

# Bata India

**REDUCE**
**Maintain**
**Rs1,666**

## Not out of the woods yet

Weak performance continued in 1Q (revenue declined 55%QoQ) due to operating restrictions. Portfolio-specific headwinds (higher formal and fashion salience) continued to hurt; some of the peers have been less impacted though. We note several initiatives by Bata to accelerate recovery – (1) ramping up sales from new channels (ChatShop, Home Delivery, Store on Wheels), (2) capturing semi-urban / rural demand through franchisee stores, and (3) restarting promotional campaigns and new launches. That said, Bata is likely to be a key beneficiary of improved mobility as things normalise. Inferior product mix (away from formals & fashion and more towards open style footwear), is likely to put further pressure on profitability till then. Reiterate **REDUCE**; TP **Rs1,500**.

### Q1FY22 result review and TP revision

### Consumer Staples & Discretionary

**Target price Rs1,500**

### Earnings revision

(%)	FY22E	FY23E
Sales	↓ 5.7	↓ 0.1
EBITDA	↓ 12.6	↓ 0.1
PAT	↓ 19.3	↓ 0.1

### Target price revision

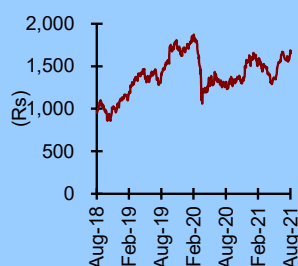
Rs1,500 from Rs1,400

### Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	53.0	53.0	53.0
Institutional investors	31.6	31.3	32.5
MFs and other	14.1	14.3	15.5
Banks / FIs	0.2	0.2	0.1
Insurance co	11.8	11.5	11.7
FII	5.5	5.3	5.2
Others	15.4	15.7	14.5

Source: BSE

### Price chart



### Research Analysts:

#### Aniket Sethi

 aniket.sethi@icicisecurities.com  
+91 22 2277 7632

#### Manoj Menon

 manoj.menon@icicisecurities.com  
+91 22 6637 7209

#### Karan Bhuwania

 karan.bhuwania@icicisecurities.com  
+91 22 6637 7351

► **Weak operating performance:** Q1FY22 revenue was down 55% QoQ even as Bata didn't really see a good recovery in Q4 (compared to other discretionary categories as well). Product mix would have continued to be unfavourable for the quarter given lower demand of formals (schools were largely closed and offices had strict operating restrictions). Some of the recovery was driven by growth in digitally enabled platforms with e-commerce contributing 15% of sales for the quarter.

Management did highlight that with easing restrictions (in 2QFY22) the footfalls in their retail outlets are seeing a strong recovery.

► **Company initiatives:** Bata continued to scale-up its digital initiatives (Bata website, online marketplaces, Bata ChatShop, Bata Home Delivery and Bata Store on Wheels). It launched 'Work from Home', 'Fitness at Home' and Monsoon collections offering a good blend of comfort and functionality. Bata opened 7 additional franchise stores (total 234 now) in smaller towns and cities.

► **EBITDA margin continued to be weak:** Gross margin expanded 310bps QoQ (a positive surprise) to 56.2% in 1Q while the expansion was much stronger on a YoY basis (on the back of better costs absorption, 1Q was severely impacted). Staff costs and other opex were lower by 3% and 13% QoQ, respectively. EBITDA loss print was Rs340mn compared to the loss of Rs861mn in the previous year (Q1FY21). Management has highlighted efforts to introduce cost savings across operations and manufacturing.

► **Valuation and risks:** Our FY23 earnings estimates are largely unchanged; modelling revenue / EBITDA CAGR of 42 / 145 (%) over FY21-23E. Retain **REDUCE** with a DCF-based revised target price of Rs1,500. At our target price, the stock will trade at 44x P/E multiple Mar-23E. Key upside risk is faster-than-anticipated recovery in discretionary demand.

