

Casualisation of product portfolio aiding sales growth

About the stock: Bata India is a major player in the Indian footwear market with a presence across men's, women's and kid's footwear segment. It has a pan-India presence with the largest network of retail stores having 1700+ stores. Bata has a vision to open 500 franchise stores over the next few years (current: 300).

- It has a robust balance sheet with healthy cash and bank balance worth ₹ 946+ crore, negative working capital cycle and generating RoCE of 20%+

Q2FY23 Results: Reported revenue was in line but profitability was below estimates. Revenue recovery rate was at 114% vs. ~107% in Q1FY23, 98% in Q4FY22 (I-direct estimate: 115%).

- Bata reported revenue growth of 35% YoY to ₹ 829.8 crore
- Gross margin improved 211 bps YoY to 55% (I-direct estimate: 57.1%; Q1FY23: 56.7%) on the back of calibrated price hikes and improvement in product mix. However, EBITDA margin was flattish YoY at 19.4% on account of higher other expenses (I-direct estimate of 25.4%)
- Hence, PAT grew 38% YoY to ₹ 51.1 crore (I-direct estimate: ₹ 93 crore)

What should investors do? Bata, over the last five years, has delivered ~20% CAGR return. Focus on cost reduction, omni channel, change in product mix (higher proportion of casual footwear) and calibrated expansion of retail network through asset light franchisee can be structurally positive. Also, the company has utilised its surplus cash reserves towards special dividend (₹ 54.5/share, ₹ 700 crore payout with dividend yield of ~ 3%). This would significantly boost RoCE, going forward.

Target Price and Valuation: We maintain **BUY** recommendation on the stock and value Bata at ₹ 2065 i.e. 50x FY24E EPS.

Key triggers for future price performance:

- Casual footwear portfolio and renewed sneaker category is leading to strong revenue recovery (~20% of sales). Also, reopening of schools and offices has led to demand green shoots for formal and fashion categories
- Bata is also tapping Tier III-V cities through franchise route. It added ~80 stores in FY22 and further 30 in Q2FY23 taking total store count to 350+ franchise stores (~18% of store network). Over the next two years, it is aiming to increase the franchisee store share to ~ 30%
- It has significantly enhanced its distribution reach through MBOs with a presence in 1100+ towns
- Bata has scaled up its digital initiatives with e-commerce revenues now 2.5x of pre-Covid levels

Alternate Stock Idea: Apart from Bata, in our retail coverage we also like Trent.

- Inherent strength of brands (Westside, Zudio, Star, Zara) and proven business model position Trent as a preferred pick
- We have a BUY rating with a target price of ₹ 1730/share

Key Financial Summary

₹ crore	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	3,053.5	1,707.3	2,387.7	-0.9%	3,446.1	4,127.8	31.5%
EBITDA	829.8	161.2	415.6		816.7	1,081.5	61.3%
PAT	327.0	-90.2	100.9		347.5	530.3	
P/E (x)	67.4	-	218.5		63.4	41.6	
EV/Sales (x)	6.9	12.3	8.8		6.3	5.2	
EV/EBITDA (x)	25.4	130.0	50.7		26.5	19.9	
RoCE (%)	28.2	-5.9	9.6		36.5	42.3	
RoE (%)	17.2	-5.1	5.6		23.8	29.4	



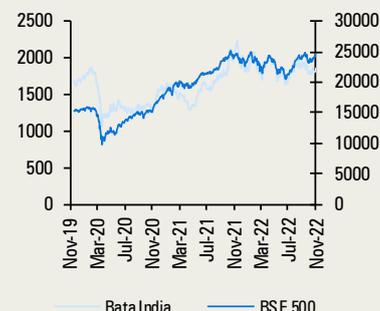
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	22,042.6
Debt (FY22) (₹ Crore)	-
Cash (FY22) (₹ Crore)	964.7
EV (₹ Crore)	21,077.8
52 week H/L	2226/ 1592
Equity Capital (₹ Crore)	64.3
Face Value (₹)	5.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	53.0	53.0	53.0	50.2	50.2
FII	5.4	6.0	6.7	6.8	7.9
DII	28.0	27.5	27.4	30.1	29.0
Others	13.7	13.6	13.0	12.9	13.0

Price Chart



Key risks

Key Risk: (i) Lower sales of discretionary products can subdue revenues (ii) Raw material inflation can pressurise margins

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Key takeaways of Q2FY23 conference call

