

# Bata India (BATA IN)

## Barefoot in the ecommerce race

### INDIA | RETAIL | Company Update

Bata India's stock price has corrected 16% in last 3 months. This correction has been on the back of poor YTD performance 6.7% top line growth and 9.4% EBITDA growth (FY15 is a 15 month financial period). We evaluate the investment potential and the likely risks that ecommerce poses to Bata India going forward and conclude that ecommerce poses significant risk to Bata India.

**Footwear ecommerce is large:** Our research indicates that ecommerce threat to Bata India is far larger than the market perception. In our estimate the online footwear market is Rs18 bn and will only grow rapidly as the user base grows from the existing 30 mn online shoppers. Footwear as a segment appeals to buyers as it gives access to the brands and especially foreign brands which hitherto they didn't have much access to. Moreover, the gross margins and absolute margins in footwear are high thus enabling ecommerce players to acquire customers by offering higher discounts without suffering very deep losses. ([see pg 2](#))

**Yes ecommerce does compete with Bata directly:** Bata India's product mix has been perceived to be less susceptible to ecommerce threat as there is no direct competition. This misconception is largely due to the belief that Bata's leather and formal footwear is the dominant category. Recent [statements](#) by the management state that the sportswear and casual wear brands of Power and North Star contribute to 20% of Bata's turnover (~Rs 4.5 Bn). This segment, we believe, is particularly at risk as the price points of Power and foreign brands such as Puma and Reebok converge. Thus leaving Power on a weaker footing and putting this Rs4 bn turnover at a risk and increasing the period of low revenue growth. ([see pg 5](#) and [pg 9](#))

**India footwear seems to going the Chinese way:** The margins of offline multi-brand footwear retailers in China such as Belle Int'l (1880 HK) and Daphne Int'l (210 HK) were dented as they lost market share to international brands due to lower price points (driven by discounts) and increased availability and range. (Bata is perceived as a local brand in most countries including India.) ([see pg 10](#))

**IT system migration issues raise inventory risk:** The teething problems emanating from new supply chain IT systems seem to have spilled over to Q5FY15. Moreover, the impact of the same in Q5FY15 could be more than that in Q4FY15 as the level of stock depletion at the stores would have been higher due to the prolonged issues. The delay would mean that stock meant for sale couldn't be taken into the system and consequently, the inventory may have missed its cycle of sale. This will open the possibility of significant inventory write off in the near future. The margin impact could be in the range of 30-50 bps. ([see pg 11](#))

**Valuation:** The Company is a high operating leverage play with rent and employee cost accounting for 25% of its revenues. Though the company reported revenue growth of 7% for CY14, the fixed cost structure has shifted upwards and hence we are yet to see any signs of operating leverage (EBITDA de-grew 9% for CY14). The flagship brand – Bata is undergoing repositioning (as a lifestyle brand) and the exercise naturally would take time. The repositioning at the time of increased competition from brands with less distribution prowess through the online channel is a risk to the top line growth and hence the earnings given the high operating leverage nature of Bata India's cost structure. The issues from IT system migration has not only affected the sales but also increased the risk of inventory write down as inventory which remains unsold as the season (e.g. school wear) passes will age and have to be marked down or discounted. This risk cannot be reasonably quantified at this point and time. Therefore we downgrade our multiple to 23x FY17E earnings to factor in the same and growing threat of ecommerce. We also revise our revenues and earnings estimates downwards by 1% and 2% for FY16. Given a tepid CY14 and likely poor Q5FY15 and that the stock trades at 26X FY17E earnings; we expect further correction in the stock price. Moreover, threat from ecommerce players continues to loom given the low user base (30 mn users) in India. **Downgrade to Sell.**

20 April 2015

## SELL (Downgrade)

CMP RS 1105

TARGET RS964 (-12%)

### COMPANY DATA

O/S SHARES (MN) :	64
MARKET CAP (RSBN) :	74.4
MARKET CAP (USDBN) :	1.2
52 - WK HI/LO (RS) :	1495 / 998
LIQUIDITY 3M (USDMN) :	4.9
PAR VALUE (RS) :	10

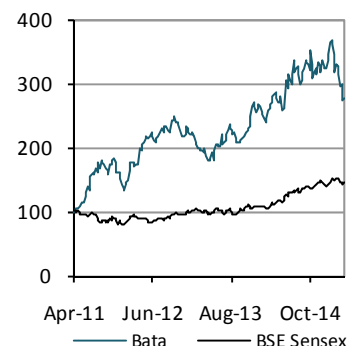
### SHARE HOLDING PATTERN, %

PROMOTERS :	53.0
FII / NRI :	20.0
FI / MF :	9.9
NON PROMOTER CORP. HOLDINGS :	4.3
PUBLIC & OTHERS :	12.9

### PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-6.4	-23.1	3.1
REL TO BSE	-5.4	-24.2	-22.6

### PRICE VS. SENSEX



Source: Phillip Capital India Research

### KEY FINANCIALS

Rs mn	FY15*	FY16E	FY17E
Net Sales	27,377	25,299	29,693
EBIDTA	3,669	3,542	4,365
Net Profit	2,229	2,116	2,693
EPS, Rs	34.7	32.9	41.9
PER, x	31.9	33.6	26.4
EV/EBIDTA, x	18.1	18.3	14.5
P/BV, x	7.2	6.3	5.4
ROE, %	22.6	18.7	20.5

Source: PhillipCapital India Research Est.

