

Bata India

27 July 2012



Reuters: BATA.BO; Bloomberg: BATA IN

Sales Growth Below Estimate; Downgrade To Hold

Revenue growth of Bata India (BIL) slowed to 17% in 2QCY12 compared to 30.6%/22.6% in 1QCY12/CY11, respectively, at Rs5,065mn, 4.1% lower than our estimate. It seems BIL was geared up for slower growth, which is visible from the fact that inventory days reduced to 96 in 2QCY12 from 102/108 in 2QCY11/CY11, respectively. Following buoyant performance in CY11/1QCY12, the stock price increased 42.9% over the past six months. Third quarter is generally a weak quarter for BIL due to the monsoon season. In such a scenario further re-rating seems difficult until BIL resumes its earlier growth trajectory. Following limited upside from current levels, we downgrade the stock to Hold from Buy. We maintain our estimates and the TP of Rs1,008 based on 16x CY13 EV/EBITDA.

Slower pace of growth: BIL opened 108/145/61 stores in CY10/CY11/1QCY12, which drove its revenue up by 22.6%/30.6% in CY11/1QCY12, respectively. Compared to 68/145 new outlets in 1HCY11/CY11, BIL has opened over 100 outlets in 1HCY12. However, with high base and lower demand, tentatively due to the monsoon season as per the management, revenue growth moderated to 17% in 2QCY12. Inventory days increased to 108 in CY11 from 99 in CY10 on account of lower demand and aggressive expansion in 4QCY11. However, BIL appears to be prepared for lower growth which can be seen from the fact that inventory days reduced to 96 in 2QCY12 from 102/108 in 2QCY11/CY11, respectively. We expect the valuation to be capped until BIL resumes its high-growth trajectory. BIL incurred a capex of Rs34mn in 1HCY12, mainly to increase retail outlets.

Better gross margin drove operating margin: BIL witnessed a drop in gross margin from 3QCY11 to 1QCY12, and even after that it was able to report better operating margin due to lower employee costs. However, with a better product mix, BIL was able to improve its gross margin by 99bps to 51.5% in 2QCY12, which led to a 86bps increase in operating margin. Following aggressive expansion, lease rent as a percentage of sales increased by 213/186bps to 10.6%/9.1% in 1QCY12/1HCY12, respectively. It would be difficult for BIL to improve operating margin from the current levels if the pace of revenue growth moderates in 2HCY12.

Valuation: We expect the valuation of BIL, which trades at CY13E P/E of 23.5x and EV/EBITDA of 14.3x, to be capped until revenue growth resumes its earlier trajectory.

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HOLD

Sector: Retail

CMP: Rs896

Target Price: Rs1,008

Upside: 13%

Jignesh Kamani, CFA

 jignesh.kamani@nirmalbang.com
 +91-22-3926 8239

Saiprasad Prabhu

 saiprasad.prabhu@nirmalbang.com
 +91-22-3926 8172

Key Data

Current Shares O/S (mn)	64.3
Mkt Cap (Rsbn/US\$bn)	57.6/1.0
52 Wk H / L (Rs)	922/491
Daily Vol. (3M NSE Avg.)	507,909

Price Performance (%)

	1 M	6 M	1 Yr
Bata	5.2	42.9	41.0
Nifty Index	(1.5)	(2.2)	(9.5)

Source: Bloomberg

Y/E Dec (Rsmn)	2QCY11	1QCY12	2QCY12	Chg (YoY)%	Chg (QoQ)%	1HCY11	1HCY12	Chg (%)
Net sales	4,330	4,080	5,065	17.0	24.1	7,454	9,145	22.7
Net raw material & purchase of finished goods	2,143	1,877	2,457	14.6	30.9	3,533	4,334	22.7
% of sales	49.5	46.0	48.5	-	-	47.4	47.4	-
Employee costs	479	482	489	2.2	1.5	935	971	3.8
% of sales	11.1	11.8	9.7	-	-	12.5	10.6	-
Other expenses	1,011	1,103	1,260	24.6	14.3	1,863	2,363	26.8
% of sales	23.3	27.0	24.9	-	-	25.0	25.8	-
Operating profit	697	619	859	23.2	38.8	1,123	1,477	31.6
OPM (%)	16.1	15.2	17.0	-	-	15.1	16.2	-
Interest costs	2	2	2	(2.9)	-	3	3	-
Depreciation	105	122	124	18.4	1.2	190	246	29.8
Other income	27	40	40	50.2	0.3	71	79	11.8
Extraordinary income	-	-	-	-	-	1,094	-	-
PBT	617	534	773	25.3	44.7	2,094	1,307	(37.6)
Provision for tax	207	174	247	18.9	41.6	591	421	(28.8)
Effective tax rate	33.6	32.6	31.9	-	-	28.2	32.2	-
Reported PAT	410	360	527	28.5	46.3	1,504	887	(41.0)
Extraordinary income	-	-	-	-	-	838	-	-
Adjusted PAT	410	360	527	28.5	46.3	666	887	33.1
NPM (%)	9.5	8.8	10.4	-	-	8.9	9.7	-
EPS (Rs)	6.4	5.6	8.2	28.5	46.3	10.4	13.8	33.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E Dec (Rsmn)	CY09	CY10	CY11	CY12E	CY13E
Revenue	10,917	12,582	15,421	18,459	21,773
YoY (%)	10.6	15.3	22.6	19.7	18.0
EBITDA	1,295	1,679	2,388	3,085	3,681
EBITDA margin (%)	11.9	13.3	15.5	16.7	16.9
Reported PAT	672	954	2,258	2,011	2,445
Adj PAT	672	954	1,421	2,011	2,445
EPS (Rs)	10.5	14.8	22.1	31.3	38.1
YoY (%)	10.7	41.8	49.0	41.5	21.6
RoE (%)	21.5	26.0	29.2	31.0	30.0
RoCE (%)	21.2	26.0	30.9	30.7	29.8
RoIC (%)	21.1	28.3	31.8	32.1	38.7
P/E (x)	85.6	60.4	40.5	28.6	23.5
Price/sales (x)	5.3	4.6	3.7	3.1	2.6
EV/ EBITDA (x)	44.1	33.5	23.7	17.7	14.3

