

Retail Equity Research Bata India Ltd.

FMCG

BSE CODE: 500043

NSE CODE: BATAINDIA

Bloomberg CODE: BATA:IN

SENSEX: 73,503

Accumulate

12 Months Investment Period Rating as per Small Cap

CMP Rs. 1,446 TARGET Rs. 1,670 RETURN 15%
(Closing: 11-03-24)

KEY CHANGES:

TARGET ↓

RATING ↓

EARNINGS ↓

High ad spends to push demand.

Bata India Ltd. (BIL) is the largest retailer and leading manufacturer of footwear in India, with 1,835 retail store presence in 1518 towns (Dec 2023).

- We downgrade our rating to Accumulate with a revised target price of Rs.1,670, considering the demand weakness in mass market segment.
- Revenue growth was muted YoY in Q3FY24, impacted by weakness in the mass segment. However, premium segments recorded strong growth, resulting in gross margin improvement of 120bps YoY, while EBITDA margin declined by 280 bps YoY due to higher ad and IT spend.
- BIL adopts asset-light expansion, adding 90 franchisees in 9MFY24, totaling 509, will support growth. Digital sales, currently 6% of revenue, grow at double digits.
- BIL has recently signed a comprehensive licensing & manufacturing agreement for the global brand 'Nine West' and the launch is expected in Q4FY24. Bata 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 47x on FY26 EPS.

Sluggishness in mass market impacts topline growth.

Q3FY24 revenue grew by a marginal 0.4% YoY, on account of continued muted performance in the mass market portfolio. However, improvements in the premium mix supported realisation. With strong focus on network expansion, the distribution reach has now reached 1,518 towns (vs. 1152 YoY). With asset light focus, BIL added 33 franchise stores in Q3FY24, and the total number of franchise stores reached 509 (vs. 419 in FY23). 'Red label', 'Comfit', 'Floats' and 'Hush Puppies' categories led the sales growth in the premium segment, with a growth of 387%, 22%, 65% and 7% YoY respectively. Digital sales grew handsomely in strong double digits YoY in Q3FY24. Bata's strong focus on store expansion & distribution reach, along with marketing investments, will drive future volumes. Additionally, the launch of the global brand 'Nine West' is expected in Q4FY24 which along with scale up in apparels segment will provide additional support to topline growth. We expect revenue to grow at a CAGR of ~10% over FY24E-26E.

Higher marketing & IT spend squeeze margins.

Gross margin improved by 120bps YoY to 56%, supported by strong growth in premium segments, while EBITDA margin contracted by 280bps YoY to 20.1% on account of higher expenditure on marketing and technology (excluding this, the EBITDA margin would be ~22.5%). The company is strongly focusing on cost efficiencies, like outsourcing non-core areas like warehouses. BIL's efforts on premiumization and cost optimization will support gradual margin improvement. The company has refrained from implementing price increases for the past six quarters to support volumes. Investment in technologies will improve inventory management, decision-making, product mix and margins.

Valuation & Outlook

The enhanced investments in technology and marketing, as well as tight control on overhead costs, are likely to bear fruits in the long run. 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 49x 1Yr Fwd P/E. Considering the continued weakness in demand, we downgrade our rating to Accumulate (from BUY) with a revised target price of Rs. 1,670, valuing BIL at 47x on FY26E EPS.

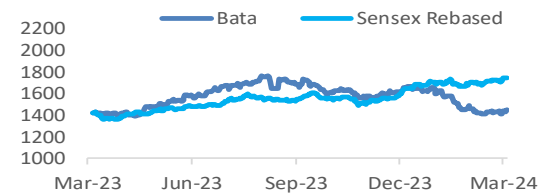
Company Data

Market Cap (Rs.cr)	18,636
Enterprise Value (Rs.cr)	19,333
Outstanding Shares (cr)	12.9
Free Float	50%
Dividend Yield	0.9%
52 week high (Rs.)	1,770
52 week low (Rs.)	1,381
6m average volume (cr)	0.03
Beta	1.0
Face value (Rs.)	5

