

Retail Equity Research

Bata India Ltd.

FMCG

BSE CODE: 500043

NSE CODE: BATAINDIA

Bloomberg CODE: BATA:IN

SENSEX: 71,337

BUY

 12 Months Investment Period Rating as per Mid Cap
 CMP Rs. 1,618 TARGET Rs. 1,870 RETURN 16%
 (Closing: 26-12-23)

KEY CHANGES:
TARGET ↑
RATING ↑
EARNINGS ↓

Asset light expansion to improve margins gradually.

Bata India Ltd. (BIL) is the largest retailer and leading manufacturer of footwear in India, with 2,150 retail store presence in 725 cities (Dec 2023).

- We upgrade our rating to BUY with a target price of Rs.1,870, considering the improvement in margins.
- Revenue declined by a 1.3%YoY in Q2FY24, partially impacted by the shift in the festive season and lower demand in the mass segment. BIL expects growth in both mass and premium segments, with premium portfolio growing 1.5x of overall growth.
- Gross margin improved by 300bps to 58% while EBITDA margin improved by 280bps to 22.2%, aided by improved channel mix, lower discount, and inventory management.
- BIL focuses on an asset light expansion strategy and targets ~500 franchisees by 2024, already opened 476 stores across 412 towns.
- BIL has recently signed comprehensive licensing & manufacturing agreement for globally renowned fashion brand 'Nine West' and has also forayed into apparel segment (Power brand), currently in 62 stores. Given its strong brand recall & reach, we believe, BIL can revive its revenue growth trajectory. We value BIL at 44x on FY26 EPS.

Shift in festive season impacts topline growth.

Q2FY24 revenue declined by 1.3% YoY, mainly due to shift in festive demand and continued demand weakness in the mass category on account of inflationary pressure and an increased GST rate. However, improvement in the premium mix supported realisation. With strong focus on network expansion, the distribution reach has now reached 1,398 towns (1,372 in FY23). With asset light focus, BIL added 28 franchise stores in Q2FY24, and the total number of franchise stores reached 476 vs. 303 in FY22 and targets to reach 500 in 2024 (412 towns covered Vs 275 in Q1FY23). 'Sneaker', 'Comfit' and 'Floats' categories led the sales growth with 1.17x, 1.05x & 1.7x respectively compared to last year while 'Hush Puppies' driving premiumization (1.05x YoY). Sneaker studios to display up to 300 styles across 9 brands crossed 612 vs. 565 QoQ and currently contributes ~20% of total revenue, improved by ~500bps over the last two years. Digital sales contribution was 7% vs. 5% in FY20. Bata's strong focus on store expansion & distribution reach, along with marketing investments, will drive future volumes. We expect revenue to grow at a CAGR of ~9% over FY23E-25E.

Asset light expansion & cost saving steps to aid margin expansion.

Gross margin improved by 190bps YoY to 58%, while EBITDA margin improved by 280bps YoY to 22.2% aided by improved channel mix, lower discounts, and inventory management. PAT declined by 33% YoY due to one-off item (voluntary retirement benefit of ~Rs. 41cr), excluding this PAT grew by 48% YoY. BIL's focus on asset light expansion strategy along with cost initiative measures for an efficient supply chain, flexible retail manpower, and technology initiatives with multiyear benefits, will support gradual margin improvement going forward. BIL's strong focus on adding franchise stores will control fixed costs.

Valuation & Outlook

The demand is expected to improve in the festive season and also aided by lower inflation. We believe, BIL has the capability to revive its revenue growth trajectory given its strong brand recall & distribution reach and strong balance sheet. BIL currently trades at 50x 1Yr Fwd P/E. Considering the improvement in margins, we upgrade our rating to BUY (from HOLD) with a target price of Rs. 1,870, valuing BIL at 44x on FY26E EPS.

