Sector Thematic

Footwear

No bargains here!

Footwear, like most F&L categories, is fragmenting, with top businesses within the ecosystem losing revenue/EBITDA share (23 footwear companies tracked; >3/4th the organized pie; cohort growth 10% CAGR over FY15-20). As shoppers increasingly want a multi-brand environment, the ecosystem is becoming more casual (sports/at-leisure-heavy) and distribution-led (wholesale + online). Retail sales densities are thinning (0 to -5%). Many inefficient brands have been found hiding behind high GMs to save ballooning cost structures, only to worsen their balance sheets; advantage platforms! We reckon inefficient brands could be arm-twisted by platforms into parting with a portion of their margins to boost sales. Against this backdrop, a company's ability to connect relevant assortment with relevant distribution at smart price points is key for a long and healthy reinvestment story. Bata isn't quite there yet (TP: INR1,400/sh, implying 38x FY24 P/E; trading at 51x); Relaxo is, but is fully priced (TP: INR1,050/sh, implying 55x FY24 P/E; trading at 68x). We initiate coverage on both recommending SELL on both.

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INSTITUTIONAL RESEARCH

Footwear

No bargains here!

Footwear, like most F&L categories, is fragmenting, with top businesses within the ecosystem losing revenue/EBITDA share (23 footwear companies tracked; >3/4th the organized pie; cohort growth 10% CAGR over FY15-20). As shoppers increasingly want a multi-brand environment, the ecosystem is becoming more casual (sports/at-leisure-heavy) and distribution-led (wholesale + online). Retail sales densities are thinning (0 to -5%). Many inefficient brands have been found hiding behind high GMs to save ballooning cost structures, only to worsen their balance sheets; advantage platforms! We reckon inefficient brands could be arm-twisted by platforms into parting with a portion of their margins to boost sales. Against this backdrop, a company's ability to connect relevant assortment with relevant distribution at smart price points is key for a long and healthy reinvestment story. Bata isn't quite there yet (TP: INR1,400/sh, implying 38x FY24 P/E; trading at 51x); Relaxo is, but is fully priced (TP: INR1,050/sh, implying 55x FY24 P/E; trading at 68x). We initiate coverage on both recommending SELL on both.

- **Retail less potent than distribution:** With brand loyalty at an all-time low and brand awareness at an all-time high, a pure-play retail-heavy model in footwear is becoming increasingly difficult to justify as footfalls give way to eyeballs. Among the 23 footwear companies tracked, distribution-heavy models have outpaced retail-heavy ones (12% CAGR vs 8% over FY15-20). No retail-heavy model (revenue >INR5bn) has gained meaningful market share over FY15-20. This is also reflected in their dwindling sales densities. To add insult to injury, strong at-leisure brands (like Puma and Skechers) have been expanding their retail footprint and gaining market share.

- **Alas! Winning in distribution is not a given:** Many brands have leveraged the distribution channel (especially wholesale) to scale. However, winning in distribution is not a given. This is a volume-driven, inventory-turns-dependent business. Also, the universe of profitable distributors is limited and improving on revenue per distributor is essential for sustainability. Hence, to gain share in a disciplined manner, it is crucial to serve the right assortment at the right price via the right distributor base. Otherwise, one can end up with WC issues. Relaxo and Paragon fare well on the growth-asset turn equation vis-à-vis peers. The functional wear tail and most international brands have yet to catch up.

- **Online – the frontier to fight for!** Given (1) the thinning retail sales densities and (2) scale limitations in wholesale (for high-AoV footwear), online becomes a crucial frontier to scale up. Strong sports/at-leisure brands (like Puma and Skechers) remain over-indexed vis-à-vis listed peers and well poised to win. Many struggling brands (Nike, Reebok, and Clarks) are likely to use platforms as well to alleviate their crippling WC pain. This could alter the power dynamic between brand and platforms over the medium to long term. Note: Bata remains a laggard in terms of online SKU relevance (Refer SKU analysis).
- **No bargains here!** As businesses, we continue to prefer disciplined operators that offer the "non-discretionary" within the "discretionary" such as functional wear brands (Relaxo), because this viewpoint ensures predictability and longevity of reinvestment opportunities at healthy RoCEs. However, the covered universe (Bata and Relaxo) offers no margin of safety at 51-67x FY24 P/E for a 9-20% FY20-24 EPS growth profile and 15-20% RoCE profile. We initiate coverage with SELL recommendations on both Bata and Relaxo and DCF-based TPs of INR1,400/sh (implying 38x FY24 EPS) and INR1,050 (implying 55x FY24 P/E).

