



Lens View – Footwear (West)

VP - Research: Sachin Bobade

Tel: +9122 40969731

E-mail: sachinb@dolatcapital.com

Associate: Nikhat Koor

Tel: +9122 40969764

E-mail: nikhatk@dolatcapital.com



DOLAT CAPITAL

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Gradual recovery

During our latest ground survey in the Western market, we focused mainly on Bata footwear demand, new schemes, recent launches, and store manager's confidence level. In addition, discounts, promotions and recent marketing campaigns were also taken into account while interacting with the store managers.

Our checks suggest that the retail segment for Bata is recovering gradually. However, store managers are still uncertain about recovery of supply until the pandemic is over. We believe that Bata would continue to register weak sales and muted operational performance on YoY basis in Q3FY21E.

Channel Checks Takeaways:

- **Footfalls low; but conversion rate high:** Store managers suggested that the footfalls have declined significantly post re-opening of stores. However, conversion rate of footfalls to sales has increased significantly. This indicates that only consumers who are eager to buy with urgency are visiting stores and window shopping has declined drastically. Most store managers in the western region witnessed 30-50% decline in revenues during Q3FY21 till date.
- **Sports and casuals regaining traction:** Post re-opening of stores, open footwear sales contribution increased significantly till Q2FY21. However, in last one-month other footwear sales have also picked up. Sports category has gained traction led by Power brand while casual footwears have shown strong traction led by North Star brand.
- **Women contribution declined in many stores:** Women segment contribution has declined while salience of open footwear in premium and 'Comfit' brand increased considerably. We believe this is due to work from home policy and social distancing norms. Nevertheless, women accessory (Purse, wallets, belts) contribution has remained stable.
- **Employee count declined significantly:** Due to pandemic fears many of the store staff members which were on leave did not return back after re-opening of stores. The company paid them four-month salary but as they did not return on job, they are no longer on active rolls. However, the company has guided store managers to add new employees where the sales are getting impacted due to lack of staff.
- **Supply constraints persist:** Due to 50% employee guidelines at factory level, production was impacted during the quarter. In addition, due to lower sales, retail stores are getting less fresh supply from the company. Store managers hinted that the stores are getting less than 25% of usual supply from the company which is gradually increasing. Most of them believe that the supply would normalize in 3-6 months. The company has not launched new products post lock down.

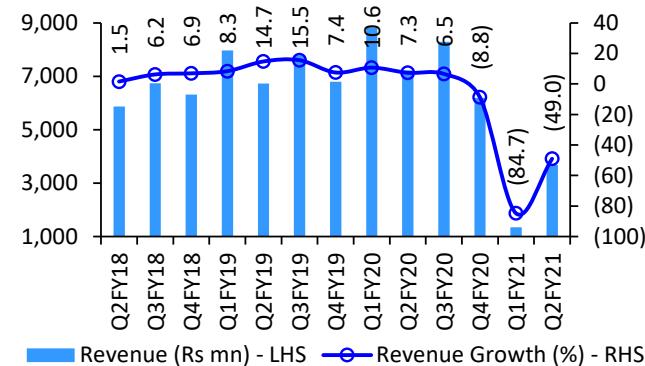
Sachin Bobade
 VP - Research
 +9122 40969731
 sachinb@dolatcapital.com

