

10 August 2023

India | Equity Research | Q1FY24 results review

Bata

Consumer Staples & Discretionary

Modest store growth, unexciting revenue print

BATA's revenue performance has been decent on SSSG front (-9% our estimate vs -12% for Metro) while retail expansion (at 11%) continues to be modest. Revenue growth at 2% YoY is un-exciting. Improvement in ASP (3%YoY) instills confidence in the execution of casualisation and premiumisation initiatives. However, early EOSS negatively impacted the operating profit margins. Compared to peers, deceleration in gross margin has been sharp (likely impact of high-intensity discounting). Aggressive expansion through franchise and SIS route (capital light) is positive but yet to yield result (despite doubling of franchise and SIS stores, margins remain below pre-COVID levels). We believe, while Bata's focus on premiumisation, improving brand perception and expanding distribution are steps in the right direction, there will be challenges along the way. **HOLD.**

Unexciting revenue print

Q1FY24 revenue was up 2% YoY to INR 9.58bn (in-line with our estimates) primary led by higher average selling price (+3% YoY); benefits of premiumization initiatives. Retail expansion stood at 1% YoY in COCO stores (62% of total) and 11% YoY overall to 2100 stores. Positively it has ventured into 27 new towns (primarily in tier 3-5) driven by higher thrust towards franchise and SIS expansion. Management highlighted (1) continued focus on casual and fashion footwear (Sneaker Studio implemented in 565 stores, Floatz achieved highest ever quarterly turnover: first Floatz banner opened with kiosk in Delhi) and (2) Premiumisation continues (3) digital footprint through omni-channel e-commerce revenue gained momentum: added 2nd warehouse to fulfil DTC and market place orders and optimize delivery cost. and (4) demand remains subdued in footwear sector leading to prolonging of the deceleration in discretionary during 1QFY24. It is likely to revive in 2HFY24.

Margins impacted by early EOSS

Gross margin were down 187bps YoY (down 366bps QoQ) to 54.7% impacted by early EOSS in 1Q. EBITDA margin contracted 86bps YoY to 25.1%. Improved product mix should aid Bata on the margin performance going forward. Further, Bata is implementing multiple cost savings and efficiency initiatives which should aid in margin expansion - manpower (Flexi-Manpower), sourcing (reduction of sea freight cost and material pricing) and supply chain (slotted angle racks).

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	23,877	34,516	36,972	42,721
EBITDA	4,157	7,909	8,398	10,245
EBITDA Margin (%)	17.4	22.9	22.7	24.0
Net Profit	1,009	3,191	3,813	4,987
EPS (Rs)	7.9	24.8	29.7	38.8
EPS % Chg YoY	(2.2)	2.2	0.2	0.3
P/E (x)	216.6	68.5	57.3	43.8
EV/EBITDA (x)	148.9	42.6	39.2	29.9
RoCE (%)	7.2	22.9	26.1	26.9
RoE (%)	5.6	19.6	23.9	25.4

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Market Data

Market Cap (INR)	219bn
Market Cap (USD)	2,638mn
Bloomberg Code	BATA IN
Reuters Code	BATA.BO
52-week Range (INR)	1,989 / 1,381
Free Float (%)	50.0
ADTV-3M (mn) (USD)	5.7

Price Performance (%)	3m	6m	12m
Absolute	14.3	13.1	(9.9)
Relative to Sensex	7.8	9.6	13.6

ESG Disclosure	2021	2022	Change
ESG score	35.3	46.8	11.5
Environment	4.7	32.2	27.5
Social	22.5	29.5	7.0
Governance	78.6	78.6	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(5.5)	(4.1)
EBITDA	(12.1)	(9.3)
EPS	(12.2)	(5.8)

Previous Reports

19-05-2023: [Q4FY23 results review](#)

15-02-2023: [Q3FY23 results review](#)

Decent retail expansion rate

Bata opened 50 new stores during the quarter leading to total 2,100 stores (COCO:62%; Franchise & SIS: 38%) in 700 cities. It further renovated 27 stores during the quarter (Sneaker studios implemented in 565 stores). In terms of distribution, it now covers ~1,390 towns (compared to 1,100 in Jun-22). We like the focus on (1) ramping up omni-channel capabilities, (2) increasing distribution and reach in tier 3-5 towns, (3) capturing semi-urban / rural demand through franchisee stores and (4) brand spends (under-invested for last several years).

