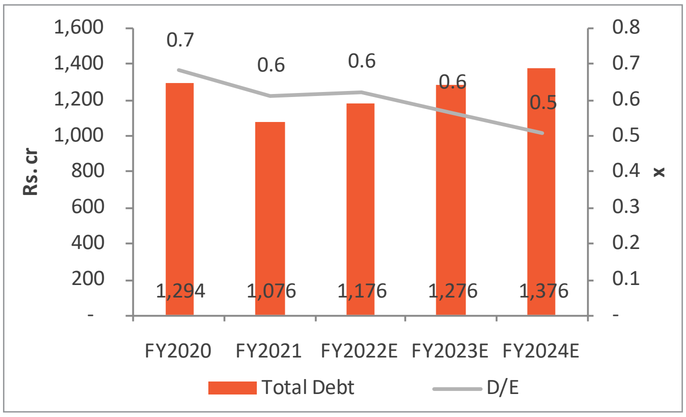
Source: Company, Sharekhan Research

Return ratios to improve



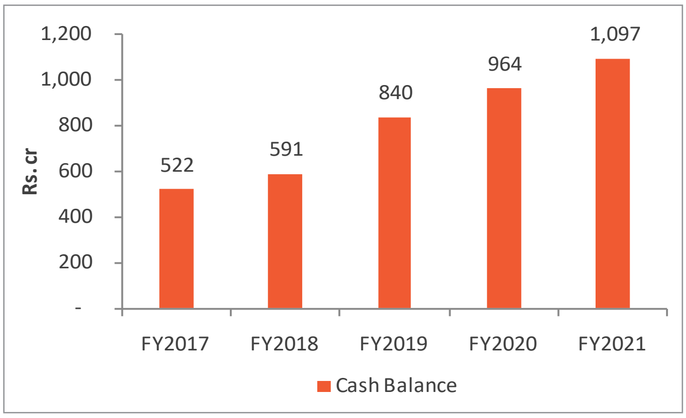
Source: Company, Sharekhan Research

Stable debt position



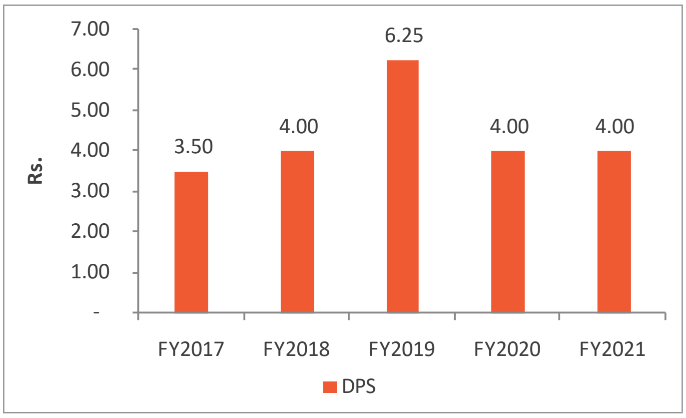
Source: Company, Sharekhan Research

Trend in cash balance



Source: Company, Sharekhan Research

Dividend payout history



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% of 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 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 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 an unchanged price target of Rs. 2,370

Post the easing of the lockdown, Bata has started witnessing 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 52.5x/45x its FY2023E/FY2024E EPS and 22.8x/19.6x its FY2023E/FY2024E EV/EBIDTA. We maintain Buy on the stock with an unchanged PT of Rs. 2,370.

Peer Comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Relaxo Footwear	-	95.5	74.1	64.0	56.6	45.8	29.5	25.3	27.0
Bata India	-	-	52.5	96.2	35.5	22.8	-	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 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	MD and 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)

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

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

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;