

## Bata India

BLOOMBERG: BATA IN EQUITY | BSE: 500043 | NSE: BATAINDIA

### Results in line – Maintain BUY

BATA saw a growth of 27%/45%/47% YoY in its Q3CY11 net sales/EBITDA/PAT, with net sales coming in slightly ahead of our estimates and EBITDA/PAT largely in line. Sales growth for the company was driven by retail expansion and strong same-store-sales (SSS) growth, which in turn was led by an improving product mix. We expect BATA to report a strong operational performance with a ~300bps margin improvement over CY10–CY13 led by a robust 20% CAGR growth in sales. We maintain a BUY on the stock with a Dec'12 TP of Rs 825, with BATA remaining as one of our top picks in the retail space.

- ❖ **Strong net sales growth of 26.8% YoY:** BATA's net sales surged 26.8% YoY to Rs 3.7bn driven by retail expansion (space growth of ~ 8% YoY) and strong SSS growth led by an improving product mix.
- ❖ **EBITDA margins improve 170bps YoY:** EBITDA margins for the company came in at 13.7%, up 170bps YoY, with EBITDA growing 45% YoY to Rs 506mn, in line with our estimates. Gross margins contracted 20bps YoY. Employee costs (as a percentage of sales) were down 310bps YoY but remained flat at Rs 444mn (absolute levels). Other expenses increased 120bps YoY to 28% (of sales).
- ❖ **Adj. PAT at Rs 304mn:** BATA's adj. PAT came in at Rs 304mn, up 47% YoY, in line with our estimates. Other income grew 10.6% YoY to Rs 54mn. Tax rate for the quarter stood at 32%.
- ❖ **Maintain BUY with a Dec'12 TP of Rs 825:** We maintain our earnings estimates for BATA and expect the company to report strong 34% earnings CAGR over CY10–CY13 on aggressive store roll-outs and product mix improvements. We maintain a BUY on the stock with a Dec'12 TP of Rs 825 based on 23x Dec'13 earnings. Key risks to our call remain: (a) slowdown in discretionary spending impacting the footwear industry, and (b) increasing competition hurting SSS growth, in turn leading to margin pressures.

#### Financial highlights

Year End: 31 Dec	FY09A	FY10A	FY11E	FY12E	FY13E
Revenue (Rs mn)	10,916	12,581	15,308	18,612	22,077
EBITDA (Rs mn)	1,357	1,695	2,424	3,134	3,687
Adj. PAT (Rs mn)	675	956	1,452	1,975	2,320
Adj. EPS (Rs)	10.5	14.9	22.6	30.7	36.1
Growth (%)	11.2	41.6	51.9	36.0	17.5
DPS (Rs)	0.1	0.0	0.2	0.2	0.3
ROIC (%)	23.7	33.2	48.0	57.9	63.6
ROE (%)	21.6	26.1	30.8	32.4	31.0
P/E (x)	18.8	24.3	32.1	23.6	20.1
EV/EBITDA (x)	9.0	12.9	18.2	13.7	11.3
P/BV (x)	3.8	5.8	8.5	6.9	5.7

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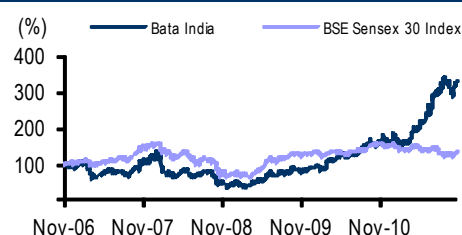
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<b>CMP</b>	<b>Rs 725</b>
<b>Target</b>	<b>Rs 825</b>
Previous	Rs 825
<b>Rating</b>	<b>BUY</b>
Previous	BUY
<b>% Upside / (Downside)</b>	<b>14%</b>
+ Dividend yield	0%
<b>Total return</b>	<b>14%</b>