Company	RECO	CMP	TP (Rs)
Bata	SELL	1,891	1,400
Relaxo Footwear	SELL	1,287	1,050

CMP as on 01 Dec- 21

Did you know?

The annual cash position of our footwear universe (23 footwear companies accounting for >3/4ths the organised pie) < 10% of the annual fund raise of key e-tailers - capital divide is just too huge!

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Peer valuation

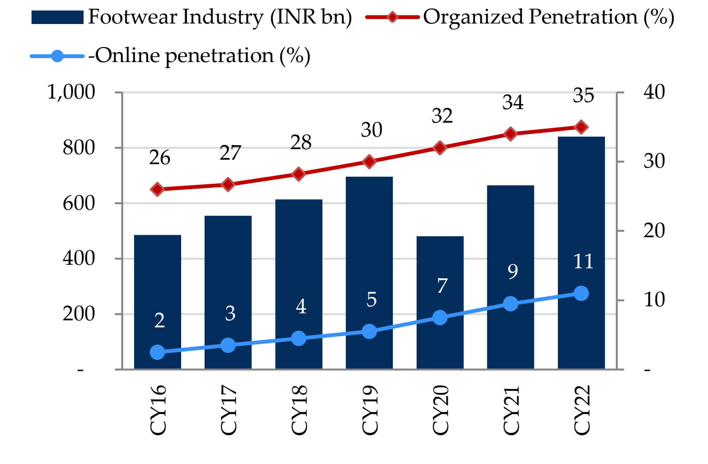
Company	CMP	M cap (INR bn)	Reco	TP
F&G				
Avenue Supermarts	4,743	3,047	SELL	2,700
Apparel				
ABFRL	258	243	BUY	320
Shoppers Stop	324	29	SELL	210
V Mart	3,881	76	REDUCE	3,850
Trent	1,029	366	SELL	810
TCNS Clo.	814	50	SELL	540
Jewellery				
Titan Company	2,361	2,096	SELL	1,700
Footwear				
Bata India	1,891	243	SELL	1,400
Relaxo Footwears	1,287	320	SELL	1,050
Horizontal Retailers				
Reliance Retail	726	4,856	NR	726
Paints				
Asian Paints	3,150	3,021	SELL	2,600
Berger Paints	742	721	SELL	710
Kansai Paints	592	319	BUY	680