\* FY15E represents 15 months

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**Ecommerce in Footwear**

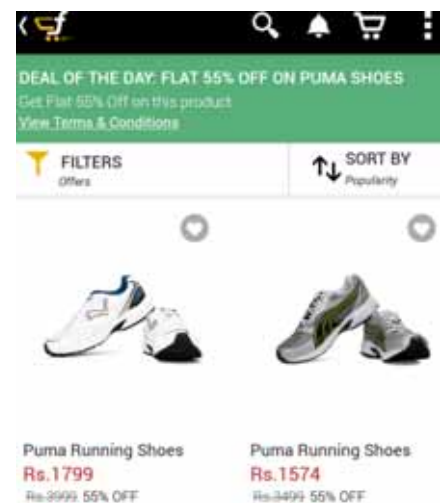
The Indian ecommerce market is estimated to be \$ 5 Bn and is expected to grow at over 30%. The lifestyle category i.e. clothing and footwear accounts for over 30% of the industry. Importantly volume wise this category is the single largest category, thus accounting for the maximum shipments made. Footwear is estimated to be around 20% of the lifestyle category which translates to Rs15 bn in value or gross merchandise value. Jabong derived 28% of its GMV from footwear which on an annualized basis translates to Rs3 bn of footwear GMV. Therefore, the other major players such as Myntra, Flipkart, Amazon and Snapdeal would contribute to Rs 15 bn of footwear GMV.

**Competition in every sense**

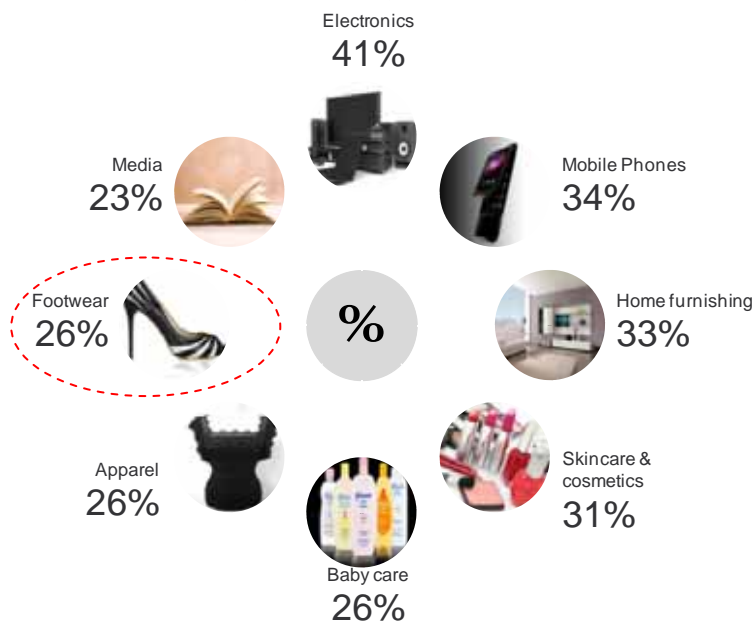
The size of footwear in the nascent ecommerce market is in itself an indication of the acceptability of buying footwear online. The motivation to purchase ranges from availability of brands (especially in tier 2 cities and beyond), range, price and size of choice. Footwear is one of the highest gross margin products and the absolute margins in foreign sportswear brands is also high due to higher values, thus giving ecommerce players enough room to discount (couponing not to be missed) and still acquire customers without high transaction level losses.

Moreover, new brands such Ruosh have emerged in men’s formal and casual wear offer good products and range. In case of Ruosh (a brand owned by a vendor of Bata), the brand has adopted a strategy of opening stores in popular malls and high streets with a wide presence online.

*Attractive discounts on e-commerce portals*



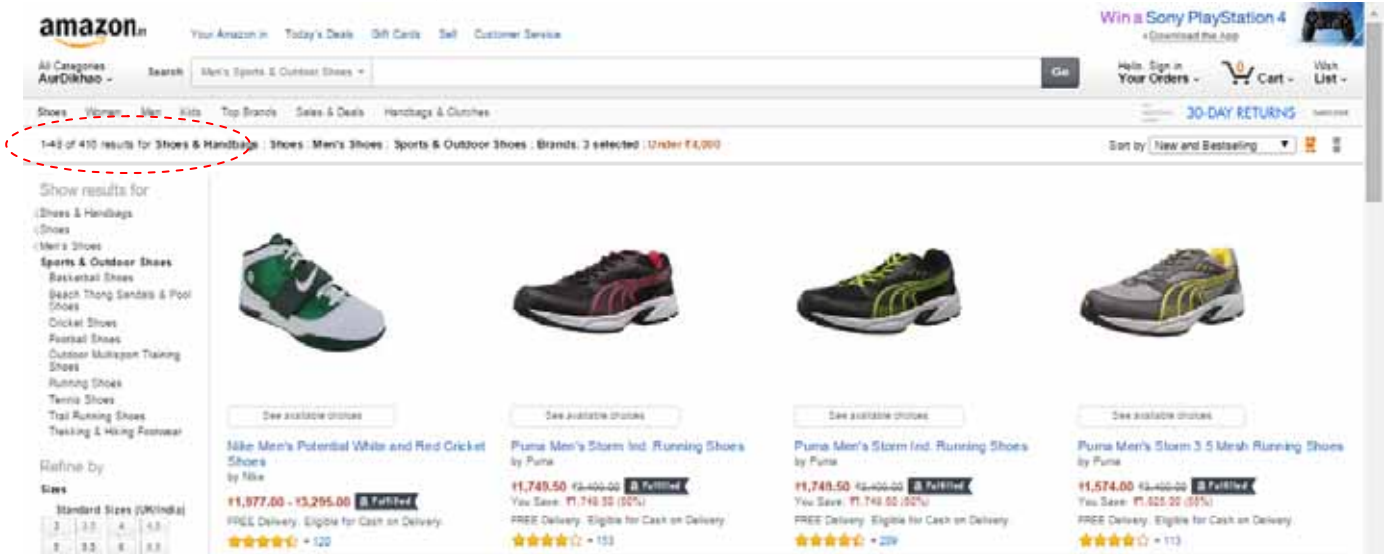
**Products consumers most likely to order or purchase in next 12 months**



Source: Forrester Consumer Research, 2014

Pricing, range and availability erases the distribution equity- Distribution advantage is being erased rapidly as customers are and are likely to continue moving to foreign brands at similar price points once they become available. There over 70,000 footwear options available online. Categories such as sportswear and casual footwear offered by well known brands which were hitherto limited by distribution and economically unjustifiable store presence are able to increase market share. The ecommerce channel is estimated to contribute to nearly 30% (20% in FY14) of Puma India’s turnover. Puma was the late entrant in the Indian sportswear market and has straddled the ecommerce channel successfully to gain inroads.

