Equity Research

Equity Research Report Retail

Date: Aug 08, 2020

BATA Ltd

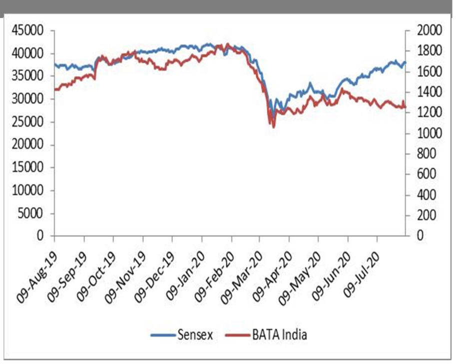
Analyst Recommendation: BUY

BSE Code:	500043	NSE:	BATAINDIA	Reuters Code:	BATA.NS	Bloomberg Code:	BATA:IN

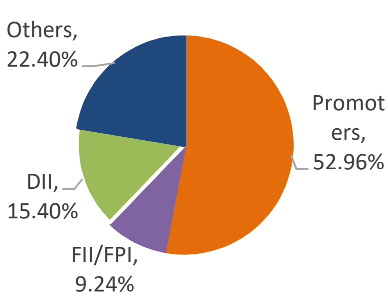
CMP:	**Rs 1282**
2 Year Target -	**Rs 1150**

Face Value	5.0
Market Cap (Rs cr)	16,095
52 week high/low	1897/1017
Beta	1.08
Shares O/S (Cr)	12.35
Book Value per Share (Rs)	147.56
Sensex	38048
Nifty	11299

1 yr. Price Chart of Stock and BSE



Shareholding pattern as on 31st Mar 2020.



Investor's Rationale

- **Covid-19 Effect on Retail Business**

The recent COVID-19 pandemic and extended lockdown would lead to disruption in premiumization trend and significantly impact revenues from the retail format, as 40% of the stores are still closed and ones which are opened are operating for lesser time. Further, risk of down trading is very high which could lead to more sluggishness and higher share of lower-end product could erode gross margins. Bata's strong growth trajectory of 21% earning CAGR over FY16-20 was led by its strong brand recall and higher revenue contribution from the premium segment. During the period FY16-20, the company focused on brand building through opening large format stores in malls and high street, currently, ~84% of revenue is contributed through retail format

- **Margins to become subdued**

Bata operating through 1550 stores across the country incurs~25% of the revenue as an employee and rental expenses. The company generates nearly 50% of revenues from higher price range SKUs, therefore, reduced outgoing and increase in trend of WFH may reduce demand for premium category footwears. Considering lower sales through retail stores and reduced earnings from sale of premium foot wears would impact profit margins significantly.

We expect, Bata to post lower Revenue/Earnings CAGR of ~2%/~4% over FY20-FY23E due to significant decline in Revenue/earnings FY21E. At CMP, the stock trades at 44x FY23E earnings, which is expensive in our view given the weaker demand conditions and pressure on discretionary spends. Considering the challenging growth outlook ahead owing to; 1) weak consumer sentiments towards discretionary spends. 2) Higher operating cost, 3) premium valuation, we find the stock trades at expensive valuations which is difficult to sustain.We value the stock at 40x its FY23E earnings to arrive at our Target Price.

	FY20	FY21E	FY22E	FY23E
Revenue (Rs.Cr)	3,056.00	2,175.00	2,992.00	3,235.00
EBITDA (Rs. cr)	832.00	396.00	808.00	873.00
Adj. profit (Rs.Cr)	326.00	87.00	335.00	368.00
Adj. EPS (Rs.)	25.4	6.7	26.0	28.7
P/E (x)	50.8	187.6	48.5	44.1
EV/Sales (x)	5.4	7.0	5.0	4.6
EV/EBITDA (x)	19.9	38.3	18.6	17.0
ROE (%)	17.20%	4.40%	15.10%	14.90%
ROCE (%)	20.60%	6.60%	17.90%	17.70%