Company	Revenue (Rs. bn)			EBITDA (Rs. bn)			EBITDAM (%)			PAT (Rs. bn)			P/E (x)			EV/EBITDA (x)			RoE(%)			RoCE(%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
F&G																								
Avenue Supermarts	305	442	542	25.3	39.7	48.7	8.3	9.0	9.0	16.7	26.6	32.6	184	116	94	121	77	62	12.7	17.4	17.8	12.5	17.1	17.6
Apparel																								
ABFRL	74	95	110	11.7	17.1	20.3	15.8	17.9	18.5	(0.6)	2.7	4.6	NM	73	43	58	26	20	(0.8)	2.9	4.2	2.4	6.6	11.7
Shoppers Stop	28	36	39	0.6	1.8	2.1	2.2	5.1	5.4	(0.9)	0.2	0.4	(31)	122	74	NM	15	14	(11.8)	3.2	5.1	(2.4)	1.8	2.4
V Mart	18	28	34	1.2	2.2	2.9	6.8	8.0	8.5	0.6	1.3	1.8	128	58	43	62	33	26	6.6	13.2	15.4	6.8	13.5	15.8
Trent	31	47	53	5.3	9.3	10.4	17.1	19.6	19.5	1.2	3.1	3.3	437	175	163	72	41	37	4.8	11.1	11.0	6.0	8.8	8.7
TCNS Clo.	10	13	15	1.0	2.2	2.6	10.5	17.6	18.0	0.0	0.8	1.4	NM	63	36	47	21	17	1.6	14.3	21.1	4.2	12.9	18.1
Jewellery																								
Titan Company	270	322	373	31.7	39.7	46.8	11.7	12.3	12.6	20.5	26.1	31.3	102	80	67	67	54	45	24.7	26.6	27.8	15.1	16.9	17.3
Footwear																								
Bata India	26	34	38	4.8	7.7	9.0	18.7	23.0	23.7	1.7	3.8	4.8	143	64	51	119	49	39	8.4	17.1	18.7	4.8	13.5	14.8
Relaxo Footwears	28	33	39	4.7	5.8	7.0	16.8	17.4	17.9	3.0	3.8	4.7	105	82	67	67	53	44	18.0	20.3	21.7	16.8	18.9	20.4
Horizontal Retailers																								
Reliance Retail	1,690	2,347	2,828	93.3	142.1	164.2	5.5	6.1	5.8	77.6	100.4	103.8	68	53	52	57	37	32	9.5	11.4	10.7	9.0	10.8	10.1
Paints																								
Asian Paints	267	302	338	45.0	57.4	64.8	16.9	19.0	19.2	29.8	39.2	45.0	101	77	67	67	52	46	22.3	26.4	26.9	19.6	23.3	23.9
Berger Paints	84	96	109	12.6	17.0	20.0	15.0	17.8	18.4	7.5	10.5	12.7	96	68	57	57	42	35	20.7	24.4	24.2	17.9	21.4	21.6
Kansai Paints	59	68	78	8.5	11.2	13.2	14.3	16.4	17.0	5.2	6.9	8.2	62	46	39	38	29	24	12.5	15.5	16.5	12.1	15.0	16.0

Source: HSIE Research

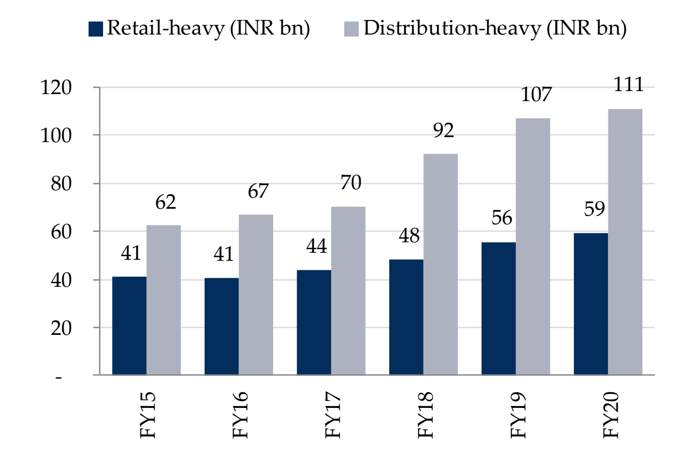
Story in Charts

Footwear industry pegged to grow at ~8% CAGR over CY19-22; online to grow at 4x pace that of B&M folks



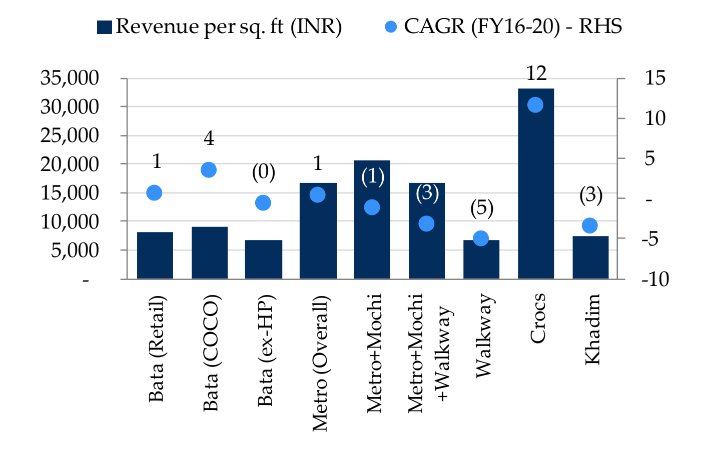
Source: HSIE Research

Distribution-heavy models outpace retail-heavy ones



Source: Companies, HSIE Research, (Universe: 23 footwear companies comprising 75%+ of organized pie)

