



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

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## Management Meet Update @ Dalal & Broacha

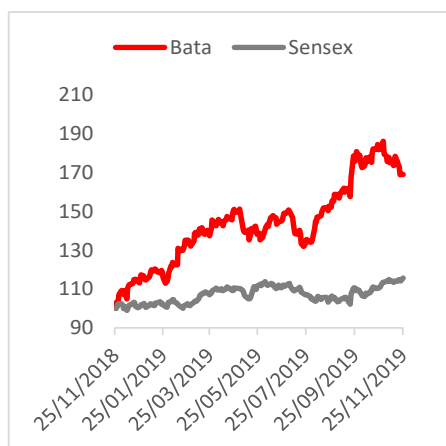
### Buy on Dips

|               |          |
|---------------|----------|
| Current Price | 1640     |
| 52 Week Range | 944/1815 |
| Target Price  | 1849     |
| Upside        | 13%      |

### Key Share Data

|                                   |           |
|-----------------------------------|-----------|
| Market Cap (Rs.bn)                | 210.72    |
| Market Cap (US\$ mn)              | 2965.63   |
| No of o/s shares (mn)             | 128.52    |
| Face Value                        | 5         |
| Monthly Avg. vol(BSE+NSE) Nos'000 | 666.03    |
| BSE Code                          | 500043    |
| NSE Code                          | BATAINDIA |
| Bloomberg                         | BATA IN   |

### Price performance



### % Shareholding

|              | Sep-19       | Jun-19       |
|--------------|--------------|--------------|
| Promoters    | 52.96        | 52.96        |
| Institutions | 32.95        | 32.72        |
| Others       | 14.09        | 14.32        |
| <b>Total</b> | <b>100.0</b> | <b>100.0</b> |

Our meeting with the top management of Bata India re-emphasized our belief that **Premiumization journey will continue going forward as mentioned in our detailed report (Please [CLICK here](#)) earlier. "The NEW BATA" is being more urban, more relevant to youth with better in-store experience and better product offerings.**

**Focus** is on urban and urban mass that constitutes 30% of working population and 60% of aggregated income. Affluent people outside metro cities are also part of their target audience. Their **strategy** is not to open stores in towns with population below 50,000.

**Average selling price** has increased by 1.2 times, from Rs 513 in FY16 to Rs 620 in FY19 as per management.

### 3 strategic pillars

1. **Product is king:** own comfort with style
2. Bring **swagger** back to Bata
3. **Easy and Inspiring experience**

**New styles; strategy change:** addition of 1000+ styles each year; has been doing it since last few years with the aim to have the right products in their appropriate type stores. One major difference in strategy is initially only designs were created in-house, now majority of new design products are manufactured in-house. Total **SKUs** currently handled stands at 4000.

**New arrivals every Friday:** 8-10 articles that are new to each of Bata's stores are introduced. (Not necessarily new for Bata, but new for the particular store).

### Category wise:

**Women footwear** has immense scope for growth as population of more working women ~68mn to join by 2025.

**Stores:** Exclusive women store count stands at 3. Store size ranges from 750 to 1000 sq.ft. These stores generate higher ASP than company average.

**Exclusive Power stores** on standalone basis did below expectations. Success of these stores depend on meeting the 40% - 45% non-footwear merchandise requirement to be kept in stores.

**Kids** is still a difficult category to penetrate, no single player has been successful. This category is more dynamic compared to men and women categories.

### STORES

- Total store count stands at 1455, company targets to add ~100 in FY20. Franchisee store count to reach 175 by FY20 end. **(contributes 5% of Bata sales)**

- **5 experience stores** started with foot care solutions including foot scan, insoles, medicated pedicures and shoe laundry. Company **Plans to open one of these in every big town**

- Standalone **Naturalizer** store opened in Delhi

- 800 stores is linked with Omni-channel

- 20 MBO Store in Store (SIS) opened in central and lifestyle, add few more in towns present

**Store differentiation via 3 formats** contributes ~1/3rd each

1. **Top stores:** carries Hush Puppies, Naturalizer and Bata Red Label.
2. **Middle stores:** carries Bata Comfit and Bata red.
3. **Value stores:** sells Bata and Bata lite

