

Expect gradual sales recovery; Maintain Accumulate

- Bata's Q1FY22 revenues came below our estimate as we anticipated better revenue traction due to improved business conditions.
- Sales are down by 70% compared to Q1FY20 primarily due to nationwide lockdowns during major part of the quarter. Closure of malls and restricted working hours hampered sales during the quarter.
- Sales through digitally enabled services contributed 15% sales in Q1FY22. Over 12-18 months, we believe that the continuous store additions, new promotional activities and procuring institutional contracts would help Bata to recover sales growth.
- Post re-opening of markets, most of the retail businesses have reached pre-Covid level. With gradual re-opening of malls, schools and offices, we believe that Bata would also regain lost momentum.
- We have downward revised our FY22E estimates to Rs 11.3 (vs 19.3 earlier) to factor loss of revenues during Q1FY21 and resulting lower operating leverage. However, we have broadly maintained our FY23E EPS estimates to factor in 1) anticipated re-opening of malls, schools, offices in FY23E 2) favorable base, 3) new advertising campaigns and 4) increased e-commerce contribution. We value Bata at 63x FY23E EPS to arrive at a TP of Rs 1,770. Maintain Accumulate.

Operational performance was below estimate

Revenues increased 98.1% YoY to Rs 2.67bn in Q1FY22. Growth was supported by strong E-com sales and Bata Store on Wheels initiative amidst restrictions. However, revenue de-grew by 70% compared to 23% decline for Relaxo on two-year basis. Muted performance on account of lower sales in formals and fashion categories, restricted sales to reach to pre-Covid level. Operating loss stood at Rs 340mn, narrowed compared to Rs 861mn in Q1FY21. Lower revenues compared to normalized trend resulted in lower operating leverage. Net loss stood at Rs 713mn vs Rs 1011mn in Q1FY21. Bata opened a total of 7 new franchise stores in Q1FY22, mainly in Tier 3/4 cities taking its total to 234 Franchise stores. Going ahead, opening up of markets and upstocking ahead of festive season would help it to regain revenue and operating margins.

Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	2,670	1,348	98.1	5,899	(54.7)
Total Expense	3,011	2,209	36.3	4,779	(37.0)
EBITDA	(340)	(861)	(60.5)	1,120	(130.4)
Depreciation	501	731	(31.5)	620	(19.2)
EBIT	(841)	(1,592)	(47.2)	500	(268.1)
Other Income	122	520	(76.6)	145	(15.8)
Interest	230	278	(17.4)	242	(4.8)
EBT	(949)	(1,350)	(29.7)	403	(335.3)
Tax	(236)	(339)	(30.4)	109	(316.4)
RPAT	(713)	(1,011)	(29.5)	294	(342.3)
APAT	(713)	(1,011)	(29.5)	294	(342.3)
			(bps)		(bps)
Gross Margin (%)	56.2	40.4	1576	53.1	307
EBITDA Margin (%)	(12.7)	(63.9)	5116	19.0	(3172)
NPM (%)	(26.7)	(75.0)	4832	5.0	(3170)
Tax Rate (%)	24.8	25.1	(26)	27.0	(217)
EBIT Margin (%)	(31.5)	(118.1)	8662	8.5	(3996)

CMP	Rs 1,666
Target / Upside	Rs 1,770 / 6%
NIFTY	16,282

Scrip Details

Equity / FV	Rs 643mn / Rs 5
Market Cap	Rs 214bn
	USD 2.9bn
52-week High/Low	Rs 1,737/ 1,214
Avg. Volume (no)	620,940
Bloom Code	BATA IN

Price Performance	1M	3M	12M
Absolute (%)	6	22	35
Rel to NIFTY (%)	2	11	(6)

Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	53.0	53.0	53.0
MF/Banks/FIs	26.1	26.0	26.0
FII	5.6	5.3	5.3
Public / Others	15.4	15.7	15.7

Valuation (x)