Nikhat koor
 Associate
 +9122 40969764
 nikhatk@dolatcapital.com

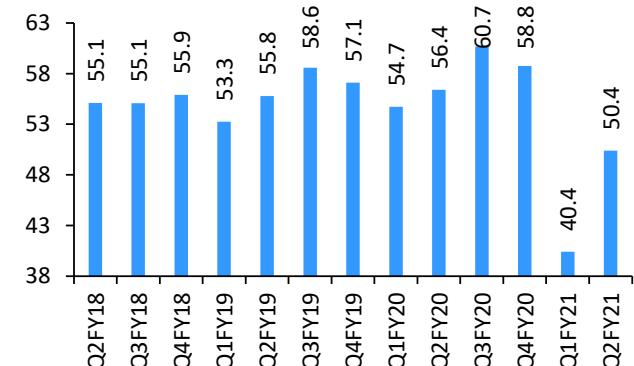
- **No price revision, less discounts:** The company has not implemented any pricing action in the recent past. However, there were few discounts during festive season which received good response. However, sales momentum has reduced post Diwali. Currently discount offers in sneakers of Rs 2000. (Rs 200 off on next purchase).
- **Home delivery contribution increasing:** Home delivery contribution increased to double digit post Covid compared to single digit earlier. Due to supply constraints availability of right size became an issue at stores. In addition, nowadays, customers book the pair and avail home delivery facility. Bata continued to strengthen its channel focus by rolling out Omni-channel Home Delivery offerings in most of its stores. There is a separate panel for Home Delivery exclusives which range from Rs 1300- Rs 5000. Customer has to select the shoe; right size is home delivered Store managers are given target of 6-7% turnover for this scheme. The company had also started taking orders on Whatsapp since June'20 by utilizing database of existing customers and also to gain new customers
- School shoes contribute 12-15% of sales. No signs of school reopening yet will continue to hamper performance.

Financial Table

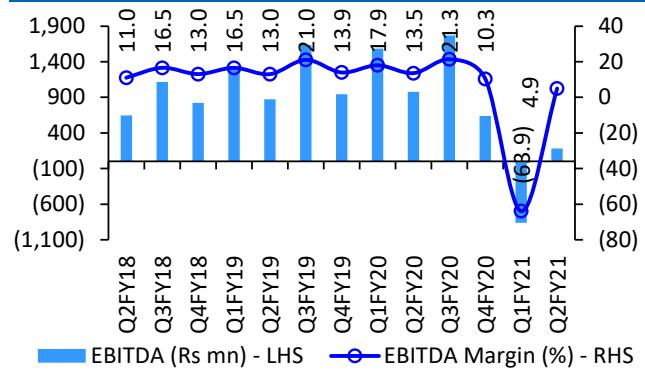
Companies	Mkt Cap	CMP	TP	Upside	Sales (Rs mn)			EBITDA (Rs mn)			Net Profit (Rs mn)		
	(Rs bn)	(Rs)	(Rs)	(%)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Bata	198	1,539	1,365	(11)	19,237	27,893	30,683	3,054	6,882	7,908	197	2,587	3,214
Relaxo	180	727	747	3	22,681	28,257	32,300	4,165	5,119	5,801	2,292	2,954	3,372

Exhibit 1: Bata Revenue & Growth (%)


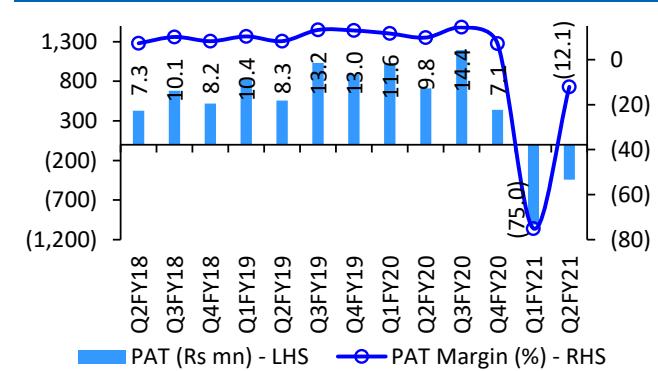
Source: DART, Company

Exhibit 2: Bata Gross Margins (%)


Source: DART, Company

Exhibit 3: Bata EBITDA & Margins (%)


Source: DART, Company

Exhibit 4: Bata PAT & Margins (%)


Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	30,535	19,237	27,893	30,683
Total Expense	22,237	16,183	21,011	22,774
COGS	12,963	8,263	12,037	13,302
Employees Cost	3,764	3,526	3,578	3,782
Other expenses	5,510	4,395	5,396	5,690
EBIDTA	8,297	3,054	6,882	7,908
Depreciation	2,958	2,690	2,857	3,057
EBIT	5,340	364	4,026	4,851
Interest	1,177	1,071	1,125	1,181
Other Income	688	988	682	782
Exc. / E.O. items	0	0	0	0
EBT	4,851	281	3,583	4,452
Tax	1,582	84	996	1,238
RPAT	3,269	197	2,587	3,214
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	3,269	197	2,587	3,214