Higher dependence on single channel

Bata marks the largest presence through its retail network in the country with store counting to ~1550contributing ~84% of the total revenue. The company indicated ~80% of the stores have started their operations (~1200 stores) and the rest of the stores are still not open because they are in containment zones or in malls, and still states have restricted openings of malls. Moreover, only about ~300stores are actually open for a significant time of the day for 6 days a week, sales in some stores in Tier-II cities have attained ~70% of the pre-COVID levels ,but sales in some stores in the metro cities and malls are just 1/3rd of the sales in comparison to previous year levels. The company is also evaluating closure of around 50-70 stores during the year after considering the profitability of the stores in the next 6-12 months. We believe demand to attain normal levels from next year only with a marginal increase in demand during the festive seasons, in turn severely impacting the revenues of the company in FY21E. We are modeling in ~20%/10% dip in the volumes and value respectively for FY21E on the back of1) Reduction in footfalls due to closure of malls and stores in metros2) Reduced demand for premium products, thus impacting ASP 3) Closure of institutions like school, offices, etc negatively impacting demand for leather footwears

Delay in expansion plans in tier III & IV cities

Besides, premiumization led growth Bata's growth was also volume-driven owing to its expansion to Tier III & IV cities through franchise and wholesale model. However, over the past few years BATA has witnessed stagnant volumes in the mass and value (MRP< Rs 1,000) category products. Besides, consumers in smaller town and cities prefer the physical touch of the products and rely less on online shopping. Bata intends to expand its distribution network through the franchise route,but we think given the challenging growth scenario and rising number of COVID cases from the towns and villages store expansions through the franchisee route could be affected. Also, with difficulty in accessing capital by franchisee would curtail the pace of store openings in our view

COVID-19 impacts

COVID-19 outbreak during March in India and thereafter a complete lockdown to adversely impact operations in Q1FY21. Although the company has resumed ~75% of the stores across the country, we believe further extension of the lockdown in metro cities with the rise in number of COVID-19 cases, closure of offices, limited outings, postponement of social events, etc could affect the revenues significantly. We expect revenues to decline sharply by ~30% in FY21E owing to impact of COVID-19 on inventories build up in the channel, weak demand of premium products, and closure of retail stores in metros. However, with the onset of festive season from Q2FY21, we believe, H2FY21 to see some respite from COVID-19 led cut down on demand with progressive normalization seen in FY22E.

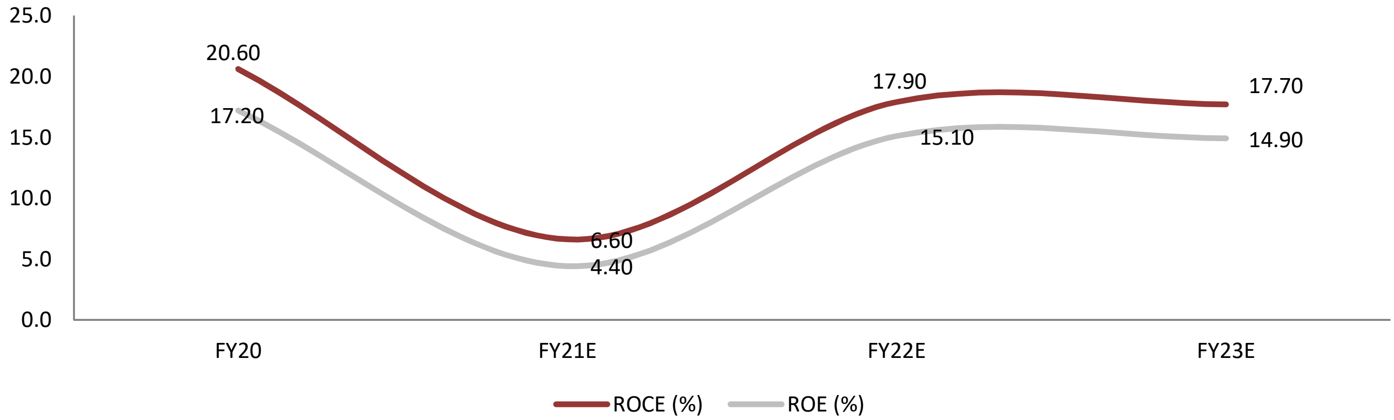
Impact on particular Segments

Men's Segment: Bata's revenue is dominated by men's segment contributing nearly 60%. Majority of the sales are in leather footwear and premium casual footwear, therefore with extended lockdown resulting in the closure of offices, schools & restricted traveling has reduced demand for high-end leather footwear for parties and offices. Further with a rising culture of work for home demand for value and casual footwear (MRP<Rs 1,000) has increased