	FY21A	FY22E	FY23E
P/E	(250.0)	146.9	59.3
EV/EBITDA	126.1	37.8	23.6
ROE (%)	(4.9)	8.1	18.2
RoACE (%)	0.6	9.6	16.7

Estimates (Rs mn)

	FY21A	FY22E	FY23E
Revenue	17,073	25,609	32,524
EBITDA	1,612	5,362	8,436
PAT	(857)	1,458	3,609
EPS (Rs.)	(6.7)	11.3	28.1

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Channel Checks indicated subdued performance

As per our channel checks in Western region in June'21, most of the store managers had indicated ~50% decline in revenue in Q1FY22 compared to 2019. Footfalls were considerably low post re-opening of stores in June'21 mainly due to restricted store timings (weekdays 9am-4 pm) and decreased social gathering. Monsoon collection and casual footwear witnessed good demand in Q1FY22, while sports category and formal footwear was affected. We believe, with effective vaccination drive and improvement in footfalls in malls, these stores are expected to post faster recovery in ensuing quarters. [Link for channel check- Lens View - Footwear \(West\)](#)

Exhibit 1: Actual V/s Estimates Variance (%)

Rs mn	Actual	Estimates	Comments
Revenue	2,670	2,940	Demand recovery in June'21 was slower than our expectation
EBITDA	(340)	44	
EBITDA margin %	(12.7)	1.5	
APAT	(713)	(510)	Cascading effect of lower than expected revenue and EBITDA

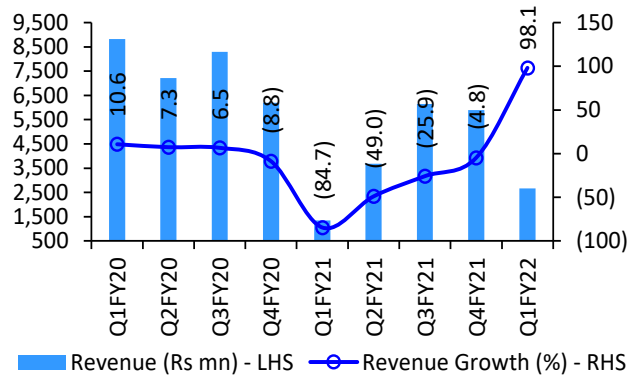
Source: Company, DART (Reported numbers)

Exhibit 2: Change in estimates

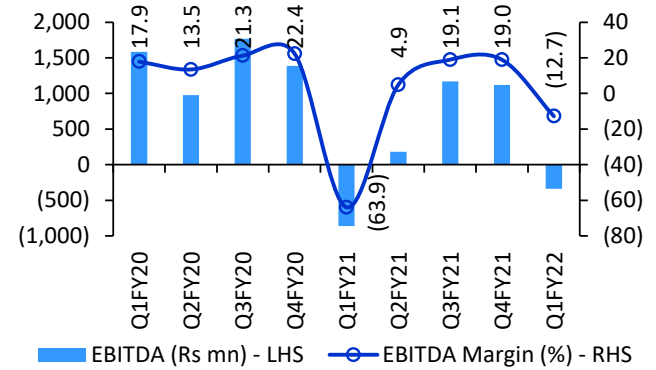
Rs Mn	FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	25,609	28,170	-9.1	32,524	32,678	-0.5
EBITDA	5,362	6,744	-20.5	8,436	8,476	-0.5
EBITDA Margin (%)	20.9	23.9	-300	25.9	25.9	0
PAT	1,458	2,476	-41.1	3,609	3,639	-0.8
EPS (Rs)	11.3	19.3	-41.1	28.1	28.3	-0.8