#### Company data

Market cap (Rs mn / US\$ mn)	46,560 / 955
Outstanding equity shares (mn)	64.3
BVPS (Rs)	85
Free float (%)	48.0
52-week high / low (Rs)	730 / 307
2-month avg. daily vol (mn)/ value (US\$ mn)	1 / 10
ADR/GDR premium (%)	NA

#### Stock performance



## Result highlights

**Fig 1 - Actual vs estimated performance**

(Rs mn)	Actual	Estimate	% Variance
Revenue	3,700	3,560.0	3.9
EBITDA	506	498.0	1.6
EBITDA margins (%)	13.7	14.0	(30 bps)
Adj net income	304	301	1.1

Source: RCML Research

**Fig 2 - Quarterly performance**

(Rs mn)	Q3FY11	Q3FY10	% Chg YoY	Q2FY11	% Chg QoQ
Net Sales	3,700	2,918	26.8	4,294	(13.8)
Cost of revenues	1,712	1,345	27.3	2,143	(20.1)
Gross profit	1,988	1,573	26.4	2,151	(7.6)
Staff costs	444	440	0.8	479	(7.3)
Other operating expenses	1,037	783	32.5	1,011	2.6
Operating profit	506	349	44.9	661	(23.4)
EBITDA margin (%)	13.7	12.0	170 bps	15.4	(170bps)
Depreciation & Amortization	108	89	20.5	105	3.0
Other income	54	49	10.6	63	(13.5)
Interest	2	1	107.5	2	46.5
PBT	450	308	46.2	617	(27.0)
Income taxes	146	101	45.0	207	(29.5)
Adj. PAT	304	207	46.8	410	(25.8)
EPS (Rs)	4.7	3.2	46.8	6.4	(25.8)

Source: Company, RCML Research

Results largely in line with estimates

Net sales grow by a strong 26.8% YoY to  
Rs 3.7bn

EBITDA margins improve 170bps YoY  
as employee costs decline 310bps YoY

## Profit and Loss statement

Y/E 31 Dec (Rs mn)	FY09A	FY10A	FY11E	FY12E	FY13E
<b>Total revenue</b>	<b>10,916</b>	<b>12,581</b>	<b>15,308</b>	<b>18,612</b>	<b>22,077</b>
EBITDA	1,357	1,695	2,424	3,134	3,687
EBIT	1,017	1,355	2,014	2,684	3,157
Interest	(96)	(76)	(76)	(76)	(76)
Other income/(Expense)	84	153	244	362	412
Exceptional items	0	0	0	0	0
EBT	1,005	1,432	2,182	2,970	3,493
Income taxes	(330)	(476)	(730)	(995)	(1,173)
Extraordinary items	0	0	822	0	0
Min int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>675</b>	<b>956</b>	<b>2,274</b>	<b>1,975</b>	<b>2,320</b>
Adjustments	0	0	(822)	0	0
Adjusted net profit	675	956	1,452	1,975	2,320