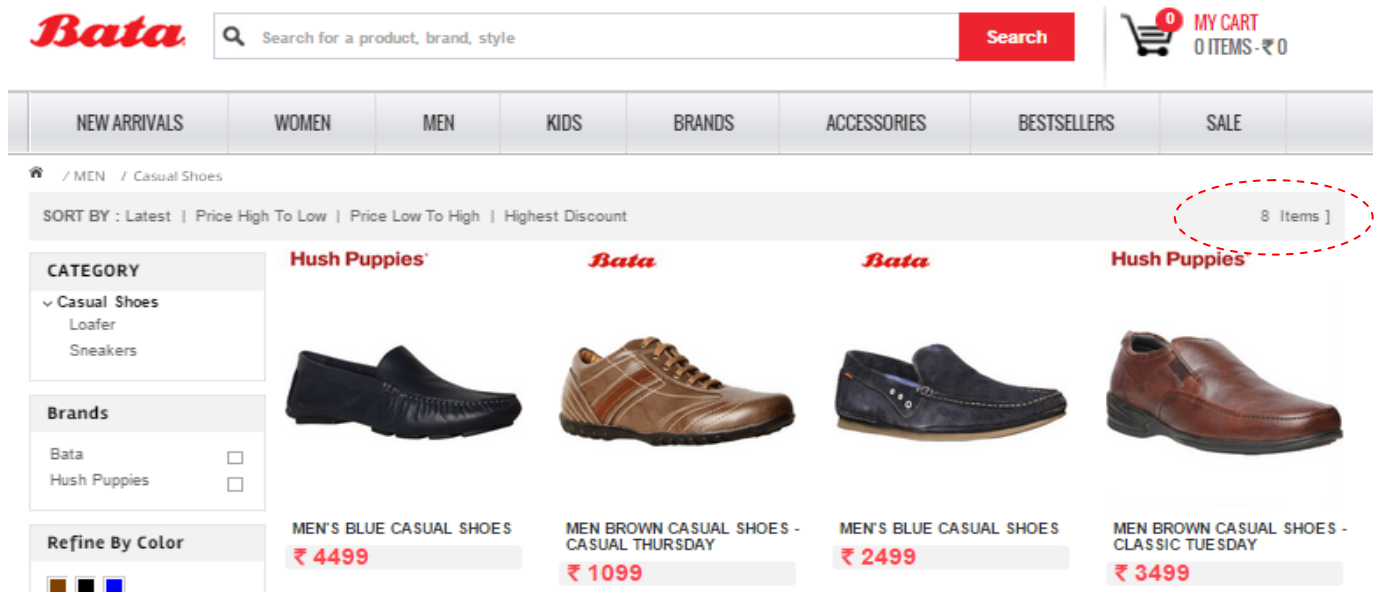
**Puma, Reebok, Adidas etc have strong presence online even in SKUs under Rs4,000**



Source: Amazon India Website

**Bata’s presence in ecommerce** – Bata India has limited online presence including its own portal [bata.in](http://bata.in). The company offers little over 300 SKUs on Amazon across all its brands (Bata, Power, Hush Puppies etc) and categories (men, women, sandals etc). On the other hand ecommerce platforms and marketplaces brings together competition across product categories and brands such as Ruosh, Clarks, Pavers England, , Puma, Reebok etc amongst the well known ones to less known ones such as Alberto Toressi etc all under one roof with a far wider range.

**Bata has limited SKUs on their own website**



Source: Bata India Website

Bata India's sports brand Power's online presence is limited

amazon.in Your Amazon.in Today's Deals Gift Cards Sell Customer Service

All Categories **AurDikhaao** Search Men's Sports & Outdoor Shoes

Shoes Women Men Kids Top Brands Sales & Deals Handbags & Clutches

21 results for Shoes & Handbags : Bata Store : Power : Shoes : Men's Shoes : Sports & Outdoor Shoes

Show results for

- Shoes & Handbags
- Bata Store
- Shoes
- Men's Shoes
- Sports & Outdoor Shoes
- Running Shoes

Refine by

Sizes

Standard Sizes (UK/India)

3	3.5	4	4.5
5	5.5	6	6.5
7	7.5	8	8.5
9	9.5	10	10.5
11	11.5	12	12.5
13	13.5	14	

Colour

Source: Amazon India Website

Batas' presence on Flipkart – 0.1% of the Total SKUs present

flipkart.com The Online Megastore

Flipkart First Download App Sell 24x7 Customer Care Track Order Signup Login

Search for a product, category or brand SEARCH CART 0

ELECTRONICS HOME & KITCHEN MEN WOMEN BABY & KIDS BOOKS & MEDIA MORE STORES OFFERS ZONE

Home > Footwear

FOOTWEAR

SHOWING 71 IN:

BATA X HUSH PUPPIES X DR. SCHOLL X MARIE CLAIRE X NATURALIZER X POWER X POWER DESIGN X SUNDROP X SUNSHINE X EXCLUDE OUT OF STOCK X

BROWSE Popular High Price Low Price Discount New

Footwear

- Men's Footwear
- Women's Footwear
- Kids' Footwear

OFFERS

- Spring Summer'15 Collection - UP TO 25% OFF
- Lucky Sizes - UP TO 60% OFF
- Spring Collection - UP TO 25% OFF

