

27 April 2012

MF Global Quarterly Report

Bata India

| Highest ever quarterly sales growth; margin expansion continues

 RETAIL
BATA IN: BUY
 RS 839

Bata India Q4CY11 results were robust and were above expectations with highest ever quarterly revenue growth of (30%) and EBITDA margin of 15.1%. We also highlight that the company's inventory levels have reduced by 2 weeks YoY.

Highlights of the results:

- » Topline driven by increase in volumes (as stated by the MD)
- » We witnessed benefits of operating leverage from benefits of K-agent run stores as EBITDA margins expanded by 100 bps YoY at 15.1% despite increase in rentals as a % of sale.
- » Gross margins compressed by 180 bps
- » Reported PAT at Rs. 360mn against Rs 252mn (adjusted for one time gains) last year, a jumped 43% from the earlier corresponding period.
- » During the quarter, Company has added 67 new stores, which is the highest ever quarterly store addition. The expansion drive saw stores opening across metros like Delhi, Mumbai, Chennai, Hyderabad and Bangalore. It also increased brand penetration in mini metros / tier II cities such as Ambala, Anand, Bilaspur, Hissar, Bhopal, Kannur, Indore, Bareilly, Gaya etc.
- » Effects of operating leverage evident on Employee costs and other expenditure however gross margins contract for the third consecutive quarter. Rental costs impact EBITDA for the fourth consecutive quarter.

Valuation: The stock trades at 16.5x CY13E EV/EBITDA (CY13E cash of Rs 4bn) and 12.5x CY13E EV/EBITDA. We roll over our earnings model to CY13E. We marginally revise our estimates downwards for CY12E EBITDA margins to account for gross margin contraction. The company's CY13E EBITDA margins are at 17.7% and RoE at 30.5% (not adjusted for cash which is 40% of CY13E Balance sheet) warrant valuations at 15x EV/EBITDA as other Consumer sector companies with similar EBITDA margin and RoE profile trade at similar valuations.. Maintain our BUY rating and revise our target price to Rs 1,005.

VALUATION SUMMARY

Y/E DEC, RS MN	CY2009	CY2010	CY2011	CY2012E	CY2013E
NET SALES	10,924	12,758	15,634	19,448	22,981
GROWTH, %	10.6	16.8	22.5	24.4	18.2
EBIDTA	1,245	1,613	2,420	3,241	4,066
EBIDTA MARGINS, %	11.4	12.6	15.5	16.7	17.7
NET PROFIT	626	884	1,366	1,825	2,327
NET PROFIT MARGIN, %	5.7	6.9	8.7	9.4	10.1
NET PROFIT (ADJUSTED)	626	884	1,366	1,825	2,327
EPS, RS	9.7	13.8	21.3	28.4	36.2
EPS GROWTH, %	5.9	41.2	54.6	33.6	27.5
PER, X	86.2	61.0	39.5	29.5	23.2
EV/EBIDTA, X	43.1	33.0	21.8	15.9	12.4
EV/NET SALES, X	4.9	4.2	3.4	2.6	2.2
ROIC, %	23.6	30.1	41.6	43.4	52.7
ROE, %	20.1	24.3	28.6	29.1	30.0

Source: Company, MF Global India Research Estimates

TARGET RS 1,005 (+20%)

SECTOR RATING

OW	N	UW

STOCK RATING

BUY	NEUTRAL	SELL
> 15%	-15% TO +15%	< -15%

COMPANY DATA

O/S SHARES :	64MN
MARKET CAP (RS) :	54BN
MARKET CAP (USD) :	0.9BN
52 - WK HI/LO (RS) :	869 / 375
LIQUIDITY 3M (USD) :	7.8MN
FACE VALUE (RS) :	10