- The management highlighted that the business environment continues to be tough but the company was able to perform reasonably well. Among categories, formal category recovery rate was 108% for both men's and women's footwear while the sneaker category continued to outpace other categories in terms of revenue growth
- On the network expansion front, Bata opened 10 new company owned company operated (COCO) stores. The expansion through franchisee stores also continued with the company adding 30 new franchisee stores. The company currently has 1950 EBOs and store in store (SIS) in 800 + towns. Bata currently has 353 franchise stores and expects the highest number of franchisee stores to be added in FY23. The company is aiming to open 30 franchise stores per quarter. On the multi brand outlets (MBO) front, the management highlighted that it had crossed 1100 towns for the first time
- Among categories, the company continued to enhance its focus on sneakers and has now implemented sneaker studios in 250 stores. Bata continues to pursue fast paced growth in the sneakers category and is also launching a sneakers campaign for this season soon
- In order to pursue aggressive revenue growth, the company is investing in enhancing the brand awareness. Bata's current advertisement expenses are higher than pre-Covid levels. The advertisement expense in Q2FY23 was 2.5% of revenues. The company is planning to gradually take the advertisement expense to 3% and further in ensuing quarters
- The company continued with its store renovation strategy as it wants to provide enhanced customer experience, which normally leads to increased revenues. Bata is also working on improving the productivity of stores. The company has renovated 20 stores in Q2FY23 with 54 store renovations in H1FY23 (capex of ₹ 20-50 lakh per store) and expects an improvement in same store sales growth (SSSG) in the renovated stores
- The company is aiming to enhance preference of the Bata brand bouquet among the youth. It has continued to make investments in large marketing campaigns to inspire youth and engage with them
- On the raw material pricing front, the management indicated that raw material prices are softening but still trending higher than pre Covid level. The company has taken sufficient price hikes and does not foresee the requirement of another price hike in the near term barring unforeseen circumstances
- On the strategy front, the company is planning to focus on volume based growth with premiumisation of certain categories. Bata is aiming to add new products at price points that it recently vacated due to recent price increases
- The share of COCO stores has reduced from 76% in March 2021 to 66% in September 2022 due to higher share of new stores being opened on a franchise basis. The management indicated that rentals as a percentage of revenues are expected to decline owing to higher number of store opening expected on a franchise basis
- Bata continues to penetrate newer towns through franchise operated stores and distribution led business model (MBOs). The revenue contribution from these channels has increased significantly to more than 20% currently vs. 10-12% in pre-Covid levels. The company aspires to reach 500 franchise stores over the next few years. Majority of the store expansion is expected to be franchise driven (70-80%). It has significantly enhanced its distribution reach through MBOs and having a presence in 1100+ towns. On account of significant expansion in retail touch points and recovery in SSSG, we build in volume CAGR of 19% in FY22-24E (on a favourable base)

- Initiatives like casualisation of product portfolio, asset light retail foot print expansion through franchise outlets, enhanced digital footprint and calibrated investments in brand promotion focused on engaging with the younger generation are expected to provide momentum to volume growth and revenues for Bata over the next few years. Further, the company is continuously working on implementing cost savings across its network, which would enable it to improve the profitability metrics

Exhibit 1: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	829.8	839.4	614.1	35.1	944.1	-12.1	Revenue in line with estimates. Recovery rate for formal footwear at 108%, while sneaker category continues to outpace other categories
Raw Material Expense	373.5	360.4	289.4	29.1	409.1	-8.7	
Gross Margin (%)	55.0	57.1	52.9	211 bps	56.7	-167 bps	Reported gross margins improved 211 bps YoY on back of calibrated price hikes and better product mix.
Employee Expense	107.0	102.3	89.7	19.3	104.8	2.1	
Rental Expenses	0.0	0.0	0.0	-	0.0	-	
Other Expenses	188.3	163.5	116.0	62.4	184.4	2.1	
EBITDA	161.0	213.2	119.1	35.2	245.7	-34.5	
EBITDA Margin (%)	19.4	25.4	19.4	1 bps	26.0	-662 bps	
Depreciation	73.6	72.1	58.6	25.6	69.3	6.2	
Interest	27.2	26.4	22.0	23.9	24.9	9.2	
Other Income	8.0	9.5	11.5	-30.4	9.3	-14.0	
Exceptional Item	0.00	0.00	0.00	NA	0.00	NA	
PBT	68.2	124.2	50.0	36.4	160.7	-57.6	
Tax Outgo	17.10	31.3	13.0	31.8	40.3	-57.6	
PAT	51.1	92.9	37.0	38.0	120.4	-57.6	