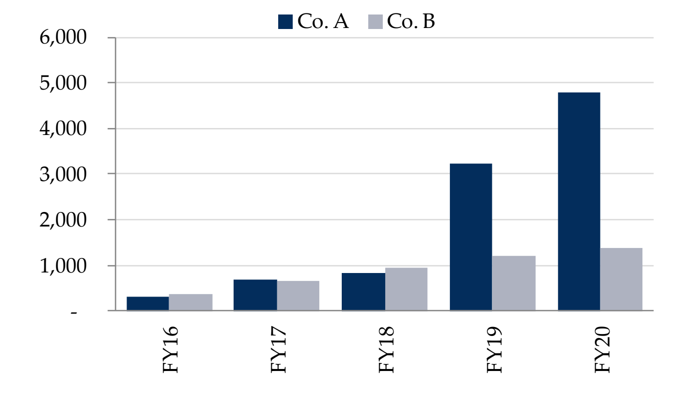
Sales-density of retail-heavy models thinning…



Source: Company, HSIE Research

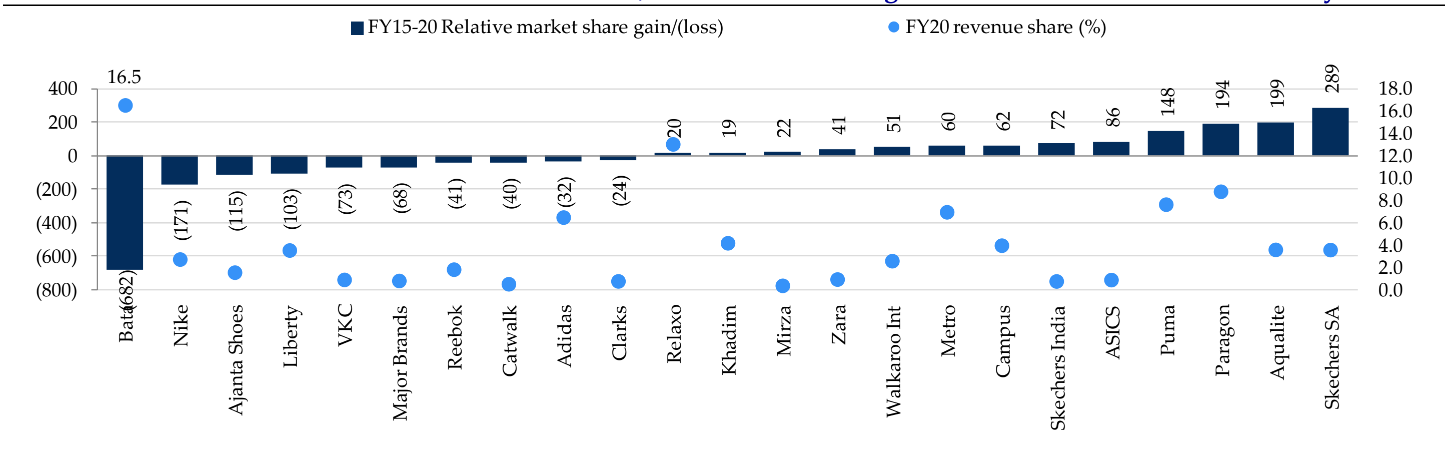
…while select sports/at-leisure international brands are revving up their aggression in retail

Retail revenue (INR bn)



Source: Company, HSIE Research

Bata has lost the most in market share over FY15-20; most market share gainers have been distribution-heavy



Source: Company, HSIE Research

Alas, winning in distribution is not a given, but a confluence of right assortment, right price, and right TAM assures success; several distribution-heavy laggards fall short on the growth-asset turns equation