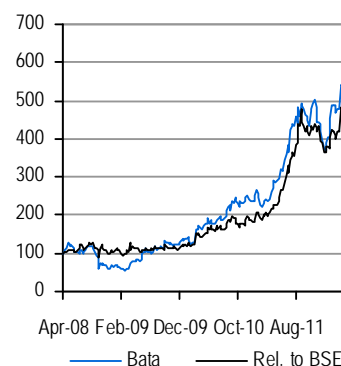
SHARE HOLDING PATTERN, %

PROMOTERS :	52.0
FII / NRI :	17.1
FI / MF :	14.0
NON-PROMOTER CORP. HOLDINGS :	3.0
PUBLIC & OTHERS :	13.9

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	7.4	34.2	102.0
REL TO BSE	6.9	33.8	114.3

PRICE VS. SENSEX



Source: Bloomberg, MF Global India Research

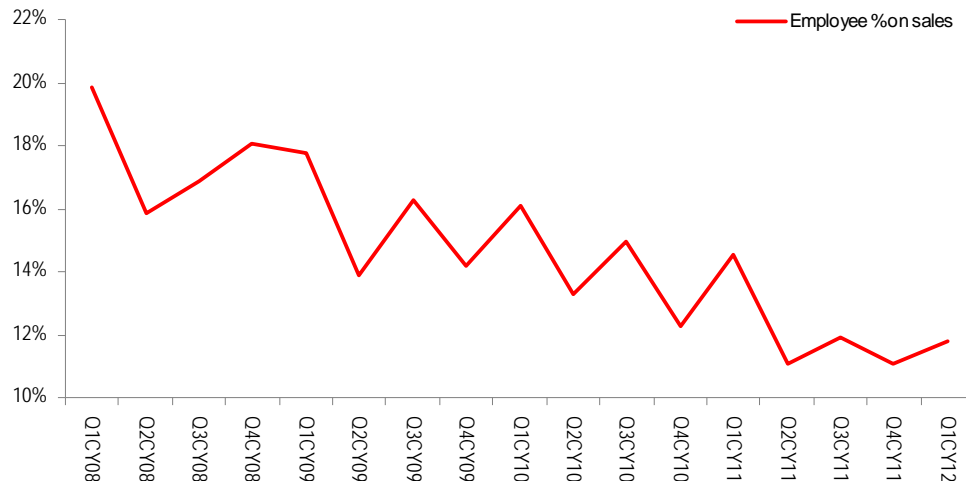
QUARTERLY RESULTS Q4CY12 (STANDALONE)

PARTICULARS (RS MN)	Q1CY11	Q4CY11	Q1CY12	YOY GROWTH	QOQ GROWTH
INCOME	3,143	4,335	4,080	30%	-6%
GROSS PROFIT	1,753	2,289	2,203	26%	-4%
GROSS MARGIN	55.8%	52.8%	54.0%		
EBITDA	444	740	619	39%	-16%
EBITDA MARGIN	14.1%	17.1%	15.2%		
DEPRECIATION	85	114	122	44%	8%
OTHER INCOME	1,119	26	40	-96%	51%
INTEREST	359	3	2	-100%	-42%
PBT	1,119	649	534	-52%	-18%
TAX	383	199	174	-55%	-12%
PAT	1,094	451	360	-67%	-20%
PAT (ADJUSTED)	252	451	360	43%	-20%
PAT MARGIN	8.0%	10.4%	8.8%		

Source: Company, MF Global India Research

Operating leverage from K-Scheme continues

Operating leverage from benefits of K-agent run stores as employee cost as % of sales continues to decline on (YOY) basis. EBITDA margins expanded by 100 bps YoY to 15.2% despite increase in rentals as a % of sale. Employee expenses contributed positively by 272 bps to the EBITDA margin swing during the quarter.