Source: Company, ICICI Direct Research

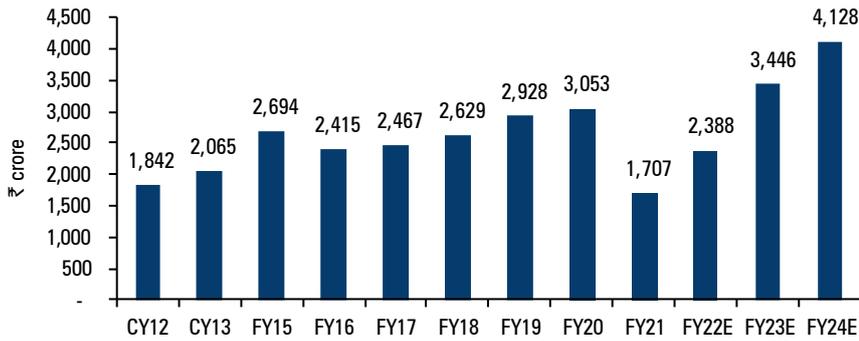
Exhibit 2: Change in estimates

(₹ Crore)	FY22E	FY23E			FY24E		
	Actual	Old	New	% Change	Old	New	% Change
Revenue	2,387.7	3,348.0	3,446.1	2.9	4,010.3	4,127.8	2.9
EBITDA	415.6	897.3	816.7	-9.0	1,110.8	1,081.5	-2.6
EBITDA Margin (%)	17.4	26.8	23.7	-310 bps	27.7	26.2	-150 bps
PAT	100.9	419.5	347.5	-17.2	560.1	530.3	-5.3
EPS (₹)	7.9	32.6	27.0	-17.1	43.6	41.3	-5.4

Source: Company, ICICI Direct Research

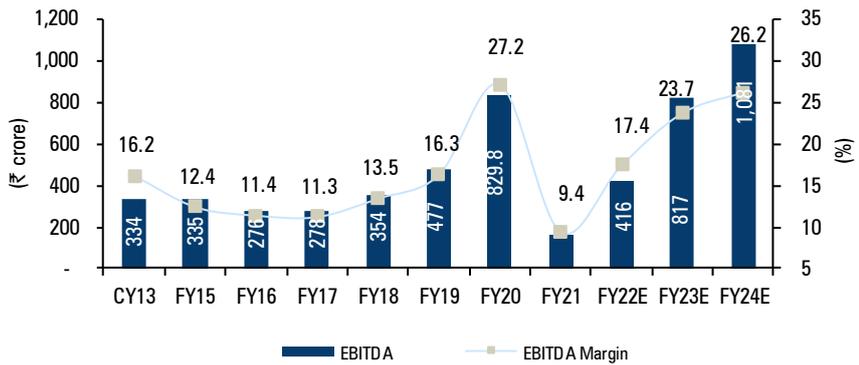
Financial story in charts

Exhibit 3: Revenue trend



Source: Company, ICICI Direct Research

Exhibit 4: EBITDA trend



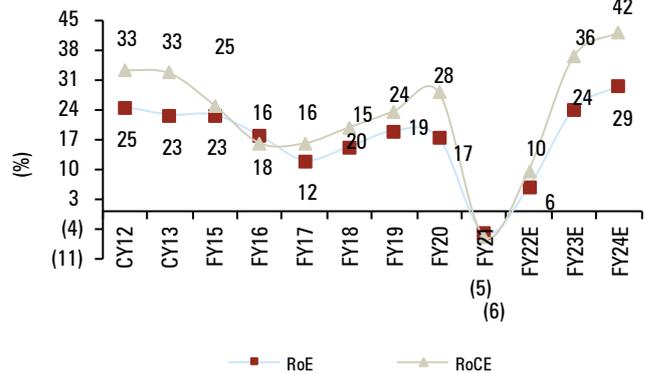
Source: Company, ICICI Direct Research

Exhibit 5: Net profit trend



Source: Company, ICICI Direct Research

Exhibit 6: Return ratio trend



Source: Company, ICICI Direct Research

Exhibit 7: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	3053.5	4.3	25.4	-0.8	66.9	25.2	17.2	28.2
FY21	1707.3	-44.1	-7.0	PL	NA	128.8	-5.1	-5.9
FY22E	2387.7	39.9	7.9	LP	216.7	50.3	5.6	9.6
FY23E	3446.1	44.3	27.0	244.4	62.9	26.3	23.8	36.5
FY24E	4127.8	19.8	41.3	52.6	41.2	19.7	29.4	42.3

