

**Bata Q4FY23 Results were in line with expectations. Gross margins improvement was a surprise.**

- **Revenue** at Rs 7785.9mn grew by 17% YoY and 25.6% over Q4FY20.
- **CAGR over Q4FY20 stands at 8%**
- Bata added 32 **stores** in Q4FY23 to reach 2053stores.
- **EBIDTA margins** stood at 23% as against 24.4% in Q4FY22 and 22.9% QoQ.
  - Raw Mat to Revenue stood at 41.6% v/s 42.4% YoY and was 45.2% on a QoQ basis, basically on account of product mix.
  - Other Expenses stood at 22% as against 18.9% YoY and 20.5% QoQ.
- EBIDTA in absolute terms stood at Rs 1792.5mn up by 10.5% on a YoY basis.
- In addition to lower EBIDTA growth drop in other income by 33% PAT stood at Rs 656mn up by 4% YoY and -21% on a QoQ basis.

#### Outlook:

- Store count up from 1814 to 2053, mainly driven by franchise expansion. Number of franchise stores stood at 419 (+38% YoY)
- EBIT margins per pair in case of Franchise store is 600-700bps better compared to COCO store and helps maintaining better capital efficiency and higher availability even in smaller towns where COCO is not always feasible.
- Inflation moderated, favorable gross margins to continue
- Employee: flexi retail man-power@15% aim to increase to 25%, backed by technology and other supply chain efficiencies
- Lower-price point products are still under pressure in terms of growth.

#### Financial Summary

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net sales	17,085	23,877	34,516	38,255	42,210
growth (%)	(44.1)	39.8	44.6	10.8	10.3
EBIDTA	1,622	4,185	7,938	8,912	10,216
Margins	9	18	23	23	24
PAT(adj)	(847)	1,030	3,230	3,625	4,289
growth (%)	(125.7)	(221.6)	213.6	12.2	18.3
EPS (Rs)	(6.6)	8.0	25.1	28.2	33.4
P/E (x)	(232.6)	191.3	61.0	54.3	45.9
P/B (x)	11.2	10.9	13.7	12.1	10.2
EV/EBITDA (x)	114.7	44.8	24.2	21.4	18.5

Source: Company

Rating	TP (Rs)	Up/Dn (%)
<b>BUY ON DIPS</b>	<b>1,670</b>	<b>9</b>

#### Market data

<b>Current price</b>	<b>Rs</b>	<b>1,534</b>
Market Cap (Rs.Bn)	(Rs Bn)	197
Market Cap (US\$ Mn)	(US\$ Mn)	2,387
Face Value	Rs	5
52 Weeks High/Low	Rs	1989 / 1380.85
Average Daily Volume	('000)	165
BSE Code		<b>500043</b>
Bloomberg		BATA.IN

Source: Bloomberg

#### One Year Performance



Source: Bloomberg

% Shareholding	Mar-23	Dec-22
Promoters	50.16	50.16
Public	49.84	49.84
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

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- Market share in Premium category v/s Pre-Covid improved.
- Athleisure opportunity especially for Bata with 2053 stores with ~1.5mn walk-ins a week big.

### **Bata Conference Call KTA's**

#### **Important Financials**

- Volumes FY23 @ 48.5mn v/s 38mn YoY
- FY23 ASP Rs 712 v/s 627 YoY (blended of COCO franchise and MBO)
- Approximate Sales Break-up COCO 68%, Franchise 8%, MBO+Distribution 14%, E-commerce 10%
- Pace of growth over pre-covid in casual, school and sneakers is much better.
- Franchise Store turnover 50% of COCO store (on average)
- Sub-Rs 1000 MRP contribution was 50% which has come down to approx 35-40% ( of this ½ would be Rs 500/- and below
- Red Label store attracting lower-age customers.
- Hush Puppies grew 1.36x in FY23
- Comfit grew 1.35x FY23
- Floatz grew 4.68x FY23
- Marketing spend to be in the region of 2.6% to 3+% of sales
- Tech-based capex to continue @ Rs 300mn for FY24.
- Cash generated from operations @ Rs 7260mn v/s Rs 2180mn YoY
- Dividend policy: distribute ~60% of PAT

#### **SNEAKER Proposition (a pillar of growth)**

- Sneakers studios implemented in 533 stores
- Sneaker growth 1.16x YoY

#### **Floatz:**

- Achieved highest every quarterly turnover
- Has reached 60% penetration @ franchise level.
- Floatz kiosks in malls with extensive collection in men, ladies and kids

