Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Bata India Ltd

Soft Q3; Premiumisation to drive growth ahead

Consumer Discretionary	Sharekhan code: BATAINDIA
Reco/View: Buy ↔	CMP: Rs. 1,476
	Price Target: Rs. 1,775 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Bata India Limited's (Bata) Q3 performance was affected by soft demand at the mass end of the footwear category, resulting in a 6% volume decline. Revenue and PAT grew by 7% and 15%, respectively (led by 285BPS to 22.9% improvement in EBIDTA margins).
- The impact of price hike due to increased GST rate is in the base. Bata expects sales volume to gradually improve in the mass end of the category. Sneakers, Floatz, Hush Puppies, and Comfit are growing at over 20%.
- EBIDTA margin will continue to improve because of softening key input prices, better revenue mix with premiumisation scaling fast, and reduction in freight cost. However, margin recovery to pre-Covid level will take time.
- The stock has corrected by 22% in the past year and trades at 38.5x and 31.6x its FY2024E and FY2025E earnings, respectively. Considering long-term growth prospects and limited downside risk, we maintain Buy with a revised PT of Rs. 1,775.

Bata India Limited (Bata) posted a decent performance in Q3FY2023. The company registered revenue growth of 7% y-o-y to Rs. 900.2 crore, affected by muted demand at the mass-end of the footwear category (volume decline of 6%). Gross margin improved by 211 bps y-o-y to 54.8%, aided by better revenue mix and a decline in raw-material cost. This coupled with cost-optimisation initiatives undertaken by the company led to EBITDA margin expansion of 285 bps y-o-y to 22.9%. EBITDA grew by 22.2% y-o-y to Rs. 206.1 crore. Lower other income, higher interest expense, and increased depreciation cost led to 15% y-o-y growth in reported PAT to Rs. 83.2 crore. The company added 65 stores across various formats in Q3FY2023, taking the total number of stores to 2,021 at Q3FY2023-end (19% of the stores are franchisee stores). In 9MFY2023, Bata registered y-o-y revenue growth of 55.2% to Rs. 2,673 crore, adjusted PAT growth of 3.6x y-o-y to Rs. 257.3 crore, and a 707-bps y-o-y improvement in EBITDA margin to 24%.

Key positives

- Hush Puppies grew by 21% and Comfit grew by 22% over Q3FY2022; Floatz grew by 20% q-o-q.
- Gross margin/EBITDA margin improved by 211 bps/285 bps y-o-y to 54.8% and 22.9%, respectively.
- The e-commerce channel reported y-o-y growth of 169%; Sneaker sales (overall) grew by 142% y-o-y.

Key negatives

- Sales volume decreased by 6% in Q3FY2023.
- The company opened only 1 COCO store (net addition) in Q3 as it added 18 stores and closed 17 stores during the quarter.

Management Commentary

- The mass categories below Rs. 500 per pair (22% of sales) witnessed demand pressure due to inflation and GST on lower-priced footwear. Bata witnessed sales volume decline of 6% in Q3FY2023. With GST hike in the base and the raw-material prices stabilising, management expects mass-end sales volume to improve going ahead.
- Average selling price (ASP) stood at Rs. 772 per pair, 13% up q-o-q and y-o-y, driven by premiumisation. Management expects average realisation to consistently improve due to fast scale-up in premium brands.
- Floatz, launched 18 months ago, is growing strongly and is currently generating revenue at an annual run rate of Rs. 60 crore. Management is expecting it to end the year with revenue of Rs. 100 crore.
- The company is planning to add around 170 stores in the current fiscal. Store addition will be added in the ratio of 80:20 for Franchisee:COCO stores.

Revision in estimates – We have lowered our earnings estimates for FY2023, FY2024, and FY2025 to factor in lower-than-earlier-expected revenue growth and higher interest cost.

Our Call

View: Maintain Buy with a revised PT of Rs. 1,775: Bata's Q3FY2023 performance was affected by muted demand in the mass-end of the footwear category. However, the same is expected to recover with inflation tapering down in the coming quarters. The company's strategy of premiumisation, casualisation, and expansion through the franchisee route is playing well and will help the company achieve consistent growth in the long run. This will also lead to consistent improvement in margins on account of premiumisation and better operating leverage. The stock has corrected by 22% in the past year, in-line with muted operating performance for the past three quarters. The stock is trading at 39x and 32x its FY2024E and FY2025E earnings, respectively. In view of its long-term growth prospects and limited downside risk, we maintain our Buy recommendation with a revised price target (PT) of Rs. 1,775.