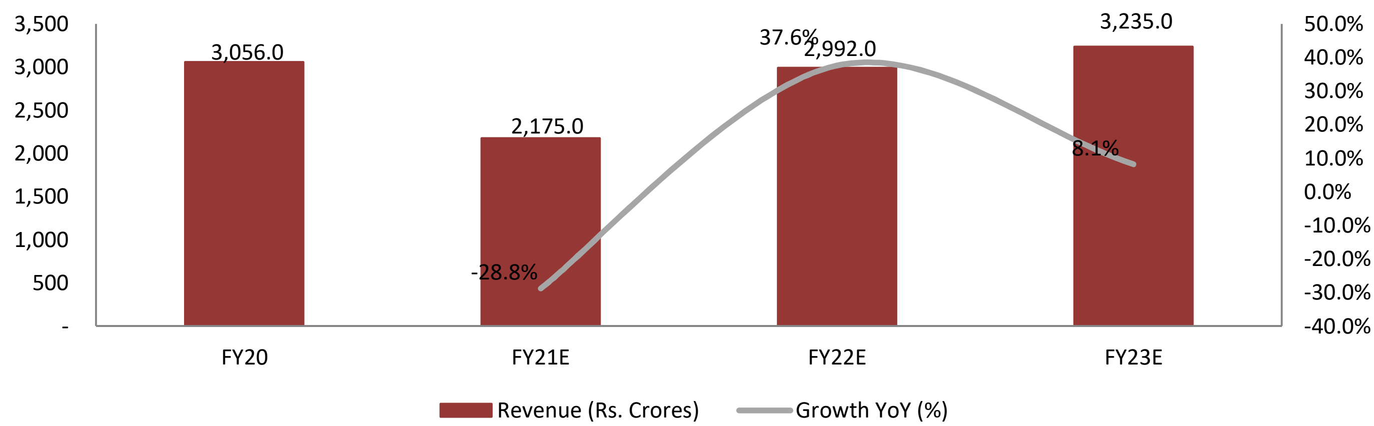
Women Segment: Over the past few years, with increasing brand awareness and occasion-based purchase in metros & non-metro cities, the women's footwear segment has witnessed a major shift in consumption from need-based to trend-based and women are consuming more branded lifestyle products than men. Women's segment contributes ~30% to the total revenue largely led by occasion-based purchases of premium footwear such as marriages, social gatherings, festivals, etc. Therefore, with reduced social events and spending majorly on essentials and lower budgets for discretionary spending there is a challenge for the company to drive revenues. Also inventory management could be a critical aspect as with change in trend, consumer preferences also changes.