Source: Company, Nirmal Bang Institutional Equities Research

Our estimates versus actual performance

Following lower demand, net revenue grew at a slower pace of 17.0% to Rs5,065mn, 4.1% lower than our estimate of Rs5,280mn for 2QCY12. Following a better product mix, gross margin improved by 99bps to 51.5% and as a result, operating margin improved by 86bps to 17.0%, 65bps higher than our estimate of 16.3%. Following better margins, operating profit at Rs859mn was in line with our estimate of Rs861mn. Due to higher other income, net profit at Rs527mn was 3.6% higher than our estimate of Rs508mn.

Exhibit 2: Our estimates versus actuals

Description	2QCY11	1QCY12	2QCY12	YoY(%)	QoQ(%)	2QCY12E	Devi. (%)
Revenue	4,330	4,080	5,065	17.0	24.1	5,280	(4.1)
EBITDA	697	619	859	23.2	38.8	861	(0.3)
EBITDA (%)	16.1	15.2	17.0	86bps	179bps	16.3	65bps
Adjusted PAT	410	360	527	28.5	46.3	508	3.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Working capital analysis

(Rsmn)	1HCY11	CY11	1HCY12	YoY (%)	1HCY12 over CY11 (%)
Revenue	7,454	15,421	9,145	22.7	-
Inventory	3,733	3,913	4,210	12.8	7.6
Inventory days	102	108	96	-	-
Sundry debtors	410	314	475	15.9	51.2
Sundry debtors days	10	7	9	-	-
Sundry creditors	2,730	2,337	2,862	4.9	22.5
Sundry creditors days	63	65	65	-	-
Net working capital	1,413	1,891	1,822	29.0	(3.6)
Net working capital days	48	51	40	-	-
Ex-cash current asset	6,144	5,960	6,288	2.3	5.5
As % of sales	39.6	38.7	33.3	-	-
Current liability	4,580	3,914	3,593	(21.6)	(8.2)
As % of sales	29.5	25.4	19.0	-	-
Ex-cash net current asset	1,564	2,046	2,695	72.4	31.7
As % of sales	10.1	13.3	14.3	-	-

Source: Company, Nirmal Bang Institutional Equities Research

Ratings track

Date	Rating	Market price (Rs)	Target price (Rs)
26 September 2011	Buy	639	817
1 November 2011	Buy	725	838
10 January 2012	Buy	550	838
1 March 2012	Buy	700	838
20 March 2012	Buy	725	838
20 April 2012	Buy	844	1,008
26 April 2012	Buy	855	1,008
2 May 2012	Buy	878	1,008
22 June 2012	Buy	847	1,008
10 July 2012	Buy	872	1,008
27 July 2012	Hold	896	1,008

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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Team Details:

Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	+91 22 3926 8098 / 99
Hemindra Hazari	Head of Research	hemindra.hazari@nirmalbang.com	+91 22 3926 8017 / 18

Sales and Dealing:

Neha Grover	AVP Sales	neha.grover@nirmalbang.com	+91 22 3926 8093
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 3926 8230, +91 22 6636 8833
Sudhinder Rao	Dealing Desk	sudhinder.rao@nirmalbang.com	+91 22 3926 8229, +91 22 6636 8832
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 3926 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 3926 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park
 Lower Parel (W), Mumbai-400013.
 Board No. : 91 22 3926 8000/1
 Fax. : 022 3926 8010