Bata India Ltd

Strong Q4; premiumisation strategy on firm footing

Consumer Discretionary	Sharekhan code: BATAINDIA
Reco/View: Buy ⇔	CMP: **Rs. 1,533**
Price Target: **Rs. 1,775** ⇔	

↑ Upgrade ⇔ Maintain ↓ Downgrade

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 Mar 08, 2023

Low Risk

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

Source: Morningstar

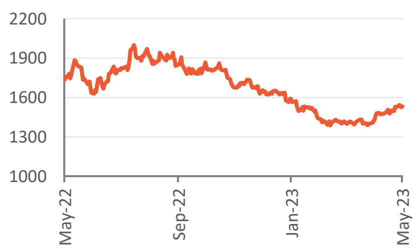
Company details

Market cap:	Rs. 19,703 cr
52-week high/low:	Rs. 2,004 / 1,381
NSE volume: (No of shares)	3.3 lakh
BSE code:	500043
NSE code:	BATAINDIA
Free float: (No of shares)	6.4 cr

Shareholding (%)

Promoters	50.2
FII	6.3
DII	30.6
Others	12.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.1	6.5	-8.6	-11.7
Relative to Sensex	3.5	5.3	-8.7	-28.6

Sharekhan Research, Bloomberg

Summary

- Bata India Limited's (Bata's) Q4FY2023 numbers beat ours as well as the street's expectation with revenue growth coming better than expectation at 17% to Rs. 778.6 crore; EBIDTA margins came at 23.4%; PAT at Rs. 65.6 crore beat ours as well as street expectation of Rs. 54-57 crore.
- Casualisation is gaining strong traction with Sneakers category growing 1.6x y-o-y, while Floatz achieved highest ever quarterly turnover after the launch. Premiumsation aided Average Selling Price (ASP) to grow by ~13% y-o-y.
- Revenues to grow in double digits in the near term with drivers in place. Increased contribution from premium products, change in channel mix and cost efficiencies will help margins to improve in the coming years.
- The stock is currently trading at 43.1x and 33.8x its FY2024E and FY2025E earnings, respectively. Considering long-term growth prospects with premiumisation in focus, we maintain our Buy rating on the stock with an unchanged PT of Rs. 1,775.

Bata India Limited's (Bata's) Q4FY2023 performance was ahead of our as well as the street's expectation mainly led by better-than-expected revenue growth of 17% versus ours as well as the street's expectation of 13-15% revenue growth. Reported PAT of Rs. 65.6 crore was ahead of our as well as street expectation of Rs. 54-57 crore. Consolidated revenues stood at Rs. 779 crore, registering a growth of 17% driven by mix of volume-led growth of ~4% and realisation led growth of ~13%. Gross margins improved by 82 bps y-o-y to 58.4%, while consolidated EBIDTA margins came at 23.4% (down by 99 bps y-o-y) during the quarter. PAT growth stood at 4% y-o-y affected by decline in EBIDTA margins and lower other income. For FY2023, revenues grew by 45% y-o-y to Rs. 3,451.6 crore, EBIDTA margins stood at 23% (expanded by 547 bps y-o-y) and reported PAT stood at Rs. 323 crore.

Key positives

- As per our calculation, volume growth stood at 4% in Q4 as against 6% volume decline in Q3.
- Successful execution of casualisation strategy with Sneakers category growing by 1.6x and Floatz achieving highest ever quarterly sales.
- Net Promoter Score (NPS) improved to 80 from 72 earlier.
- Gross margins improved by 82 bps y-o-y/ 363 bps q-o-q to 58.4%.

Key negatives

- OPM fell by 99 bps y-o-y to 23.4%.

Management Commentary

- The company is seeing consistent demand for casual and comfortable footwear for last few quarters. This is due to increasing trend for purchase of non-occasion wear and demand for comfort and style. However the demand for bottom-of-pyramid products is gradually improving and will help the company to better growth in the coming years.
- Bata is focusing on refreshing its product portfolio with its revamped strategy of casualization and offering premium fashionable products highlighted by robust growth momentum in key brands. Sneakers grew by 1.6x, Hush Puppies grew by 1.36x, Comfit grew by 1.35x and Floatz grew by 4.68x in FY2023.
- Contribution of footwear priced below Rs. 1,000 per pair has reduced to 35-40% of sales from 50% in pre-COVID levels (below Rs. 500 per pair contributes 20% of all revenues). Focus remains on driving sales through premium products.
- The company store reach has increased to 2053 stores. Around 20% of stores are contributed by franchisee channels, which is margin accretive adding around 600-700 bps to the EBIDTA. Though the store addition through COCO will continue the scale-up in franchisee route will be fast.
- The company is focusing on next league of growth by driving premiumisation and fashion through Red Label brand, Leverage on Power brand to tap athleisure space in apparel segment and launch of Floatz Kiosk in malls with extensive collection in men, ladies and kids. All these next of drivers will not only add to the revenues but will also support margins.