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	643	643	643	643
Minority Interest	0	0	0	0
Reserves & Surplus	18,323	18,481	20,550	23,122
Net Worth	18,966	19,123	21,193	23,764
Total Debt	0	0	0	0
Net Deferred Tax Liability	11,407	11,407	11,407	11,407
Total Capital Employed	30,373	30,531	32,600	35,171

Applications of Funds

Net Block	13,673	11,583	9,726	7,669
CWIP	199	199	199	199
Investments	50	50	50	50
Current Assets, Loans & Advances	22,315	24,035	30,126	35,451
Inventories	8,737	5,395	7,823	8,605
Receivables	612	399	578	636
Cash and Bank Balances	9,623	15,408	18,591	22,980
Loans and Advances	1,177	667	967	1,064
Other Current Assets	2,166	2,166	2,166	2,166
Less: Current Liabilities & Provisions	5,864	5,336	7,501	8,198
Payables	5,031	4,458	6,464	7,110
Other Current Liabilities	833	878	1,037	1,088
<i>sub total</i>				
Net Current Assets	16,451	18,699	22,625	27,253
Total Assets	30,373	30,531	32,600	35,171

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	57.5	57.0	56.8	56.6
EBIDTA Margin	27.2	15.9	24.7	25.8
EBIT Margin	17.5	1.9	14.4	15.8
Tax rate	32.6	29.8	27.8	27.8
Net Profit Margin	10.7	1.0	9.3	10.5
(B) As Percentage of Net Sales (%)				
COGS	42.5	43.0	43.2	43.4
Employee	12.3	18.3	12.8	12.3
Other	18.0	22.8	19.3	18.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	4.5	0.3	3.6	4.1
Inventory days	104	102	102	102
Debtors days	7	8	8	8
Average Cost of Debt				
Payable days	60	85	85	85
Working Capital days	197	355	296	324
FA T/O	2.2	1.7	2.9	4.0
(D) Measures of Investment				
AEPS (Rs)	25.4	1.5	20.1	25.0
CEPS (Rs)	48.4	22.5	42.4	48.8
DPS (Rs)	7.5	0.3	4.0	5.0
Dividend Payout (%)	29.6	20.0	20.0	20.0
BVPS (Rs)	147.6	148.8	164.9	184.9
RoANW (%)	17.9	1.0	12.8	14.3
RoACE (%)	18.6	4.2	11.8	13.0
RoAIC (%)	35.9	2.0	27.6	37.0
(E) Valuation Ratios				
CMP (Rs)	1540	1540	1540	1540
P/E	60.5	1004.4	76.5	61.6
Mcap (Rs Mn)	1,97,920	1,97,920	1,97,920	1,97,920
MCap/ Sales	6.5	10.3	7.1	6.5
EV	1,88,297	1,82,512	1,79,329	1,74,940
EV/Sales	6.2	9.5	6.4	5.7
EV/EBITDA	22.7	59.8	26.1	22.1
P/BV	10.4	10.3	9.3	8.3
Dividend Yield (%)	0.5	0.0	0.3	0.3
(F) Growth Rate (%)				
Revenue	4.3	(37.0)	45.0	10.0
EBITDA	73.8	(63.2)	125.4	14.9
EBIT	29.2	(93.2)	1006.7	20.5
PBT	1.4	(94.2)	1176.3	24.3
APAT	(0.8)	(94.0)	1212.7	24.3
EPS	(0.8)	(94.0)	1212.7	24.3

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	5,797	7,496	5,826	7,213
CFI	(855)	(600)	(1,000)	(1,000)
CFF	(3,709)	(1,111)	(1,642)	(1,824)
FCFF	4,942	6,896	4,826	6,213
Opening Cash	8,390	9,623	15,408	18,591
Closing Cash	9,623	15,408	18,591	22,980

E – Estimates

DART RATING MATRIX



Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
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Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
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CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co - Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
