

Bata India

Better brands for better growth

Bata India Ltd (BIL) is the largest footwear retailer in India, offering footwear, accessories and bags across brands like Bata, Hush Puppies, Naturalizer, Power, etc. BIL's ~70% revenue is derived from Men & Kids segment and balance from women's segment. BIL has over 1,400 Bata retail stores across India.

Shift in trend towards the organized sector to propel growth: The Indian footwear industry is valued at ₹50,000-55,000, which is expected to grow at a CAGR of ~15% going ahead. One third of the industry is mainly dominated by the unorganized sector. However, organized segment is expected to grow at a faster pace compared to the unorganized segment on the back of increase in household income and rising brand consciousness amongst Indian consumers. This would be beneficial for branded players like Bata India.

Strong retail stores expansion plan to boost growth: Currently, the company has 1,400 retail stores, which includes owned and franchise model (mainly presence in metro cities). Further, over the last 3 years, the company has added 135 stores (net addition). Going forward, the company has plans to open 500 stores (already identified 435 cities) mainly in tier-II and tier-III cities over the next 4-5 years. We believe Bata is brand for masses, and this is a growth driving factor going ahead.

New launches and higher ad spends to boost women's segment: Currently, women's footwear segment accounts for ~30% of Bata sales, which the company is targeting to increase to ~40% over the 3 years. We believe that the company would achieve strong growth going ahead mainly because of (a) Indian women footwear industry is growing faster (20%+ growth p.a.), (b) new launches of products (recently launched 950+), and (c) increasing ad spends from 1% to 2.5-3%.

Higher sales of premium products to aid margins: Currently, BIL's 40% sales come from premium products like Hush Puppies, Power, Marie Clarie, etc. BIL has plans to increase premium product sales from current level of total revenue over next two years.

Outlook and Valuation: We expect BIL to report net revenue CAGR of ~16% to ~₹3,555cr over FY2018-20E mainly due increasing brand consciousness amongst Indian consumers, new product launches, higher number of stores addition in tier – II and III cities and focus on women's segment (high growth segment). Further, on the bottom-line front, we expect CAGR of ~19% to ₹311cr over the same period on the back of margin improvement (increasing premium product sales). **Thus, we initiate coverage on Bata India with BUY recommendation and Target Price of ₹896.**

Key Financials

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
Net sales	2,474	2,634	3,063	3,555
% chg	2.1	6.5	16.3	16.0
Adj. Net profit	173	221	265	311
% chg	3.9	27.7	20.2	17.3
EBITDA margin (%)	10.4	13.3	13.5	13.7
EPS (₹)	13.4	17.2	20.6	24.2
P/E (x)	58.0	45.4	37.8	32.2
P/BV (x)	7.6	6.7	5.9	5.1
RoE (%)	13.0	14.8	15.6	16.0
RoCE (%)	14.5	19.5	20.3	21.0
EV/Sales (x)	3.8	3.6	3.0	2.6
EV/EBITDA (x)	36.9	26.8	22.4	18.8

Source: Company, Angel Research Note: CMP as of June 15, 2018

BUY

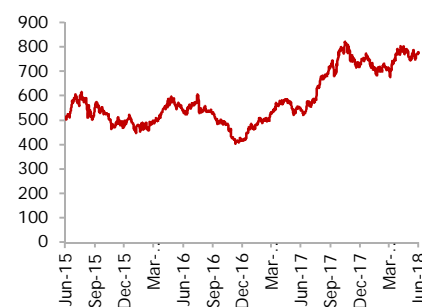
CMP	₹779
Target Price	₹896
Investment Period	12 Months

Stock Info	
Sector	Footwear
Market Cap (₹ cr)	10,276
Net Debt (₹ cr)	(2,575)
Beta	0.9
52 Week High / Lc	833/511
Avg. Daily Volume	40,298
Face Value (₹)	5
BSE Sensex	35,626
Nifty	10,816
Reuters Code	BATA.BO
Bloomberg Code	BATA.IN