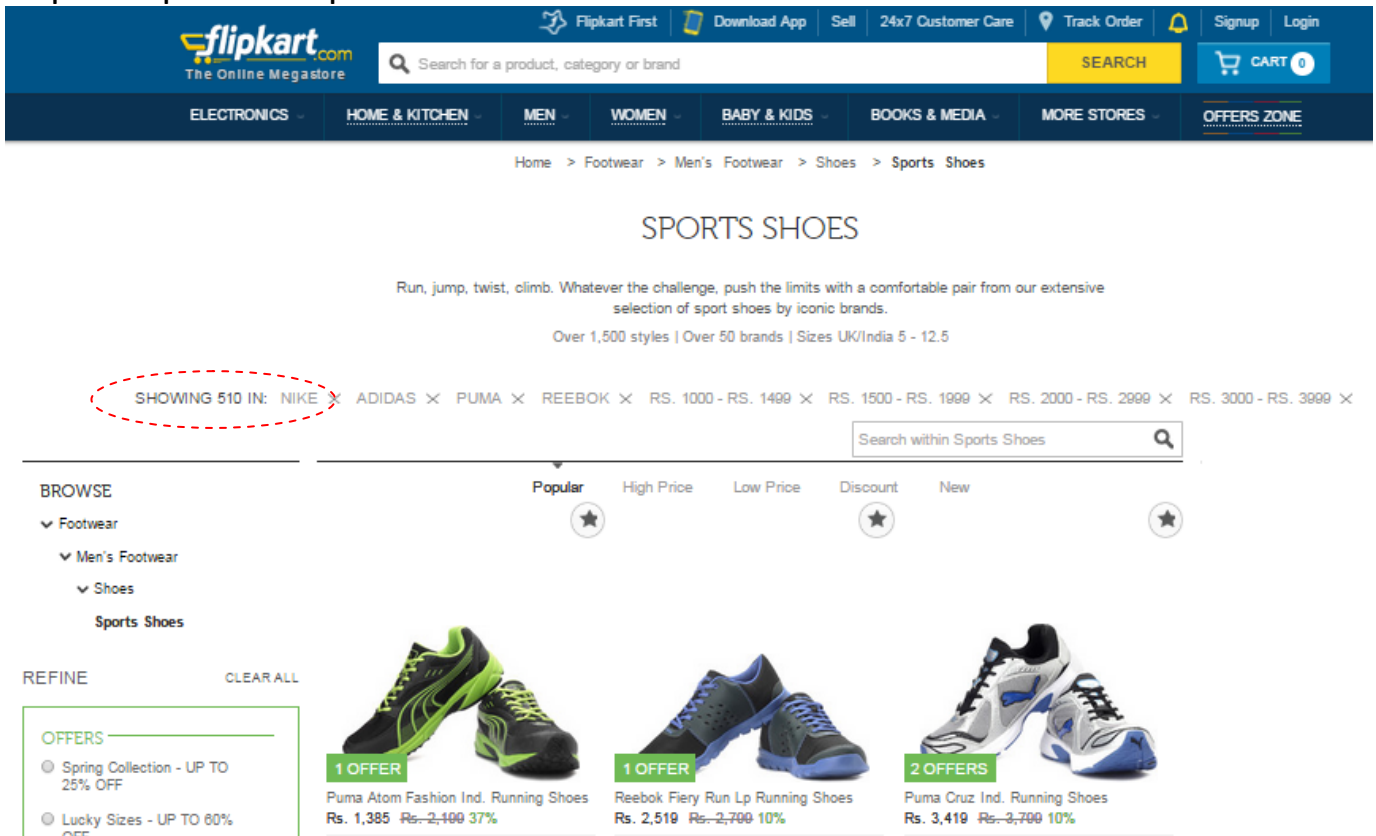
1 OFFER Bata Sparx Jogger Walking Shoes Rs. 330 Rs. 499 33%

1 OFFER Bata Sparx Jogger Walking Shoes Rs. 330 Rs. 499 33%

Dr. Scholl Basic Mule Concealed Leath... Rs. 1,699

Source: Flipkart Website

Competition's presence on Flipkart – Over 7 X that of Bata. If Lotto and Puma were to be included it would be over 10 X



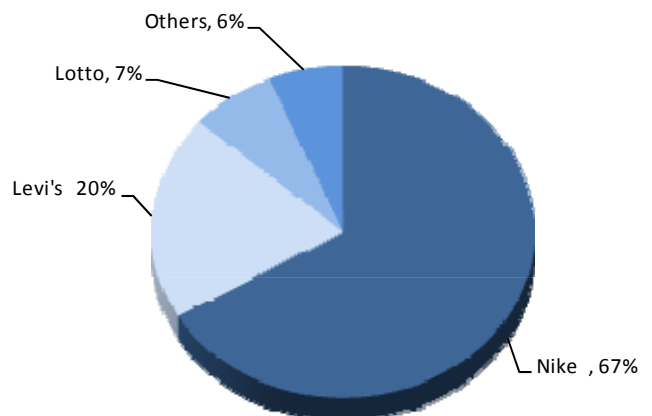
Source: Flipkart Website

**Brands find it viable to sell online** – The cost of retailing in India is high and building distribution takes time. Nike’s largest retailer in India SSIPL reported revenues of Rs 3.9 bn in FY14 and currently operates 285 stores. The average revenue per store is Rs 18-20 mn. SSIPL’s retail operations clocked EBITDA margins of 8.8% in FY14 and 6.1% in H1FY14. Rentals and store overheads would be significantly contributing lower margins. We estimate a player like Jabong alone would clock Rs 3bn of GMV in CY14 and provide access to over 12,000 pincodes in India. Such a reach is obviously appealing to brands where the incremental cost of penetration is just the logistics costs.

SSIPL Retail Operation Data

Financial Overview (Rs Mn)	FY11	FY12	FY13	FY14	H1FY15
Sales	2,329	4,106	5,136	5,873	3,032
EBITDA	94	358	317	515	186
EBITDA %	4.0%	8.7%	6.2%	8.8%	6.1%
No of Stores	213	289	339	427	446

SSIPL Retail Sales Breakup for FY14



Source: Company, PhillipCapital India Research

Batas' presence on marketplaces is better but ...

**snappdeal** Search for a brand, product or specific item Search My Account Cart 0

TOP SEARCHES : Shoes Iphone 6 T-Shirt Water Bottles View More...

