

Viewpoint

On strong growth footings

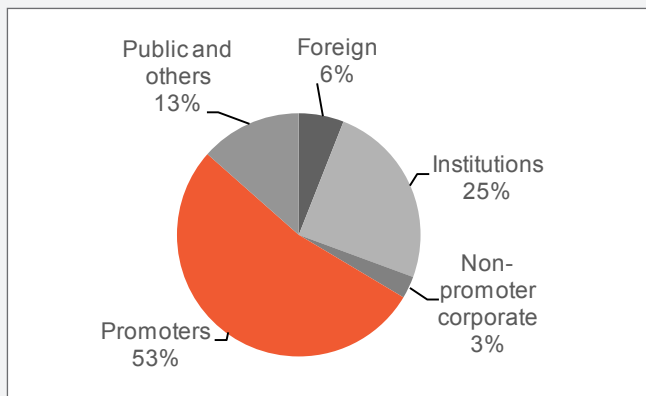
Bata India

View: Positive | CMP: Rs717

Company details

Market cap:	Rs9215 Cr
52-week high/low:	Rs729/400
NSE volume: (No of shares)	6.8 lakh
BSE code:	500043
NSE code:	BATAINDIA
Sharekhan code:	BATAINDIA
Free float: (No of shares)	6.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	13.2	30.6	42.3	33.4
Relative to Sensex	10.8	27.2	27.9	18.9

Key points

- Retail sentiments are improving; Bata's SSSG recovered to 10% in Q1:** Indian consumers' retail sentiments are improving on account of stable macro environment and changing aspiration levels. Further, there is a shift happening from basic-need-based category to evolving fashion and style category in the domestic footwear market. This has helped in increasing the per capita consumption of footwear in India to reach upto 2.4 pairs per annum (p.a.) from 1.6 pairs p.a. five years back. Bata India Ltd.'s (Bata) retail business (88% of overall revenue) grew by 15%, driven by 10% same-store-sales growth (SSSG) in Q1FY2018. We expect SSSG to sustain in the range of 7-9% as the upcoming festive season and marriage season will drive buying sentiments in the coming quarter. The shift from non-branded to branded products and expansion in reach (especially in tier II and III towns) will drive SSSG in the long run.
- Focus on premium brands, women footwear to maintain strong revenue growth momentum:** The women footwear segment currently constitutes about 30% of overall footwear market and is growing at a 20% CAGR (higher than men's footwear growth of 10% CAGR). To firm its footings in this space, the company has recently launched premium-end women footwear collection - *Insolia* (priced in the range of Rs.1,799-1,999). The brand has received good acceptance in the domestic market (especially in urban markets). We expect contribution from the women footwear segment to increase to 30% from the current level of 26% over the next two years. *Hush Puppies* brand is gaining good acceptance at the premium-end of the footwear market, resulting in an increase in the brand's contribution to 13% in FY2017 from ~10% two years back. Thus, premium footwear pairs (more than Rs.2,500 in men footwear space and more than Rs.1,500 in women footwear space) under various brands now constitute around 15% of overall sales. The company will continue to support the key brands with adequate media activities to maintain the growth momentum in the near term.

- ◆ **Premiumisation and operating efficiencies to drive margin:** Premiumisation resulted in realisation-led growth of 5% in Q1FY2018 and aided consolidated gross margins to improve by 90BPS in Q1FY2018. However, operating profit margin (OPM) improved by just 20BPS to 13.0% during the quarter due to higher employee expenses and other expenses (including advertisement spends). Though media and promotional spends are expected to remain high, better production mix should help the company to maintain its OPM at about 13% in the coming quarters. Rental expenses are expected to come down by 100-200BPS as the company is re-negotiating rentals for existing stores and re-aligning some of the existing stores to reduce operational cost. This should help in adding to the company's overall margins in the coming years.
- ◆ **View – A better play in the branded footwear space:** With redefined strategies and induction of Mr. Sandeep Kataria as the Country Manager, Bata is transforming itself from conventional footwear play to branded footwear play. Sustained store expansion, premiumisation and steady SSSG would aid the company's revenue and PAT to grow at a CAGR of 11% and 22% over FY2017-FY2020, respectively. The stock is currently trading at 36.3x its FY2019E earnings. With better earnings growth and lean balance sheet, Bata is one of the better picks in the growing retail space. We have a positive view on the stock with a potential upside of 10-15% from the current level.
- ◆ **Key risk:** Any slowdown in SSSG or increase in key cost elements (such as raw-material cost and rentals) would act as a key risk to our earnings estimates.

Valuations (Consolidated)					Rs cr
Particulars	FY16	FY17	FY18E*	FY19E*	FY20E*
Net Sales	2,455.9	2,504.3	2,740.8	3,064.2	3,425.6
OPM(%)	11.2	11.1	12.7	13.0	13.5
PAT (Rs. cr)	150.2	159.0	210.7	253.6	290.4
EPS (Rs)	11.7	12.4	16.4	19.7	22.6
PER (x)	61.4	58.0	43.7	36.3	31.7
RoCE (%)	19.9	20.4	22.1	23.0	22.5
RoE (%)	13.4	12.5	14.7	15.3	19.3

*Based on rough cut estimates

Company background

Bata has established itself as India's largest footwear retailer with a network of over 1,300 stores that no other footwear company can match in India. Along with its strong retail presence, the company also operates through non-retail wholesale distribution of 30,000 dealers especially in urban India. The company has strong brands such as *Bata*, *Hush Puppies* and *Power* catering to strata of population in the domestic market. The company's strategy has changed from store expansion to catering consumer aspiration by availing differentiated products, which will help in achieving double-digit revenue growth in the coming years. Moreover, shift from non-branded (accounts for two-thirds of the footwear market) to branded footwear market (accounts for one-third of the footwear market) would help the company to post sustainable growth in the near to medium term.

Other key points

- ◆ **Store addition to sustain to tap tier II and tier III towns:** Bata's current store count stands at 1,317 stores (added 40 stores in Q1FY2018). Of the total store count, about 140 are Hush Puppies stores, 365 are Bata flagship stores and remaining are Bata family stores. The company is planning to add another 100-120 stores in the coming quarters, largely to expand in tier II and tier III towns where penetration for branded footwear is much lower. Along with store additions, the company is also planning to refurbish some of its existing stores. Overall, the company is planning to do capital expenditure of Rs.50 crore-55 crore for store expansion.
- ◆ **Focus on enhancing e-commerce sales:** Bata's online business achieved strong growth in FY2017. It sold 6.3 lakh pairs through the online channel and generated revenue of Rs.6.9 crore. The company's online business is penetrated in 750 cities and towns across India. About 60% of products sold through the online channel are exclusively launched for online sales. Margins of the online business are expected to remain close to consolidated margins. Absence of major costs, such as employee and rent expenses, will mitigate the impact of lower price of products or offering of discounts on some of the existing brands. The company is focusing on enhancing its sales through the online platform in the coming years.

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