Revision in earnings estimates

We have broadly maintained our earnings estimates for FY2024 and FY2025 and will keenly monitor the performance in the quarters ahead. Premiumisation should help the company deliver good margins in the coming years.

Our Call

View: Maintain Buy with an unchanged PT of Rs. 1,775: Bata's results for FY2023 gives an indication of significant contribution of key strategic pillar to drive strong revenue and PAT growth ahead of pre-COVID levels. The strategy of premiumisation, casualisation, and expansion through the franchisee route is on firm footing 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 is trading at 43.1x and 33.8x its FY2024E and FY2025E earnings, respectively. In view of its long-term growth prospects, we maintain our Buy recommendation with an unchanged 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	FY22	FY23	FY24E	FY25E
Revenues	2,388	3,452	3,987	4,522
EBITDA (%)	17.5	23.0	24.4	25.7
Adjusted PAT	103	323	457	582
% YoY growth	-	-	41.5	27.3
EPS	8.0	25.1	35.6	45.3
P/E (x)	-	61.0	43.1	33.8
P/B (x)	10.9	13.7	11.0	8.6
EV/EBITDA (x)	42.0	24.7	19.5	16.0
RoNW (%)	5.8	19.9	28.3	28.5
RoCE (%)	5.3	12.5	16.1	18.4

Source: Company; Sharekhan estimates

Good performance in Q4; ahead of expectation

Bata's revenues grew by 17.0% y-o-y to Rs. 778.6 crore, ahead of our as well as average street expectation of Rs. 740–746 crore. Average selling price (ASP) grew by ~13% y-o-y indicating volume growth of 4% (against volume decline of 6% in Q3). Gross margins marginally improved by 82 bps y-o-y to 84.2% impacted by higher raw material prices, while EBITDA margin contracted by 99 bps y-o-y to 23.4% due to higher other expenses. EBITDA margins came in slightly lower than our expectation of 24% and in-line with street expectation of 23.4%. EBIDTA margin improved by 49 bps q-o-q. EBIDTA grew by 12.3% y-o-y to Rs. 182 crore. Despite double-digit EBITDA growth, adjusted PAT grew by just 4.2% y-o-y to Rs. 65.6 crore owing to lower other income, higher interest expenses and higher depreciation charges. PAT beat our as well as the average street expectation of Rs. 55-57 crore. Bata is working towards aggressive network expansion with 2,050+ stores in close to 700 cities with franchise network growing strongly.

Store expansion continued in Q4

Bata added 32 stores across various formats in Q4FY2023, taking the total number of stores to 2,053 across 698 cities at FY2023-end. In terms of net additions, the company opened 27 franchise stores and 5 stores together of COCO and shop-in-shop (SIS) during the quarter. The total franchisee stores stood at 419 stores across 370 towns at FY2023-end. The company has targeted to achieve 500 franchisee stores by FY2024 and is well on track to achieve the target. Management indicated that the company shutdown 90 non-profitable COCO stores during the year. The company continued to expand its distribution business by adding 220 towns in Q4 to cross its presence across 1,372 towns at FY2023-end.