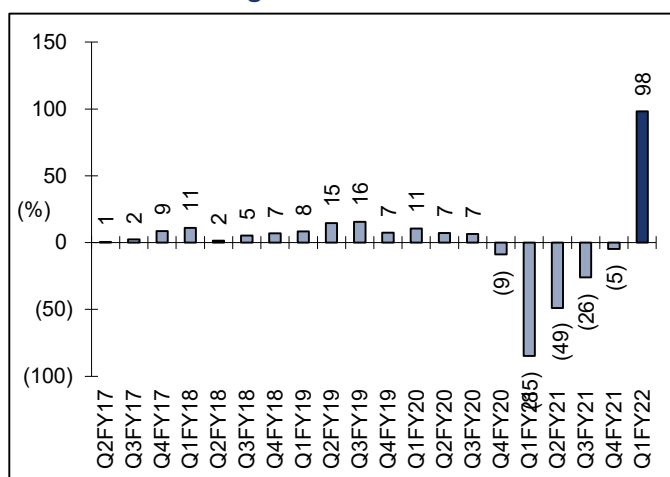
Market Cap	Rs214bn/US\$2.9bn	Year to March	FY20	FY21P	FY22E	FY23E
Reuters/Bloomberg	BATA.BO/BATA IN	Net Revenue (Rs mn)	30,535	17,073	27,542	34,523
Shares Outstanding (mn)	128.5	Net Profit (Rs mn)	3,269	(857)	2,554	4,391
52-week Range (Rs)	1694/1230	Dil. EPS (Rs)	25.4	(6.7)	19.9	34.2
Free Float (%)	47.0	% Chg YoY	5.5	NM	NM	71.9
FII (%)	5.2	P/E (x)	65.5	NM	83.9	48.8
Daily Volume (US\$'000)	13,511	CEPS (Rs)	48.4	13.9	43.5	60.9
Absolute Return 3m (%)	22.0	EV/EBITDA (x)	43.6	NM	64.7	35.4
Absolute Return 12m (%)	35.8	Dividend Yield (%)	0.2	0.2	0.4	0.5
Sensex Return 3m (%)	11.6	RoCE (%)	29.3	(5.7)	19.6	29.7
Sensex Return 12m (%)	43.5	RoE (%)	17.9	(4.7)	13.9	21.0

**Table 1: Q1FY22 result review (Standalone – Reported)**

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Net Revenues</b>	<b>2,670</b>	<b>1,348</b>	<b>98</b>	<b>5,899</b>	<b>(55)</b>	<b>17,073</b>	<b>30,535</b>	<b>(44)</b>
COGS	(1,171)	(803)	46	(2,767)	(58)	(8,375)	(12,963)	(35)
<b>Gross profit</b>	<b>1,500</b>	<b>545</b>	<b>175</b>	<b>3,132</b>	<b>(52)</b>	<b>8,698</b>	<b>17,571</b>	<b>(50)</b>
Staff cost	(888)	(848)	5	(913)	(3)	(3,398)	(3,764)	(10)
Other opex	(952)	(558)	71	(1,099)	(13)	(3,688)	(5,510)	(33)
<b>EBITDA</b>	<b>(340)</b>	<b>(861)</b>	<b>(61)</b>	<b>1,120</b>	<b>(130)</b>	<b>1,612</b>	<b>8,297</b>	<b>(81)</b>
Other income	122	520	(77)	145	(16)	940	688	37
Finance cost	(230)	(278)		(242)		(1,035)	(1,177)	(12)
D&A	(501)	(731)	(31)	(620)	(19)	(2,647)	(2,958)	(10)
<b>PBT</b>	<b>(949)</b>	<b>(1,350)</b>	<b>(30)</b>	<b>403</b>	<b>(335)</b>	<b>(1,131)</b>	<b>4,851</b>	<b>(123)</b>
Tax	236	339		(109)		274	(1,582)	
<b>Recurring PAT</b>	<b>(713)</b>	<b>(1,011)</b>	<b>(29)</b>	<b>294</b>	<b>(342)</b>	<b>(857)</b>	<b>3,269</b>	<b>(126)</b>
<b>EPS</b>	<b>(5.5)</b>	<b>(7.9)</b>	<b>(29)</b>	<b>2.3</b>	<b>(342)</b>	<b>(6.7)</b>	<b>25.4</b>	<b>(126)</b>
<b>Costs as a % of sales</b>								
COGS	43.8	59.6	-1576 bps	46.9	-307 bps	49.1	42.5	660 bps
<b>Gross margin (%)</b>	<b>56.2</b>	<b>40.4</b>	<b>1575 bps</b>	<b>53.1</b>	<b>306 bps</b>	<b>50.9</b>	<b>57.5</b>	<b>-661 bps</b>
Staff cost	33.3	62.9	-2963 bps	15.5	1777 bps	19.9	12.3	757 bps
Other opex	35.6	41.4	-578 bps	18.6	1700 bps	21.6	18.0	355 bps
<b>EBITDA margin (%)</b>	<b>(12.7)</b>	<b>(63.9)</b>	<b>5115 bps</b>	<b>19.0</b>	<b>-3172 bps</b>	<b>9.4</b>	<b>27.2</b>	<b>-1774 bps</b>
Income tax rate (%)	24.8	25.1	-26 bps	27.0	-217 bps	24.2	32.6	-837 bps