#### **E-COMMERCE**

- 3.7 Mn+ Customer Visits on Bata.in
- Digital Sales contribution Bata.in: 12%, B2C: Bata 37%, B2B: 51%
- Bata.in grew 1.5x ASP +15% v/s Q4FY22
- In-Store business has a promising start ~1.2X vs Q4'22

## STORES & Distribution

- Stores total 2053 v/s 1814 YoY and 2021QoQ
- Store Q4FY23: break-up 63% COCO || 20% Franchise || 17% SIS
- Store Q4FY22: Break-up 70% COCO || 17% Franchise || 13% SIS
- Franchise Q3FY23 Store additions +27 (**+38% growth on a YoY basis and ~2.5x since Jun-20**) || Towns 370+ || Vision 500 stores
- Towns Covered 1372 v/s 1047 YoY and 1152 QoQ (mapped directly)
- 43.5% distributors reached v/s 43% in Dec-22.

## Other KTA's

- 3PL warehouse project @Jamalpur implemented
- School Category bounced back strongly
- Launched Value Added Category (VAC) in Ladies Open wear and sports
- Continuous investment in digital marketing drove footfalls, online sessions & orders
- Leverage Power brand to tap active lifestyle trend opportunity in Apparel with exciting price point (799-1499/-)
- Inventory management ERP completed, implementation to start from Q1FY24
- High Performance Merchandise project to go live in the next 2-3 quarters.

## Quarterly Snapshot

Particulars ( Rs Mns) Consolidated	Q4FY23	Q4FY22	Growth		Q4FY20	Growth	
			YoY	Q3FY23		QoQ	Over Q4FY20
Net Sales	7785.85	6652.47	17.0	9002.1	(13.5)	6197.03	25.6%
Other Income	126.07	187.49	(32.8)	75.05	68.0	171.05	-26.3%
<b>TOTAL INCOME</b>	<b>7911.92</b>	<b>6839.96</b>	<b>15.7</b>	<b>9077.15</b>	<b>(12.8)</b>	6368.08	24.2%
Cost of Materials Consumed	-646.77	-700.01	(7.6)	-400.41	61.5	-967.58	-33.2%
Purchase of Stock in Trade	-3205.67	-3856.31	(16.9)	-2022.43	58.5	-2875.02	11.5%
Changes in Inventories	614.17	1734.7	(64.6)	-1648.43	(137.3)	1286.37	-52.3%
Employee Cost	-1039.35	-952.2	9.2	-1028.92	1.0	-919.03	13.1%
Other Expenses	-1715.75	-1257.22	36.5	-1841.08	(6.8)	-1164.47	47.3%
EBIDTA	1918.55	1808.92	6.1	2135.88	(10.2)	1559.3	23.0%
<b>EBIDTA ( Excl O. Income)</b>	<b>1792.48</b>	<b>1621.43</b>	<b>10.5</b>	<b>2060.83</b>	<b>(13.0)</b>	1388.25	29.1%
Less: Depreciation	-764.67	-717.51	6.6	-753.79	1.4	-714.36	7.0%
PBIT	1153.88	1091.41	5.7	1382.09	(16.5)	844.94	36.6%
Less: Interest Cost	-272.05	-245.4	10.9	-285.76	(4.8)	-271.2	0.3%
<b>PBT ( Before Exceptional)</b>	<b>881.83</b>	<b>846.01</b>	<b>4.2</b>	<b>1096.33</b>	<b>(19.6)</b>	573.74	53.7%
Exceptional							
PBT ( Post Exceptional)	881.83	846.01	4.2	1096.33	(19.6)	573.74	53.7%
Tax	-226.26	-216.41	4.6	-265.22	(14.7)	-197.67	14.5%
PAT ( Reported)	655.57	629.6	4.1	831.11	(21.1)	376.07	74.3%
<b>PAT ( Adjusted)</b>	<b>655.57</b>	<b>629.6</b>	<b>4.1</b>	<b>831.11</b>	<b>(21.1)</b>	376.07	74.3%
Equity	642.64	642.64	-	642.64	-	642.64	
FV	5	5		5		5	
<b>EPS ( on adjusted PAT)</b>	<b>5.1</b>	<b>4.9</b>	<b>4.1</b>	<b>6.5</b>	<b>(21.1)</b>	<b>2.9</b>	
OPM	23.0%	24.4%		22.9%		22.4%	
NPM ( Reported PAT)	8.3%	9.2%		9.2%		5.9%	
TaxRate	-25.7%	-25.6%		-24.2%		-34.5%	
<b>% of Total Operating Income</b>							
<b>RAW MATERIALS</b>	-41.6%	-42.4%		-45.2%		-41.2%	
Employee Cost	-13.3%	-14.3%		-11.4%		-14.8%	
Other Expenses	-22.0%	-18.9%		-20.5%		-18.8%	
<b>EXPENDITURE</b>	<b>-77.0%</b>	<b>-75.6%</b>		<b>-77.1%</b>		<b>-77.6%</b>	