Valuation and risk

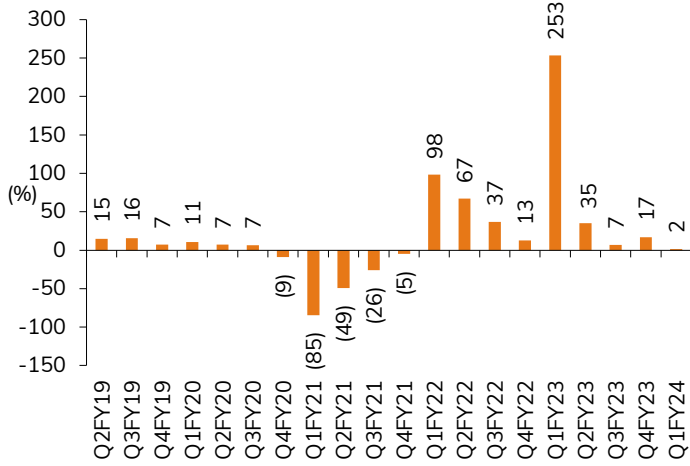
We have cut our earnings estimates for FY24-25E by 12% and 6% respectively, modelling revenue / EBITDA / PAT CAGR of 11 / 14 / 25 (%) over FY23-25E. Maintain **HOLD** with a DCF-based revised target price of INR 1,650 (vs INR 1,500). At our target price, the stock will trade at 38x P/E multiple Mar-25E. Key upside risk is faster-than-anticipated recovery in discretionary demand. Key downside risk is increase in competitive intensity.

Exhibit 1: Q1FY24 result review (Standalone – Reported)

INR mn	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Net Revenues	9,581	9,430	2	7,786	23
COGS	(4,336)	(4,091)	6	(3,238)	34
Gross profit	5,246	5,339	(2)	4,548	15
Staff cost	(1,048)	(1,048)	(0)	(1,039)	1
Other opex	(1,795)	(1,844)	(3)	(1,716)	5
EBITDA	2,403	2,446	(2)	1,792	34
Other income	132	93	43	126	5
Finance cost	(281)	(249)	13	(272)	3
D&A	(810)	(693)	17	(765)	6
PBT	1,445	1,597	(10)	882	64
Tax	(366)	(403)	(9)	(226)	62
Recurring PAT	1,078	1,193	(10)	656	65
EPS	8.4	9.3	(10)	5.1	65
Costs as a % of sales					
COGS	45.3	43.4	186 bps	41.6	365 bps
Gross margin (%)	54.7	56.6	-187 bps	58.4	-366 bps
Staff cost	10.9	11.1	-18 bps	13.3	-242 bps
Other opex	18.7	19.6	-83 bps	22.0	-331 bps
EBITDA margin (%)	25.1	25.9	-86 bps	23.0	206 bps
Income tax rate (%)	25.4	25.3	9 bps	25.7	-31 bps