SEE ALL CATEGORIES SMART FEED TV 20-20 OFFERS DEAL OF THE DAY STAY STRONG WOMEN

### FOOTWEAR (181)

FOOTWEAR (181) SORT BY: POPULARITY BESTSELLERS PRICE FRESH ARRIVALS CUSTOMER RATING List Grid

- Men's Footwear (144)
- Women's Footwear (20)
- Kids Footwear (17)

Brand: Bata X Hush Puppies X Power X Clear All Filters

REFINE Clear All Filters

**SIZE** Clear

- 10 (36)
- 11 (7)
- 27 EU (1)
- 28 EU (1)
- 34 EU (1)
- 35 EU (1)

**PRICE** Clear

Rs 3499

Hush Puppies Men's Hooter Slip On Black Leather Shoes ★★★★★ (13)

Bata Black Formal Office Shoes For Men ★★★★★ (2)

Rs 1399 Size : 8

....Competition's depth and width is very high

**snappdeal** Search for a brand, product or specific item Search My Account Cart 0

TOP SEARCHES : Infocus M2 Trimmer Formal Shoes Led Bulb View More...

SEE ALL CATEGORIES SMART FEED AKSHAYA TRITIYA REVIEW CONTEST

### SPORTS SHOES (1976)

FOOTWEAR (3152) SORT BY: POPULARITY BESTSELLERS PRICE FRESH ARRIVALS CUSTOMER RATING List Grid

- Men's Footwear (3152)
  - Sports Shoes (1976)
  - Casual Shoes (613)
  - Formal Shoes (1)
  - Floater Sandals (304)
  - Slippers & Flip Flops (217)
  - Sandals (40)
  - Ethnic (1)

Price: 899 - 3999 X Brand: Puma X Nike X Reebok X Adidas X Clear All Filters

REFINE Clear All Filters

**PRICE** Clear

Rs 899 - Rs 3999

From Rs 899 To Rs 3999

Nike Dual Fusion Run 3 Msl Sport Shoes Rs 3897 ~~Rs 6495~~ (40%)

PUMA BLACK CEYLON II IND. SPORTS SHOES ★★★★★ (75)

Rs 1699 ~~Rs 3999~~ (58%)

PUMA WHITE CEYLON II IND. SPORTS SHOES ★★★★★ (168)

Rs 1874 ~~Rs 3999~~ (53%)

Source: Snapdeal Website

Bata has limited presence on Jabong - one of the leaders in online lifestyle space

**JABONG** COM

Search by typing the product or brand name...

★ SAVED (0) | 🛒 BAG (2)

WOMEN | MEN | KIDS | HOME | PREMIUM | BRANDS | SPORTS | SALE | NEWS & STYLE

EXTRA 30% OFF ON MOBILE APP (IOS | ANDROID | WINDOWS) | EXTRA 25% OFF ON ORDERS ABOVE RS. 1599 | COUPON CODE: NEW25 | FLAT 30% OFF TOM TAILOR INTRODUCTORY OFFER

Home | Shoes

**FILTER PRODUCTS BY**

**SHOES** 56 Products

Sort By: Popularity

BRAND: Bata (x) Power (x) Hush Puppies (x) Clear All

<p>Power Grey Sporty Sneakers Rs.999</p>	<p>Bata Black Formal Shoes Rs.1499</p>	<p>Hush Puppies Brown Formal Shoes Rs.3499</p>	<p>Hush Puppies Black Dress Shoes Rs.3499</p>
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The likes of Nike, Puma, Reebok and Adidas have at least 4 times more SKUs than Bata at comparable price points

Home | Men | Shoes

**FILTER PRODUCTS BY**

**MEN SHOES** 436 Products

Sort By: Price: Low to High

BRAND: Nike (x) Reebok (x) Adidas (x) Puma (x) PRICE: Rs. 1319 - Rs. 3999 Clear All

<p>Puma Atom Fashion Ind. Black Running... Rs-2499 <b>Rs.1319 -40%</b></p>	<p>Reebok Super Drive 2.0 Lp Black Floaters Rs-4899 <b>Rs.1359 -20%</b></p>	<p>Reebok Classic Proton Lp Grey Sneakers Rs-2299 <b>Rs.1379 -40%</b></p>	<p><b>NEW</b> Puma Wrens Dp Black Slippers Rs.1399</p>
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Source: Jabong Website

**Price and online presence is the power not distribution:** The brand “Power” faces the maximum competition from the likes of Puma, Reebok as their pricing, product range; discounts satiate the customer’s hitherto unfulfilled demand for aspirational brands at their locations. The ‘Power’ brands shoes (for men) starts at a price of Rs 1,199 per pair and goes up to Rs3,000 per pair. Power along with North Star accounts for about 20% of Bata’ turnover. The competition in this price category from brands such as Puma, Reebok, and Adidas is very intense as can be seen below

Moreover, the competition is just not restricted to the range and price points up to Rs3,000 per pair. It extends beyond Rs3,000 per pair due to coupon discounts offered by various portals thus resulting in price points up to Rs4,000 also competing. There are over 700 SKUs up to price points of Rs4,000 on major portals.

**Power has limited SKUs on Myntra – A apparel and lifestyle centric portal**

The screenshot shows the Myntra website interface for the 'Power Shoes' category. At the top, there is a navigation bar with 'TODAY'S OFFER' (GET 20% OFF\* ON ORDERS ABOVE Rs. 1799 | GET 25% OFF\* ONLY ON APP), 'Download app', 'Contact Us', and 'Track Order'. The Myntra logo is on the left, and a search bar is on the right. Below the logo, there are navigation links: HOME, MEN, WOMEN, KIDS, PREMIUM, LOOK BOOK (NEW), and DEALS. The breadcrumb trail reads 'Home / Footwear / Power / Power Shoes'. The category title 'POWER SHOES - 18 ITEMS' is circled in red. To the right of the title, it says 'Sort: Popular | New | Discount | Price: Low High'. On the left, there is a filter sidebar with 'ALL MEN WOMEN', 'FILTER BY', 'CATEGORIES' (Sports Shoes (17), Flats (1)), 'COLOUR', and 'PRICE' (Rs. 699 to Rs. 2,999, 18 items). The main display shows four shoe products: 'Power by Bata Women Pink Edge Running Shoes Rs. 1,999', 'Power by Bata Women Black Harmony Lifestyle Shoes Rs. 1,999', 'Power by Bata Women Aqua Blue Lifestyle Shoes Rs. 1,999', and 'Power by Bata Men White Relish Training Shoes Rs. 1,999'.