### FINANCIALS (Rs. Mn)

| Year         | Net Sales | %growth | EBIDTA  | OPM%  | PAT     | %growth | EPS  | PE(x) | RoE% | RoCE% |
|--------------|-----------|---------|---------|-------|---------|---------|------|-------|------|-------|
| <b>FY18</b>  | 26,341.7  | 6.5     | 3,513.6 | 13.3% | 2,205.1 | 27.5    | 17.2 | 95.5  | 15.0 | 19.7  |
| <b>FY19</b>  | 29,311.0  | 11.3    | 4,770.6 | 16.3% | 3,289.9 | 49.2    | 25.6 | 64.0  | 18.9 | 23.7  |
| <b>FY20E</b> | 32,520.0  | 10.9    | 5,338.5 | 16.4% | 3,920.5 | 19.2    | 30.5 | 53.7  | 19.3 | 22.6  |
| <b>FY21E</b> | 36,729.9  | 12.9    | 6,264.5 | 17.1% | 4,629.6 | 18.1    | 36.0 | 45.5  | 19.4 | 22.8  |
| <b>FY22E</b> | 41,519.7  | 13.0    | 7,276.9 | 17.5% | 5,483.7 | 18.4    | 42.7 | 38.4  | 19.4 | 22.5  |



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**Re-modeled** 350 stores, will re-model ~50 in FY20e.

**Reach** of 625 towns currently, company is targeting 850 towns, FY20e target is 700 towns i.e. additions of 75 towns.

**Margins** improvement story is to continue, distribution EBIT margins are similar.

**Inventory days** are better YoY, Omni channel also helps using in-store inventory productively.

FY20 will have **higher volume growth** on a YoY basis.(has de-grown at 2% CAGR over FY16)

**Bata India CEO** now has a **separate seat** in Bata Global board (earlier was in Asia Pacific)

**Valuation At CMP of Rs 1640**, the stock trades at 53.7x FY20e EPS of Rs 30.5 and 45.5x FY21e EPS of Rs 36.02. The stock on a one year forward PE is already trading at 51x. We value the company at 51x FY21e EPS of Rs 36.02 and arrive at a target price of Rs. 1849 i.e. upside of 13%. We maintain **BUY ON DIPS**.



