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Q2FY20 result review
and earnings revision

Consumer Staples & Discretionary

Target price Rs1,950

Earnings revision

(%)	FY20E	FY21E
Sales	↓ 2.3	↓ 2.9
EBITDA	↓ 0.3	↓ 0.1
PAT	↓ 0.4	-

Target price revision

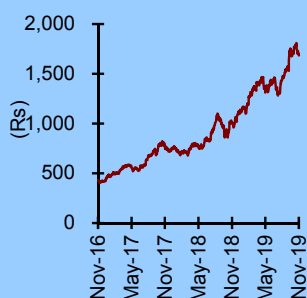
Rs1,950 from Rs1,900

Shareholding pattern

	Mar '19	Jun '19	Sep '19
Promoters	53.0	53.0	53.0
Institutional investors	32.7	32.7	33.0
MFs and other	16.8	15.6	15.2
Banks / FIs	0.3	0.1	0.2
Insurance co	4.5	4.7	6.3
FIs	11.1	12.3	11.3
Others	14.3	14.3	14.0

Source: BSE

Price chart



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INDIA

Bata India

BUY

Maintain

Rs1,685

More of the same and that is good

2Q revenue growth of 7% looks impressive given the macro slowdown. More importantly, Bata continued on its premiumisation journey – expanding gross and EBITDA margins by 60bps. We like the existing focus on improving brand imagery and launching new and trendy product ranges backed by aggressive campaigns. We believe that expansion of flagship stores with ‘experience centres’ (various foot care facilities, improved product assortment) improves confidence on Bata’s long-term ability to growth and premiumise. Retain BUY.

- Revenue growth looks impressive given the context:** Comparable revenue / EBITDA / PAT (excluding the Ind AS 116 accounting changes) grew 7% / 12% / 28%. Bata continues to benefit from the investment done over the past few years behind product innovation and retail experience which is helping premiumise the brand imagery. 2Q performance was especially helped by a new campaign – “New Arrivals Every Friday” whereby the company focused on improving its product offering, thereby attracting customer footfalls amid the tough macro environment.
- Expansion of experience centres to drive customer experience:** Bata recently inaugurated its fifth ‘experience centre’ store. These stores are aimed at providing complete foot care with facilities like 360-degree foot scanning, customized insoles, medicated pedicure and shoe laundry. This new store format provides customers with access to Bata’s widest range of product offering – sneaker studio, wide assortment of fashion and working women styles and premium collections.
- Margin expansion continued, albeit at a slower pace:** Comparable EBITDA margin expanded 60bps YoY to 13.5%. This was supported by a similar gross margin expansion (+60bps YoY to 56.4%). At the same time, increase in employee costs (+30bps YoY) and higher other expenses (+50bps) was offset by continuing rent rationalisation (-80bps YoY). We expect premiumisation-led gross margin expansion to translate into better EBITDA margin as Bata is likely to keep costs under control through restructuring of leases. While the focus appears to be margin delivery, we would like to see higher spends for brand building initiatives.
- Valuation and risks:** Our earnings estimates are largely unchanged; modelling revenue / EBITDA / PAT CAGR of 12 / 17 / 28 (%) over FY19-21E. Maintain **BUY** with DCF-based revised target price of Rs1,950 due to roll over. At our target price, the stock will trade at 46x P/E multiple Sep-21E. Key downside risk is prolonged consumption slowdown.

Market Cap	Rs217bn/US\$3bn	Year to March	FY18	FY19	FY20E	FY21E
Reuters/Bloomberg	BATA.BO/BATA IN	Net Revenue (Rs mn)	26,293	29,284	32,296	36,498
Shares Outstanding (mn)	128.5	Net Profit (Rs mn)	2,236	3,097	4,263	5,099
52-week Range (Rs)	1807/958	Dil. EPS (Rs)	17.4	24.1	33.2	39.7
Free Float (%)	47.0	% Chg YoY	25.1	38.5	37.6	19.6
FII (%)	11.3	P/E (x)	96.9	69.9	50.8	42.5
Daily Volume (US\$'000)	15,524	CEPS (Rs)	22.1	29.1	38.8	45.7
Absolute Return 3m (%)	17.6	EV/EBITDA (x)	59.8	44.4	37.7	32.1
Absolute Return 12m (%)	67.5	Dividend Yield (%)	0.2	0.4	0.5	0.7
Sensex Return 3m (%)	8.7	RoCE (%)	20.4	25.3	25.9	26.3
Sensex Return 12m (%)	15.5	RoE (%)	15.9	19.2	22.5	23.1