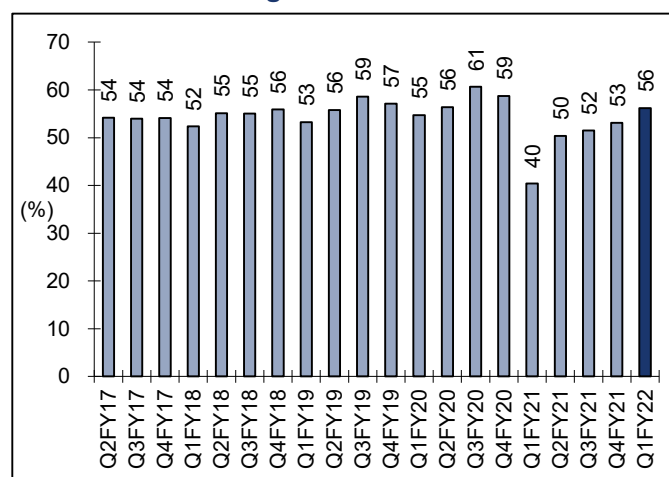
Source: Company data, I-Sec research

Chart 1: Revenue growth



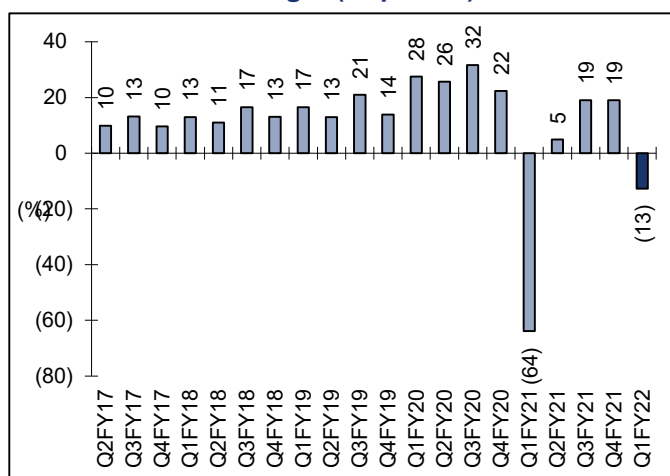
Source: Company data, I-Sec research

Chart 2: Gross margin



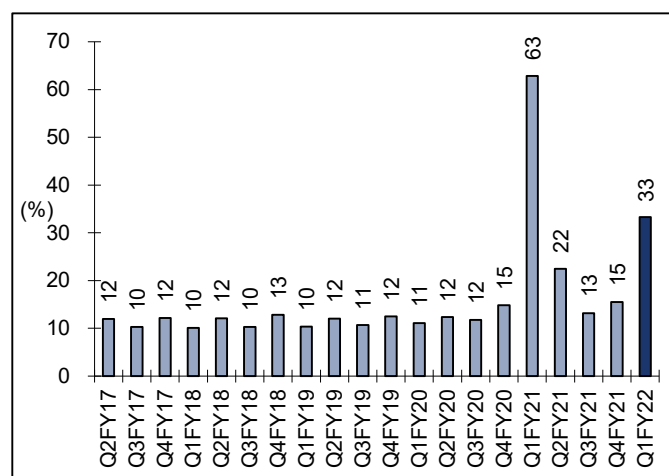
Source: Company data, I-Sec research

Chart 3: EBITDA margin (Reported)