Key Risks

Slowdown in sales due to a change in consumer sentiments or increased competition from large players will affect recovery momentum and will act as a key risk to our earnings estimates.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenue	1,708	2,388	3,479	4,002	4,496
EBITDA (%)	9.5	17.5	23.0	24.3	24.8
Adjusted PAT	-85	103	349	495	598
% YoY growth	-	-	-	41.8	20.7
EPS (Rs.)	-6.6	8.0	27.2	38.5	46.5
P/E (x)	-	-	54.6	38.5	31.9
P/B (x)	10.8	10.5	9.2	7.7	6.4
EV/EBITDA (x)	74.3	40.6	22.6	18.1	15.3
RoNW (%)	-	5.8	18.0	21.9	22.0
RoCE (%)	-	5.3	12.4	15.2	16.6

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 Dec 08, 2022

Low Risk

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

Source: Morningstar

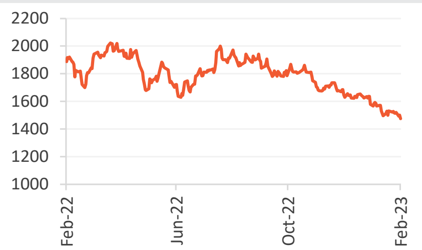
Company details

Market cap:	Rs. 18,970 cr
52-week high/low:	Rs. 2,040 / 1,465
NSE volume: (No of shares)	3.1 lakh
BSE code:	500043
NSE code:	BATAINDIA
Free float: (No of shares)	6.4 cr

Shareholding (%)

Promoters	50.2
FII	5.3
DII	31.6
Others	13.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.7	-12.3	-23.8	-21.8
Relative to Sensex	-7.7	-11.5	-25.5	-27.2

Sharekhan Research, Bloomberg

Stock Update

Result Update

Muted Q3 – Revenue growth at 7% y-o-y; EBITDA margin expanded by 285 bps y-o-y

Bata's revenue grew by 7% y-o-y to Rs. 900.2 crore, affected by muted demand at the mass-end of the footwear category, resulting in a 6% volume decline during the quarter. Better revenue mix and a decline in raw-material cost aided gross margins to improve by 211 bps y-o-y to 54.8%. This coupled with cost-optimisation initiatives undertaken by the company led to EBITDA margin expansion of 285 bps y-o-y to 22.9%. EBIDTA grew by 22.2% y-o-y to Rs. 206.1 crore. Lower other income, higher interest expense, and increased depreciation cost led to 15% y-o-y growth in reported PAT to Rs. 83.2 crore. The company added 39 new franchise stores during the quarter, taking the total to 392 franchise stores at Q3FY2023-end.

Store expansion and renovation continued in Q3

Bata added 65 stores across various formats in Q3FY2023, taking the total number of stores to 2,021 at Q3FY2023-end. In terms of net additions, the company opened 1 COCO store (added 18 stores and closed 17 stores), 39 franchise stores, and 25 shop-in-shop (SIS) during the quarter. The total franchisee stores stood at 392 stores across more than 330 towns at Q3FY2023-end. The company targets 500 franchisee stores by FY2024 at a run rate of opening 30-40 stores per quarter, with its focus being on adding stores in the ratio of 80:20 between franchisee and COCO stores. The company continued to expand its distribution business by adding 44 towns to cross its presence across 1,152 towns. As per management, distribution expansion was impacted during the quarter, but with inflation fading, the momentum is expected to return. Bata continued its store renovation strategy to enhance customer experience and undertook 89 renovations and facelifts in 9MFY2023 (35 undertaken in Q2).

Key conference call highlights

- **Broad-based growth across categories and brands:** In Q3FY2023, Floatz grew by 20% q-o-q (773% y-o-y on a low base) with its presence in more than 1,000 stores. Floatz is at a run rate of Rs. 60 crore, and management has guided that the company would continue to invest towards improving the brand's penetration. Management expects the brand to achieve revenue of Rs. 100 crore in FY2023. Hush Puppies grew by 21% and Comfit grew by 22% over Q3FY2022. In terms of categories, men's dress category continued to lead, while school footwear bounced back strongly. The company rolled out 100+ new lines, majorly in Sandak, Sunshine, and Comfit during the quarter. As per management, less than Rs. 500 (largely open footwear) priced footwear contribution is at 22% and the company witnessed sluggish demand in this category, impacted by inflation and increased GST.