**International sportswear brands have more depth and variety at comparable price points on Myntra**

The screenshot shows the Myntra website interface for the 'Men Footwear' category. At the top, there is a navigation bar with 'TODAY'S OFFER' (GET 20% OFF\* ON ORDERS ABOVE Rs. 1799 | GET 25% OFF\* ONLY ON APP), 'Download app', 'Contact Us', and 'Track Order'. The Myntra logo is on the left, and a search bar is on the right. Below the logo, there are navigation links: HOME, MEN, WOMEN, KIDS, PREMIUM, LOOK BOOK (NEW), and DEALS. The breadcrumb trail reads 'Home / Footwear / Men Footwear'. The category title 'MEN FOOTWEAR - 338 ITEMS' is circled in red. To the right of the title, it says 'Sort: Popular | New | Discount | Price: Low High'. On the left, there is a filter sidebar with 'FILTER BY', 'CATEGORIES' (Casual Shoes (171), Sports Shoes (165), Flip Flops (96), Sports Sandals (45), Sandals (4), Customizable Shoes (1)), 'BRAND' (Roadster (614), Yepme (556), Mast & Harbour (316), FILA (180), Numero Uno (160), Knotty Derby (159), 120 more (+)), and 'COLOUR'. The main display shows four shoe products: 'Puma Men Grey Strike Fashion DP Casual Shoes Rs. 2,199 Rs. 1,209 (45% Off)', 'Puma Unisex Navy Limnos CAT DP Casual Shoes Rs. 1,999 Rs. 1,699 (15% Off)', 'Puma Men Black Atom Fashion DP Casual Shoes Rs. 2,896 Rs. 1,737 (40% Off) Sizes: 7', and 'Puma Men Black Atom Fashion DP Casual Shoes Rs. 2,199 Rs. 1,759 (20% Off)'. The third product has 'Buy', 'Share', and 'Quick View' buttons.

Source: Myntra website



**Price points of international brands are being made more affordable by couponing**

The screenshot shows a shopping bag on the Myntra website. The item is 'Puma Men Grey Kevlar DP Sports Shoes' priced at Rs. 3,999. A coupon discount of Rs. 1,200 is applied, resulting in a total of Rs. 3,099. The 'Coupons' section is highlighted with a red dashed circle, showing 'You saved Rs. 1,200'. Other options include 'Gift wrap for Rs. 25' and 'Cash On Delivery not available'. The price details section shows: Bag Total (Rs. 3,999), VAT Collected (Rs. 300), Coupon Discount (-Rs. 1,200), and Delivery (FREE). The final Order Total is Rs. 3,099. A 'PLACE ORDER' button is visible at the bottom.

Source: Myntra website, PhillipCapital India Research

**Implications of the brand “Power” losing market share is significant:**

The impact of competition on brand “Power”, which along with North Star contributes to 20% of Bata India’s turnover, can be very significant for Bata India as seen below. If the brand doesn’t grow or de-grows the possibility of company achieving 15% or more growth for FY16E and FY17E looks very difficult as rest of the portfolio will have to grow at 20% implying a overall LTL growth of over 14% during this period. The company has not witnessed such high LTL growth in past. Therefore, in our view, this could be a tall ask.

**Implications of Power brand getting impacted**

Rs Mn	FY15	FY16	FY17	Comments
Revenues	22,027	24,670	28,150	
YoY Growth		12%	14%	
Contribution of Power & North Star (%)	20%	18%	17%	
Contribution of Power & North Star	4,405	4,405	4,846	
YoY Growth		0%	10%	Power Brand could witness no growth or even de-growth
Revenues excluding Power & North Star	17,621	20,265	23,304	
YoY Growth required to achieve overall growth		15%	15%	CY10-13 Growth led by gross store additions, over 500 stores opened during this period
Implied overall LTL growth		10%	10%	Tough task given over as historically growth has been largely led by space addition; new space addition growth contribution 5%
Gross Margin		55%	55%	
Gross Profits		13,445	15,398	
Overheads		10,115	11,401	
EBITDA		3,330	3,997	
Margins		13.5%	14.2%	Margins can fall as negative operating leverage follows
Depreciation		712	804	
EBIT		2,618	3,193	
Other Income		484	627	
Interest		155	168	
PBT		2,946	3,652	
Tax		972	1,205	
PAT		1,974	2,447	
EPS (Rs)		30.72	38.08	
Current Estimated EPS (Rs)		32.92	41.91	
Downside to PhillipCapital EPS (%)		-7%	-9%	

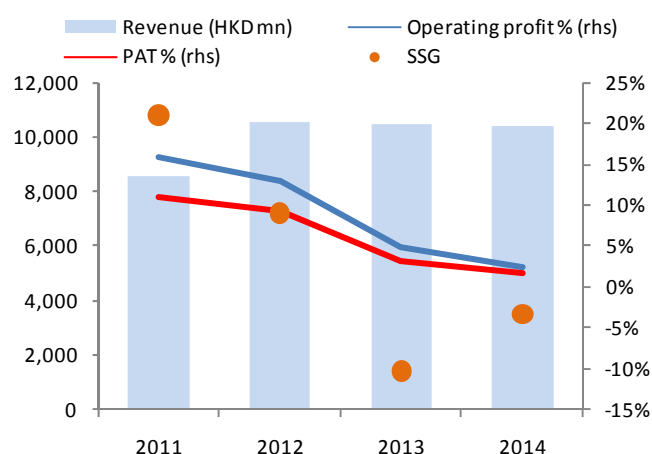
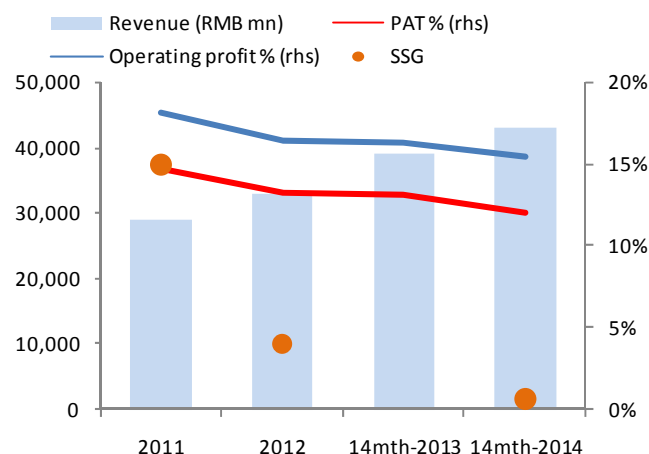
**Sensitivity analysis**