Table 1: Q2FY20 result review (Standalone – Comparable)

(Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
Net operating income	7,220	6,731	7	8,821	(18)	16,041	14,704	9
Material cost	(3,148)	(2,976)	6	(3,995)	(21)	(7,143)	(6,703)	7
Gross profit	4,072	3,754	8	4,827	(16)	8,898	8,000	11
Employee cost	(890)	(809)	10	(980)	(9)	(1,871)	(1,631)	15
Rent	(959)	(944)	2	(954)	1	(1,914)	(1,854)	-
Other Expenses	(1,245)	(1,128)	10	(1,309)	(5)	(2,554)	(2,323)	10
EBITDA	978	873	12	1,583	(38)	2,561	2,192	17
Other income	177	149	19	169	5	347	269	29
Interest	(8)	(11)		(8)		(17)	(20)	(19)
Depreciation	(176)	(153)	14	(158)	11	(334)	(304)	10
Pretax profits	971	858	13	1,586	(39)	2,557	2,136	20
Tax	(260)	(301)		(559)		(819)	(754)	
Recurring PAT	711	557	28	1,027	(31)	1,738	1,382	26
EPS	5.5	4.3	28	8.0	(31)	13.5	10.8	26
Costs as a % of sales								
Gross margin (%)	56.4	55.8	61 bps	54.7	168 bps	55.5	54.4	106 bps
EBITDA margin (%)	13.5	13.0	56 bps	17.9	-441 bps	16.0	14.9	105 bps
Material cost	43.6	44.2	-62 bps	45.3	-169 bps	44.5	45.6	-107 bps
Employee cost	12.3	12.0	31 bps	11.1	121 bps	11.7	11.1	56 bps
Rent	13.3	14.0	-75 bps	10.8	247 bps	11.9	12.6	-69 bps
Other Expenses	17.2	16.8	48 bps	14.8	239 bps	15.9	15.8	12 bps
Income tax rate (%)	26.8	35.1	-833 bps	35.2	-847 bps	32.0	35.3	-329 bps

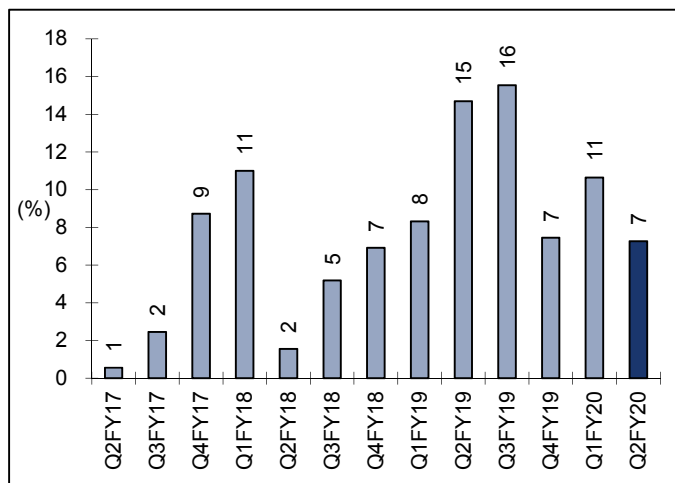
Source: Company data, I-Sec research

Table 2: Q2FY20 result review (Standalone – Reported)

(Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
Net operating income	7,220	6,731	7	8,821	(18)	16,041	14,704	9
Material cost	(3,148)	(2,976)	6	(3,995)	(21)	(7,143)	(6,703)	7
Gross profit	4,072	3,754	8	4,827	(16)	8,898	8,000	11
Employee cost	(890)	(809)	10	(980)	(9)	(1,871)	(1,631)	15
Rent	(97)	(944)	(90)	(108)	(9)	(205)	(1,854)	-
Other Expenses	(1,231)	(1,128)	9	(1,309)	(6)	(2,540)	(2,323)	9
EBITDA	1,854	873	112	2,430	(24)	4,283	2,192	95
Other income	177	149	19	169	5	347	269	29
Interest	(308)	(11)		(314)		(621)	(20)	2,960
Depreciation	(749)	(153)	388	(730)	3	(1,479)	(304)	387
Pretax profits	975	858	14	1,555	(37)	2,530	2,136	18
Tax	(261)	(301)		(548)		(809)	(754)	
Recurring PAT	714	557	28	1,007	(29)	1,721	1,382	25
EPS	5.6	4.3	28	7.8	(29)	13.4	10.8	25
Costs as a % of sales								
Gross margin (%)	56.4	55.8	61 bps	54.7	168 bps	55.5	54.4	106 bps
EBITDA margin (%)	25.7	13.0	1269 bps	27.5	-187 bps	26.7	14.9	1179 bps
Material cost	43.6	44.2	-62 bps	45.3	-169 bps	44.5	45.6	-107 bps
Employee cost	12.3	12.0	31 bps	11.1	121 bps	11.7	11.1	56 bps
Rent	1.3	14.0	-1269 bps	1.2	12 bps	1.3	12.6	-1134 bps
Other Expenses	17.0	16.8	29 bps	14.8	220 bps	15.8	15.8	3 bps
Income tax rate (%)	26.8	35.1	-834 bps	35.2	-848 bps	32.0	35.3	-334 bps