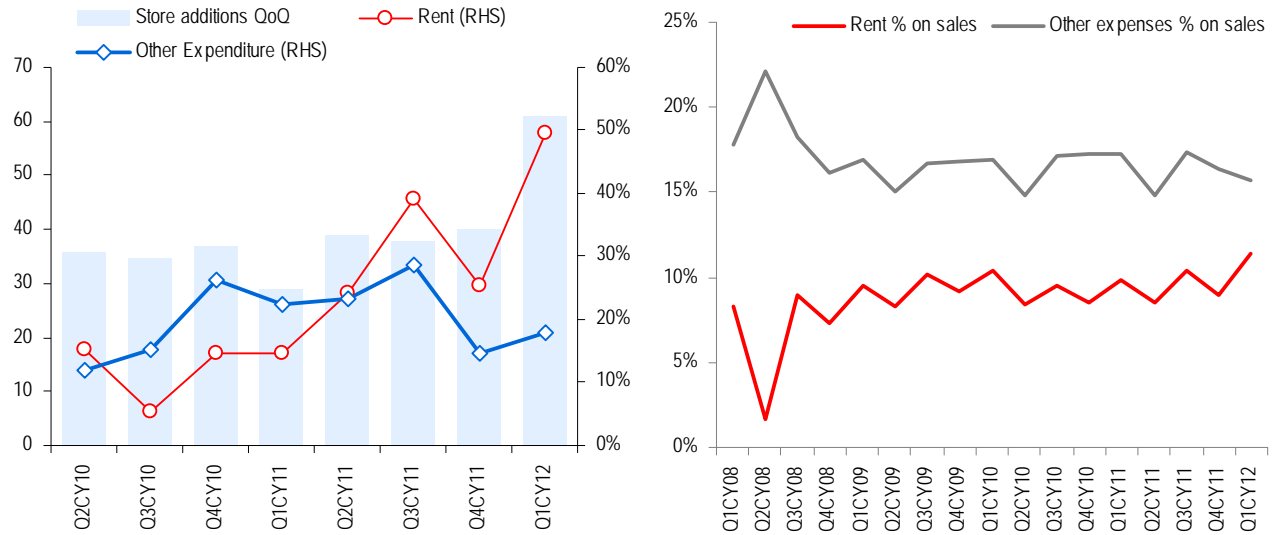
Source: Company, MF Global India Research

.....while rental expenses increase on rapid store additions; operating leverage evident from other expenditure:

The company has opened 107 stores in Q4CY11 (40) and Q1CY12 (67) and consequently the rental costs have increased during the quarter. Also, some of the new properties are in metro cities and in malls, where rental costs are higher. Consequently, Rental expenses continue to impact the EBITDA margin (149 bps) negatively for the fourth consecutive quarter.

While other expenditure contributed positively to the EBITDA to the tune of 157 bps (highest in last 11 quarters) due to operating leverage.