Source: Company, DART

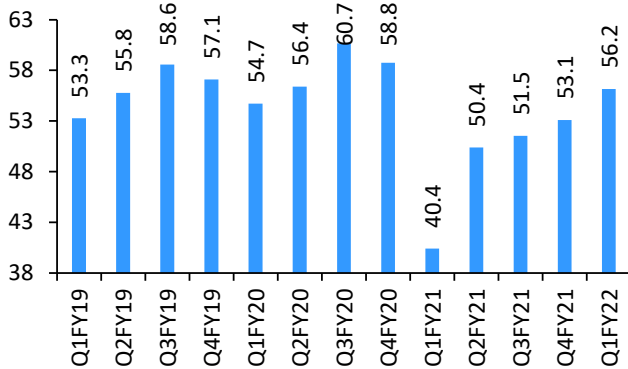
We have cut our FY22E revenue estimates to factor in Q1 performance and delay in opening of malls. In line with the reduction in revenues we believe that the operating leverage would reduce. Hence we have reduced our margin estimates. However, we have maintained our FY23E revenue estimates to factor in addition of franchise stores, re-opening of schools & offices and new advertisement campaigns. In line with the revision in revenues, we have modelled our profitability estimates.

Exhibit 3: Revenue Trend


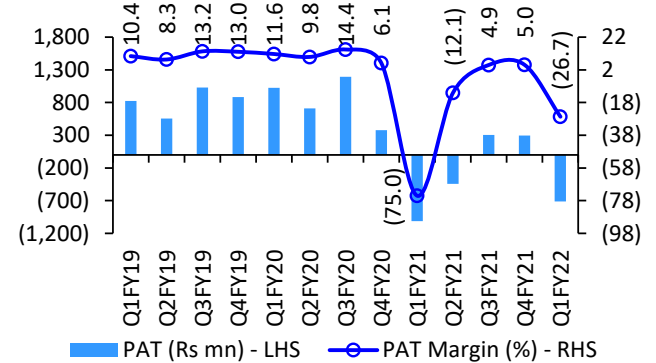
Source: Company, DART

Exhibit 4: EBITDA Trend


Source: Company, DART, (Q1 to Q4FY20 are comparable numbers)

Exhibit 5: Gross margin Trend (%)


Source: Company, DART

Exhibit 6: Net profit trend


Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Revenue	30,535	17,073	25,609	32,524
Total Expense	22,237	15,461	20,247	24,088
COGS	12,963	8,375	11,922	14,523
Employees Cost	3,764	3,398	3,945	4,360
Other expenses	5,510	3,688	4,380	5,205
EBIDTA	8,297	1,612	5,362	8,436
Depreciation	2,958	2,647	2,964	3,114
EBIT	5,340	(1,036)	2,398	5,323
Interest	1,177	1,035	1,139	1,196
Other Income	688	940	717	767
Exc. / E.O. items	0	(46)	0	0
EBT	4,851	(1,177)	1,976	4,894
Tax	1,582	(274)	519	1,284
RPAT	3,269	(903)	1,458	3,609
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	3,269	(857)	1,458	3,609

Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	643	643	643	643
Minority Interest	0	0	0	0
Reserves & Surplus	18,323	16,955	17,946	20,400
Net Worth	18,966	17,598	18,589	21,043
Total Debt	0	0	0	0
Net Deferred Tax Liability	11,407	8,959	8,959	8,959
Total Capital Employed	30,373	26,557	27,548	30,002

Applications of Funds

Net Block	13,673	11,176	9,212	7,098
CWIP	199	336	336	336
Investments	50	50	50	50
Current Assets, Loans & Advances	22,315	20,391	26,930	33,781
Inventories	8,737	6,083	11,115	14,116
Receivables	612	794	1,054	1,339
Cash and Bank Balances	9,623	10,935	11,488	14,661
Loans and Advances	1,177	757	1,451	1,842
Other Current Assets	2,166	1,822	1,822	1,822
Less: Current Liabilities & Provisions	5,864	5,396	8,980	11,263
Payables	5,031	4,396	7,807	9,915
Other Current Liabilities	833	1,000	1,173	1,347
<i>sub total</i>				
Net Current Assets	16,451	14,995	17,950	22,518
Total Assets	30,373	26,557	27,548	30,002