Growth of Power Brand in FY17E	EPS (Rs)	Downside to Estimated EPS*
10%	38.1	-9%
5%	38.1	-9%
0%	36.8	-12%
-5%	35.6	-15%
-10%	34.3	-18%

\*All overheads are assumed to be fixed

Source: PhillipCapital India Research Estimates

**India may go the China way** – Chinese footwear companies such as Belle Int'l (1880 HK) and Daphne Int'l (210 HK) have witnessed intense competition from ecommerce players and foreign brands who have leveraged on the ecommerce platform to reach consumers across china, thus impacting store performances of Belle and Daphne. Belle Int'l and Daphne Int'l have seen their LTL growths decline, revenue growth decline (despite store additions) and reduction in footfalls in the stores due to intense competition from ecommerce players. The foreign brands especially the sportswear brands have gained using ecommerce platforms.

**Operating performance of Daphne International and Belle International – Declining trend in LTL growth**
**Daphne International**

**Belle International**


Source: Company, PhillipCapital India Research:

**Nike's DTC (own store and online) channel in itself contributed to 22% of its 2014 revenues in Greater China. The DTC business grew 38% on constant currency terms with LTL growth of 20% implying remaining growth from online and new stores.**

Nike Greater China Revenues \$ Mn	FY12	FY13	FY14
<b>Sales to Wholesale Customers</b>	<b>2,336</b>	<b>2,126</b>	<b>2,041</b>
Growth	NA	-9%	-4%
<b>Sales Direct to Consumer</b>	<b>306</b>	<b>407</b>	<b>561</b>
Growth	NA	33%	38%
LTL Growth	NA	13%	20%
Contribution to total growth from Online sales & new stores	NA	18%	18%

Source: Company, PhillipCapital India Research:

### ERP (Enterprise Resource Planning) migration issues - sales impact not quantifiable but inventory risks can be significant

The impact of the IT systems migration impacting the supply chain and disrupting inventory at store levels is difficult to gauge. Our channel checks indicate that some stores migrated to the new ERP systems from PoSS (point of sale systems) and then rolled back to PoSS due to issues of billing. The larger issue was updating of correct inventory levels where at the backend the system level inventory couldn't be reconciled due to integration issues. Typically migrating to ERP systems face problems when data or master database has to be migrated. In case of companies which were not on an ERP the migration of database would entail manual punching of the data into the ERP. In case of inventory errors would arise if the data has been coded incorrectly or mapped incorrectly in the system.

The inventory levels at company level as on Dec 2014 didn't reflect any significant reduction. Therefore, there are three outcomes based on the nature of the problem

1. If SAP implementation did disrupt the inventory in Q4FY15 (only possible at the store level as system did have inventory of Rs 6.36 bn ) there would have been lost sales and consequently inventory pile up. The corollary being that the inventory pile up and relevance as per the season and sub-season (school, festive etc) would drive the piled up inventory towards mark downs.
2. If the implementation of SAP did not disrupt the business in Q4FY15 significantly, then the de-growth in sales would have been explained due to poor consumer sentiment and loss of market share to ecommerce players and foreign brands.
3. A mixture of above two would have impacted the sales.

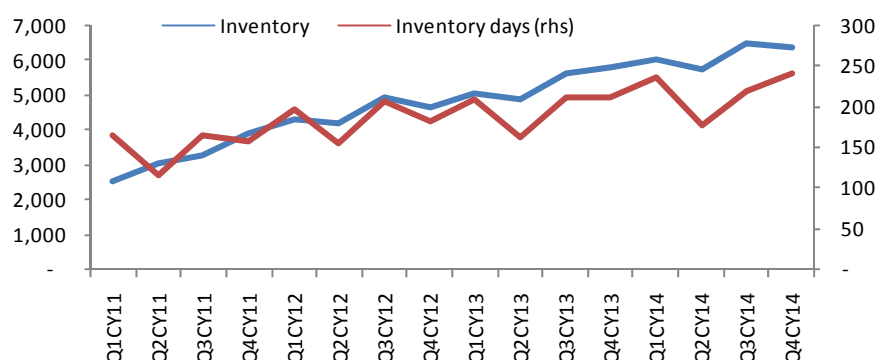
Therefore, inventory levels in the forthcoming quarters will be critical. Abnormal increase in inventory levels would mean that inventory write offs or more discounted sales could impact earnings in the future. Moreover, the stock out issue at stores has emerged when ecommerce is rapidly making gains in lifestyle category.