Key conference call highlights

- **Casual wear performing well; mass products to gradually pick up:** The company is witnessing consistent demand for casual and comfortable footwear for last few quarters. This is due to the rising trend for purchase of non-occasional wear and demand for comfort and style. However, the demand for bottom-of-pyramid products is gradually improving and will help the company to better growth in the coming years.
- **Portfolio evaluation driving growth:** Bata is focusing on refreshing its product portfolio with its revamped strategy of casualization and offering premium fashionable products highlighted by robust growth momentum in key brands. Sneakers grew by 1.6x y-o-y, Hush Puppies by 1.36x y-o-y, Comfit by 1.35x y-o-y and Floatz by 4.68x y-o-y in FY2023. Management indicated that Sneaker Studios has been now implemented in 533 stores and Sneaker growth is ahead of overall company growth. Floatz achieved highest ever quarterly turnover in Q4Y2023 and has achieved 60% penetration in franchised stores.
- **Focus on premiumisation continues:** Management indiated that the company is working on premiumisation across segments and has guided that the premium segment is performing much better. Contribution from footwear products below Rs. 1,000 per pair has reduced to 35-40% of sales from 50% pre-COVID (below Rs. 500 per pair contributes 20% of all revenues). As per the management, focus remains on driving sales through premium products.
- **Higher store additions through franchisee route:** The company's store reach has increased to 2,053 stores at FY2023-end. Out of the total stores, ~20% stores are franchisee stores, which is margin accretive adding ~600-700 bps to the EBIDTA. Management has stated that though the store addition through COCO will continue, the scale-up in franchisee route will be faster. Also, ~60% stores opened in Q4 were with existing partners indicating good confidence of franchisee partners on Bata.
- **Three pillars to drive next leg of growth:** The company is focusing on next league of growth by driving premiumisation and fashion through Red Label brand, Leverage on Power brand to tap athleisure space in apparel segment and launch of Floatz Kiosk in malls with extensive collection in men, ladies and kids. All these drivers will not only add to revenues but will also provide support to the margins. In the Red Label concept, the company has a single store in North in Q3. The company has witnessed good reaponse to the same and now plans to expand in multiple locations across the country.
- **Eyeing opprtunity from Bata Global:** As per the management, Bata global is aggresively looking at China +1 strategy and thus aims to diversify to other countries apart from China. As a result, management expects India to benefit from this opportunity and would update about the same in the coming quarters.

Results (Standalone) **Rs cr**

Particulars	Q4FY23	Q4FY22	y-o-y (%)	Q3FY23	q-o-q (%)
Revenues	**778.6**	**665.2**	**17.0**	**900.2**	**-13.5**
COGS	323.8	282.2	14.8	407.1	-20.5
Employee expenses	103.9	95.2	9.2	102.9	1.0
Other expenses	168.8	125.7	34.2	184.1	-8.3
Total expenses	596.5	503.1	18.6	694.1	-14.1
Operating profit	**182.1**	**162.1**	**12.3**	**206.1**	**-11.7**
Other Income	9.9	18.7	-47.0	7.6	30.9
EBITDA	192.0	180.9	6.1	213.7	-10.1
Interest expenses	27.2	24.5	10.9	28.6	-4.8
Depreciation & Amortization	76.5	71.8	6.6	75.4	1.5
PBT	88.3	84.6	4.4	109.7	-19.5
Tax	22.7	21.6	4.8	26.6	-14.6
Reported PAT	**65.6**	**63.0**	**4.2**	**83.2**	**-21.1**
EPS (Rs.)	5.1	4.9	4.2	6.5	-21.1
			bps		**bps**
GPM (%)	58.4	57.6	82	54.8	363
OPM (%)	23.4	24.4	-99	22.9	49
NPM (%)	8.4	9.5	-104	9.2	-81
Tax rate (%)	25.7	25.6	10	24.2	147

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – 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 sector holds an important place in Make in India Initiative and thus has been chosen as a Champion sector. 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 15-17% over CY2022-CY2025 compared to global market growth of 5.5% CAGR over CY2021-CY2025.

■ Company Outlook – Long-term growth prospects intact

In FY2023, Bata registered y-o-y revenue growth of 44.6%, adjusted PAT growth of 3.1x y-o-y, and a 547bps 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 an unchanged price target of Rs. 1,775

Bata's results for FY2023 gives an indication of significant contribution of key strategic pillar to drive strong revenue and PAT growth ahead of pre-COVID levels. The strategy of premiumisation, casualisation, and expansion through the franchisee route is on firm footing 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 is trading at 43.1x and 33.8x its FY2024E and FY2025E earnings, respectively. In view of its long-term growth prospects, we maintain our Buy recommendation with an unchanged price target (PT) of Rs. 1,775.

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Relaxo Footwears	-	93.5	60.4	64.1	47.7	34.8	11.9	19.9	23.9
Bata India	61.0	43.1	33.8	24.7	19.5	16.0	12.5	16.1	18.4

Source: Company, Sharekhan estimates

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 2,050 stores, including 400+ 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 PAT to post a CAGR of 14% and 34% over FY2023-FY2025E, 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
Anil Somani	Director – Finance and CFO
Nitin Bagaria	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Kotak Mahindra AMC	4.64
2	Mirae Asset Global Invesments	3.63
3	Axis Asset Management Co.Ltd	2.41
4	Aditya Birla AMC	2.30
5	Life Insurance Corp of India	2.21
6	HDFC Life Insurance Co Ltd	2.12
7	Nippon Life India Asset Management Company	1.86
8	DSP investment managers Pvt Ltd	1.81
9	Vanguard Group Inc	1.75
10	ICICI Prudential Life Insurance Co	1.74

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

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