- **Premiumisation-led growth in Q3:** Average selling price (ASP) stood at Rs. 772 for Q3, registering growth of 13% on a q-o-q and y-o-y basis, driven by premiumisation. As per management, the company did not undertake any price increases during the quarter. The ASP for Sneakers stood at Rs. 2,000, ASP for Floatz came in at Rs. 1,400, Hush Puppies reported ASP at Rs. 4,000, while ASP for Comfit came in at Rs. 2,100 in Q3FY2023.

- **Increased footfalls driven by Sneakers, festive, and wedding season:** Festive and wedding campaigns resulted in better customer engagement and business. Bata's continuous investment in marketing drove retail footfall and online sessions and led to higher orders. The company witnessed increased traction in Hush Puppies ladies and men's dress category, resulting in a higher share.

- **Digital channel continued its growth momentum:** Sales through digitally-enabled channels continued their momentum, driven by levers such as D2C bata.in e-store, marketplaces, and omnichannel home delivery and contributed 10% to total sales in Q3FY2023. The e-commerce channel reported y-o-y growth of 169% in Q3FY2023. During the quarter, complaints on e-commerce fell to 3.5%. The women category's contribution grew by 1.3X y-o-y, while overall Sneaker sales grew by 142% y-o-y.

- **Other expenses higher in Q3 due to multiple reasons:** In Q3FY2023, other expenses were higher compared to pre-COVID levels due to expenses towards digitisation and higher investments towards brands. Management has guided that as the channels start gaining momentum, they would start providing benefits and aid in reducing costs.

- **EBIDTA margin to improve ahead:** Bata's EBITDA margin stood lower compared to pre-COVID levels. The company is focusing on variabilisation of the cost (including employee cost), improved product mix to high-margin products, increased contribution of sales through franchisee stores, and various cost-efficiency measures (including reduction in freight costs, flexi manpower, and other fixed costs) to improve margins in the coming years. Management has indicated that company-level margins are impacted by the channel mix and Bata aims to improve margins at the channel level. Management targets to cross pre-Covid level margins in the medium term, aided by the initiatives taken by the company coupled with stabilisation in raw-material prices.

- **ERP implementation on track:** The company is focusing on technological developments through implementation of ERP and HPM (High-Performance Merchandising) projects. The company has in place an exclusive team structure and implantation is expected to be done module-wise and in multiple phases. HPM is expected to go live in June 2023, while ERP would go live in the next nine months.
- **Apparel planned to go live in H2FY2024:** The company is planning to launch its apparel collection in H2FY2024 and expects the category to incrementally contribute to revenue and profitability in the long run.

Results (Standalone) **Rs cr**

Particulars	Q3FY23	Q3FY22	y-o-y (%)	Q2FY23	q-o-q (%)
Revenues	**900.2**	**841.3**	**7.0**	**829.8**	**8.5**
COGS	407.1	398.2	2.2	373.5	9.0
Employee expenses	102.9	105.0	-2.0	107.0	-3.9
Other expenses	184.1	169.5	8.6	188.2	-2.2
Total expenses	694.1	672.7	3.2	668.8	3.8
Operating profit	**206.1**	**168.6**	**22.2**	**160.9**	**28.1**
Other Income	7.6	13.5	-43.9	11.9	-36.0
EBITDA	213.7	182.2	17.3	172.8	23.7
Interest expenses	28.6	23.3	22.5	27.2	5.2
Depreciation & Amortisation	75.4	61.5	22.5	73.6	2.5
PBT	109.7	97.3	12.8	72.1	52.3
Tax	26.6	24.9	6.6	17.2	54.1
Adjusted PAT	**83.2**	**72.4**	**14.9**	**54.8**	**51.7**
EPS (Rs.)	6.5	5.6	14.9	4.3	51.7
			bps		**bps**
GPM (%)	54.8	52.7	211	55.0	-21
OPM (%)	22.9	20.0	285	19.4	350
NPM (%)	9.2	8.6	64	6.6	263
Tax rate (%)	24.2	25.6	-140	23.9	29

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Long-term growth prospects intact