Return ratios to be impacted due to reduced earning

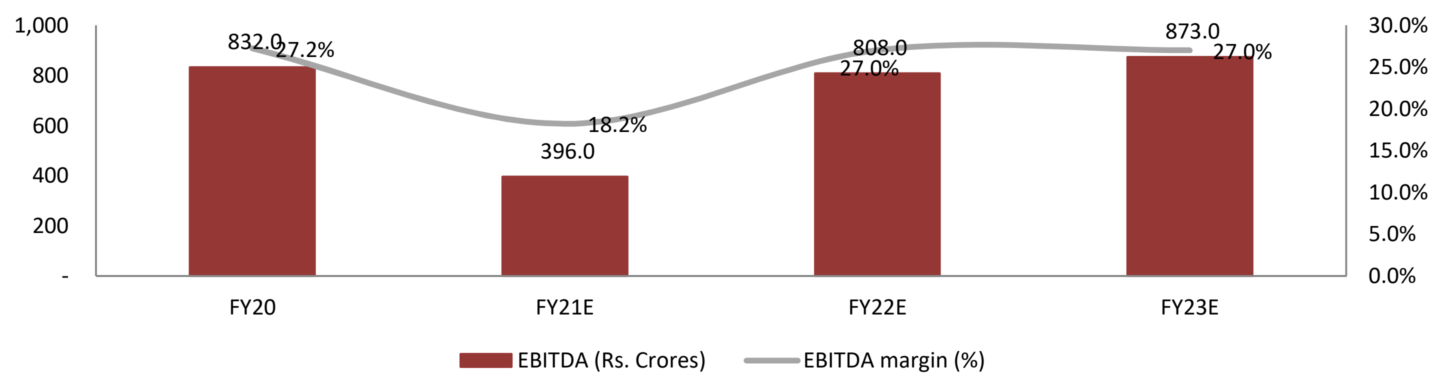
We expect substantial impact on earnings in FY21E and a gradual recovery of ~4% EPS CAGR over FY20-23E. Bata's ROE to come down to 15% over FY23E from 17% in FY20 due to pressure on earnings. Key factors to muted earnings are 1)Weak consumer sentiments towards discretionary purchases,2) Closure of institutions like offices, schools etc. for periods longer than expected, 3) Higher opex (Rent, Employee Exp) and inferior mix (higher contribution from value products.



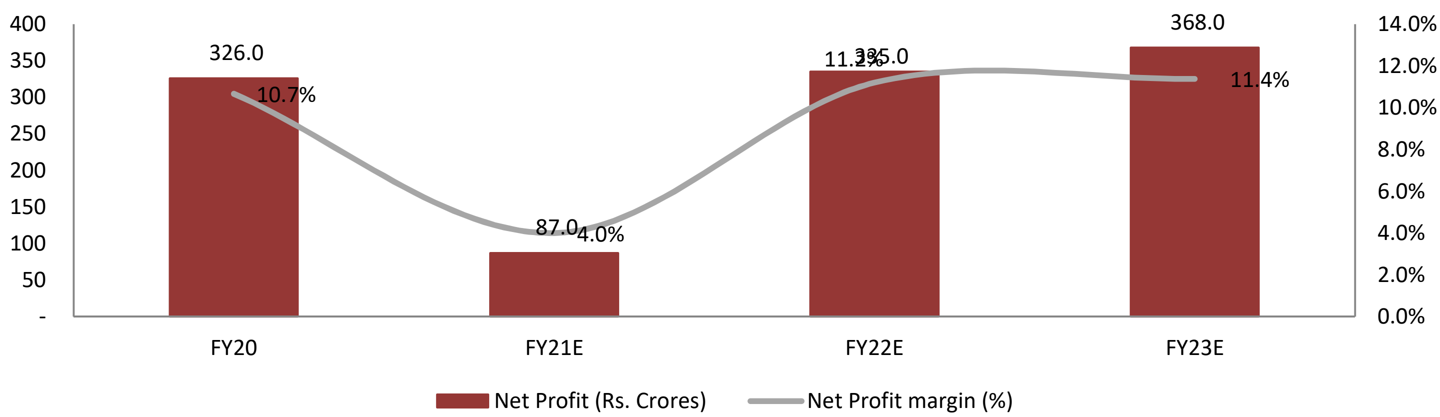
Revenue growth will pick up starting from Jan-2021



EBITDA to experience pressure



Net profit to experience pressure for FY21



Outlook and Valuation

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Bata Ltd- Company Overview

Bata India (BATA), Incorporated as Bata Shoe Company Private Limited in 1931 went public in 1973 is the largest footwear retailer and the leader in the footwear industry in India. The company is engaged in the business of manufacturing and trading of footwear and accessories through their retail and wholesale network. The company's product includes leather footwear rubber/canvas footwear, plastic footwear and accessories catering all the segments under the brand Bata, Hush Puppies, CAT, FOOTIN etc. At present with four manufacturing facilities company has a strong network of ~1400 EBO's and ~15,000 MBO's covering ~550-600 cities across the country.

