

Quarterly Update Q4FY20 Bata India Ltd.

Below estimates; has 3 aces over peers

Bata India posted a 8.6% degrowth in Q4FY20 revenue, 20.5% below our estimates, due to severe disruption in operations from the second half of March caused by the novel coronavirus, or COVID-19, led lockdown. Gross margin expanded 170bps YoY and reported EBITDA margin (post Indian Accounting Standards 116) rose 22.5% (not comparable YoY). EBITDA margin (pre Ind AS 116) contracted 340bps YoY to 10.5%, the lowest in the last 12 quarters and was lower than our estimate. Reported EBITDA, on a pre Ind AS 116 basis, fell 30.9% YoY to INR 65 crore. Profit before tax (PBT, pre Ind AS 116) was down 37.7% YoY to INR 66 crore and profit after tax (PAT, pre Ind AS 116) declined 36.8% after adjusting for a one-time tax reversal of INR 19.3 crore in Q4FY19. The management's continuous focus on costs control measures, wide distribution strength and cash rich Balance Sheet will help it tide over the current difficult situation and gain over peers. Maintain BUY.

Revenue degrew due to the lockdown

The company's Q4FY20 revenue was 20.5% below our estimate. However, it saw a growth of ~8% in January and February before the pandemic forced closure of stores in mid-March, resulting in a decline in sales for the quarter under review. Reported revenue/EBITDA/PAT for FY20 grew by 4.4/5/2.7% YoY, respectively. PAT grew 9.1% after adjusting for a one-time tax reversal in FY19. Gross margin expanded 150bps in FY20. For FY20, the footwear maker delivered sales and profit growth, despite closure of its retail outlets due to the lockdown, due to diversification of its product portfolio, consumer-centric campaigns, new and franchise store openings, and non-retail and digital businesses.

Focus on online channel and cost control measures

The management is expanding its e-commerce footprint by ramping up its online presence. It is now delivering in over 1,300 cities, offering home delivery around over 900 stores and granting customers the option to shop from homes via WhatsApp. The company also working on various cost-optimisation measures, including rental renegotiation, closure of unviable stores and digitalisation, to eliminate redundancies and usher efficiencies in the value chain.

Outlook & valuation

The management said its stores have resumed partial operations as per government guidelines and directives. Bata is aggressively expanding its online sales channel and is focusing on various cost-optimisation measures to eliminate redundancies and usher efficiency in the value chain. The company will continue to face challenges in FY21. However, continuous focus on costs control measures, wide distribution strength, cash rich Balance Sheet will help it tide over the pandemic. We continue to maintain our long term positive view on the counter. The company is currently trading at 57/42x FY21/FY22E earnings, respectively. We have revised downward our earnings estimates by 42/32% for FY21/FY22, respectively, to account for the slowdown and accounting change (adoption of Ind AS 116). We maintain our BUY rating with a revised target price of INR 1,534 per share, valuing the company at 50x FY22E earnings.

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CMP INR: 1,312

Rating: BUY

Target Price INR 1,534

Upside: 17%

Bloomberg:	BATA:IN
52-week range (INR):	1000 / 1895
Share in issue (cr):	13
M cap (INR cr):	16,383
Avg. Daily Vol. BSE/NSE (:'000):	865
Promoter Holding (%)	52.96

Year to March (INR Cr)	Q4FY20	Q4FY19	% change	Q3FY20	% change	FY20	FY19	% change
Net sales	621	679	-9%	831	-25.3%	3,057	2,928	4.4%
Gross Profit	365	388	-6%	505	-27.6%	1,761	1,644	7.1%
Gross margin (%)	58.8%	57.1%	174	60.8%	(193)	57.6%	56.1%	148
EBITDA	65	95	48%	179	-21.9%	501	477	5.0%
EBITDA margin (%)	10.5%	13.9%	860	21.5%	97	16.4%	16.3%	10
Adjusted PAT	44	88	-51%	121	-64.0%	339	330	2.7%
PAT margin (%)	7.0%	13.0%	-597	14.6%	(754)	11.1%	11.3%	(18)
Dil. EPS (INR)	3.4	6.9	-51%	9.41	-64.0%	26.3	25.7	2.7%

Date: 27th May, 2020

Bata India Ltd.

