

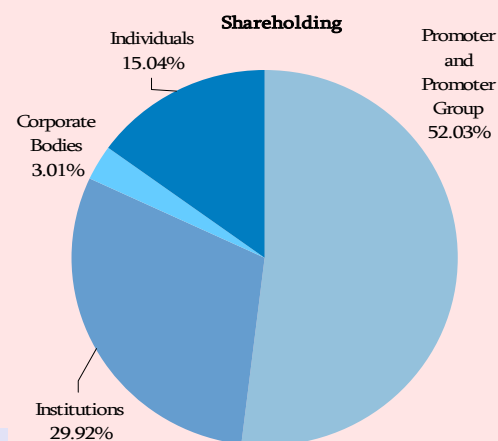
Bata



BUY

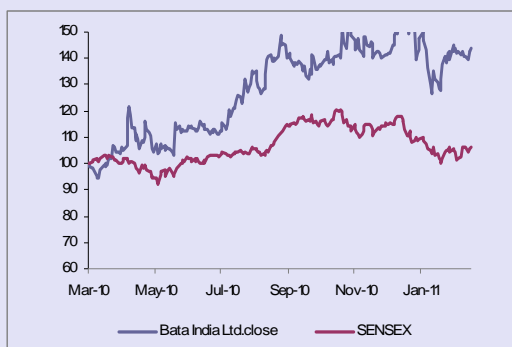
Market Data

Current Market Price (INR)	353.00
Target Price	439.00
Upside Potential	24%
52 Week High / Low (INR)	419 / 226
Market Capitalization (In INR Mn)	22,685.00



STOCK SCAN

BSE Code	500043
NSE Code	BATAINDIA
Bloomberg Ticker	BATAIN
Reuters Ticker	BATA.BO
Face Value (INR)	10.00
Equity Share Capital (Rs. Mn.)	642.64
Average 4 Year P/E	27x
Beta vs Sensex	0.73x
Average Daily Volumes (6 M)	442,000
Dividend Yield (%)	0.87
Stock Return (1 Yr)	46%



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BATA Ltd – 'Brand Repositioning'

Sector – Retail

Bata India is the largest retailer and leading manufacturer of footwear in India and is a part of the Bata Shoe Organization. The company manufactures footwear for men, women and children. **It commands around 35 percent of market share in India.** Around 98 percent revenue comes from domestic operation. It owns 1300 stores spread across 400 cities in India. Currently the company owns brands like *Hush Puppies, Dr Scholls, Weinbrenner, North Star, Power, Marie Claire, Bubblegummers, Ambassador, Comfit and Wind India*

Investment Highlights

Strong Emotional Brand Attachment in the hearts of Indians for 75 years : Bata has been holding a unique place in the hearts of Indians for more than 75 years. Probably the only footwear brand that offers footwear and accessories for the entire family and is the most trusted name in branded footwear.

Brand Repositioning with operational efficiency, stylish layout and trendy shoe design seems to be the latest 'mantra' : Over the years Bata has been very redundant in its brand positioning and product design. But currently with stylish layout and trendy shoe design it is repositioning its brand which we feel gives a 'fresh' look to its customers. The company introduced and expanded **high-margin premium brands such as Hush Puppies, North Star and Weinbrenner.** It also optimised its chain of retail outlets by opening large-format stores, closing down the less profitable ones and renovating the rest.

Expanding its Retail Outlet Network to enhance market reach : It plans to open 50-60 stores in tier-II and tier-III cities annually to increase market penetration from the current store of 1300 in CY10

Making shoes for Industrial uses and Armed Forces to add value: The Company has recently launched shoes in the range of INR500-3000 for industrial uses in the domestic market. It is also planning to become an approved supplier of armed forces of which demand is 1.2mn pairs a year.

Developing 260 acre land in Batanagar in JV with Calcutta Metropolitan to unlock value: The township project in JV with Calcutta Metropolitan where Bata has deployed around Rs.73 crore in 2007 is expected to be completed by 2013 and would further unlock value of Bata India.

Exhibit 1. Bata India – Historical Financials and Projections

Particulars	CY08	CY09	CY10	CY11E	CY12E
Net Sales	9,836.0	10,902.0	12,739.0	14,800.0	17,200.0
Growth (%)		11%	17%	16%	16%
EBITDA	830.0	1,240.0	1,629.0	1,920.0	2,300.0
EBITDA Margins (%)	8.4%	11.4%	12.8%	13.0%	13.4%
Net Profit	590.6	625.8	883.7	1,064.6	1,282.8
Net Profit Margins (%)	6.0%	5.7%	6.9%	7.2%	7.5%
Net Profit Growth (%)		6%	41%	20%	20%
EPS	9.19	9.74	13.75	16.57	19.96
EV/EBITDA	8.00	10.10	13.50	11.50	9.60
P/E	38.41	36.24	25.67	21.30	17.69
P/BV	8.74	7.57	6.39	5.20	4.21
RoE	24.7%	22.4%	27.0%	26.9%	26.3%

Source: Company, Microsec Research (In INR Mn)

VALUATION

The stock is currently trading at INR353 at a P/E of 25x. It discounts its CY11E EPS of Rs.16.57 by 21.3x and its CY12E EPS of Rs 19.96 by 17.7x. Its 4 year Average P/E works out to be 26.8x as per Bloomberg. **With Strong Brand Value, Mass appeal, new growth strategies, and Negligible Debt, Bata India looks to be a good investment. We assign a multiple of 22x on its CY12E EPS of Rs.19.96 to arrive at a Target price of Rs.439.**

Industry

Indian domestic leather goods market is estimated to be worth Rs 16,300 crore and is expected to grow at a CAGR of 20%. **Domestic footwear market is estimated to be over Rs 15,000 crore in value terms** and has grown at the rate of 8.8% over the last couple of years. **Indian Footwear Market is projected to reach INR20000 crore by 2015.** Men's footwear accounts for almost half of the total market, with women's shoes constituting 40 percent and kids footwear making up for the remainder. The domestic market is substantially price driven, with branded footwear constituting less than 42 percent of the total market size.

About 37.8 percent of Footwear retail is the organized segment, which qualifies it as the second most organized retail category in India, next only to Watches. While the average spend on the footwear by urban consumers is INR240/annum, consumers in rural areas spend just about INR100/annum. **The annual domestic consumption of footwear is approximately 1.1 billion pairs per annum**, and top 20 cities contribute about 450 Million pairs/annum. **India is the second largest footwear manufacturer in the world, next only to China.**

Retail footwear segment in Indian is very price sensitive and has been steadily growing over the year. Major part of the demand is met by the unorganised sector and still there is a shortfall of 300 million pairs. **Branded shoe market only account for 20% of the entire market.** While international brands largely dominate the higher end of the spectrum, the lower end of the market is dominated by home-grown players as well as unorganised players. While men's footwear is the biggest target category (contributing almost 48%), children's (11%) and women's lifestyle footwear (41%) is not behind in the race.

Major Brand in Footwear Segment

- Bata
- Liberty
- Red Tape
- Woodland
- Khadim
- Metro
- Nike
- Reebok

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