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| Bata India Ltd                   |                 |                 |                 |                 |                 |                                  |                |                |                  |                  |                  |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------------------------------|----------------|----------------|------------------|------------------|------------------|
| P&L (Rs mn)                      | FY18            | FY19            | FY20E           | FY21E           | FY22E           | Cash Flow St. (Rs. mn)           | FY18           | FY19           | FY20E            | FY21E            | FY22E            |
| Net Operating Income             | 26,341.7        | 29,311.0        | 32,520.0        | 36,729.9        | 41,519.7        | Net Profit                       | 2,205.1        | 3,289.9        | 3,920.5          | 4,629.6          | 5,483.7          |
|                                  |                 |                 |                 |                 |                 | Add: Dep. & Amort                | 604.5          | 640.5          | 736.1            | 831.8            | 927.4            |
|                                  |                 |                 |                 |                 |                 | <b>Cash profits</b>              | <b>2,809.7</b> | <b>3,930.4</b> | <b>4,656.6</b>   | <b>5,461.4</b>   | <b>6,411.1</b>   |
| Raw Materials                    | (12,024.0)      | (12,871.1)      | (14,276.3)      | (16,124.4)      | (18,227.1)      | (Inc)/Dec in                     |                |                |                  |                  |                  |
| Employee Cost                    | (2,956.1)       | (3,310.8)       | (12,905.2)      | (14,340.9)      | (16,015.6)      | -Sundry debtors                  | (199.4)        | 230.0          | (227.5)          | (115.3)          | (131.2)          |
| Other Expenses                   | (7,848.0)       | (8,358.5)       | (27,181.5)      | (30,465.4)      | (34,242.7)      | -Inventories                     | (513.8)        | (742.0)        | (872.3)          | (1,199.5)        | (1,364.8)        |
| Total Expenses                   | (22,828.1)      | (24,540.4)      |                 |                 |                 | -Loans/advances                  | (41.1)         | (104.6)        | (88.6)           | (116.5)          | (128.4)          |
| <b>Operating Profit</b>          | <b>3,513.6</b>  | <b>4,770.6</b>  | <b>5,338.5</b>  | <b>6,264.5</b>  | <b>7,276.9</b>  | -Current Assets                  | (580.0)        | 76.8           | (22.0)           | (181.2)          | (199.3)          |
| Depreciation                     | (604.5)         | (640.5)         | (736.1)         | (831.8)         | (927.4)         | -Sundry creditors                | 711.1          | 324.9          | 176.1            | 820.3            | 933.3            |
| PBIT                             | 2,909.1         | 4,130.1         | 4,602.4         | 5,432.8         | 6,349.5         | -Others                          | (32.1)         | 330.3          | (298.0)          | 72.0             | 78.1             |
| Other income                     | 503.3           | 682.2           | 672.2           | 789.6           | 1,014.1         | Change in working capital        | (655.2)        | 115.5          | (1,332.3)        | (720.2)          | (812.4)          |
| Interest                         | (42.0)          | (35.5)          | (35.5)          | (35.5)          | (35.5)          | <b>CF from Oper. activities</b>  | <b>2,154.5</b> | <b>4,045.9</b> | <b>3,324.3</b>   | <b>4,741.2</b>   | <b>5,598.7</b>   |
| Extraordinary Items              | -               | -               | -               | -               | -               | <b>CF from Inv. activities</b>   | <b>(712.1)</b> | <b>(892.6)</b> | <b>(850.9)</b>   | <b>(850.0)</b>   | <b>(850.0)</b>   |
| Profit before tax                | 3,370.4         | 4,776.9         | 5,239.2         | 6,186.9         | 7,328.2         | <b>CF from Fin. activities</b>   | <b>(750.8)</b> | <b>(662.1)</b> | <b>(1,007.1)</b> | <b>(1,084.6)</b> | <b>(1,162.0)</b> |
| Provision for tax                | (1,165.3)       | (1,486.9)       | (1,318.7)       | (1,557.2)       | (1,844.5)       | <b>Cash generated/(utilised)</b> | <b>691.6</b>   | <b>2,491.2</b> | <b>1,466.4</b>   | <b>2,806.6</b>   | <b>3,586.6</b>   |
| <b>Reported PAT</b>              | <b>2,205.1</b>  | <b>3,289.9</b>  | <b>3,920.5</b>  | <b>4,629.6</b>  | <b>5,483.7</b>  | Cash at start of the year        | 5,220.3        | 5,911.9        | 8,403.1          | 9,869.5          | 12,676.1         |
| Extraordinary Items              | -               | -               | -               | -               | -               | Cash at end of the year          | 5,911.9        | 8,403.1        | 9,869.5          | 12,676.1         | 16,262.7         |
| Minority Interest                | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |                                  |                |                |                  |                  |                  |
| <b>Adjusted PAT</b>              | <b>2,205.1</b>  | <b>3,289.9</b>  | <b>3,920.5</b>  | <b>4,629.6</b>  | <b>5,483.7</b>  |                                  |                |                |                  |                  |                  |
| <b>Balance Sheet</b>             |                 |                 |                 |                 |                 | <b>Ratios</b>                    | <b>FY18</b>    | <b>FY19</b>    | <b>FY20E</b>     | <b>FY21E</b>     | <b>FY22E</b>     |
| Equity capital                   | 642.6           | 642.6           | 642.6           | 642.6           | 642.6           | OPM                              | 13.3           | 16.3           | 16.4             | 17.1             | 17.5             |