Q4FY20 Result Highlights

Particulars (INR cr)	Q4FY20	Q4FY19	% change	Q3FY20	% change	FY20	FY19	% change
Income from operations	621	679	-8.6%	831	-25.3%	3,057	2,928	4.4%
Cost of goods sold	256	291	-12.3%	326	-21.6%	1,296	1,284	0.9%
Employee expenses	92	85	8.3%	97	-5.3%	376	331	13.5%
Other expenses	208	209	-0.2%	229	-9.1%	884	836	5.8%
Total operating expenses	556	585	-5.0%	652	-14.8%	2,556	2,451	4.3%
EBITDA	65	95	-30.9%	179	-63.5%	501	477	5.0%
Depreciation and amortisation	15	17	-10.4%	16	-6.9%	65	64	1.4%
EBIT	50	78	-35.3%	163	-69.1%	436	413	5.6%
Interest expenses	2	1	239.0%	1	100.0%	5	4	40.8%
Other income	17	28	-38.8%	17	0.6%	69	69	0.8%
Profit before tax	66	105	-37.7%	179	-63.4%	501	478	4.6%
Provision for tax	22	17	29.3%	58	-62.2%	162	149	9.0%
Profit after tax	44	88	-50.6%	121	-64.0%	339	330	2.7%
Extraordinary items	-	-		-		-	-	
Adjusted net profit	44	88	-50.6%	121	-64.0%	339	330	2.7%

Change in Estimate

INR cr)	FY21E			FY22E		
	Old	Revised	Change (%)	Estimate	Reported	Change (%)
Net sales	3,593	2,739	-23.8	3,994	3,152	-21.1
Gross Profit	1,987	1,453		2,229	1,735	
Gross margin (%)	55.3	53.0		55.8	55.0	
EBITDA	660	684	3.6	754	850	12.7
EBITDA margin (%)	18.4	25.0		18.9	27.0	
PBT	670	386	-42.3	774	526	-32.1
PBT margin	18.6	14.1		19.4	16.7	
Net profit	502	290	-42.3	581	394	-32.1
Adj EPS (Rs)	39.1	22.5	-42.3	45.2	30.7	-32.1

Q1FY20

Bata is a high quality consumer brand in the fast growing footwear category and is taking all the right initiatives to drive growth, improve brand strength and propel earnings. Given the track record over the last 3 years, we expect the strong performance to continue and hence assign 42x P/E FY21E to arrive at our medium term price target of INR 1,500.

Q2FY20

Given the margin improvement and the tax rate cut, we have increased our PAT estimates by ~8% for FY20E and FY21E and also increased our target multiple to 46x P/E to arrive at a new target price of INR 1,800. Although near-term valuation seems to have peaked, we believe the company is well-placed in the sector, which has a big opportunity size and, hence, believe it can be a good BUY in the long term.

