



Report Date	July 31, 2008
Company Name	Bata India (BIL)
Recommendation	BUY

CMP – Rs. 153.20	Target Price – Rs. 200/-	Mkt. Cap. Rs. 984.5 crore
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Investment Rationale

- Bata, the largest footwear retailer & leader in footwear industry (enjoying 35% market share) in India, posted impressive performance for Q2 CY 2008 as restructuring and re-engineering initiatives taken over past few years have started yielding positive results. Net Sales grew @ 14.8% to Rs. 286.85 crore. OPM% improved noticeably to 9.2% because of sharp reduction in personnel cost to 15.9% (18.4%) of sales owing to manpower rationalisation. Further aided by 68.5% higher other income of Rs. 1.63 crore, PBT (before extra ordinary items) shot up by 53.2% to Rs. 21.73 crore. After accounting for VRS amortisation of Rs. 15 lakh and higher average tax rate of 24.9% (13.9%), PAT soared up by 38% to Rs. 16.2 crore.
- For H1 CY 2008, net sales were up by 16.9% to Rs 505.62 crore. OPM% augmented to 8.8%. Consequently, PBT (before extra ordinary items) jumped up by 73.6% to Rs. 35.05 crore. However, higher average tax rate of 20.7% restricted growth in PAT of Rs. 27.23 crore at 62.1%.
- BIL, 51% subsidiary of Bata Shoes Organization (BSO), is the largest company for BSO in terms of sales pairs and second largest in terms of revenues. Bata sells wide range of footwear in canvas, rubber, leather and plastic catering to masses.
- Company is on high growth trajectory having implemented several forward looking initiatives like
 - ✦ Aggressive retail expansion with investments in large format stores. Company plans to spend Rs. 500 crore to set up 250 new stores of international standard and upgrading 60-80 existing ones over next 3 years.
 - ✦ Focus on institutional sales, leveraging strong global technical expertise in this field. Defence, para-military, airlines, retail, construction, hospitals, mining and many other industrial workers will be target consumers.
 - ✦ Reviving cash drain stores (reduced to 74 in CY 2007 against 140 in CY 2006),
 - ✦ Trendy collections with more emphasis on high margin products. Company is to launch a clothing collection by end of 2009 focusing on Bata branded belts and bags.

All these initiatives have not only changed consumer perception but will also drive growth in future.
- India is 2nd largest footwear manufacturer in the world after China. Annual domestic consumption of shoes in India is 1.1 billion pairs p.a. Indian footwear market is estimated to be ~ Rs. 10,000 crore in value and is growing at 10% p.a. This offers great opportunities for a company like Bata.
- With rise in disposable income and exposure to international fashion trends, demand for footwear in country, particularly ladies footwear is growing. Consumers today are in lookout for footwear and accessories that are high on fashion aspect, without compromising on quality. Upwardly mobile youth are spending more on shoes and thrust is on variety & international trends. Professional women are increasingly spending more on footwear and hence company is focusing on offering fashionable footwear to women at all price points. Towards this end, BIL introduces new collections on regular basis. Consumers can choose from plethora of new designs from India and abroad including Ambassador, Comfit, North Star, Sporty Power with trendy international brands like Marie Claire, Weinbrenner, Hush Puppies and Dr. Scholl's.
- Besides operational drivers, one more driver is BIL's 50: 50 joint venture with Calcutta Metropolitan Group to develop 262 acres land in Batanagar into world class integrated township. Development of 262 acres has been split into 2 parts – IT SEZ of 25 acres will be developed by Riverbank Holding Pvt. Ltd and remaining 237 acres will be developed by Riverbank Developers Pvt. Ltd. Project also involves creation of entertainment & shopping zone and a golf course along with redevelopment of river bank. Construction of project has already commenced. With development of surplus land, company will get substantial funds to expand the business.

Valuation

- At CMP, the share is trading at 17 times CY 2008 expected EPS of Rs. 9/- and 13.7 times CY 2009 expected EPS of Rs. 11.2. In view of excellent future prospects, we recommend to "BUY" the share at CMP.

Financial Summary**Rs. Crore**

	CY 2008	CY 2007	%	CY 2008	CY 2007	%	2007 A
	Q2		Change	HI		Change	12 mths
Net Sales	286.85	249.80	14.8%	505.62	432.47	16.9%	867.48
Total Expenses	260.52	230.79	12.9%	461.19	403.12	14.4%	802.57
EBITDA	26.34	19.01	38.5%	44.43	29.36	51.3%	64.92
EBITDA (%)	9.2%	7.6%		8.8%	6.8%		7.5%
Interest Expenses / (Income)	1.52	1.93	-21.0%	2.88	3.55	-18.8%	6.77
Depreciation	4.71	3.87	21.7%	9.08	7.67	18.4%	16.01
Other Income	1.63	0.97	68.5%	2.58	2.05	25.9%	13.02
P.B.T. before Extra Ordinary Items	21.73	14.18	53.2%	35.05	20.19	73.6%	55.15
Extra Ordinary Income / (Exp.)	(0.15)	(0.54)	-71.7%	(0.70)	(1.20)	-41.3%	(3.64)
P.B.T. after Extra Ordinary Items	21.58	13.64	58.2%	34.35	18.99	80.8%	51.51
Net Profit	16.20	11.74	38.0%	27.23	16.79	62.1%	47.44
Equity Capital (Rs 10/-)	64.26	64.26		64.26	64.26		64.26
EPS for the period (Rs)	2.54	1.90	33.6%	4.32	2.78	55.6%	7.90

Disclosures

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