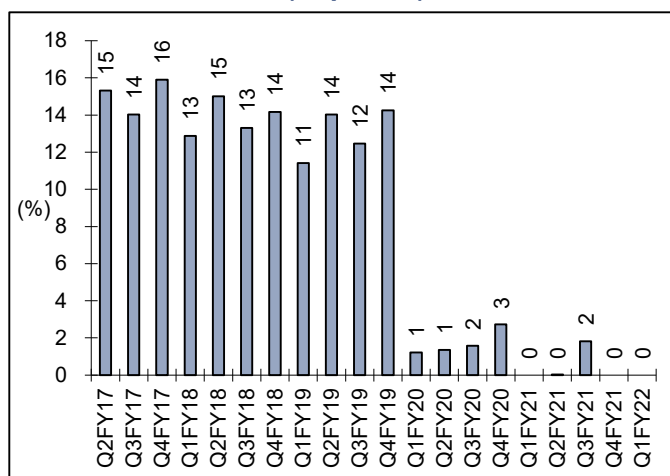
Source: Company data, I-Sec research

Chart 4: Staff cost / sales



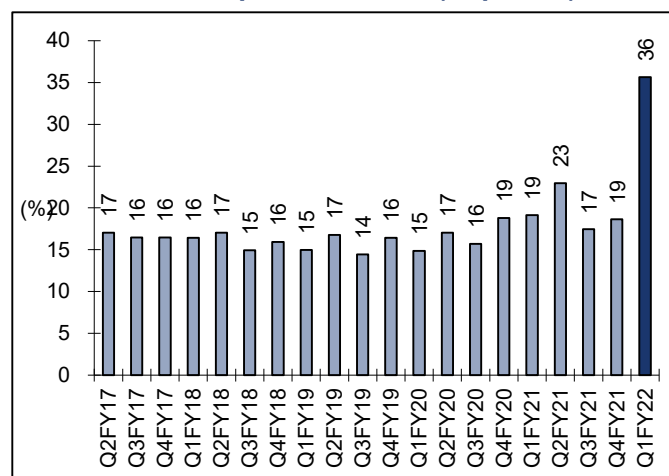
Source: Company data, I-Sec research

Chart 5: Rent / sales (Reported)



Source: Company data, I-Sec research

Chart 6: Other expenses / sales (Reported)



Source: Company data, I-Sec research

## Financial summary

Table 2: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Net Sales</b>	<b>30,535</b>	<b>17,073</b>	<b>27,542</b>	<b>34,523</b>
<b>Operating Expenses</b>	<b>22,237</b>	<b>15,461</b>	<b>20,900</b>	<b>24,867</b>
<b>EBITDA</b>	<b>8,297</b>	<b>1,612</b>	<b>6,642</b>	<b>9,656</b>
% margins	27.2	9.4	24.1	28.0
Depreciation & Amortisation	2,958	2,647	3,036	3,443
Gross Interest	1,177	1,035	1,070	1,137
Other Income	688	940	738	793
<b>Recurring PBT</b>	<b>4,851</b>	<b>(1,131)</b>	<b>3,274</b>	<b>5,870</b>
Less: Taxes	1,582	(274)	720	1,479
Less: Minority Interest	-	-	-	-
<b>Net Income (Reported)</b>	<b>3,269</b>	<b>(811)</b>	<b>2,554</b>	<b>4,391</b>
Extraordinaries (Net)	-	46	-	-
<b>Recurring Net Income</b>	<b>3,269</b>	<b>(857)</b>	<b>2,554</b>	<b>4,391</b>

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	18,973	17,812	20,404	22,591
of which cash & cash eqv.	150	544	(81)	(670)
Total Current Liabilities & Provisions	5,423	4,958	7,033	7,396
<b>Net Current Assets</b>	<b>13,550</b>	<b>12,854</b>	<b>13,371</b>	<b>15,195</b>
Investments	2,948	2,191	2,405	3,002
Net Fixed Assets	13,605	11,109	12,741	14,389
Capital Work-in-Progress	269	404	404	404
<b>Total Assets</b>	<b>30,372</b>	<b>26,557</b>	<b>28,921</b>	<b>32,989</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>12,516</b>	<b>10,343</b>	<b>11,053</b>	<b>11,759</b>
<b>Deferred Tax Liability</b>	<b>(1,110)</b>	<b>(1,384)</b>	<b>(1,384)</b>	<b>(1,384)</b>
Minority Interest	-	-	-	-
Equity Share Capital	643	643	643	643
Face Value per share (Rs)	2	2	2	2
Reserves & Surplus*	18,323	16,955	18,609	21,972
Less: Misc. Exp. n.w.o.	-	-	-	-
<b>Net Worth</b>	<b>18,966</b>	<b>17,598</b>	<b>19,252</b>	<b>22,615</b>
<b>Total Liabilities</b>	<b>30,372</b>	<b>26,557</b>	<b>28,921</b>	<b>32,989</b>