Business Models		FY17 RoCE	FY20 RoCE	FY17-20 revenue CAGR (%)
Growing + Steady RoCE				
Retail-heavy	Metro	22	28	12
Distribution-heavy	Relaxo	17	18	14
Distribution-heavy	Co. B	16	14	12
Distribution-heavy	Co. C	20	20	45
Weak growth + Steady RoCE				
Distribution/franchisee-heavy	Co. A	18	18	3
Retail-heavy	Bata	12	15	7
Growth + Investment mode				
Distribution-heavy	Co. C	5	2	19
Distribution/franchisee-heavy	Co. D	10	5	31
Retail-heavy	Co. E	(9)	15	29
Distribution-heavy	Co. F	0	17	20
Distribution-heavy	Co. G	39	15	10
Distribution-heavy	Co. H	7	0	51
Laggards				
Distribution-heavy	Mirza	13	8	10
Retail-heavy	Khadim	14	(3)	8
Distribution-heavy	Liberty	6	5	9
Retail-heavy	Co. I	(29)	(27)	3
Distribution-heavy	Co. J	0	15	(2)
Distribution-heavy	Co. K	19	32	1
Distribution-heavy	Co. L	7	(2)	(5)
Distribution-heavy	Co. M	9	6	6
Distribution-heavy	Co. O	25	14	(8)

…gets reflected in their burgeoning inventory + receivable days

Inventory + Receivables	FY17	FY18	FY19	FY20
Bata	116	118	113	112
Relaxo	93	94	95	94
Co. N	152	134	154	187
Co. F	183	123	157	139
Mirza	129	193	187	160
Liberty	209	181	169	225
Co. I	157	153	157	157
Co. L	117	125	153	192
Co. J	240	234	292	260
Co. A	180	304	343	343
Co. P	55	73	88	96
Co. H	95	127	84	82
Co. M	58	67	74	94
Co. D	111	109	127	107
Co. K	0	203	172	157
Co. G	167	131	96	127
Co. O	216	246	224	318
Co. E	116	234	120	153
Co. R	59	68	87	104
Co. Q	205	221	199	285
Co. S	58	70	85	97

Source: Company, HSIE Research

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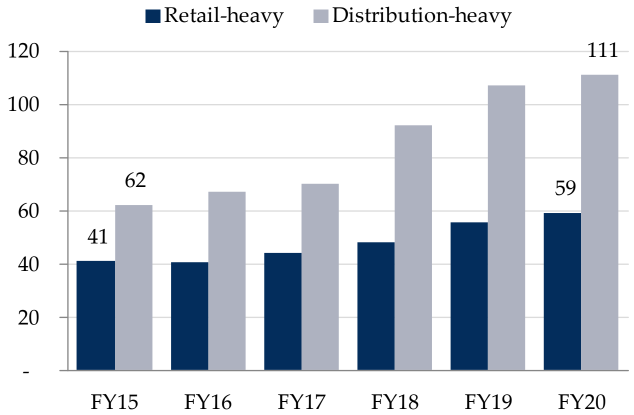
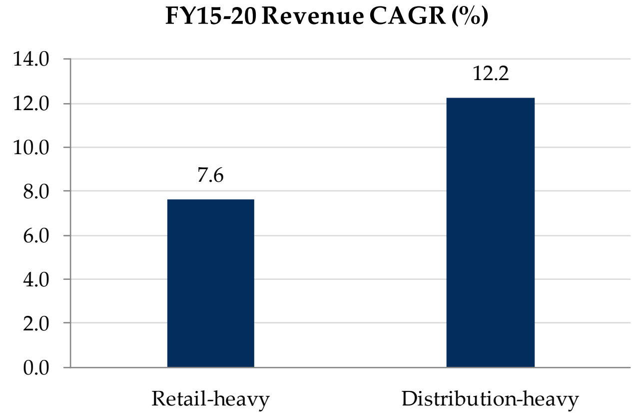
Retail less potent than distribution in footwear

- In the footwear industry, distribution models have proven to be more potent than retail-heavy ones. Among the 23 footwear companies universe we tracked, distribution-heavy models grew at 12% CAGR over FY15-20 vs 7.6% for retail-heavy models. No retail-heavy business model (revenue >INR5bn) has gained over 60bp in market share over FY15-20.
- International brands like Puma, ASICS, Skechers (strong sports/at-leisure brands) have been revving up their retail footprint (can be seen in their rising retail contribution from retail and rising rent bills).
- Counterintuitively, despite higher population density, footwear firms with a higher metro presence (especially ones with a weak sports/at-leisure assortment) are vulnerable to reducing sales density over time, especially after achieving a certain scale (>INR15bn). Bata seems most vulnerable on this variable.

