



Update @ Dalal & Broacha

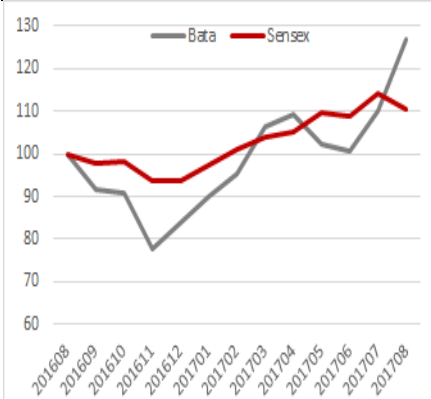
ACCUMULATE

Current Price	676
Target Price	730
% Upside	8%
52 Week Range	693/400

Key Share Data

Market Cap (Rs.bn)	86.9
Market Cap (US\$ mn)	1357
No of o/s shares (mn)	128.5
Face Value	5.0
Monthly Avg. vol(BSE+NSE) Nos'000	1512
BSE Code	500043
NSE Code	BATAINDIA
Bloomberg	BATA IN

Price performance



Bata Management Meet Key Take Aways

Retail sentiments have improved and the management remains optimistic on growth going forward.

Retail business forming 88% of Revenues is doing saw 15% growth in Q1FY18 with SSS growth of 10%.

Whole Sale business on the other side i.e. 12% of the revenues is still improving slowly; demonetization and GST has impacted sentiments.

GST impact on the company is Neutral, ~60% of Bata's shoes are under Rs 500. On a longer term basis the company expects many unorganized players ability to sustain will reduce, thus competition from them will come down.

Sales Breakup: Men 61%: Women 26%: Children 13% (of which 8% are school shoes); Rs 1000 plus category shoes form 20% of sales and premium i.e. Rs 1500 plus in Women and Rs 2500 and above in case of Men form 15% of Revenues. However on the whole margins in all the categories are similar. **Brands contribution:** Hush Puppies contributes 13% in value-terms, Naturalizer ~2% in volume terms, Power brand that used to be ~8.5% has now reached to 12% and the company would be focusing to increase its share going forward. Bubblegummers and Weinbrenner are in improving stage.

Launch of new brand **Insolia** has generated good response (price range is Rs1500 to 3000)

Ecommerce is ~3% of sales in FY17 and 60% of products sold via E-Commerce platform are exclusive to the online channel. Margins in case of E-Commerce are similar.

Store count currently stands at 1317 as of June 2017 of which 140 are Hush Puppies, 36 Footins, 365 Bata Flagship stores and rest Bata Family stores. The company plans to add ~100 stores in the current year. Managements target is that each new store opened is profitable in 1st year of operation.

Raw Materials: are stable, leather prices had seen some uptick on account of slaughter ban however the volatility has stabilized. The company sources 100% of Leather for making Leather shoes from India itself. Leather(real) Shoes form 20% of Revenues.

Inventory problem completely resolved now, old ERP systems are back in place which are capable of supporting sales for next 6-7 years. Bata took ~ 6% markdown in the last year to clear old inventories.

% Shareholding	Jun-17	Mar-17
Promoters	52.96	52.96
Institutions	30.63	28.08
Others	16.41	18.96
Total	100.0	100.0

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Rentals in the range of 14-15% of Revenues are expected to come down by 1-2% in the next 2-3 year period. Re-negotiations with existing landlords are also generating positive results for the company.

Advertisement cost is expected to remain in the range of 2% of Revenues going forward.

Faridabad plant shutdown frees up 11 acres of Land: Losses on an annual basis were at ~Rs 20 to 30mn that would go away going forward. Productivity was low and employee costs were high. Shut down has freed up 11 acres of land (production shifted to Batanagar and Bataganj) and monetization of the same in the future would lead to one-time other income.

Capex: The Company would spend ~Rs 500mn towards plant improvisation at Bata Nagar and Rs 500mn towards store expansion. The company over the short to medium term basis would maintain 50:50 share in terms of in-house production and would want to increase share of out-sourcing going forward.

Going Forward: Bata India remains, the key focus of Bata Global since in terms of profit contribution it has the highest share. The management endeavor is to do double digit growth in the current year considering the fact that the past efforts would pay off.

In terms of opportunity India's per capita footwear consumption stands at 1.7 pairs per annum as against global average of 3 pairs and 5 pairs in developed countries.

At CMP of Rs 676 the stock trades at 39x its FY18 E EPS of Rs 17.4 and 32.x its FY19 E EPS of Rs 21. We could recommend investors to **Accumulate the stock for Longterm.**



