

13 August 2021

## Q1-FY22 Result Update

- ❑ Bata India's Q1FY22 performance was better than expected. Revenue was up 97.7% y/y and down 55% q/q to ₹2,670 million, due to better recovery during the quarter owing to the company shifting its portfolio towards casual, fitness and essential footwear.
- ❑ Owing to higher gross margins, EBITDA loss came in at ₹315 million, despite normalization of employee spends during the quarter. As a result, PAT loss stood at ₹695 million.
- ❑ Despite lower revenues and unfavorable product mix, Bata's gross margin reached pre Covid levels of 56.2% during Q1FY22 on account of lower discounting and manufacturing efficiencies. The company maintained its focus on cost saving measures through store rental optimization (secured rental waiver of ₹230 million during the quarter) and cutting down discretionary spends, which led to lower operating loss.
- ❑ With the second wave of Covid-led lockdowns during the quarter, the company's swift transition towards full recovery vis-à-vis pre-Covid levels was halted. Q1 is usually a strong quarter for the company due to higher salience of kids' footwear (with re-opening of schools in June). Amid the work from home (WFH) scenario, the company tweaked its product portfolio from formals and fashion categories to casual, fitness and essential footwear (sneakers, open footwear), which helped regain some of the lost volumes.
- ❑ Additionally, it also continued expanding its retail network in tier 3-5 towns via the franchisee route and opened 10 new franchisee stores, taking the total strength of such stores to 234. The company has also put in much efforts to strengthen its digital initiatives, which includes e-commerce, Bata ChatShop, and Bata Store on Wheels, which now contribute ~15% of revenues.
- ❑ Company has a strong balance sheet with healthy cash on books (~ ₹11,000 million) and efficient working capital should help Bata to sail through the current situation smoothly. It is expected that the company to be the beneficiary of market share gains, given store expansion in lower-tier cities where the unorganized segment is dominant and would be facing liquidity constraints. Furthermore, lockdown relaxation is expected to aid faster recovery in demand for premium footwear and volumes going ahead.
- ❑ We are positive on BATA due to its (a) potentially large opportunity size, (b) increasing penetration in smaller towns, (c) strong brand patronage, and (d) sales ramping up from new channels (ChatShop, Home Delivery, Store on Wheels). Thus, we maintain our '**Hold**' rating on BATA India with an upward revised target price of **₹1,895 per share**.

## Financials

(In ₹ mn)	Q1-FY22	Q1-FY21	Chg	FY21	FY20	Chg
Net Sales	2,670	1,351	97.7%	17,085	30,561	-44.1%
Operating Expense	2,986	2,209	35.1%	15,417	22,240	-30.7%
EBITDA	(315)	(859)	-63.3%	1,668	8,321	-80.0%
Other Income	122	520		941	687	
Depreciation	501	731		2,648	2,958	
EBIT	(694)	(1,069)	-35.1%	(39)	6,050	-100.6%
Interest	230	278		1,081	1,177	
PBT	(924)	(1,347)	-31.4%	(1,120)	4,872	-123.0%
Tax	(229)	(339)		(273)	1,583	
Exceptional Items	-	-		(46)	-	
<b>PAT</b>	<b>(695)</b>	<b>(1,009)</b>	<b>-31.1%</b>	<b>(893)</b>	<b>3,290</b>	<b>-127.2%</b>
Minority /Other Adj.	-	-		-	-	
<b>Consolidated PAT</b>	<b>(695)</b>	<b>(1,009)</b>	<b>-31.1%</b>	<b>(893)</b>	<b>3,290</b>	<b>-127.2%</b>
Margins	Q1-FY22	Q1-FY21	Chg BPS	FY21	FY20	Chg BPS
Operating Margin %	-11.8%	-63.6%	5177	9.8%	27.6%	-1747
Net Margin %	-26.0%	-74.7%	4867	-5.2%	10.8%	-1599

## Standalone Financials:

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
Net Sales	30,561	17,085	19,324	24,024
Operating Expense	22,130	15,417	14,704	18,215
EBITDA	8,431	1,668	4,620	5,809
Other Income	687	941	1,064	1,323
Depreciation	2,958	2,648	322	400
EBIT	6,159	(39)	5,362	6,732
Interest	1,287	1,081	250	250
Misc. items	-	(46)	-	-
<b>PBT</b>	<b>4,872</b>	<b>(1,166)</b>	<b>5,112</b>	<b>6,482</b>
Tax	1,583	(273)	1,329	1,556
Minority Interest	-	-	-	-
<b>PAT</b>	<b>3,290</b>	<b>(893)</b>	<b>3,783</b>	<b>4,926</b>

Margins	FY-20	FY-21	FY-22E	FY-23E
Sales Growth %	4.3%	-44.1%	13.1%	24.3%
Operating Margin %	27.6%	9.8%	23.9%	24.2%
Net Margin %	10.8%	-5.2%	19.6%	20.5%

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
<b>Liabilities</b>				
Equity Share Capital	643	643	643	643
Reserves & Surplus	16,938	20,721	25,648	30,901
Total Shareholder's Funds	17,581	21,364	26,290	31,544
Minority Interest	-	-	-	-
Long-Term Liabilities	-	-	-	-
Other Long-term Liabilities	8,617	1,021	1,021	1,021
Deferred Tax Liability	(1,384)	(1,384)	(1,384)	(1,384)
Short-term Liabilities	7,126	6,369	7,918	8,354
<b>Total</b>	<b>31,941</b>	<b>27,370</b>	<b>33,845</b>	<b>39,534</b>
<b>Assets</b>				
Net Fixed Assets	11,531	6,986	7,369	6,623
Long-Term L&A	1,764	1,764	1,764	1,764
Non Current Investments	-	-	-	-
Other Non-Current Assets	68	68	68	68
Current Asset	18,578	17,616	23,709	30,143
<b>Total</b>	<b>31,941</b>	<b>27,370</b>	<b>33,845</b>	<b>39,534</b>

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
EPS (₹)	25.6	-6.9	29.4	38.3
P/E (x)	66.6	-	57.9	44.5
P/B (x)	12.5	10.3	8.3	6.9
ROE	18.7%	-4.2%	14.4%	15.6%

Source: Company, Anand Rathi Research

## Rating and Target Price history:

### BATAINDIA IN rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 13 August 2021 close.

### BATAINDIA IN rating details

Date	Rating	Target Price (₹)	Share Price (₹)
20-Feb-2020	BUY	2,180	1,804
30-May-2020	BUY	1,600	1,326
15-Jun-2021	HOLD	1,827	1,646
13-Aug-2021	HOLD	1,895	1,705

Source: Bloomberg, Anand Rathi Research

## Key Risks:

- ❑ Currently, ~40% of raw materials used by the company are imported (EVA, PU etc). As these raw materials are derivatives of crude, therefore any fluctuation in prices of crude would impact the pricing of its key raw material.
- ❑ Intense competition from un-organized players.

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