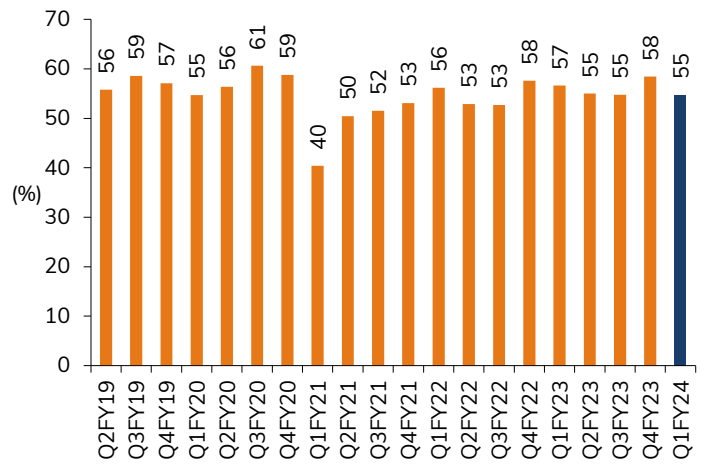
Source: Company data, I-Sec research

Exhibit 2: Revenue growth



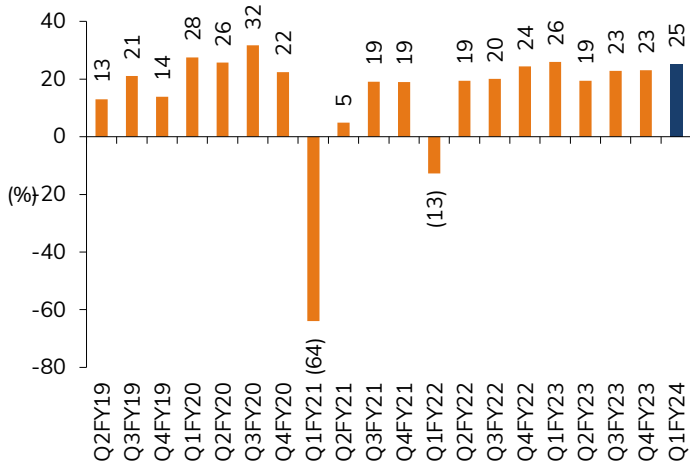
Source: Company data, I-Sec research

Exhibit 3: Gross margin



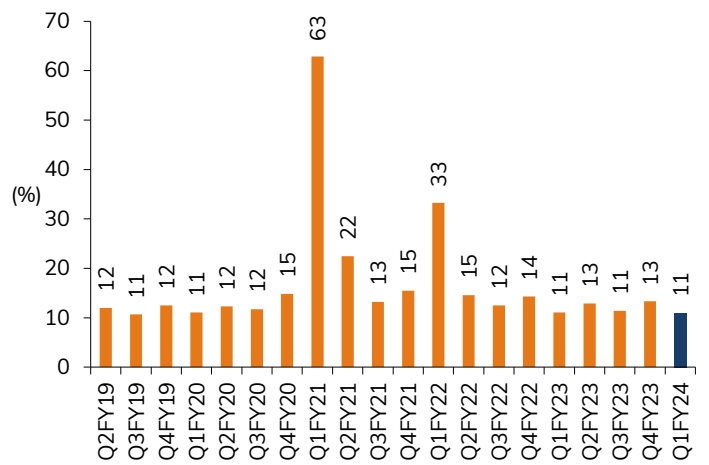
Source: Company data, I-Sec research

Exhibit 4: EBITDA margin (Reported)



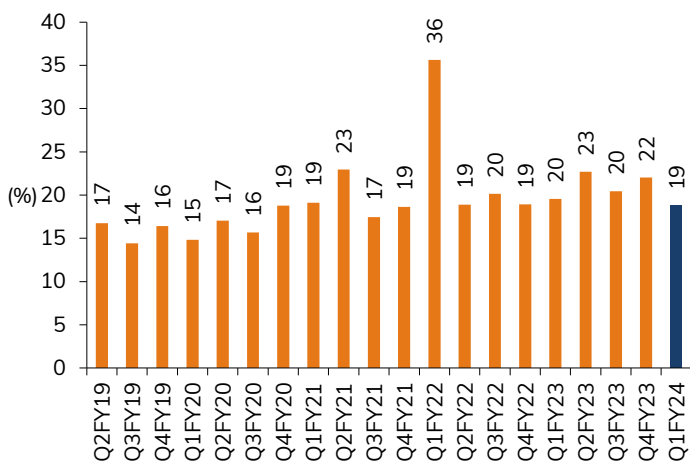
Source: Company data, I-Sec research

Exhibit 5: Staff cost / sales



Source: Company data, I-Sec research

Exhibit 6: Other expenses / sales (Reported)



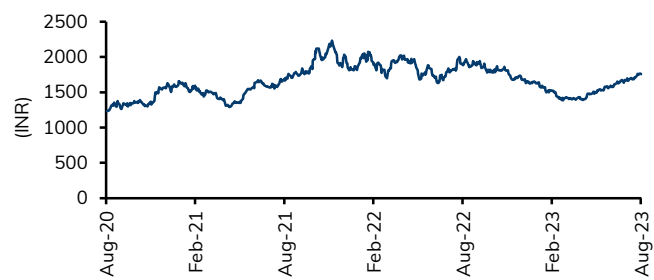
Source: Company data, I-Sec research

Exhibit 7: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	50.2	50.2	50.2
Institutional investors	36.5	36.5	37.0
MFs and others	24.0	21.1	19.6
FIs/Banks	0.7	0.1	0.0
Insurance	6.9	9.4	10.7
FIIIs	4.9	5.9	6.7
Others	13.3	13.3	12.8

Source: Bloomberg

Exhibit 8: Price chart



Source: Bloomberg

Financial Summary

Exhibit 9: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	23,877	34,516	36,972	42,721
Operating Expenses	19,720	26,607	28,575	32,476
EBITDA	4,157	7,909	8,398	10,245
EBITDA Margin (%)	17.4	22.9	22.7	24.0
Depreciation & Amortization	2,419	2,947	2,835	3,181
EBIT	1,738	4,961	5,562	7,064
Interest expenditure	928	1,079	1,063	1,135
Other Non-operating Income	559	374	596	735
Recurring PBT	1,368	4,256	5,095	6,665
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	359	1,065	1,282	1,678
PAT	1,009	3,191	3,813	4,987
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	1,009	3,191	3,813	4,987
Net Income (Adjusted)	1,009	3,191	3,813	4,987