Q3FY20

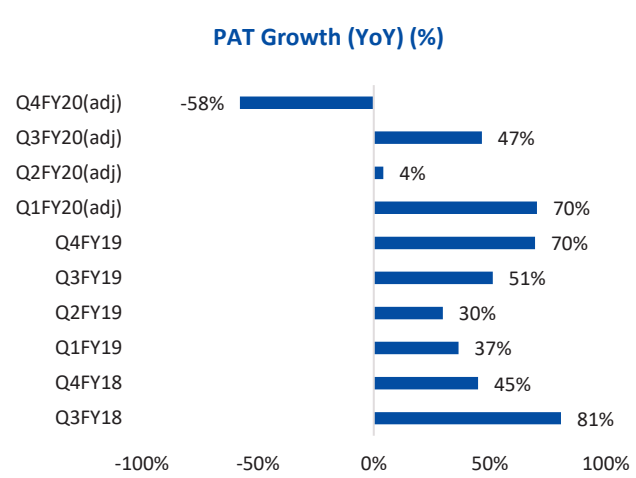
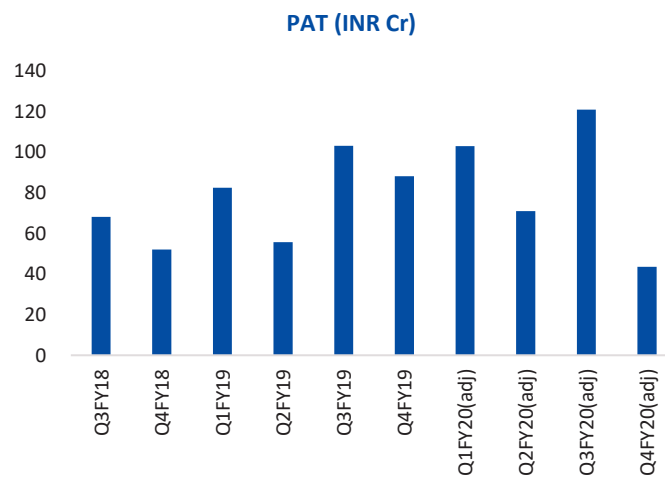
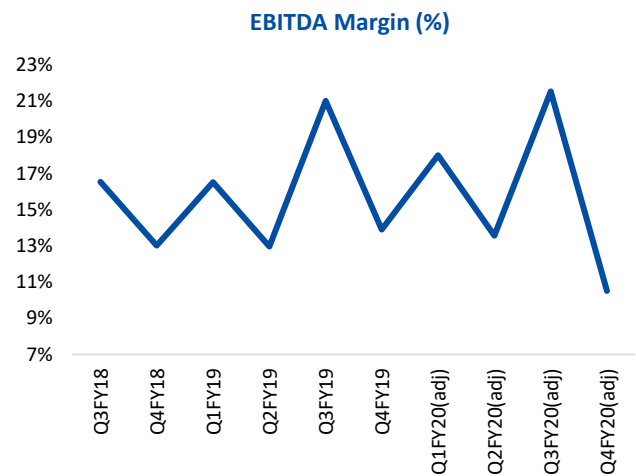
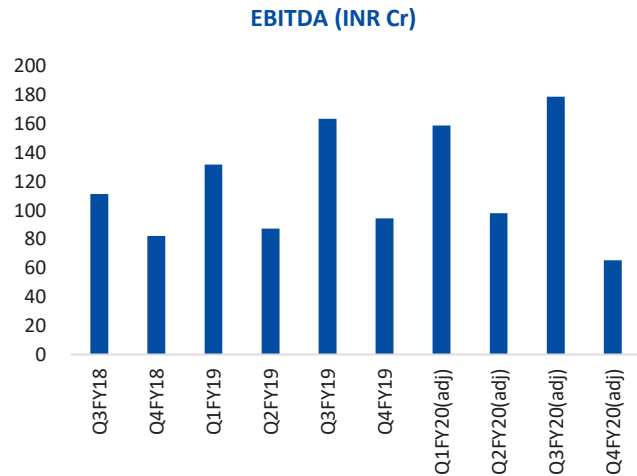
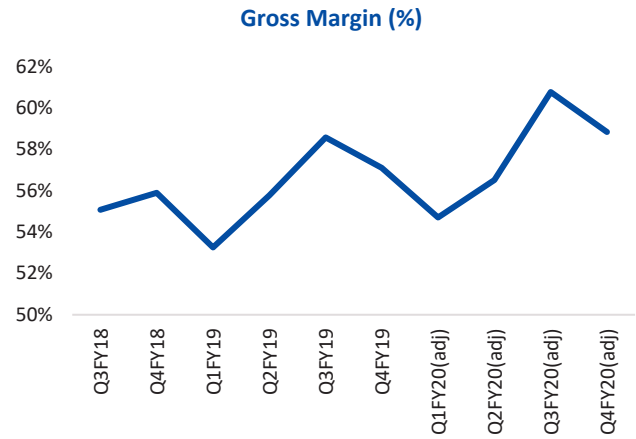
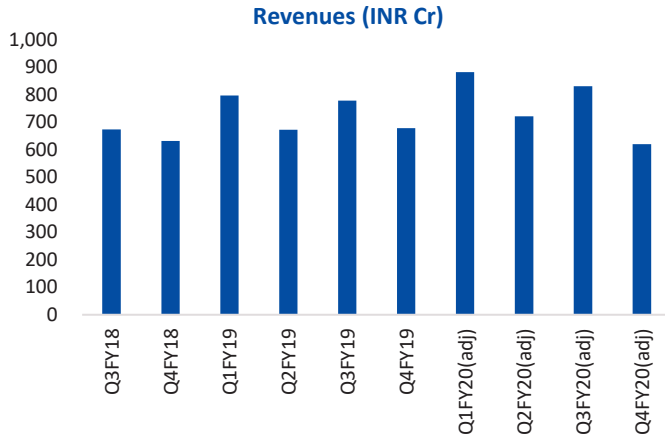
Bata has been chugging along nicely over the last 3 years with a changed business model aiding spur in margins. The opening of focussed stores and increasing media spends on increasing brand awareness should also keep growth steady. Given the various initiatives and strong balance sheet, we raise our target multiple to 50x P/E from 46x P/E in line with increase in multiples of other retail and consumer companies to arrive at a revised TP of INR 2,250 as we roll over to FY22E.