Shareholding (%)	Q1FY24	Q2FY24	Q3FY24
Promoters	50.2	50.2	50.2
FII's	6.6	7.5	7.9
MFs/Institutions	30.3	30.0	29.7
Public	11.9	11.3	11.1
Others	1.0	1.1	1.2
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-11.9%	-16.4%	1.9%
Absolute Sensex	5.8%	11.2%	22.3%
Relative Return*	-17.6%	-27.5%	-20.4%

*over or under performance to benchmark index



Standalone (cr)	FY24E	FY25E	FY26E
Sales	3,498	3,811	4,222
Growth (%)	1.4	8.9	10.8
EBITDA	786	931	1,050
EBITDA Margin (%)	22.5	24.4	24.9
Adj. PAT	319	381	458
Growth (%)	0.0	19.4	20.1
Adj. EPS	24.8	29.7	35.6
Growth (%)	0.0	19.4	20.1
P/E	58.3	48.8	40.7
P/B	11.0	9.2	7.7
EV/EBITDA	24.6	20.5	17.8
ROE (%)	20.3	20.4	20.5
D/E	0.8	0.7	0.6

Vincent Andrews
Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

(Rs cr)	Q3FY24	Q3FY23	YoY Growth	Q2FY24	QoQ Growth	9MFY24	9MFY23	YoY Growth
Sales	903	900	0.4%	819	10.3%	2,681	2,673	0.3%
EBITDA	182	206	-11.8%	182	-0.1%	603	612	-1.4%
EBITDA margins	20.1%	22.9%	-280bps	22.2%	-210bps	22.5%	22.9%	-40bps
Depreciation	86	75	13.9%	82	5.3%	249	218	13.9%
EBIT	96	131	-26.7%	100	-4.5%	355	393	-9.8%
Interest	29	29	2.7%	28	3.4%	86	81	6.5%
Other Income	11	8	43.8%	15	-30.1%	40	25	59.7%
Exceptional Items	0	0	NA	-409	NA	-41	0	NA
PBT	77	110	-29.5%	47	NA	267	337	-20.7%
Tax	20	27	-24.4%	12	NA	69	84	-18.0%
Reported PAT	57	83	-31.1%	34	NA	199	254	-21.7%
Adjustments	0	0	NA	41	NA	41	0	NA
Adj PAT	57	83	-31.1%	75	NA	240	254	-5.5%
No. of Shares	12.85	12.85	0.0%	12.85	NA	12.85	12.85	0.0%
EPS (Rs)	4.5	6.5	-31.1%	5.9	NA	18.6	19.7	-5.5%

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	3,619	4,070	3,498	3,811	-3.3%	-6.4%
EBITDA	847	1,024	786	931	-7.2%	-9.1%
Margins	23.4%	25.2%	22.5%	24.4%	-90bps	-70bps
Adj. PAT	358	460	319	381	-10.8%	-17.2%
EPS	27.8	35.8	24.8	29.7	-10.7%	-17.2%

PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	1,707	2,388	3,452	3,498	3,811	4,222
% change	-44.1	39.9	44.6	1.4	8.9	10.8
EBITDA	161	416	791	786	931	1,050
% change	-80.5	157.9	90.3	-0.6	18.4	12.8
Depreciation	265	242	295	327	363	390
EBIT	-104	174	496	459	568	660
Interest	104	93	108	115	110	105
Other Income	94	56	37	52	61	72
PBT	-118	137	426	396	519	626
% change	-123.8	NA	211.1	-7.0	31.2	20.7
Tax	-27.4	35.9	106.5	76.5	137.8	168.7
Tax Rate	23.3%	26.3%	25.0%	19.3%	26.6%	26.9%
Reported PAT	-90.2	100.9	319.1	319.2	381.1	457.7
Adj*	-5	0	0	0	0	0
Adj PAT	-85.6	100.9	319.1	319.2	381.1	457.7
% change	-125.7	NA	216.3	0.0	19.4	20.1
No. of shares (cr)	12.9	12.9	12.9	12.9	12.9	12.9
Adj EPS (Rs.)	-7	8	25	25	30	36
% change	-125.7	NA	216.3	0.0	19.4	20.1
DPS (Rs.)	5	4	55	4	4	4
CEPS (Rs.)	13.9	26.7	47.8	50.3	57.9	66.0

CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Net inc. + Depn.	-27	160	388	398	471	557
Non-cash adj.	267	255	318	349	383	396
Changes in W.C	218	-204	-78	-12	-39	-54
C.F. Operation	458	212	629	735	815	900
Capital exp.	-36	-48	-94	-438	-368	-318
Change in inv.	-92	94	501	0	0	0
Other invest.CF	78	46	32	-130	-28	-37
C.F - Investment	-50	93	438	-568	-396	-355
Issue of equity	0	0	0	0	0	0
Issue/repay debt	-315	-289	-206	141	57	-11
Dividends paid	-51	-51	-699	-51	-51	-51
Other finance.CF	-2	-1	-106	-115	-110	-105
C.F - Finance	-369	-341	-1,011	-26	-105	-167
Chg. in cash	39	-37	57	142	314	377
Closing cash	54	18	75	216	531	908

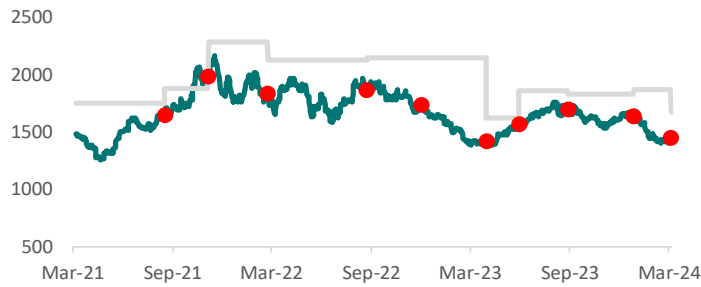
BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	1,094	965	523	665	979	1,356
Accounts Receivable	79	72	83	96	104	116
Inventories	608	871	904	965	1,044	1,153
Other Cur. Assets	258	278	244	383	418	463
Investments	5	5	5	5	5	5
Gross Fixed Assets	1,921	2,260	2,722	3,149	3,516	3,834
Net Fixed Assets	1,111	1,207	1,375	1,474	1,479	1,406
CWIP	34	5	4	15	15	15
Intangible Assets	7	17	14	14	14	14
Def. Tax (Net)	138	105	114	129	129	129
Other Assets	0	0	0	0	0	0
Total Assets	3,334	3,525	3,265	3,746	4,186	4,656
Current Liabilities	514	588	578	629	681	752
Provisions	28	29	9	29	31	35
Debt Funds	1,032	1,094	1,245	1,386	1,443	1,433
Other Liabilities	0	0	0	0	0	0
Equity Capital	64	64	64	64	64	64
Reserves & Surplus	1,696	1,750	1,370	1,637	1,967	2,373
Shareholder's Fund	1,760	1,814	1,434	1,701	2,031	2,437
Total Liabilities	3,334	3,525	3,265	3,746	4,186	4,656
BVPS (Rs.)	137	141	112	132	158	190

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Profitab. & Return						
EBITDA margin (%)	9.4	17.4	22.9	22.5	24.4	24.9
EBIT margin (%)	-6.1	7.3	14.4	13.1	14.9	15.6
Net profit mgn.(%)	-5.0	4.2	9.2	9.1	10.0	10.8
ROE (%)	-4.7	5.6	19.6	20.3	20.4	20.5
ROCE (%)	0.4	6.8	11.9	12.1	11.5	11.7
W.C & Liquidity						
Receivables (days)	15.0	11.5	8.2	9.3	9.6	9.5
Inventory (days)	323.0	248.4	214.0	222.8	221.3	219.1
Payables (days)	236.5	184.9	140.5	143.9	144.3	142.9
Current ratio (x)	3.8	3.5	3.0	3.2	3.6	3.9
Quick ratio (x)	0.3	0.2	0.3	0.5	0.9	1.4
Turnover & Leverage						
Gross asset T.O (x)	2.6	3.5	4.5	4.1	4.1	4.2
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	4.0	5.1	6.3
Adj. debt/equity (x)	0.6	0.6	0.9	0.8	0.7	0.6
Valuation						
EV/Sales (x)	10.9	7.8	5.6	5.5	5.0	4.4
EV/EBITDA (x)	115.1	45.1	24.4	24.6	20.5	17.8
P/E (x)	-217.4	184.5	58.3	58.3	48.8	40.7
P/BV (x)	10.6	10.4	13.1	11.0	9.2	7.7

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.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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