Shareholding Pattern (%)	
Promoters	53.0
MF / Banks / Indian Fls	17.5
FII / NRIs / OCBs	6.2
Indian Public / Others	23.4

Abs.(%)	3m	1yr	3yr
Sensex	2.3	17.7	51.7
M&M	9.6	44.3	34.0

3-year price chart



Source: Company, Angel Research

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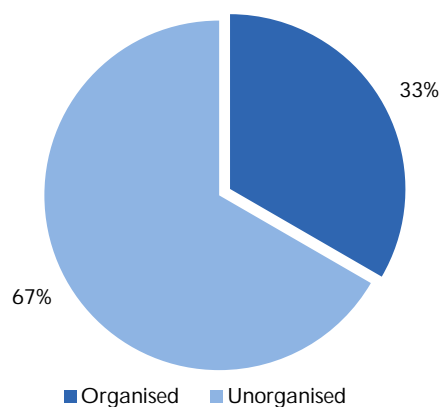
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Key investment arguments

Shift in trend towards the organized sector to propel growth: The Indian footwear industry is valued at ₹50,000-55,000 and is mainly dominated by the unorganized sector (accounting for 65-67% share). Industry reports indicate that the footwear sector is expected to grow at a CAGR of ~15% going ahead, within which, the organized segment is expected to grow at a faster pace compared to the unorganized segment. Bata is in a sweet spot owing to the increase in household income, shifting consumer behavior from saving to spending, rising brand consciousness amongst Indian consumers and penetration in tier – II and III cities by footwear companies. The share of organized players is expected to improve from current levels, which would be beneficial for branded players like Bata India.

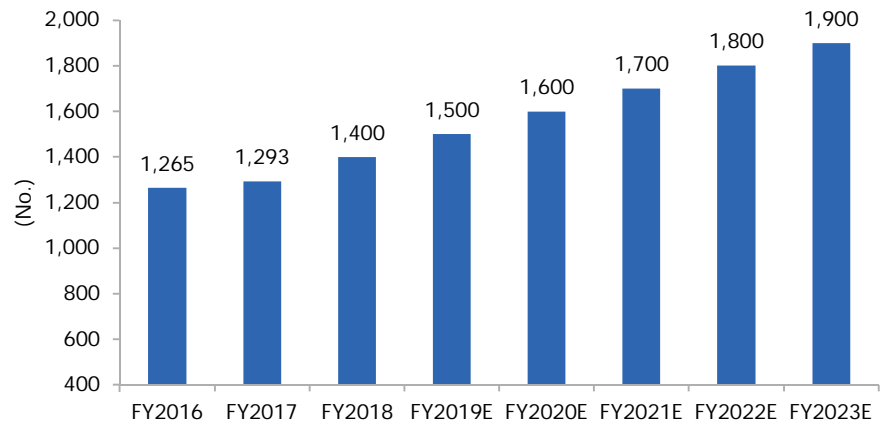
Exhibit 1: Huge untapped opportunity for organised players



Source: Company, Angel Research

Strong retail store expansion plan to boost further growth: Currently, the company has 1,400 retail stores, which includes owned and franchise model (mainly present in metro cities). Further, over the last 3 years, the company has added 135 stores (net addition). Going forward, the company has plans to open 500 stores (already identified 435 cities) mainly in tier-II and tier-III cities over the next 4-5 years. Opening of stores in the small cities, where the company does not have significant presence, provides growth opportunity for BIL. Moreover, besides the new stores, the company is also redesigning most of the existing stores with specific focus on particular categories like sports, women, youth and even school shoes. We believe, Bata is a brand for masses and this is a growth driving factor for the company. Moreover, BIL has adopted the right strategy for expansion, which would aid the overall growth for the company.