Q3FY20

Q2FY20

Q1FY20

Charts



Source: Edelweiss Professional Investor Research

Income statement						(INR crs)
Year to March	FY18	FY19	FY20	FY21E	FY22E	
Income from operations	2,634	2,931	3,056	2,739	3,152	
Direct costs	1,258	1,345	1,357	1,286	1,417	
Employee costs	296	331	376	329	378	
Other expenses	718	767	491	440	506	
Total operating expenses	2,272	2,443	2,224	2,055	2,302	
EBITDA	362	488	832	684	850	
Depreciation and amortisation	60	64	296	245	287	
EBIT	302	424	536	439	563	
Interest expenses	15	14	118	118	118	
Other income	50	68	69	65	80	
Profit before tax	337	478	487	386	526	
Provision for tax	117	149	158	97	131	
Core profit	221	329	329	290	394	
Extraordinary items	1	1	0	0	0	
Profit after tax	222	330	329	290	394	
Minority Interest	0	0	0	0	0	
Share from associates	0	0	0	0	0	
Adjusted net profit	222	330	329	290	394	
Equity shares outstanding (mn)	13	13	13	13	13	
EPS (INR) basic	17	25.7	25.6	22.5	30.7	
Diluted shares (Cr)	13	13	13	13	13	
EPS (INR) fully diluted	17	26	26	23	31	
Dividend per share	4.0	6.3	4.0	3.6	6.1	
Dividend payout (%)	28	29	19	19	24	

Common size metrics- as % of net revenues

Year to March	FY18	FY19	FY20	FY21E	FY22E	
Operating expenses	86.3	83.4	72.8	75.0	73.0	
Depreciation	2.3	2.2	9.7	8.9	9.1	
Interest expenditure	0.6	0.5	3.9	4.3	3.7	
EBITDA margins	13.7	16.6	27.2	25.0	27.0	
Net profit margins	8.4	11.3	10.8	10.6	12.5	

Growth metrics (%)

Year to March	FY18	FY19	FY20	FY21E	FY22E	
Revenues	6.5	11.3	4.3	(10.4)	15.1	
EBITDA	35.1	34.8	70.6	(17.8)	24.3	
PBT	44.1	41.7	2.0	(20.7)	36.1	
Net profit	38.7	49.2	(0.0)	(11.9)	36.1	
EPS	26.0	49.1	(0.4)	(11.9)	36.1	

Bata India Ltd.