Source Company data, I-Sec research

Exhibit 10: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	19,114	15,183	18,505	22,671
of which cash & cash eqv.	178	746	3,366	5,887
Total Current Liabilities & Provisions	5,230	4,811	5,202	6,002
Net Current Assets	13,884	10,373	13,303	16,668
Investments	-	-	-	-
Net Fixed Assets	2,885	3,216	3,394	4,156
ROU Assets	9,207	10,560	11,333	12,106
Capital Work-in-Progress	219	180	180	180
Total Intangible Assets	-	-	-	-
Long Term Loans & Advances	1,250	810	924	1,057
Deferred Tax assets	-	-	-	-
Total Assets	28,067	25,713	29,789	34,917
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	(1,042)	(1,133)	(1,140)	(1,140)
Provisions	-	-	-	-
Other Liabilities	20	-	-	-
Equity Share Capital	643	643	643	643
Reserves & Surplus	17,504	13,739	16,910	21,126
Total Net Worth	18,147	14,382	17,552	21,768
Minority Interest	-	-	-	-
Total Liabilities	28,067	25,713	29,789	34,917

Source Company data, I-Sec research

Exhibit 11: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	8,298	9,002	7,786	9,581
% growth (YOY)	35.1	7.0	17.0	1.6
EBITDA	1,609	2,061	1,792	2,403
Margin %	19.4	22.9	23.0	25.1
Other Income	80	75	126	132
Extraordinary	-	-	-	-
Adjusted Net Profit	511	831	656	1,078

Source Company data, I-Sec research

Exhibit 12: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	1,368	4,256	5,095	6,665
Working Capital Changes	(2,041)	(777)	(505)	(1,072)
Capital Commitments	(477)	(940)	(1,061)	(1,788)
Free Cashflow	(1,099)	2,460	2,530	2,435
Other investing cashflow	1,406	5,325	(177)	(38)
Cashflow from Investing Activities	928	4,385	(1,238)	(1,826)
Issue of Share Capital	-	-	-	-
Interest Cost	(11)	-	(17)	(17)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(514)	(6,989)	(643)	(771)
Others	(148)	(94)	1,966	2,155
Cash flow from Financing Activities	(673)	(7,083)	253	124
Chg. in Cash & Bank balance	(367)	702	2,606	2,521
Closing cash & balance	178	880	3,352	5,887

Source Company data, I-Sec research

Exhibit 13: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	7.9	24.8	29.7	38.8
Adjusted EPS (Diluted)	7.9	24.8	29.7	38.8
Cash EPS	26.7	47.8	51.7	63.6
Dividend per share (DPS)	54.5	13.5	5.0	6.0
Book Value per share (BV)	141.2	111.9	136.6	169.4
Dividend Payout (%)	694.3	54.4	16.9	15.5
Growth (%)				
Net Sales	39.9	44.6	7.1	15.5
EBITDA	1.6	0.9	0.1	0.2
EPS (INR)	(2.2)	2.2	0.2	0.3
Valuation Ratios (x)				
P/E	216.6	68.5	57.3	43.8
P/CEPS	63.7	35.6	32.9	26.8
P/BV	12.0	15.2	12.5	10.0
EV / EBITDA	148.9	42.6	39.2	29.9
P / Sales	9.2	6.3	5.9	5.1
Dividend Yield (%)	3.2	0.8	0.3	0.4
Operating Ratios				
Gross Profit Margins (%)	54.5	56.1	55.8	55.8
EBITDA Margins (%)	17.4	22.9	22.7	24.0
Effective Tax Rate (%)	26.3	25.0	25.2	25.2
Net Profit Margins (%)	4.2	9.2	10.3	11.7
Net Debt / Equity (x)	(0.5)	(0.4)	(0.5)	(0.5)
Net Debt / EBITDA (x)	(2.3)	(0.7)	(0.9)	(1.0)
Fixed Asset Turnover (x)	3.6	4.9	4.7	4.6
Working Capital Days	210	140	114	103
Inventory Turnover Days	155	113	99	103
Receivables Days	13	10	9	9
Payables Days	81	51	45	46
Profitability Ratios				
RoCE (%)	7.2	22.9	26.1	26.9
RoE (%)	5.6	19.6	23.9	25.4
RoIC (%)	9.5	24.6	28.9	29.7

Source Company data, I-Sec research

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