#### Bata Lost sales and implication on inventory (Rs Mn)

Q4 CY14	5,541	5,541
Expected Increase	5%	5%
Projected Sales	5,818	5,818
Q4 FY15	5,367	5,367
<b>Lost Sales</b>	<b>451</b>	<b>451</b>
COGS	225	225
Assumed Inventory that will remain unsold in FY16	30%	50%
Inventory written off / marked down	68	113
FY16E Revenues Rs Mn	25,676	25,676
Margin Impact	0.26%	0.44%
PBT - FY16E ( not accounting for above)	3,208	3,208
Impact on PBT	2%	4%

Source: Company, PhillipCapital India Research:

#### Bata India's rising inventory and inventory days pose an earnings risk



Source: Company, PhillipCapital India Research:

## Financials

### Income Statement

Y/E Mar, Rs mn	CY13	*FY15E	FY16E	FY17E
<b>Net sales</b>	<b>20,319</b>	<b>27,377</b>	<b>25,299</b>	<b>29,693</b>
Growth, %	10	35	-8	17
Total income	20,319	27,377	25,299	29,693
Raw material expenses	-9,488	-12,484	-11,511	-13,451
Other Operating expenses	-7,944	-11,225	-10,246	-11,877
<b>EBITDA (Core)</b>	<b>2,887</b>	<b>3,669</b>	<b>3,542</b>	<b>4,365</b>
Growth, %	5.0	27.1	(3.5)	23.2
Margin, %	14.2	13.4	14.0	14.7
Depreciation	-592	-621	-712	-804
<b>EBIT</b>	<b>2,295</b>	<b>3,048</b>	<b>2,830</b>	<b>3,561</b>
Growth, %	2.6	32.8	(7.2)	25.8
Margin, %	11.3	11.1	11.2	12.0
Interest paid	-13	-168	-155	-168
Other Non-Operating Income	315	398	484	627
<b>Pre-tax profit</b>	<b>2,597</b>	<b>3,278</b>	<b>3,158</b>	<b>4,020</b>
Tax provided	-1,020	-1,218	-1,042	-1,327
<b>Profit after tax</b>	<b>1,577</b>	<b>2,060</b>	<b>2,116</b>	<b>2,693</b>
<b>Net Profit</b>	<b>1,577</b>	<b>2,060</b>	<b>2,116</b>	<b>2,693</b>
Growth, %	(2.5)	32.9	(5.1)	27.3
<b>Net Profit (adjusted)</b>	<b>1,677</b>	<b>2,229</b>	<b>2,116</b>	<b>2,693</b>
Unadj. shares (m)	64	64	64	64
Wtd avg shares (m)	64	64	64	64

### Balance Sheet

Y/E Mar, Rs mn	CY13	*FY15E	FY16E	FY17E
Cash & bank	2,558	4,523	6,223	7,718
Debtors	508	674	623	731
Inventory	5,827	6,499	5,834	6,818
Loans & advances	1,413	1,834	1,695	1,989
Other current assets	112	149	137	161
Total current assets	10,418	13,678	14,513	17,417
Gross fixed assets	6,028	6,603	7,578	8,553
Less: Depreciation	-3,552	-4,173	-4,885	-5,689
Add: Capital WIP	245	245	245	245
Net fixed assets	2,720	2,675	2,938	3,109
<b>Total assets</b>	<b>13,819</b>	<b>17,035</b>	<b>18,132</b>	<b>21,207</b>
Current liabilities	5,421	7,161	6,845	8,068
Total current liabilities	5,421	7,161	6,845	8,068
Total liabilities	5,421	7,161	6,845	8,068
Paid-up capital	643	643	643	643
Reserves & surplus	7,755	9,231	10,645	12,497
Shareholders' equity	8,398	9,873	11,288	13,139
<b>Total equity &amp; liabilities</b>	<b>13,819</b>	<b>17,035</b>	<b>18,132</b>	<b>21,207</b>

Source: Company, PhillipCapital India Research Estimates

\* FY15E represents 15 months

### Cash Flow

	CY13	*FY15E	FY16E	FY17E
Pre-tax profit	2,597	3,278	3,158	4,020
Depreciation	592	621	712	804
Chg in working capital	-386	445	549	-187
Total tax paid	-1,258	-1,218	-1,042	-1,327
<b>Cash flow from operating activities</b>	<b>1,546</b>	<b>3,125</b>	<b>3,377</b>	<b>3,311</b>
Capital expenditure	-697	-576	-975	-975
<b>Cash flow from investing activities</b>	<b>-697</b>	<b>-576</b>	<b>-975</b>	<b>-975</b>
Free cash flow	849	2,550	2,402	2,336
Dividend (incl. tax)	-492	-585	-701	-842
Other financing activities	323	1	0	0
<b>Cash flow from financing activities</b>	<b>-169</b>	<b>-584</b>	<b>-701</b>	<b>-842</b>
Net chg in cash	680	1,966	1,701	1,494

### Valuation Ratios

	CY13	*FY15E	FY16E	FY17E
<b>Per Share data</b>				
EPS (INR)	26.1	34.7	32.9	41.9
Growth, %	(2.5)	32.9	(5.1)	27.3
Book NAV/share (INR)	130.7	153.6	175.6	204.5
FDEPS (INR)	26.1	34.7	32.9	41.9
CEPS (INR)	35.3	44.3	44.0	54.4
CFPS (INR)	19.2	42.4	45.0	41.8
DPS (INR)	7.7	9.1	10.9	13.1
<b>Return ratios</b>				
Return on assets (%)	12.6	14.1	12.6	14.2
Return on equity (%)	20.0	22.6	18.7	20.5
Return on capital employed (%)	20.6	23.7	20.9	22.9
<b>Turnover ratios</b>				
Asset turnover (x)	4.1	5.6	5.6	6.5
Sales/Total assets (x)	1.6	1.8	1.4	1.5
Sales/Net FA (x)	7.6	10.1	9.0	9.8
Working capital/Sales (x)	0.1	0.1	0.1	0.1
Working capital days	43.8	26.6	20.8	20.1
<b>Liquidity ratios</b>				
Current ratio (x)	1.9	1.9	2.1	2.2
Quick ratio (x)	0.8	1.0	1.3	1.3
Interest cover (x)	176.7	18.1	18.2	21.2
Dividend cover (x)	3.4	3.8	3.0	3.2
Net debt/Equity (%)	(30.5)	(45.8)	(55.1)	(58.7)
<b>Valuation</b>				
PER (x)	42.3	31.9	33.6	26.4
PEG (x) - y-o-y growth	(16.8)	1.0	(6.6)	1.0
Price/Book (x)	8.5	7.2	6.3	5.4
EV/Net sales (x)	3.4	2.4	2.6	2.1
EV/EBITDA (x)	23.7	18.1	18.3	14.5
EV/EBIT (x)	29.8	21.8	22.9	17.8

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