Source: Company data, I-Sec research

Table 4: Quarterly trends

(Rs mn, year ending March 31)

	Sep 20	Dec 20	Mar 21	Jun 21
<b>Net sales</b>	<b>3,679</b>	<b>6,147</b>	<b>5,899</b>	<b>2,670</b>
% growth (YoY)	(49.0)	(25.9)	(4.8)	98.1
<b>EBITDA</b>	<b>182</b>	<b>1,171</b>	<b>1,120</b>	<b>(340)</b>
Margin (%)	4.9	19.1	19.0	(12.7)
Other income	143	132	145	122
Extraordinaries (Net)	-	(46)	-	-
<b>Net profit</b>	<b>(444)</b>	<b>304</b>	<b>294</b>	<b>(713)</b>

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Operating Cashflow</b>	<b>3,008</b>	<b>(1,188)</b>	<b>2,538</b>	<b>4,450</b>
Working Capital	(679)	2,183	(318)	(1,866)
Changes				
Capital Commitments	(855)	(368)	(1,772)	(1,916)
<b>Free Cashflow</b>	<b>1,474</b>	<b>627</b>	<b>448</b>	<b>667</b>
<b>Cashflow from Investing Activities</b>	<b>(1,873)</b>	<b>(496)</b>	<b>(2,620)</b>	<b>(2,817)</b>
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(13)	(11)	(23)	(23)
Dividend paid	(969)	(515)	(900)	(1,028)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(435)</b>	<b>394</b>	<b>(626)</b>	<b>(589)</b>
Closing cash & balance	150	544	(81)	(670)

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Per Share Data (Rs)</b>				
EPS	25.4	(6.7)	19.9	34.2
Cash EPS	48.4	13.9	43.5	60.9
Dividend per share (DPS)	4.0	4.0	7.0	8.0
Book Value per share (BV)	147.6	136.9	149.8	176.0
<b>Growth (%)</b>				
Net Sales	4.3	(44.1)	61.3	25.3
EBITDA	73.8	(80.6)	312.2	45.4
PAT	29.2	NM	NM	72.3
DPS	(36.0)	-	75.0	14.3
<b>Valuation Ratios (x)</b>				
P/E	65.5	NM	83.9	48.8
P/CEPS	34.4	119.6	38.3	27.3
P/BV	11.3	12.2	11.1	9.5
EV / EBITDA	43.6	NM	64.7	35.4
EV / Sales	6.9	12.3	7.6	6.1
<b>Operating Ratios</b>				
Raw Material / Sales (%)	42.5	49.1	43.3	41.5
Employee cost / Sales (%)	12.3	19.9	13.5	12.2
Other exps / Sales (%)	16.4	20.9	17.9	17.2
Other Income / PBT (%)	14.2	(83.2)	22.6	13.5
Effective Tax Rate (%)	32.6	24.2	22.0	25.2
Working Capital (days)	81.6	86.8	58.0	66.0
Inventory Turnover (days)	104.4	130.0	110.0	105.0
Receivables (days)	7.3	17.0	10.0	8.0
Payables (days)	60.2	94.0	85.0	70.0
Net D/E (x)	(0.5)	(0.6)	(0.6)	(0.5)
<b>Profitability Ratios (%)</b>				
Net Income Margins	10.7	(5.0)	9.3	12.7
RoACE	29.3	(5.7)	19.6	29.7
RoAE	17.9	(4.7)	13.9	21.0
Dividend Payout	15.7	(56.9)	35.2	23.4
Dividend Yield	0.2	0.2	0.4	0.5
EBITDA Margins	27.2	9.4	24.1	28.0

Source: Company data, I-Sec research

*This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet\_babbar@icicisecuritiesinc.com, Rishi\_agrawal@icicisecuritiesinc.com.*

*"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."*

*New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)*

*BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return*

## ANALYST CERTIFICATION

I/We, **Aniket Sethi, MBA, B. Tech; Manoj Menon, MBA, CMA; Karan Bhuvania, MBA** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.