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	57.5	50.9	53.4	55.3
EBIDTA Margin	27.2	9.4	20.9	25.9
EBIT Margin	17.5	(6.1)	9.4	16.4
Tax rate	32.6	23.3	26.2	26.2
Net Profit Margin	10.7	(5.3)	5.7	11.1
(B) As Percentage of Net Sales (%)				
COGS	42.5	49.1	46.6	44.7
Employee	12.3	19.9	15.4	13.4
Other	18.0	21.6	17.1	16.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	4.5	(1.0)	2.1	4.5
Inventory days	104	130	158	158
Debtors days	7	17	15	15
Average Cost of Debt				
Payable days	60	94	111	111
Working Capital days	197	321	256	253
FA T/O	2.2	1.5	2.8	4.6
(D) Measures of Investment				
AEPS (Rs)	25.4	(6.7)	11.3	28.1
CEPS (Rs)	48.4	13.9	34.4	52.3
DPS (Rs)	7.5	4.0	3.6	9.0
Dividend Payout (%)	29.6	(60.1)	32.0	32.0
BVPS (Rs)	147.6	136.9	144.6	163.7
RoANW (%)	17.9	(4.9)	8.1	18.2
RoACE (%)	18.6	0.6	9.6	16.7
RoAIC (%)	35.9	(5.7)	15.1	33.9
(E) Valuation Ratios				
CMP (Rs)	1666	1666	1666	1666
P/E	65.5	(250.0)	146.9	59.3
Mcap (Rs Mn)	214,140	214,140	214,140	214,140
MCap/ Sales	7.0	12.5	8.4	6.6
EV	204,517	203,205	202,652	199,478
EV/Sales	6.7	11.9	7.9	6.1
EV/EBITDA	24.6	126.1	37.8	23.6
P/BV	11.3	12.2	11.5	10.2
Dividend Yield (%)	0.5	0.2	0.2	0.5
(F) Growth Rate (%)				
Revenue	4.3	(44.1)	50.0	27.0
EBITDA	73.8	(80.6)	232.8	57.3
EBIT	29.2	NA	NA	121.9
PBT	1.4	NA	NA	147.6
APAT	(0.8)	NA	NA	147.6
EPS	(0.8)	NA	NA	147.6

Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	5,797	4,580	3,158	6,525
CFI	(855)	(357)	(1,000)	(1,000)
CFF	(3,709)	(2,911)	(1,605)	(2,351)
FCFF	4,942	4,223	2,158	5,525
Opening Cash	8,390	9,623	10,935	11,488
Closing Cash	9,623	10,935	11,488	14,661

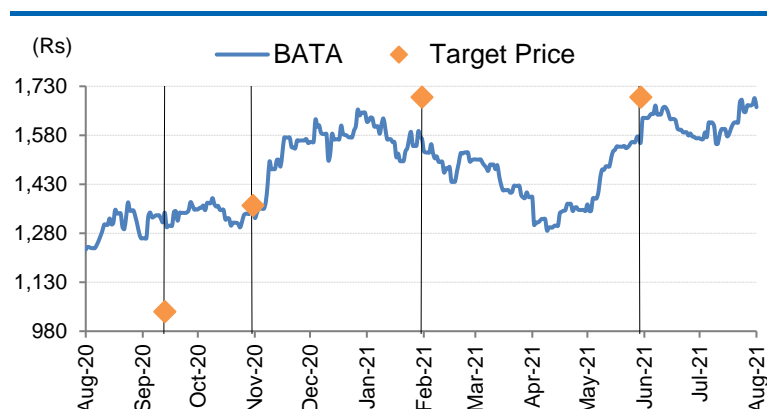
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

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

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Sep-20	Sell	1,040	1,343
Nov-20	Sell	1,365	1,367
Feb-21	Accumulate	1,697	1,569
Jun-21	Accumulate	1,697	1,558

*Price as on recommendation date

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