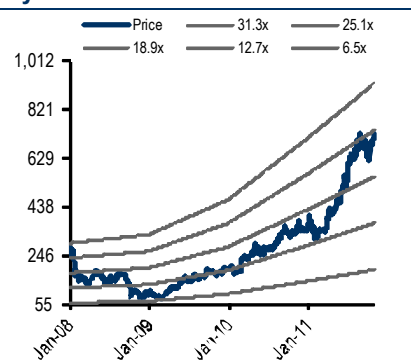
## Balance sheet

Y/E 31 Dec (Rs mn)	FY09A	FY10A	FY11E	FY12E	FY13E
Accounts payable	2,564	3,990	4,751	5,942	7,250
Other current liabilities	0	0	0	0	0
Provisions	0	0	0	0	0
Debt funds	250	137	111	105	57
Other liabilities	0	0	0	0	0
Equity capital	3,343	3,982	5,457	6,734	8,240
Reserves & surplus	0	0	0	0	0
Shareholder's funds	3,343	3,982	5,457	6,734	8,240
<b>Total liabilities</b>	<b>6,156</b>	<b>8,108</b>	<b>10,320</b>	<b>12,781</b>	<b>15,547</b>
Cash and cash eq	562	1,355	2,400	3,500	4,700
Accounts receivable	251	302	377	459	544
Inventories	2,774	2,993	3,565	4,334	5,141
Other current assets	832	1,441	1,660	1,906	2,189
Investments	172	172	172	172	172
Net fixed assets	1,303	1,531	1,824	2,084	2,469
CWIP	6	3	10	15	20
Intangible assets	0	0	0	0	0
Deferred tax assets, net	241	311	311	311	311
Other assets	15	0	0	0	0
<b>Total assets</b>	<b>6,156</b>	<b>8,108</b>	<b>10,320</b>	<b>12,781</b>	<b>15,547</b>

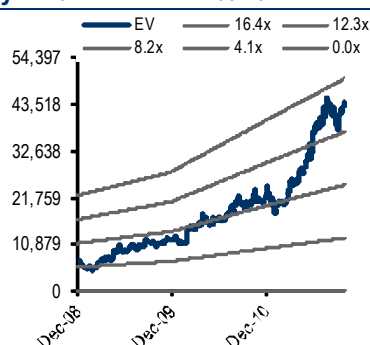
## Cash flow statement

Y/E 31 Dec (Rs mn)	FY09A	FY10A	FY11E	FY12E	FY13E
Net income + Depreciation	954	1,281	2,684	2,425	2,850
Interest expenses	96	76	76	76	76
Non-cash adjustments	61	15	0	0	0
Changes in working capital	194	547	(105)	94	132
Other operating cash flow	(128)	(85)	0	0	0
Cash flow from operations	1,177	1,834	2,655	2,595	3,059
Capital expenditure	(410)	(550)	(710)	(715)	(920)
Change in investments	0	0	0	0	0
Other investing cash flow	0	0	0	0	0
Cash flow from investing	(410)	(550)	(710)	(715)	(920)
Issue of equity	0	0	0	0	0
Issue/repay debt	(194)	(113)	(26)	(6)	(49)
Interest expenses	(96)	(76)	(76)	(76)	(76)
Dividends paid	(224)	(298)	(767)	(667)	(783)
Other financing cash flow	42	(4)	(31)	(31)	(31)
Cash flow from financing	(472)	(491)	(900)	(780)	(939)
Change in cash & cash eq	295	793	1,045	1,100	1,200
Closing cash & cash eq	562	1,355	2,400	3,500	4,700

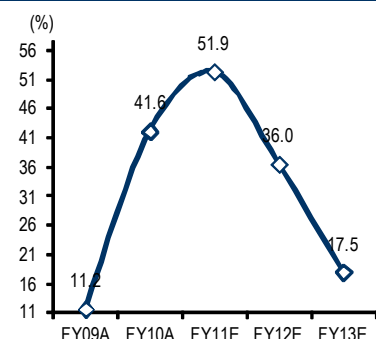
## 1-yr fwd P/E band



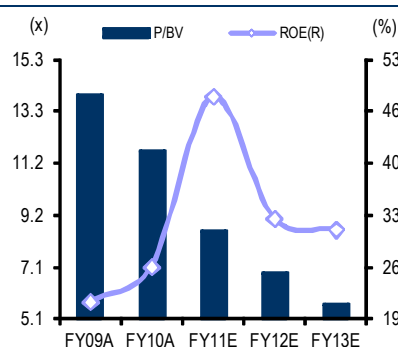
## 1-yr fwd EV/EBITDA band



## EPS growth



## ROE vs P/BV



## Per share data

Y/E 31 Dec (Rs)	FY09A	FY10A	FY11E	FY12E	FY13E
Reported EPS	10.5	14.9	22.6	30.7	36.1
Adjusted EPS	10.5	14.9	22.6	30.7	36.1
DPS	0.1	0.0	0.2	0.2	0.3
BVPS	52.0	62.0	84.9	104.8	128.2