Exhibit 2: Number of store additions



Source: Company, Angel Research

New launches and higher ad spend to boost women's segment: Currently, women's footwear segment accounts for ~30% of Bata's sales, which the company is targeting to increase to ~40% over the next 3 years. We believe that the company would achieve strong growth going ahead mainly because of (a) Indian women's footwear industry is growing faster than overall footwear industry, which registers 20%+ growth every year, (b) new product launches (recently launched 950+ products largely in women's collection), and (c) increasing ad spends from 1% to 2.5-3% and also associating with brand ambassadors from Bollywood - Kriti Sanon and Cricket - Smriti Mandhana to support the launch of its new internationally designed Red Label & Power collections.

Higher sales of premium products to aid margin: Currently, BIL's 40% sales is derived from premium products like Hush Puppies, Power, Marie Clarie, etc. The company has plans to increase premium product sales from current level of total revenue over the next two years. We believe that BIL would be able to achieve strong growth in premium products on the back new collection launched, higher number of stores additions and strong marketing spends, which would improve the overall margin of the company going ahead.

Outlook & Valuation: We expect BIL to report net revenue CAGR of ~16% to ~`3,555cr over FY2018-20E mainly due increasing brand consciousness amongst Indian consumers, new product launches, higher number of stores addition in tier – II and III cities and focus on women's segment (high growth segment). Further, on the bottom-line front, we expect CAGR of ~19% to ~`311cr over the same period on the back of margin improvement (increasing premium product sales). **Thus, we Initiate Coverage on Bata India with BUY recommendation and Target Price of `896.**

Downside risks to our estimates

- Strong store expansion from competitors like Khadim, Relaxo could impact the company's sales growth
- Slowdown in economy could hurt the overall profitability of the company

Company Background

BATA India Ltd (BIL) is the largest footwear retailer in India, offering footwear, accessories and bags across brands like Bata, Hush Puppies, Naturalizer, Power, Marie Claire, Weinbrenner, North Star, Scholl, Bata Comfit and Bubblegummers to name a few. Currently, the company's ~70% revenue is derived from Men & Kids footwear segment and balance from women's segment. Its retails in over 1,290 Bata stores on bata.in and has thousands of multi-brand footwear dealer stores pan-India.

Consolidated Profit & Loss Statement

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
Net Sales	2,423	2,474	2,634	3,063	3,555
% chg	(10.1)	2.1	6.5	16.3	16.0
Total Expenditure	2,147	2,217	2,283	2,650	3,068
Raw Material	1,152	1,158	1,202	1,403	1,635
Personnel	261	273	296	349	412
Selling & Adm	345	356	362	460	533
Others Expenses	389	430	423	438	487
EBITDA	276	257	351	414	487
% chg	(17.3)	(6.8)	36.8	17.7	17.8
(% of Net Sales)	11.4	10.4	13.3	13.5	13.7
Depreciation & Amortisation	79	65	60	69	79
EBIT	197	192	291	345	408
% chg	(22.5)	(2.6)	51.6	18.6	18.4
(% of Net Sales)	8.1	7.8	11.0	11.3	11.5
Interest & other Charges	2	4	4	4	4
Other Income	101	46	50	55	60
(% of PBT)	34.2	19.7	14.9	13.9	12.9
Recurring PBT	297	234	337	396	464
% chg	(9.8)	(21.1)	44.1	17.4	17.3
Tax	79	75	117	131	153
(% of PBT)	26.7	32.0	34.6	33.0	33.0
PAT (reported)	217	159	221	265	311
Extraordinary Items	51	(14)	-	-	-
ADJ. PAT	166	173	221	265	311
% chg	(20.5)	3.9	27.7	20.2	17.3
(% of Net Sales)	6.9	7.0	8.4	8.7	8.8
Basic EPS (₹)	12.9	13.4	17.2	20.6	24.2
Fully Diluted EPS (₹)	12.9	13.4	17.2	20.6	24.2
% chg	(20.5)	3.9	27.7	20.2	17.3