Key Risks

- Faster than expected recovery: Significant progress in containing COVID-19 spread leading to a faster revival in demand &quicker opening up of retail stores in metro cities.
- Improvement of liquidity issues in trade channels.
- Cost rationalization on rental and employee expenditure front

Balance sheet (Consolidated)

(Rs crore)	FY20	FY21E	FY22E	FY23E
Liabilities				
Paid up capital	64	64	64	64
Reserves and Surplus	1832	1918	2156	2414
Net worth	**1896**	**1982**	**2220**	**2478**
Minority interest	-	-	-	-
Total Debt	-	-	-	-
Other non- current liabilities	1038	1004	973	922
Total Liabilities	**2934**	**2986**	**3193**	**3400**
Assets				
Total fixed assets	327	347	363	378
Capital WIP	-	-	-	-
Loans and Advances	-	-	-	-
Investments	-	-	-	-
Inventory	-	-	-	-
Net Current Assets	1199	1358	1579	1834
Other non- current assets	1,408	1,281	1,251	1,188
Total Assets	**2934**	**2986**	**3193**	**3400**

Profit & Loss Account (Consolidated)

(Rs crore)	FY20	FY21E	FY22E	FY23E
Total operating Income	**3056**	**2175**	**2992**	**3235**
Raw Material cost	1297	1011	1316	1391
Employee cost	376	294	344	356
Other operating expenses	551	474	524	615
EBITDA	**832**	**396**	**808**	**873**
Depreciation	298	265	300	336
EBIT	**534**	**131**	**508**	**537**
Interest cost	118	80	125	110
Other Income	69	65	65	65
Profit before tax	**485**	**116**	**448**	**492**
Tax	159	29	113	124
Profit after tax	**326**	**87**	**335**	**368**
Minority Interests				
P/L from Associates				
Adjusted PAT	**326**	**87**	**335**	**368**

Cash Flow (Consolidated)

Y.E March (Rs crore)	FY20	FY21E	FY22E	FY23E
Pretax profit	**485**	**116**	**448**	**492**
Depreciation	298	265	300	336
Chg in Working Capital	-68	-53	-92	-81
Others	56	80	125	110
Tax paid	-187	-29	-113	-120
Cash flow from operating activities	**584**	**379**	**668**	**737**
Capital expenditure	-86	-90	-95	-95
Chg in investments	-167	0	0	0
Other investing cashflow	64	0	0	0
Cash flow from investing activities	**-189**	**-90**	**-95**	**-95**
Cash flow from financing activities	**-438**	**-183**	**-444**	**-469**
Net chg in cash	**-43**	**106**	**129**	**173**

Key Ratios & Valuations (Consolidated)

Y.E March (Rs crore)	FY19	FY20E	FY21E	FY22E
Growth (%)				
Net Sales	4.3%	-28.8%	37.6%	8.1%
EBITDA	-	-52.4%	104.10%	8.1%
Net profit	-0.8%	73.5%	286.9%	10.1%
Margin (%)				
EBITDA	27.2%	18.2%	27.0%	27.0%
NPM	10.7%	4.0%	11.2%	11.4%
Return Ratios (%)				
RoE	17.2%	4.4%	15.1%	14.9%
RoCE	20.6%	6.6%	17.9%	17.7%
Valuation(x)				
P/E	50.8	187.6	48.5	44.1
EV/EBITDA	19.9	38.3	18.6	17.0
EV/Net Sales	5.4	7.0	5.0	4.6
Per share data (Rs.)				
EPS	25.4	6.7	26.0	28.7

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Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	**Buy**	More than equal to 15%
Hold	Between 10% & -5%	**Accumulate***	Upside between 10% & 15%
Reduce	Less than -5%	**Hold**	Between 0% & 10%
		Reduce/sell	Less than 0%

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

Member: BSE, NSE, MCX, MCX-SX, CDSL

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