Financials

Balance sheet						(INR cr)
As on 31st March	FY18	FY19	FY20	FY21E	FY22E	
Equity share capital	64	64	64	64	64	
Preference Share Capital	0	0	0	0	0	
Reserves & surplus	1,410	1,678	1,830	2,064	2,363	
Shareholders funds	1,475	1,742	1,894	2,128	2,427	
Secured loans	0	0	0	0	0	
Unsecured loans	0	0	0	0	0	
Borrowings	0	0	0	0	0	
Minority interest	0	0	0	0	0	
Sources of funds	1,475	1,742	1,894	2,128	2,427	
Gross block	490	569	1,918	2,218	2,618	
Depreciation	193	253	548	793	1,080	
Net block	296	317	1,369	1,424	1,538	
Capital work in progress	12	17	20	25	30	
Intangible Assets	0	0	0	0	0	
Total fixed assets	309	334	1,389	1,449	1,568	
Unrealised profit	0	0	0	0	0	
Investments	0	0	0	0	0	
Inventories	765	839	874	773	889	
Sundry debtors	89	66	63	150	86	
Cash and equivalents	591	840	964	853	968	
Loans and advances	109	94	102	120	125	
Other current assets	0	0	0	0	0	
Total current assets	1,555	1,841	2,003	1,896	2,069	
Sundry creditors and others	533	578	786	563	604	
Provisions	28	51	15	16	16	
Total CL & provisions	561	630	801	579	621	
Net current assets	994	1,211	1,203	1,317	1,448	
Net Deferred tax	105	110	111	111	111	
Misc expenditure	67	87	-809	-750	-700	
Uses of funds	1,475	1,742	1,894	2,128	2,427	
Book value per share (INR)	115	136	147	166	189	

Cash flow statement						(INR crs)
Year to March	FY18	FY19	FY20	FY21E	FY22E	
Net profit	219	328	329	290	394	
Add: Depreciation	60	64	296	245	287	
Add: Misc expenses written off/Other Assets	-8	-21	0	-59	-50	
Add: Deferred tax	-5	-4	-1	0	0	
Add: Others	0	0	0	0	0	
Gross cash flow	267	366	624	476	631	
Less: Changes in W. C.	58	-32	-132	226	15	
Operating cash flow	209	399	755	250	616	
Less: Capex	71	89	0	300	400	
Free cash flow	138	310	755	-50	216	

Ratios

Year to March	FY18	FY19	FY20	FY21E	FY22E
ROAE (%)	15.8	20.5	18.1	14.4	17.3
ROACE (%)	23.3	28.2	31.4	23.1	26.0
Debtors (days)	12.4	8.3	7.6	20.0	10.0
Current ratio	2.8	2.9	2.5	3.3	3.3
Debt/Equity	0.0	0.0	0.0	0.0	0.0
Inventory (days)	106.0	104.5	104.3	103.0	103.0
Payable (days)	73.8	72.0	93.8	75.0	70.0
Cash conversion cycle (days)	44.6	40.8	18.1	48.0	43.0
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Adjusted debt/Equity	-0.4	-0.5	-0.5	-0.4	-0.4

Valuation parameters

Year to March	FY18	FY19	FY20	FY21E	FY22E
Diluted EPS (INR)	17.2	25.7	25.6	22.5	30.7
Y-o-Y growth (%)	26.0	49.1	(0.4)	(11.9)	36.1
CEPS (INR)	21.9	30.6	48.6	41.6	53.0
Diluted P/E (x)	74.5	50.0	50.2	57.0	41.9
Price/BV(x)	11.2	9.5	8.7	7.8	6.8
EV/Sales (x)	6.0	5.3	5.1	5.7	4.9
EV/EBITDA (x)	44.0	32.1	18.7	22.9	18.3
Diluted shares O/S	12.9	12.9	12.9	12.9	12.9
Basic EPS	17.2	25.7	25.6	22.5	30.7
Basic PE (x)	74.5	50.0	50.2	57.0	41.9
Dividend yield (%)	0.3	0.5	0.3	0.3	0.5

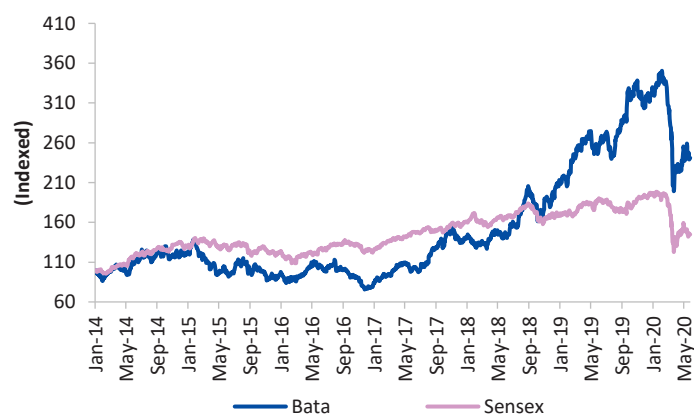
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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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