RENTAL COSTS RISE AS STORE ADDITIONS INCREASE WHILE BENEFITS OF OPERATING LEVERAGE EVIDENT ON OTHER EXPENDITURE

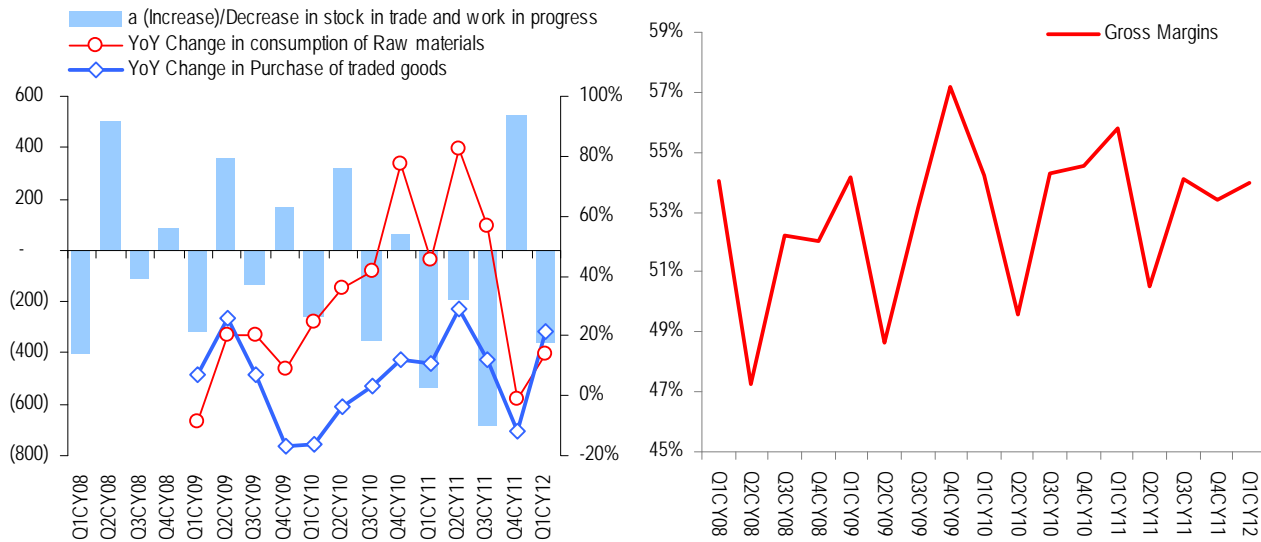


Source: Company, MF Global India Research

Gross Margin

It's the third consecutive quarter that the company's Gross margins have declined and the same can be attributed to increase in input costs (38% YoY) and increased outsourcing.

MOVEMENT IN INVENTORY, RAW MATERIAL CONSUMED AND TRADED GOODS AND IMPACT ON GROSS MARGINS



Source: Company, MF Global India Research

Other Highlights of the results:

- The company opened 61 new Bata stores during the quarter. These new stores are based on the new large format and are above 3000 sq ft. and are spread across metros, tier 1 and tier 2 cities
- In addition the company opened 4 standalone and 2 shop in shop Hush Puppies Stores.

- The expansion drive saw stores opening across metros like Delhi, Mumbai, Chennai, Hyderabad and Bangalore. It also increased brand penetration in mini metros / tier II cities such as Ambala, Anand, Bilaspur, Hissar, Bhopal, Kannur, Indore, Bareilly, Gaya among many others.
- The Company launched its Spring Summer collection for 2012. The collection had an array of footwear in vibrant colours and vivid patterns to suit individual styles for men, women and children.

Revision of Estimates

We marginally revise our estimates upwards for revenue for CY12E and CY13E to factor the higher growth and downwards for EBITDA margins for CY12E and CY13E to account for lower gross margin.

RS MN	FY12E			FY13E		
	PREVIOUS	REVISED	CHANGE	PREVIOUS	REVISED	CHANGE
SALES	19,226	19,448	1.2%	22,576	22,981	1.8%
EBITDA	3,348	3,241	-3.2%	4,186	4,066	-2.9%
PAT	1,908	1,825	-4.3%	2,426	2,327	-4.1%

Source: MF Global India Research Estimates

FINANCIALS

INCOME STATEMENT

Y/E DEC, RS MN	CY2009	CY2010	CY2011	CY2012E	CY2013E
NET SALES	10,924	12,758	15,634	19,448	22,981
GROWTH, %	11	17	23	24	18
TOTAL INCOME	10,924	12,758	15,634	19,448	22,981
OPERATING EXPENSES	-9,679	-11,144	-13,214	-16,207	-18,915
EBITDA (CORE)	1,245	1,613	2,420	3,241	4,066
GROWTH, %	42.6	29.6	50.0	33.9	25.4
MARGIN, %	11.4	12.6	15.5	16.7	17.7
DEPRECIATION	-283	-332	-410	-456	-503
EBIT	961	1,281	2,011	2,785	3,562
GROWTH, %	41.1	33.3	56.9	38.5	27.9
MARGIN, %	8.8	10.0	12.9	14.3	15.5
INTEREST PAID	-97	-77	-16	-114	-134
OTHER NON-OPERATING INCOME	93	156	1,538	137	152
PRE-TAX PROFIT	957	1,361	3,533	2,808	3,580
TAX PROVIDED	-331	-477	-936	-983	-1,253
PROFIT AFTER TAX	626	884	2,597	1,825	2,327
NET PROFIT	626	884	2,597	1,825	2,327
MF NET PROFIT	626	884	1,366	1,825	2,327
GROWTH, %	5.9	41.2	54.6	33.6	27.5
NET PROFIT (ADJUSTED)	626	884	1,366	1,825	2,327
UNADJ. SHARES (M)	64	64	64	64	64
WTD AVG SHARES (M)	64	64	64	64	64