Consolidated Balance Sheet

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
SOURCES OF FUNDS					
Equity Share Capital	64	64	64	64	64
Reserves & Surplus	1,157	1,260	1,429	1,636	1,883
Shareholders Funds	1,221	1,324	1,493	1,701	1,948
Total Loans	-	-	-	-	-
Deferred Tax Liability	-	-	-	-	-
Total Liabilities	1,221	1,324	1,493	1,784	2,036
APPLICATION OF FUNDS					
Gross Block	382	406	508	578	678
Less: Acc. Depreciation	78	138	199	267	346
Net Block	304	268	309	311	332
Capital Work-in-Progress	19	30	-	-	-
Investments	-	-	-	84	88
Current Assets	1,321	1,525	1,680	1,970	2,300
Inventories	685	714	765	898	1,052
Sundry Debtors	71	69	89	109	136
Cash	342	522	591	675	763
Loans & Advances	59	57	61	80	100
Other Assets	163	163	174	208	249
Current liabilities	512	599	597	681	785
Net Current Assets	809	926	1,084	1,289	1,515
Deferred Tax Asset	89	100	100	100	100
Mis. Exp. not written off	-	-	-	-	-
Total Assets	1,221	1,324	1,493	1,784	2,036

Consolidated Cashflow Statement

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	297	234	337	396	464
Depreciation	79	65	60	69	79
Change in Working Capital	(41)	53	(88)	(122)	(137)
Interest / Dividend (Net)	(24)	(40)	4	4	4
Direct taxes paid	(108)	(65)	(117)	(131)	(153)
Others	1	10	0	0	0
Cash Flow from Operations	204	257	197	216	257
(Inc.)/ Dec. in Fixed Assets	(39)	(48)	(72)	(70)	(100)
(Inc.)/ Dec. in Investments	(75)	(181)	0	0	0
Cash Flow from Investing	(114)	(229)	(72)	(70)	(100)
Issue of Equity	0	0	0	0	0
Inc./(Dec.) in loans	0	0	0	0	0
Dividend Paid (Incl. Tax)	(42)	(45)	(51)	(58)	(64)
Interest / Dividend (Net)	85	197	(4)	(4)	(4)
Cash Flow from Financing	43	152	(56)	(62)	(68)
Inc./(Dec.) in Cash	132	180	69	84	88
Opening Cash balances	210	342	522	591	675
Closing Cash balances	342	522	591	675	763

Key Ratios

Y/E March	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Valuation Ratio (x)					
P/E (on FDEPS)	31.9	31.8	28.3	24.7	21.4
P/CEPS	23.9	19.8	19.3	17.2	15.3
P/BV	4.6	4.0	3.6	3.2	2.9
Dividend yield (%)	0.7	0.7	0.8	0.9	1.0
EV/Sales	2.2	1.9	1.8	1.5	1.3
EV/EBITDA	19.3	18.9	15.8	12.9	10.8
EV / Total Assets	3.3	2.8	2.6	2.3	2.0
Per Share Data (₹)					
EPS (Basic)	27.0	27.1	30.4	34.8	40.1
EPS (fully diluted)	27.0	27.1	30.4	34.8	40.1
Cash EPS	35.9	43.5	44.7	50.0	56.2
DPS	5.9	6.0	6.7	7.7	8.8
Book Value	188.5	215.8	239.5	266.7	298.0
Returns (%)					
ROCE	14.0	10.5	11.6	13.3	14.3
Angel ROIC (Pre-tax)	37.4	33.6	33.7	37.5	41.0
ROE	14.3	12.5	12.7	13.1	13.5
Turnover ratios (x)					
Asset Turnover (Gross Block)	3.0	2.9	3.0	3.2	3.5
Inventory / Sales (days)	24	22	24	25	26
Receivables (days)	22	24	26	28	30
Payables (days)	54	53	49	45	44
Working capital cycle (ex-cash) (days)	(7)	(7)	1	8	12

Source: Company, Angel Research

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Disclosure of Interest Statement	Bata India
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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