## Valuation & Outlook

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Most of the negative i.e. low CAGR growth, high competitive intensity pressure and unfavorable raw material scenario are all factored in the Bata's current price.

*We had given "Book Profits" at Rs 1740 levels since Q2FY23 and the stock had corrected to Rs 1400 levels.*

Brand "Bata" has a solid trustworthy recall value and the management has put-in efforts to connect with the youth with lot of work done on distribution as well as new product development.

Expansion via Franchise route is not only faster but also capital-efficient.

We have re-worked our numbers post conference call and at CMP of Rs 1533 Bata trades at 54x FY24e EPS of Rs 28 and 46x FY25e EPS of Rs 33.4.

We expect the stock to get re-rated as the product mix improvement will start pushing the gross margins. In addition favorable base effect (i.e. lower growth in the past 2 years) will lead to a double digit topline and bottom-line growth in the next couple of quarters. Hence we change our recommendations from "Book Profits" to "Buy on Dips" with a target price of Rs 1670 i.e. (50x FY25)

## Financials

P&L (Rs mn)	FY22	FY23	FY24E	FY25E	Cash Flow St. (Rs. mn)	FY22	FY23	FY24E	FY25E
Net Operating Income	23,877.2	34,515.7	38,254.8	42,209.9	Net Profit	1,029.9	3,230.0	3,625.2	4,289.3
					Add: Dep. & Amort.	2,419.6	2,947.8	3,269.4	3,618.5
					<b>Cash profits</b>	<b>3,449.6</b>	<b>6,177.9</b>	<b>6,894.6</b>	<b>7,907.7</b>
Raw Materials	(10,868.1)	(15,136.3)	(16,832.1)	(18,361.3)	(Inc)/Dec in				
Employee Cost	(3,786.8)	(4,186.9)	(4,605.6)	(4,974.1)	-Sundry debtors	76.5	(108.4)	(117.7)	(97.5)
Other Expenses	(5,037.3)	(7,254.6)	(7,905.0)	(8,658.2)	-Inventories	(2,626.3)	(336.5)	(1,435.2)	(1,083.6)
Total Expenses	(19,692.3)	(26,577.8)	(29,342.8)	(31,993.6)	-Loans/advances	8.5	-	-	-
<b>Operating Profit</b>	<b>4,184.9</b>	<b>7,937.9</b>	<b>8,912.0</b>	<b>10,216.3</b>	-Current Assets	(228.9)	346.0	(243.9)	(268.3)
Depreciation	(2,419.6)	(2,947.8)	(3,269.4)	(3,618.5)	-Sundry creditors	164.2	(468.0)	518.0	419.0
PBIT	1,765.3	4,990.0	5,642.6	6,597.8	-Others	577.7	170.5	181.0	199.6
Other income	559.9	386.8	398.4	460.7	Change in working capital	(2,028.2)	(396.4)	(1,097.8)	(830.8)
Interest	(928.2)	(1,078.5)	(1,194.5)	(1,324.2)	<b>CF from Oper. activities</b>	<b>1,421.4</b>	<b>5,781.5</b>	<b>5,796.8</b>	<b>7,076.9</b>
Extraordinary Items	-	-	-	-	<b>CF from Inv. activities</b>	<b>(3,199.2)</b>	<b>(4,598.2)</b>	<b>(4,570.9)</b>	<b>(4,960.0)</b>
Profit before tax	1,397.0	4,298.4	4,846.5	5,734.3	<b>CF from Fin. activities</b>	<b>497.4</b>	<b>(5,559.1)</b>	<b>(394.7)</b>	<b>215.4</b>