- **Distribution models have proven to be more potent than retail-heavy ones:** In an era where brand loyalty is at an all-time low and brand awareness is at an all-time high, it is increasingly becoming difficult to justify a pure-play COCO-based retail-heavy model in footwear as footfalls consistently gravitate to channels with more options, i.e., distribution channels (wholesale and online). For the 23 footwear companies we tracked, distribution-heavy models grew 12% CAGR over FY15-20 vs 7.6% for retail-heavy models. Most brands have taken the asset-light distribution route to establish presence before attempting an aggressive retail expansion (Bata and Metro brands are exceptions).

Retail-heavy models have not kept pace with distribution-heavy models in brand loyalty



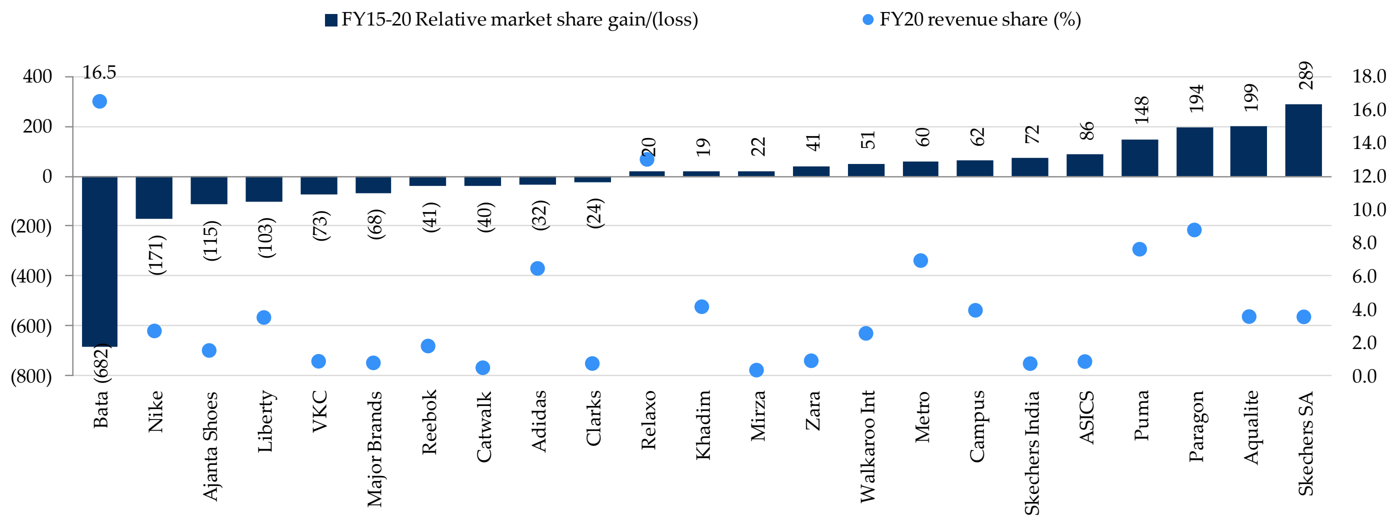


Source: Company, HSIE Research, 23 offline footwear companies (representing 75-80% the organised pie) used as base

- An inkling of the potency differential can be seen in the market share movement of footwear companies. 9/15 distribution-heavy brands have gained market share over FY15-20. Even the ones that ceded share had internal bottlenecks – like corporate governance issues (Reebok) or a receding retail focus (Nike).

- No retail-heavy business model (revenue >INR5bn) has gained over 60bp in market share over FY15-20. Bata has shed the highest market share within the ecosystem.