India is the second-largest footwear manufacturer with consumption of ~26 billion pairs after China with ~42 billion pairs. The domestic market makes up ~90% of India's overall footwear market. The domestic footwear market was severely affected by the COVID-led lockdown in FY2021. FY2022 was volatile as the second and third wave of COVID-19 affected demand, but a rapid vaccination programme and dropping cases helped in recovery. In the near term, demand is expected to be subdued owing to continued extraordinary inflation hitting consumers' discretionary spends. However, low per capita consumption at 1.7 pairs per annum, footwear now being considered as an important fashion accessory rather than a necessity, the growing trend of premiumisation in the Indian footwear industry, and the shift to branded footwear provide a huge opportunity for top brands to scale up operations in the medium-long term. The Indian footwear market is expected to post a CAGR of ~11% over CY2021-CY2025 compared to global market growth of 5.5% CAGR over CY2021-CY2025.

■ Company outlook - Long-term growth prospects intact

In 9MFY2023, Bata registered y-o-y revenue growth of 55.2%, adjusted PAT growth of 3.6x y-o-y, and a 707-bps y-o-y improvement in EBITDA margin. The company has been focusing on increasing its omnichannel presence and adding relevant products to its portfolio to drive demand in the near term. Demand for the footwear category is strong and the company is banking on portfolio freshness, consumer/market investments, and higher sales on the digital platform to drive consistent revenue growth in the quarters ahead. Further, the company is focusing on improving sales per retail store through restructuring the retail staff per store, improving customer satisfaction, and optimising staff strengths during festivals and key periods. Margins are expected to recover in FY2024/FY2025, driven by improving product mix, recovery in retail sales, operating efficiencies, and cost-saving initiatives.

■ Valuation - Maintain Buy with a revised price target of Rs.1,775

Bata's Q3FY2023 performance was affected by muted demand in the mass-end of the footwear category. However, the same is expected to recover with inflation tapering down in the coming quarters. The company's strategy of premiumisation, casualisation, and expansion through the franchisee route is playing well and will help the company achieve consistent growth in the long run. This will also lead to consistent improvement in margins on account of premiumisation and better operating leverage. The stock has corrected by 22% in the past year, in-line with muted operating performance for the past three quarters. The stock is trading at 39x and 32x its FY2024E and FY2025E earnings, respectively. In view of its long-term growth prospects and limited downside risk, we maintain our Buy recommendation with a revised PT of Rs. 1,775.

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Relaxo Footwears	84.1	-	87.6	47.3	66.0	44.3	17.5	10.0	21.0
Bata India	-	54.5	38.5	40.4	22.6	18.2	5.3	12.3	15.1

Source: Company; Sharekhan Research

About company

Bata is the largest footwear retailer in India, offering footwear, accessories, and bags across brands such as Bata, Bata Red Label, Hush Puppies, Naturalizer, Power, Marie Claire, Weinbrenner, North Star, Scholl, Bata Comfit, and Bubble gummers, to name a few. The company has established a leadership position in the industry and is the most-trusted name in branded footwear. The company has a retail network of over 1,950 stores, including 300+ franchised stores, which sell a 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, which will help the company report double-digit revenue growth. With the implementation of GST, there is a shift from unbranded to branded products, providing further scope for Bata in the Rs. 55,000-60,000 crore footwear market in India, of which ~50% is unbranded. To drive growth in the near to medium term, the company has identified certain strategic levers such as the focus on portfolio evolution, accelerating expansion via franchisee and distribution, bringing back marketing investments and getting youth to brand Bata, exploring digital footprint, building an agile and efficient supply chain, and staying nimble on costs in a dynamic environment. We expect the company's revenue and EBITDA to post a CAGR of 23% and 80% over FY2022-FY2025, respectively.

Key Risks

- **Slowdown in discretionary demand:** Any slowdown in SSSG due to a 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	Kotak Mahindra AMC	4.83
2	Axis Asset Management Co. Ltd	3.47
3	Aditya Birla AMC	2.92
4	Mirae Asset Global Investments	2.93
5	HDFC Life Insurance Co. Ltd.	2.16
6	DSP investment managers Pvt. Ltd.	1.87
7	Nippon Life India Asset Management Company	1.80
8	PGIM India AMC	1.70
9	Vanguard Group Inc.	1.49
10	ICICI Prudential Life Insurance Co.	1.30

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: Ms. Binkle Oza; Tel: 022-61150000; email id: complianceofficer@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com.

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. 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.