| Reserves                         | 14,104.3        | 16,775.8        | 19,689.2        | 23,234.2        | 27,555.9        | NPM                              | 8.2            | 11.0           | 11.8             | 12.3             | 12.9             |
| <b>Net worth</b>                 | <b>14,746.9</b> | <b>17,418.4</b> | <b>20,331.8</b> | <b>23,876.8</b> | <b>28,198.5</b> | Tax rate                         | (34.6)         | (31.1)         | (25.2)           | (25.2)           | (25.2)           |
| Def. Tax Liab.+Minority Int.     | -               | -               | -               | -               | -               | <b>Growth Ratios (%)</b>         |                |                |                  |                  |                  |
| Longterm Debt                    | -               | -               | -               | -               | -               | Net Sales                        | 6.5            | 11.3           | 10.9             | 12.9             | 13.0             |
| Short Term Debt                  | -               | -               | -               | -               | -               | Operating Profit                 | 26.1           | 35.8           | 11.9             | 17.3             | 16.2             |
| Total debt                       | -               | -               | -               | -               | -               | PAT                              | 27.5           | 49.2           | 19.2             | 18.1             | 18.4             |
| <b>CAPITAL EMPLOYED</b>          | <b>14,746.9</b> | <b>17,418.4</b> | <b>20,331.8</b> | <b>23,876.8</b> | <b>28,198.5</b> | <b>Per Share (Rs.)</b>           |                |                |                  |                  |                  |
| <b>Total fixed assets</b>        | <b>3,085.4</b>  | <b>3,337.6</b>  | <b>3,452.3</b>  | <b>3,470.6</b>  | <b>3,393.2</b>  | Net Earnings (EPS) ( FV 5)       | 17.2           | 25.6           | 30.5             | 36.0             | 42.7             |
| Goodwill                         | -               | -               | -               | -               | -               | Cash Earnings (CPS)              | 21.9           | 30.6           | 36.2             | 42.5             | 49.9             |
| Investments                      | -               | -               | -               | -               | -               | Dividend                         | 3.5            | 4.0            | 6.5              | 7.0              | 7.5              |
| Inventories                      | 7,651.7         | 8,393.7         | 9,266.0         | 10,465.5        | 11,830.3        | Book Value                       | 114.7          | 135.5          | 158.2            | 185.8            | 219.4            |
| Sundry debtors                   | 893.5           | 663.5           | 891.0           | 1,006.3         | 1,137.5         | Free Cash Flow                   | 9.6            | 24.2           | 18.2             | 29.2             | 35.9             |
| Cash & bank                      | 5,911.9         | 8,403.1         | 9,869.5         | 12,676.1        | 16,262.7        | <b>Valuation Ratios</b>          |                |                |                  |                  |                  |
| Loans & advances                 | 950.3           | 1,054.9         | 1,143.5         | 1,259.9         | 1,388.4         | <b>P/E(x)</b>                    | <b>95.6</b>    | <b>64.1</b>    | <b>53.8</b>      | <b>45.5</b>      | <b>38.4</b>      |
| Other current assets             | 1,866.4         | 1,789.6         | 1,811.6         | 1,992.8         | 2,192.1         | P/B(x)                           | 14.3           | 12.1           | 10.4             | 8.8              | 7.5              |
| Sundry creditors                 | (5,835.3)       | (6,160.2)       | (6,336.3)       | (7,156.6)       | (8,089.8)       | EV/EBIDTA(x)                     | 58.3           | 42.4           | 37.6             | 31.6             | 26.7             |
| O. Current Liabilities           | (706.8)         | (982.8)         | (720.6)         | (778.2)         | (840.5)         | Div. Yield(%)                    | 0.2            | 0.2            | 0.4              | 0.4              | 0.5              |
| Provisions                       | (125.1)         | (179.4)         | (143.6)         | (158.0)         | (173.8)         | <b>FCF Yield(%)</b>              | <b>0.6</b>     | <b>1.5</b>     | <b>1.1</b>       | <b>1.8</b>       | <b>2.2</b>       |
| <b>Working capital</b>           | <b>10,606.6</b> | <b>12,982.3</b> | <b>15,781.0</b> | <b>19,307.8</b> | <b>23,706.8</b> | <b>Return Ratios (%)</b>         |                |                |                  |                  |                  |
| Deferred Tax Assets              | 1,054.8         | 1,098.5         | 1,098.5         | 1,098.5         | 1,098.5         | ROE                              | 15.0           | 18.9           | 19.3             | 19.4             | 19.4             |
| Miscellaneous exp.               | -               | -               | -               | -               | -               | ROCE                             | 19.7           | 23.7           | 22.6             | 22.8             | 22.5             |
| <b>CAPITAL DEPLOYED</b>          | <b>14,746.9</b> | <b>17,418.4</b> | <b>20,331.8</b> | <b>23,876.8</b> | <b>28,198.5</b> | ROCE (Excluding Cash & Bank)     | 32.9           | 45.8           | 44.0             | 48.5             | 53.2             |
| <b>(All NO.s Pre-IND AS 116)</b> |                 |                 |                 |                 |                 |                                  |                |                |                  |                  |                  |



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