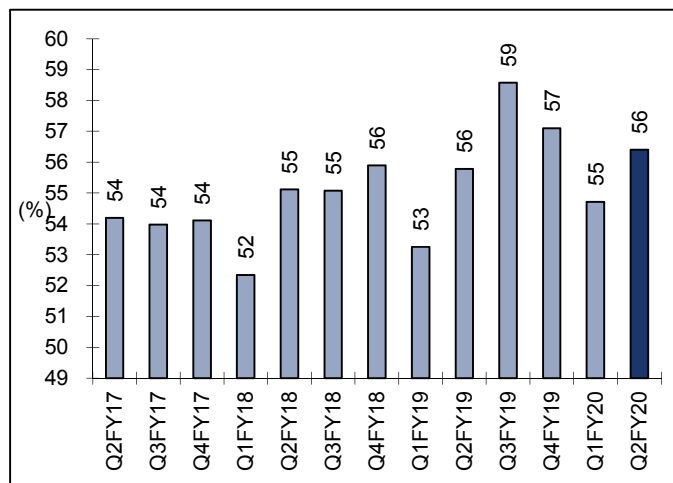
Source: Company data, I-Sec research

Chart 1: Revenue growth



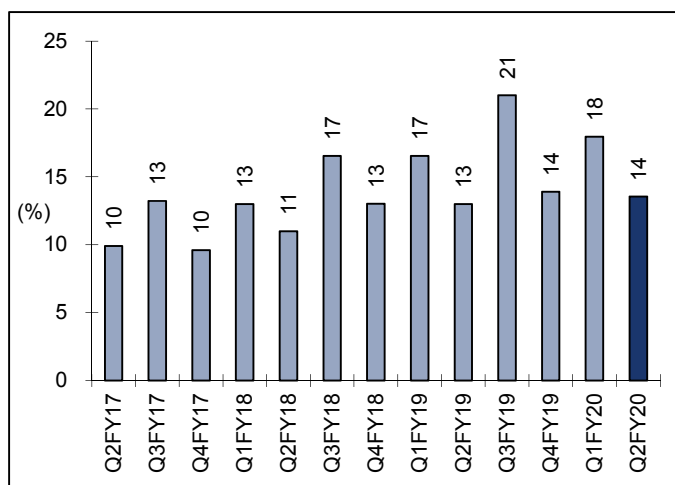
Source: Company data, I-Sec research

Chart 2: Gross margin



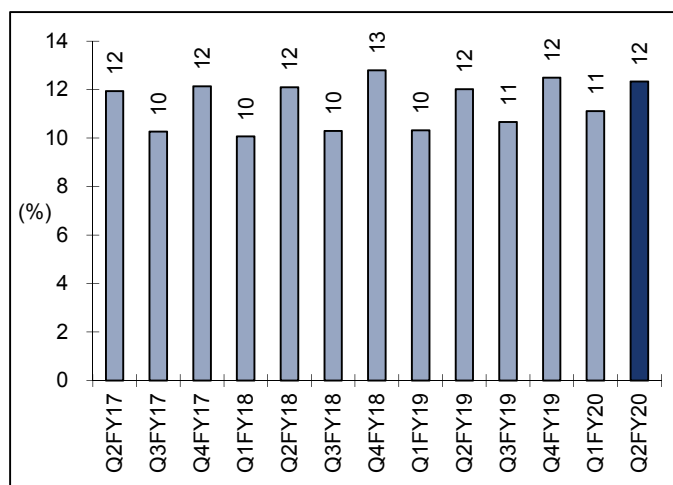
Source: Company data, I-Sec research

Chart 3: EBITDA margin



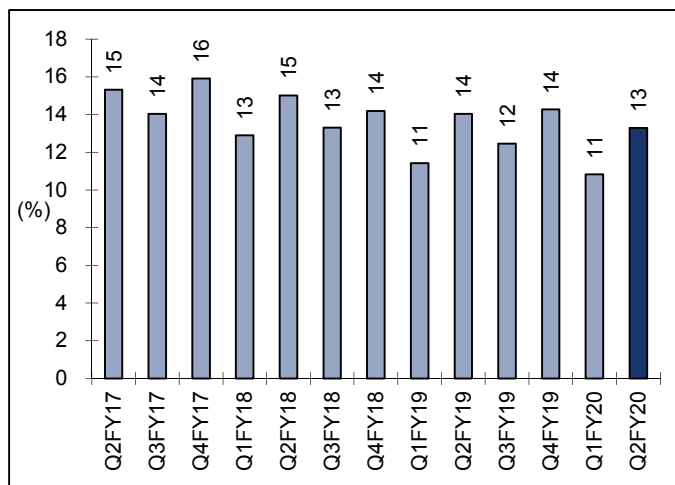
Source: Company data, I-Sec research

Chart 4: Staff cost / sales



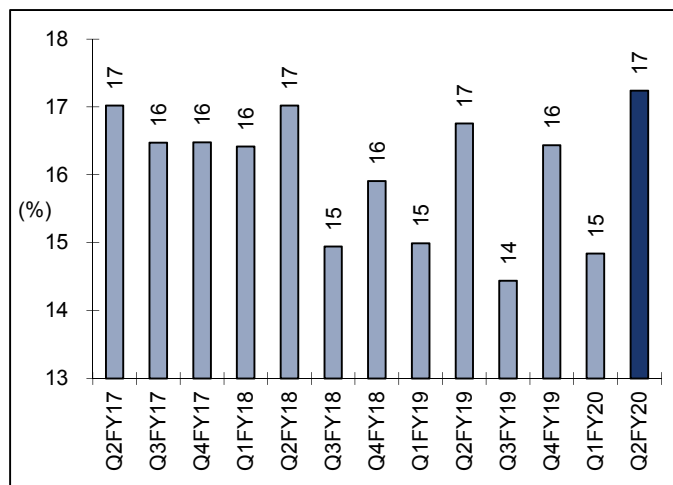
Source: Company data, I-Sec research

Chart 5: Rent / sales



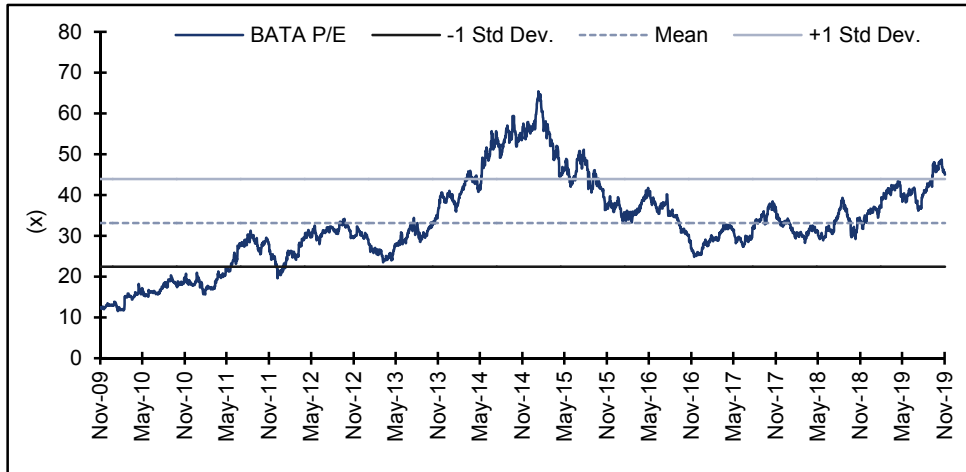
Source: Company data, I-Sec research

Chart 6: Other expenses / sales



Source: Company data, I-Sec research

Chart 7: Mean P/E and standard deviations



Source: Company data, I-Sec research

Financial summary

Table 3: Profit & Loss statement

(Rs mn, year ending March 31)

	FY18	FY19	FY20E	FY21E
Net Sales	26,293	29,284	32,296	36,498
Operating Expenses	22,755	24,512	26,678	29,909
EBITDA	3,538	4,773	5,618	6,589
% margins	13.5	16.3	17.4	18.1
Depreciation & Amortisation	604	640	719	777
Gross Interest	42	35	32	33
Other Income	508	685	830	1,036
Recurring PBT	3,400	4,783	5,697	6,815
Less: Taxes	1,164	1,685	1,434	1,715
Less: Minority Interest	-	-	-	-
Net Income (Reported)	2,236	2,898	4,263	5,099
Extraordinaries (Net)	-	(199)	-	-
Recurring Net Income	2,236	3,097	4,263	5,099