Provision for tax	(367.1)	(1,068.3)	(1,221.3)	(1,445.0)	<b>Cash generated/(utilised)</b>	<b>(1,280.4)</b>	<b>(4,375.8)</b>	<b>831.2</b>	<b>2,332.3</b>
<b>Reported PAT</b>	<b>1,029.9</b>	<b>3,230.0</b>	<b>3,625.2</b>	<b>4,289.3</b>	Cash at start of the year	10,968.2	9,687.7	5,312.0	6,143.1
Extraordinary Items	-	-	-	-	Cash at end of the year	9,687.7	5,312.0	6,143.1	8,475.5
Minority Interest	0.0	0.0	0.0	0.0					
<b>Adjusted PAT</b>	<b>1,029.9</b>	<b>3,230.0</b>	<b>3,625.2</b>	<b>4,289.3</b>					
<b>Balance Sheet</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>	<b>Ratios</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>
Equity capital	642.6	642.6	642.6	642.6	OPM	17.5	23.0	23.3	24.2
Reserves	17,503.9	13,739.5	15,629.6	18,633.7	NPM	4.2	9.3	9.4	10.1
<b>Net worth</b>	<b>18,146.5</b>	<b>14,382.1</b>	<b>16,272.2</b>	<b>19,276.3</b>	Tax rate	(26.3)	(24.9)	(25.2)	(25.2)
Def. Tax Liab.+Minority I	-	-	-	-	<b>Growth Ratios (%)</b>				
Longterm Debt	-	-	-	-	Net Sales	39.8	44.6	10.8	10.3
Short Term Debt	-	-	-	-	Operating Profit	158.0	89.7	12.3	14.6
Total debt	-	-	-	-	PAT	(221.6)	213.6	12.2	18.3
Lease Liability	8,912.9	10,110.1	11,196.8	12,413.5					
<b>CAPITAL EMPLOYED</b>	<b>27,059.4</b>	<b>24,492.1</b>	<b>27,469.1</b>	<b>31,689.8</b>					
<b>Total fixed assets</b>	<b>3,104.2</b>	<b>3,395.9</b>	<b>3,562.2</b>	<b>3,632.9</b>	<b>Per Share (Rs.)</b>				
Right to Use of Assets	9206.6	10560.3	11695.4	12966.3	Net Earnings (EPS) ( FV5)	8.0	25.1	28.2	33.4
Goodwill	-	-	-	-	Cash Earnings (CPS)	26.8	48.1	53.6	61.5
Investments	-	5.0	5.0	5.0	Dividend	4.0	54.5	13.5	10.0
Inventories	8,709.1	9,045.6	10,480.8	11,564.3	Book Value	141.2	111.9	126.6	150.0
Sundry debtors	717.2	825.5	943.3	1,040.8	Free Cash Flow	13.2	45.4	46.9	58.1
Cash & bank	9,687.7	5,312.0	6,143.1	8,475.5					
Loans & advances	-	-	-	-	<b>Valuation Ratios</b>				
Other current assets	2,785.0	2,439.0	2,682.9	2,951.2	<b>P/E(x)</b>	<b>191.3</b>	<b>61.0</b>	<b>54.35</b>	<b>45.9</b>
Sundry creditors	(4,561.5)	(4,093.5)	(4,611.5)	(5,030.5)	P/B(x)	10.9	13.7	12.1	10.2
O. Current Liabilities	(1,491.2)	(1,695.9)	(1,865.4)	(2,052.0)	EV/EBIDTA(x)	44.8	24.2	21.4	18.5
Provisions	(2,139.3)	(2,435.1)	(2,700.1)	(2,997.1)	Div. Yield(%)	0.3	3.6	0.9	0.7
<b>Working capital</b>	<b>13,707.0</b>	<b>9,397.7</b>	<b>11,073.1</b>	<b>13,952.3</b>	<b>FCF Yield(%)</b>	<b>0.9</b>	<b>3.0</b>	<b>3.1</b>	<b>3.8</b>
Deferred Tax Assets	1,041.6	1,133.3	1,133.3	1,133.3					
Miscellaneous exp.	-	-	-	-	<b>Return Ratios (%)</b>				
<b>CAPITAL DEPLOYED</b>	<b>27,059.4</b>	<b>24,492.1</b>	<b>27,469.1</b>	<b>31,689.8</b>	ROE	5.7	22.5	22.3	22.3

Source: Dalal & Broacha Research, Company

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