## Valuation ratios

Y/E 31 Dec (x)	FY09A	FY10A	FY11E	FY12E	FY13E
EV/Sales	1.1	1.7	2.9	2.3	1.9
EV/EBITDA	9.0	12.9	18.2	13.7	11.3
P/E	18.8	24.3	32.1	23.6	20.1
P/BV	3.8	5.8	8.5	6.9	5.7

## Financial ratios

Y/E 31 Dec	FY09A	FY10A	FY11E	FY12E	FY13E
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	12.4	13.5	15.8	16.8	16.7
EBIT margin	9.3	10.8	13.2	14.4	14.3
Net profit margin	6.2	7.6	9.5	10.6	10.5
ROE	21.6	26.1	30.8	32.4	31.0
ROCE	19.7	23.5	27.7	28.8	27.7
<b>Working Capital &amp; Liquidity ratios</b>					
Receivables (days)	9	8	8	8	8
Inventory (days)	203	177	168	167	168
Payables (days)	180	201	224	225	235
Current ratio (x)	1.7	1.5	1.7	1.7	1.7
Quick ratio (x)	0.6	0.8	0.9	1.0	1.0
<b>Turnover &amp; Leverage ratios (x)</b>					
Gross asset turnover	3.0	3.2	3.4	3.6	3.7
Total asset turnover	1.8	1.8	1.7	1.6	1.6
Interest coverage ratio	10.6	17.8	26.5	35.3	41.5
Adjusted debt/equity	0.1	0.0	0.0	0.0	0.0

## Quarterly trend

Particulars	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Revenue (Rs mn)	2,918	3,559	3,107	4,294	3,700
YoY growth (%)	12.0	23.5	19.9	22.6	26.8
QoQ growth (%)	(16.7)	22.0	(12.7)	38.2	(13.8)
EBITDA (Rs mn)	349	553	408	661	506
EBITDA margin (%)	12.0	15.5	13.1	15.4	13.7
Adj PAT (Rs mn)	207	344	272	410	304
YoY growth (%)	57.6	35.4	89.8	58.2	46.8
QoQ growth (%)	(20.0)	66.0	(20.9)	50.7	(25.8)

## DuPont analysis

(%)	FY09A	FY10A	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	67.2	66.8	66.5	66.5	66.4
Interest burden (PBT/EBIT)	98.8	105.7	108.3	110.7	110.7
EBIT margin (EBIT/Revenue)	9.3	10.8	13.2	14.4	14.3
Asset turnover (Revenue/Avg TA)	182.0	176.4	166.1	161.1	155.9
Leverage (Avg TA/Avg equity)	191.8	194.8	195.2	189.5	189.2
Return on equity	21.6	26.1	30.8	32.4	31.0

## Company profile

BATA is the leader (15–20% market share in the branded segment) and enjoys strong brand franchise in the highly fragmented Indian footwear market. The company currently has ~ 1300 stores and is expanding rapidly with addition of 100 stores p.a.

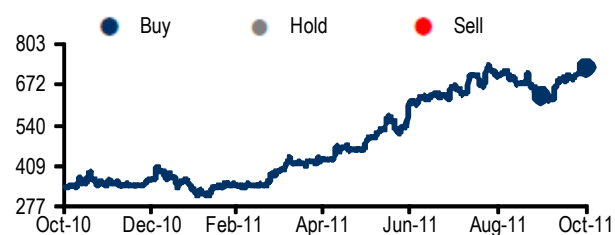
## Shareholding pattern

(%)	Mar-2011	Jun-2011	Sep-2011
Promoters	52.0	52.0	52.0
FIs	13.8	14.7	15.3
Banks and FIs	16.3	15.1	13.5
Public	17.9	18.2	19.2

## Recommendation history

Date	Event	Reco price	Tgt price	Reco
29-Sep-11	Company Initiation	632	825	Buy
31-Oct-11	Results Review	725	825	Buy

## Stock performance



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