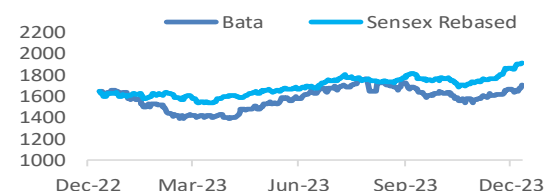
Company Data

Market Cap (Rs.cr)	20,860
Enterprise Value (Rs.cr)	21,582
Outstanding Shares (cr)	12.9
Free Float	50%
Dividend Yield	0.8%
52 week high (Rs.)	1,770
52 week low (Rs.)	1,381
6m average volume (cr)	0.03
Beta	0.9
Face value (Rs.)	5

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24
Promoters	50.2	50.2	50.2
FII's	5.9	6.6	7.5
MFs/Institutions	30.6	30.3	30.0
Public	12.4	11.9	11.3
Others	1.0	1.0	1.1
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	3.0%	5.0%	3.8%
Absolute Sensex	8.1%	13.7%	16.0%
Relative Return*	-5.1%	-8.6%	-12.2%

*over or under performance to benchmark index



Standalone (cr)	FY24E	FY25E	FY26E
Sales	3,619	4,070	4,518
Growth (%)	4.8	12.5	11.0
EBITDA	847	1,024	1,159
EBITDA Margin (%)	23.4	25.1	25.7
Adj. PAT	358	460	542
Growth (%)	12.1	28.8	17.8
Adj. EPS	27.8	35.8	42.2
Growth (%)	12.1	28.8	17.8
P/E	58.3	45.3	38.5
P/B	12.1	9.8	7.9
EV/EBITDA	25.4	20.7	17.9
ROE (%)	22.5	23.7	22.6
D/E	0.8	0.7	0.5

 Vincent Andrews
 Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

(Rs cr)	Q2FY24	Q2FY23	YoY Growth	Q1FY24	QoQ Growth	H1FY24	H1FY23	YoY Growth
Sales	819	830	-1.3%	958	-14.5%	1777	1773	0.3%
EBITDA	182	161	13.1%	240	-24.0%	422	406	3.9%
EBITDA margins	22.2%	19.4%	280bps	25.0%	(280bps)	23.7%	22.9%	80bps
Depreciation	82	74	10.9%	81	0.6%	163	143	13.8%
EBIT	100	87	15.0%	158	-36.6%	259	263	-1.5%
Interest	28	27	4.5%	28	0.9%	57	52	8.6%
Other Income	15	8	93.8%	13	16.4%	29	17	66.6%
Exceptional Items	-41	0	NA	0	NA	-41	0	NA
PBT	47	68	-31.7%	144	NA	190	228	-16.5%
Tax	12	17	-29.1%	37	NA	49	57	-15.0%
Reported PAT	34	51	-32.5%	107	NA	141	170	-17.1%
Adjustments	41	0	NA	0	NA	41	0	NA
Adj PAT	75	51	47.5%	107	NA	182	170	6.9%
No. of Shares	12.85	12.85	0.0%	12.85	NA	12.85	12.85	0.0%
EPS (Rs)	5.9	4.0	47.5%	8.3	NA	14.2	13.3	6.9%

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	3,758	4,248	3,619	4,070	-3.7%	-4.2%
EBITDA	894	1074	847	1024	-5.3%	-4.7%
Margins	23.8%	25.3%	23.4%	25.1%	(40bps)	(10bps)
Adj. PAT	379	498	358	460	-5.6%	-7.5%
EPS	29.5	38.7	27.8	35.8	-5.7%	-7.4%



PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	1,707	2,388	3,452	3,619	4,070	4,518
% change	-44.1	39.9	44.6	4.8	12.5	11.0
EBITDA	161	416	791	847	1,024	1,159
% change	-80.5	157.9	90.3	7.1	20.8	13.2
Depreciation	265	242	295	324	360	395
EBIT	-104	174	496	523	664	764
Interest	104	93	108	115	110	105
Other Income	94	56	37	51	69	81
PBT	-118	137	426	458	623	740
% change	-123.8	NA	211.1	7.7	35.9	18.8
Tax	-27.4	35.9	106.5	100.6	162.2	197.4
Tax Rate	23.3%	26.3%	25.0%	22.0%	26.1%	26.7%
Reported PAT	-90.2	100.9	319.1	357.6	460.5	542.2
Adj*	-5	0	0	0	0	0
Adj PAT	-85.6	100.9	319.1	357.6	460.5	542.2
% change	-125.7	NA	216.3	12.1	28.8	17.8
No. of shares (cr)	12.9	12.9	12.9	12.9	12.9	12.9
Adj EPS (Rs.)	-7	8	25	28	36	42
% change	-125.7	NA	216.3	12.1	28.8	17.8
DPS (Rs.)	5	4	55	4	4	4
CEPS (Rs.)	13.9	26.7	47.8	53.0	63.8	73.0

CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Net inc. + Depn.	-27	160	388	437	550	641
Non-cash adj.	267	255	318	353	381	402
Changes in W.C	218	-204	-78	-30	-54	-60
C.F. Operation	458	212	629	759	876	983
Capital exp.	-36	-48	-94	-413	-368	-318
Change in inv.	-92	94	501	0	0	0
Other invest.CF	78	46	32	-141	-41	-40
C.F - Investment	-50	93	438	-554	-408	-358
Issue of equity	0	0	0	0	0	0
Issue/repay debt	-315	-289	-206	119	60	-16
Dividends paid	-51	-51	-699	-51	-51	-51
Other finance.CF	-2	-1	-106	-115	-110	-105
C.F - Finance	-369	-341	-1,011	-48	-102	-173
Chg. in cash	39	-37	57	157	366	452
Closing cash	54	18	75	232	598	1,049

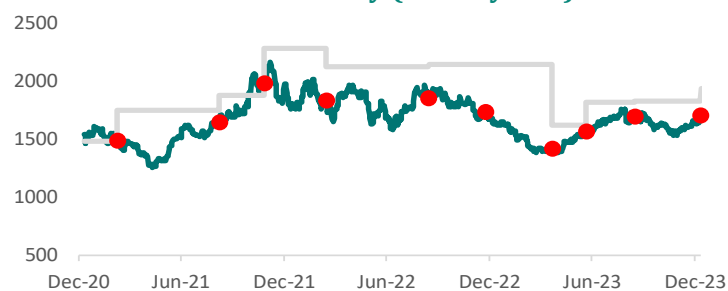
BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	1,094	965	523	681	1,046	1,498
Accounts Receivable	79	72	83	99	112	124
Inventories	608	871	904	1,004	1,110	1,232
Other Cur. Assets	258	278	244	397	446	495
Investments	5	5	5	5	5	5
Gross Fixed Assets	1,921	2,260	2,722	3,124	3,491	3,809
Net Fixed Assets	1,111	1,207	1,375	1,452	1,460	1,383
CWIP	34	5	4	15	15	15
Intangible Assets	7	17	14	14	14	14
Def. Tax (Net)	138	105	114	122	122	122
Other Assets	0	0	0	0	0	0
Total Assets	3,334	3,525	3,265	3,788	4,330	4,887
Current Liabilities	514	588	578	654	724	803
Provisions	28	29	9	30	33	37
Debt Funds	1,032	1,094	1,245	1,364	1,424	1,407
Other Liabilities	0	0	0	0	0	0
Equity Capital	64	64	64	64	64	64
Reserves & Surplus	1,696	1,750	1,370	1,676	2,084	2,575
Shareholder's Fund	1,760	1,814	1,434	1,740	2,149	2,639
Total Liabilities	3,334	3,525	3,265	3,788	4,330	4,887
BVPS (Rs.)	137	141	112	135	167	205

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Profitab. & Return						
EBITDA margin (%)	9.4	17.4	22.9	23.4	25.1	25.7
EBIT margin (%)	-6.1	7.3	14.4	14.5	16.3	16.9
Net profit mgn.(%)	-5.0	4.2	9.2	9.9	11.3	12.0
ROE (%)	-4.7	5.6	19.6	22.5	23.7	22.6
ROCE (%)	0.4	6.8	11.9	13.0	13.2	13.0
W.C & Liquidity						
Receivables (days)	15.0	11.5	8.2	9.2	9.4	9.5
Inventory (days)	323.0	248.4	214.0	218.6	219.0	218.6
Payables (days)	236.5	184.9	140.5	141.2	142.8	142.6
Current ratio (x)	3.8	3.5	3.0	3.2	3.6	4.0
Quick ratio (x)	0.3	0.2	0.3	0.5	1.0	1.5
Turnover & Leverage						
Gross asset T.O (x)	2.6	3.5	4.5	4.2	4.4	4.5
Total asset T.O (x)	0.5	0.7	1.0	1.0	1.0	1.0
Int. coverage ratio (x)	-1.0	1.9	4.6	4.5	6.0	7.2
Adj. debt/equity (x)	0.6	0.6	0.9	0.8	0.7	0.5
Valuation						
EV/Sales (x)	12.1	8.8	6.2	5.9	5.2	4.6
EV/EBITDA (x)	128.6	50.3	27.2	25.4	20.7	17.9
P/E (x)	-242.9	206.1	65.2	58.2	45.2	38.4
P/BV (x)	11.9	11.6	14.6	12.1	9.7	7.9

Recommendation Summary (Last 3 years)



Source: Bloomberg, Geojit Research

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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