CASH FLOW

Y/E DEC, RS MN	CY2009	CY2010	CY2011E	CY2012E	CY2013E
PRE-TAX PROFIT	957	1,361	3,533	2,808	3,580
DEPRECIATION	283	332	410	456	503
CHG IN WORKING CAPITAL	141	-3	-765	279	-479
TOTAL TAX PAID	-398	-547	-967	-983	-1,253
CASH FLOW FROM OPERATING ACTIVITIES	983	1,143	2,211	2,561	2,351
CAPITAL EXPENDITURE	-418	-535	-1,018	-600	-600
CHG IN INVESTMENTS	-41	45	124	0	0
CASH FLOW FROM INVESTING ACTIVITIES	-459	-490	-894	-600	-600
FREE CASH FLOW	525	653	1,317	1,961	1,751
EQUITY RAISED/(REPAID)	61	15	0	0	0
DEBT RAISED/(REPAID)	-146	461	-566	18	39
DIVIDEND (INCL. TAX)	-226	-299	-450	-540	-647
OTHER FINANCING ACTIVITIES	-15	-15	0	0	0
CASH FLOW FROM FINANCING ACTIVITIES	-325	163	-1,016	-521	-609
NET CHG IN CASH	199	816	301	1,440	1,143

BALANCE SHEET

AS AT 31ST DEC, RS MN	CY2009	CY2010	CY2011	CY2012E	CY2013E
CASH & BANK	573	1,389	1,240	2,680	3,823
MARKETABLE SECURITIES AT COST	0	0	0	0	0
DEBTORS	254	306	316	372	566
INVENTORY	3,468	4,069	3,921	4,682	5,504
LOANS & ADVANCES	833	1,436	1,720	1,945	2,298
OTHER CURRENT ASSETS	8	19	33	41	48
TOTAL CURRENT ASSETS	5,137	7,218	7,229	9,719	12,238
INVESTMENTS	169	124	0	0	0
GROSS FIXED ASSETS	3,785	4,229	5,251	5,851	6,451
LESS: DEPRECIATION	-2,447	-2,656	-3,066	-3,522	-4,025
ADD: CAPITAL WIP	35	4	0	0	0
NET FIXED ASSETS	1,373	1,577	2,185	2,329	2,426
NON-CURRENT ASSETS	0	0	0	0	0
TOTAL ASSETS	6,920	9,230	9,757	12,391	15,006
CURRENT LIABILITIES	3,277	4,540	3,936	5,265	6,162
PROVISIONS	0	0	0	0	0
TOTAL CURRENT LIABILITIES	3,277	4,540	3,936	5,265	6,162
NON-CURRENT LIABILITIES	300	762	195	214	253
TOTAL LIABILITIES	3,577	5,302	4,131	5,479	6,415
PAID-UP CAPITAL	643	643	643	643	643
RESERVES & SURPLUS	2,716	3,285	4,982	6,268	7,948
SHAREHOLDERS' EQUITY	3,343	3,928	5,625	6,911	8,590
TOTAL EQUITY & LIABILITIES	6,920	9,230	9,757	12,391	15,006

PER-SHARE DATA

	CY2009	CY2010	CY2011	CY2012E	CY2013E
MF EPS (INR)	9.7	13.8	21.3	28.4	36.2
GROWTH, %	5.9	41.2	54.6	33.6	27.5
BOOK NAV/SHARE (INR)	52.0	61.1	87.5	107.5	133.7
FDEPS (INR)	9.7	13.8	21.3	28.4	36.2
CEPS (INR)	14.1	18.9	27.6	35.5	44.0
CFPS (INR)	13.9	15.4	10.5	37.7	34.2
DPS (INR)	3.5	4.7	7.0	8.4	10.1