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY18	FY19	FY20E	FY21E
Assets				
Total Current Assets	14,392	17,434	20,893	24,885
of which cash & cash eqv.	544	586	2,575	4,642
Total Current Liabilities & Provisions	5,248	5,879	6,460	7,300
Net Current Assets	9,144	11,555	14,434	17,585
Investments	2,937	2,520	2,774	3,128
Net Fixed Assets	2,929	3,108	3,026	3,062
Capital Work-in-Progress	137	210	210	210
Total Assets	15,146	17,393	20,444	23,986
Liabilities				
Borrowings	1,413	1,025	1,131	1,278
Deferred Tax Liability	(1,054)	(1,098)	(1,098)	(1,098)
Minority Interest	-	-	-	-
Equity Share Capital	643	643	643	643
Face Value per share (Rs)	2	2	2	2
Reserves & Surplus*	14,145	16,823	19,769	23,164
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	14,787	17,465	20,411	23,806
Total Liabilities	15,146	17,393	20,444	23,986

Source: Company data, I-Sec research

Table 5: Quarterly trends

(Rs mn, year ending March 31)

	Dec 18	Mar 19	Jun 19	Sep 19
Net sales	7,787	6,794	8,821	7,220
% growth (YoY)	15.5	7.4	10.6	7.3
EBITDA	1,636	945	2,430	1,854
Margin (%)	21.0	13.9	27.5	25.7
Other income	137	279	169	177
Extraordinaries (Net)	-	199	-	-
Net profit	1,032	683	1,007	714

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY18	FY19	FY20E	FY21E
Operating Cashflow	2,472	3,401	4,184	4,874
Working Capital	(915)	45	(363)	(580)
Changes	(779)	(820)	(638)	(814)
Capital Commitments	(779)	(820)	(638)	(814)
Free Cashflow	778	2,626	3,184	3,480
Cashflow from Investing Activities	(1,074)	(2,770)	(483)	(489)
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(15)	(14)	(32)	(33)
Dividend paid	(541)	(618)	(1,317)	(1,704)
Chg. in Cash & Bank balance	(73)	42	1,990	2,067
Closing cash & balance	544	586	2,575	4,642

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY18	FY19	FY20E	FY21E
Per Share Data (Rs)				
EPS	17.4	24.1	33.2	39.7
Cash EPS	22.1	29.1	38.8	45.7
Dividend per share (DPS)	4.0	6.3	8.5	11.0
Book Value per share (BV)	115.0	135.9	158.8	185.2
Growth (%)				
Net Sales	6.6	11.4	10.3	13.0
EBITDA	27.4	34.9	17.7	17.3
PAT	38.0	40.9	18.5	18.6
DPS	-	-	-	-
Valuation Ratios (x)				
P/E	96.9	69.9	50.8	42.5
P/CEPS	76.2	57.9	43.5	36.8
P/BV	14.6	12.4	10.6	9.1
EV / EBITDA	59.8	44.4	37.7	32.1
EV / Sales	8.1	7.2	6.6	5.8
Operating Ratios				
Raw Material / Sales (%)	45.5	43.9	42.9	42.3
Employee cost / Sales (%)	11.2	11.3	12.0	12.1
Other exps / Sales (%)	16.1	15.6	15.5	15.4
Other Income / PBT (%)	15.0	14.3	14.6	15.2
Effective Tax Rate (%)	34.2	35.2	25.2	25.2
Working Capital (days)	70.9	57.7	55.3	53.3
Inventory Turnover (days)	105.8	104.6	102.0	100.0
Receivables (days)	12.3	8.1	8.0	8.0
Payables (days)	66.5	64.3	64.0	64.0
Net D/E (x)	(0.4)	(0.5)	(0.5)	(0.6)
Profitability Ratios (%)				
Net Income Margins	8.5	10.6	13.2	14.0
RoACE	20.4	25.3	25.9	26.3
RoAE	15.9	19.2	22.5	23.1
Dividend Payout	27.7	29.4	30.9	33.4
Dividend Yield	0.2	0.4	0.5	0.7
EBITDA Margins	13.5	16.3	17.4	18.1

Source: Company data, I-Sec research

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