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Total operating Income	1,707.3	2,387.7	3,446.1	4,127.8	
Growth (%)	-44.1	39.9	44.3	19.8	
Raw Material Expenses	837.5	1,086.9	1,506.0	1,783.2	
Gross Margins (%)	50.9	54.5	56.3	56.8	
Employee Expenses	339.8	378.7	434.2	495.3	
Mfg, Admin & selling Exps	368.8	506.5	689.2	767.8	
Total Operating Expenditure	1,546.1	1,972.1	2,629.4	3,046.3	
EBITDA	161.2	415.6	816.7	1,081.5	
Growth (%)	-80.6	157.8	96.5	32.4	
Depreciation	264.7	241.9	283.7	317.5	
Interest	103.5	92.8	110.4	114.8	
Other Income	94.0	55.9	41.4	57.8	
Exceptional Item	-4.6	0.0	0.0	0.0	
PBT	-117.6	136.8	464.0	707.0	
Growth (%)	-123.3	-221.1	239.2	52.4	
Total Tax	-27.4	35.9	116.5	176.8	
PAT	-90.2	100.9	347.5	530.3	
Growth (%)	-127.6	LP	244.4	52.6	
EPS (₹)	-7.0	7.9	27.0	41.3	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Profit After Tax	-90.2	100.9	347.5	530.3	
Add: Depreciation	264.7	241.9	283.7	317.5	
(Inc)/dec in Current Assets	323.6	-275.2	-405.0	-282.2	
Inc/(dec) in CL and Provisions	-47.3	74.1	198.8	123.1	
Others	0.0	0.0	0.0	0.0	
CF from operating activities	450.8	141.8	425.0	688.6	
(Inc)/dec in Fixed Assets	-16.4	-73.0	-80.0	-80.0	
(Inc)/dec in CWIP	-13.7	28.4	0.0	0.0	
(Inc)/dec in Investments	0.0	0.1	0.0	0.0	
Others	-30.0	33.5	0.0	0.0	
CF from investing activities	-60.1	-10.9	-80.0	-80.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0	
Others	-259.2	-259.9	-920.4	-435.6	
CF from financing activities	-259.2	-259.9	-920.4	-435.6	
Net Cash flow	131.4	-129.1	-575.4	173.0	
Opening Cash	962.4	1,093.8	964.7	389.3	
Closing Cash	1,093.8	964.7	389.3	562.3	

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Liabilities					
Equity Capital	64.3	64.3	64.3	64.3	
Reserve and Surplus	1,695.5	1,750.0	1,397.1	1,741.8	
Total Shareholders funds	1,759.8	1,814.2	1,461.4	1,806.0	
Total Debt	-	-	-	-	
Deferred Tax Liability	-	-	-	-	
Others	1,032.3	1,094.2	1,094.2	1,094.2	
Total Liabilities	2,792.1	2,908.4	2,555.6	2,900.2	
Assets					
Gross Block	643.1	716.1	796.1	876.1	
Less: Accu Depreciation	354.9	412.7	476.4	543.9	
Net Block	288.2	303.3	319.7	332.2	
Capital WIP	33.6	5.2	5.2	5.2	
Intangible Assets under develop	-	-	-	-	
Total Fixed Assets	321.8	308.5	324.8	337.4	
Investments	5.0	4.9	4.9	4.9	
Inventory	608.2	870.9	1,133.0	1,334.5	
Debtors	79.4	71.7	141.6	169.6	
Loans and Advances	194.7	189.8	261.9	313.7	
Other Non-Current Assets	829.4	920.7	920.7	920.7	
Other Current Assets	63.4	88.5	89.4	90.3	
Cash	1,093.8	964.7	389.3	562.3	
Total Current Assets	2,039.5	2,185.6	2,015.2	2,470.4	
Current Liabilities	531.3	605.2	804.0	927.0	
Provisions	10.7	10.9	10.9	10.9	
Total Current Liabilities	542.0	616.1	814.9	938.0	
Net Current Assets	1,497.5	1,569.5	1,200.3	1,532.4	
Deferred Tax Assets	138.4	104.9	104.9	104.9	
Application of Funds	2,792.1	2,908.4	2,555.6	2,900.2	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	-7.0	7.9	27.0	41.3
Cash EPS	13.6	26.7	49.1	66.0
BV	136.9	141.2	113.7	140.5
DPS	4.0	4.0	54.5	14.4
Cash Per Share	85.1	75.1	30.3	43.7
Operating Ratios				
EBITDA Margin (%)	9.4	17.4	23.7	26.2
PBT Margin (%)	-6.9	5.7	13.5	17.1
PAT Margin (%)	-5.3	4.2	10.1	12.8
Inventory days	130.0	133.1	120.0	118.0
Debtor days	17.0	11.0	15.0	15.0
Creditor days	191.6	153.2	158.0	158.0
Return Ratios (%)				
RoE	-5.1	5.6	23.8	29.4
RoCE	-5.9	9.6	36.5	42.3
RoIC	-13.6	11.9	32.6	42.8
Valuation Ratios (x)				
P/E	-	218.5	63.4	41.6
EV / EBITDA	130.0	50.7	26.5	19.9
EV / Net Sales	12.3	8.8	6.3	5.2
Market Cap / Sales	12.9	9.2	6.4	5.3
Price to Book Value	12.5	12.1	15.1	12.2
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	3.8	3.5	2.5	2.6
Quick Ratio	2.6	2.1	1.1	1.2

Source: Company, ICICI Direct Research

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Sell: <-15%



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