FINANCIAL STRUCTURE

	CY2009	CY2010	CY2011	CY2012E	CY2013E
TOTAL DEBT/EQUITY (%)	9.0	19.4	3.5	3.1	2.9
NET DEBT/EQUITY (%)	(8.2)	(16.0)	(18.6)	(35.7)	(41.6)

PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS

	CY2009	CY2010	CY2011	CY2012E	CY2013E
RETURN ON ASSETS (%)	10.3	11.6	27.5	17.1	17.6
RETURN ON EQUITY (%)	20.1	24.3	28.6	29.1	30.0
RETURN ON INVESTED CAPITAL (%)	23.6	30.1	41.6	43.4	52.7
ROIC/COST OF CAPITAL (X)	1.9	2.5	3.2	3.4	4.1
ROIC - COST OF CAPITAL (%)	11.0	17.9	28.8	30.5	39.9
RETURN ON CAPITAL EMPLOYED (%)	19.7	22.4	49.6	29.3	30.2
COST OF CAPITAL (%)	12.6	12.2	12.8	12.8	12.9
ROCE - COST OF CAPITAL (%)	7.1	10.2	36.8	16.5	17.4
ASSET TURNOVER (X)	4.1	4.6	4.4	4.7	5.2
SALES/TOTAL ASSETS (X)	1.6	1.6	1.6	1.8	1.7
SALES/NET FA (X)	8.4	8.7	8.3	8.6	9.7
WORKING CAPITAL/SALES (X)	0.1	0.1	0.1	0.1	0.1
FIXED CAPITAL/SALES (X)	-	-	-	-	-
RECEIVABLE DAYS	8.5	8.8	7.4	7.0	9.0
INVENTORY DAYS*	115.9	116.4	91.5	87.9	87.4
PAYABLE DAYS**	91.1	108.3	72.0	82.0	80.0
CURRENT RATIO (X)	1.6	1.6	1.8	1.8	2.0
QUICK RATIO (X)	0.5	0.7	0.8	1.0	1.1
INTEREST COVER (X)	9.9	16.7	125.7	24.5	26.5
DIVIDEND COVER (X)	2.8	3.0	3.0	3.4	3.6
PER (X)	86.2	61.0	39.5	29.5	23.2
PEG (X) - Y-O-Y GROWTH	14.5	1.5	0.7	0.9	0.8
PRICE/BOOK (X)	16.1	13.7	9.6	7.8	6.3
YIELD (%)	0.4	0.6	0.8	1.0	1.2
EV/NET SALES (X)	4.9	4.2	3.4	2.6	2.2
EV/EBITDA (X)	43.1	33.0	21.8	15.9	12.4
EV/EBIT (X)	55.8	41.6	26.3	18.5	14.1
EV/NOPLAT (X)	58.7	46.9	35.6	22.8	17.9
EV/CE	14.7	11.4	9.1	7.2	5.7
EV/IC (X)	20.1	19.3	14.9	12.3	11.5

* From CY11E real estate biz ceases to exist, hence fall in inventory days in CY11

** From CY11 real estate biz ceases to exist, hence fall in payable days in CY11

Source: Company, MF Global India Research Estimates

RECOMMENDATION HISTORY

RECOMMENDATION	TARGET, RS	CMP, RS	DATE
BUY	1,005	839	27 APRIL 2012
BUY	828	700	29 FEBRUARY 2012
BUY	870	724	31 OCTOBER 2011
BUY	870	662	22 AUGUST 2011

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Rating Rationale

BUY and SELL recommendations are used to draw attention to stocks, which we believe are under-priced or over-priced by circa 15%, that is, price differential of +/- 15% between our price target and the market price. Stocks which do not achieve this price differential are NEUTRAL. Price targets are established in the context of a flat market.

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