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Financials

P&L (Rs mn)	FY16	FY17	FY18E	FY19E	Cash Flow St. (Rs. mn)	FY16	FY17	FY18E	FY19E
Net Operating Income	24,227.1	24,742.6	28,121.7	31,523.8	Net Profit	2,173.9	1,589.5	2,236.4	2,695.7
					Add: Dep. & Amort.	788.2	650.4	786.5	922.7
					Cash profits	2,962.1	2,239.9	3,022.9	3,618.4
Raw Materials	(11,516.2)	(11,580.6)	(13,076.6)	(14,595.5)	(Inc)/Dec in				
Employee Cost	(2,614.9)	(2,731.9)	(2,950.4)	(3,186.5)	-Sundry debtors	(125.8)	15.9	(76.4)	(93.2)
Other Expenses	(7,338.0)	(7,644.3)	(8,424.7)	(9,258.1)	-Inventories	193.5	(284.4)	(566.6)	(932.1)
Total Expenses	(21,469.1)	(21,956.7)	(24,451.7)	(27,040.1)	-Loans/advances	1,248.6	(70.9)	(110.1)	(123.4)
					-Current Assets	(1,275.8)	94.3	(128.8)	(141.6)
Operating Profit	2,757.9	2,785.8	3,670.0	4,483.7	-Sundry creditors	(230.1)	809.2	249.8	224.3
Depreciation	(788.2)	(650.4)	(786.5)	(922.7)	-Others	(806.4)	57.6	67.8	73.2
PBIT	1,969.7	2,135.5	2,883.5	3,561.1	Change in working capital	(996.0)	621.7	(564.2)	(992.8)
Other income	266.1	460.2	494.5	502.4	CF from Oper. activities	1,966.1	2,861.6	2,458.7	2,625.6
Interest	(17.4)	(40.3)	(40.0)	(40.0)	CF from Inv. activities	(450.9)	(396.8)	(850.0)	(850.0)
Extraordinary Items	-	-	-	-	CF from Fin. activities	(191.2)	(669.1)	(872.7)	(952.0)
Profit before tax	2,218.4	2,555.3	3,338.0	4,023.5	Cash generated/(utilised)	1,324.1	1,795.7	736.0	823.5
Provision for tax	(791.6)	(749.1)	(1,101.5)	(1,327.8)	Cash at start of the year	2,100.6	3,424.7	5,220.3	5,956.3
Reported PAT	1,426.8	1,806.2	2,236.4	2,695.7	Cash at end of the year	3,424.7	5,220.3	5,956.3	6,779.9
Extraordinary Items	747.1	(216.7)	-	-					
Minority Interest	0.0	0.0	0.0	0.0	Ratios	FY16	FY17	FY18E	FY19E
Adjusted PAT	1,462.2	1,729.6	2,236.4	2,695.7	OPM	11.4	11.3	13.1	14.2
					NPM	6.0	6.9	7.8	8.4
					Tax rate	(35.7)	(29.3)	(33.0)	(33.0)
Balance Sheet	FY16	FY17	FY18E	FY19E	Growth Ratios (%)				
Equity capital	642.6	642.6	642.6	642.6	Net Sales	(10.1)	2.1	13.7	12.1
Reserves	11,566.6	12,600.6	13,964.3	15,708.0	Operating Profit	(17.7)	1.0	31.7	22.2
Net worth	12,209.2	13,243.2	14,606.9	16,350.6	PAT	(26.8)	18.3	29.3	20.5
Def. Tax Liab.+Minority Int.	-	-	-	-	Per Share (Rs.)				
Longterm Debt	-	-	-	-	Net Earnings (EPS) (FV 5)	11.4	13.5	17.4	21.0
Short Term Debt	-	-	-	-	Cash Earnings (CPS)	23.0	17.4	23.5	28.2
Total debt	-	-	-	-	Dividend	3.5	3.5	5.5	6.0
CAPITAL EMPLOYED	12,209.2	13,243.2	14,606.9	16,350.6	Book Value	95.0	103.0	113.7	127.2
					Free Cash Flow	65.5	40.1	21.0	23.6
Total fixed assets	3,231.4	2,977.9	3,041.4	2,968.7	Valuation Ratios				
Goodwill	-	-	-	-	P/E(x)	59.4	50.2	38.8	32.2
Investments	-	-	-	-	P/B(x)	7.1	6.6	5.9	5.3
Inventories	6,853.5	7,138.0	7,704.6	8,636.7	EV/EBIDTA(x)	30.5	29.3	22.1	17.9
Sundry debtors	710.0	694.1	770.5	863.7	Div. Yield(%)	0.5	0.5	0.8	0.9
Cash & bank	3,424.7	5,220.3	5,956.3	6,779.9	FCF Yield(%)	9.7	5.9	3.1	3.5
Loans & advances	838.4	909.2	1,019.3	1,142.7	Return Ratios (%)				
Other current assets	1,381.8	1,287.6	1,416.3	1,557.9	ROE	12.0	13.1	15.3	16.5
Sundry creditors	(4,315.0)	(5,124.2)	(5,373.9)	(5,598.3)	ROCE	16.1	16.1	19.7	21.8
O. Current Liabilities	(766.4)	(820.5)	(886.2)	(957.0)					
Provisions	(40.0)	(43.5)	(45.6)	(47.9)					
Working capital	8,087.0	9,261.0	10,561.2	12,377.6					
Deferred Tax Assets	890.8	1,004.3	1,004.3	1,004.3					
Miscellaneous exp.	-	-	-	-					
CAPITAL DEPLOYED	12,209.2	13,243.2	14,606.9	16,350.6					

Note: FY15 is 15 months since company has changed year ending to March from December. Stock Split from Rs 10 to Rs 5/-



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