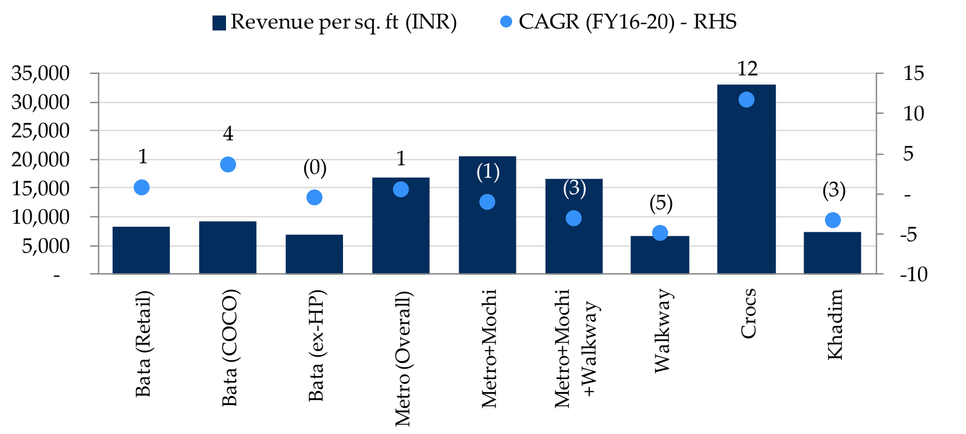
Distribution-heavy cohort gains on an aggregate over retail-heavy footwear firms. Bata ceded the most market share over FY15-20



Source: Company, HSIE Research

- **Sales density of major retail-heavy footwear companies thinning:** Sales density of major retail-heavy footwear companies (Bata, Metro, and Khadim) have either stagnated or on the decline. Rising gross margins, courtesy price hikes and premiumization, have saved the blushes for most in terms of unit economics. Note: sales densities for Bata (Ex-HP) and Metro brands (ex-Crocs) have been flat to declining (-1to -3% CAGR) over FY16-20. One of the key reasons for the stagnating sales density for incumbents (Bata/Khadim/Metro) is their under-indexed presence in the fast growing sports/at-leisure category **(Refer SKU Analysis).**

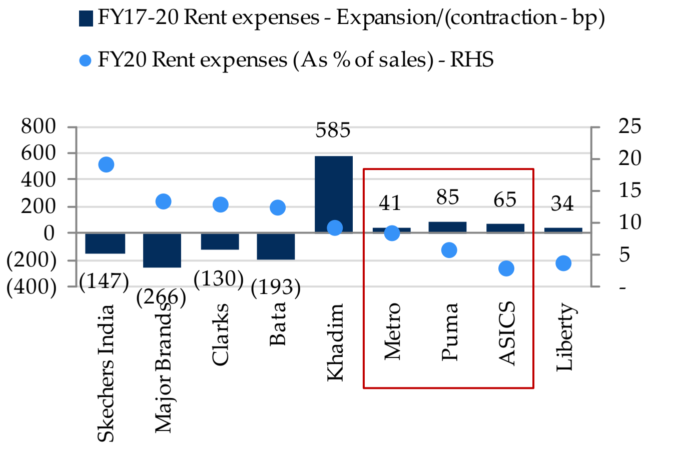
Sales densities for Bata (ex-HP) and Metro brands (ex-CROCS) flat to declining



Source: Company, HSIE Research

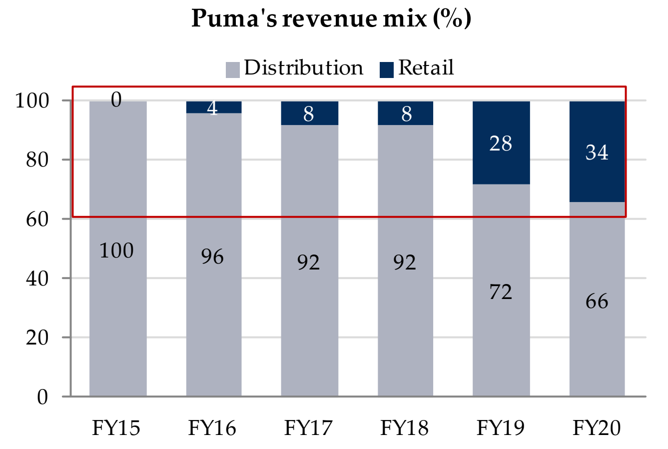
- **Competitive intensity rising in retail channel:** International brands such as Puma and ASICS have been revving up their retail footprint (which can be seen in their rising contribution from retail and rising rent bills). Skechers SA has also initiated the merger process with its retail operations in India to tap operational synergies and reap benefits from economies of scale, which should in turn help the company become more competitive with time.

Select players have stepped up their retail expansion plans as can be seen from rising rentals



Source: Companies, HSIE Research

Case in point - Puma: retail revenue has grown at a 98% CAGR (FY16-20); accounts for 34% of sales

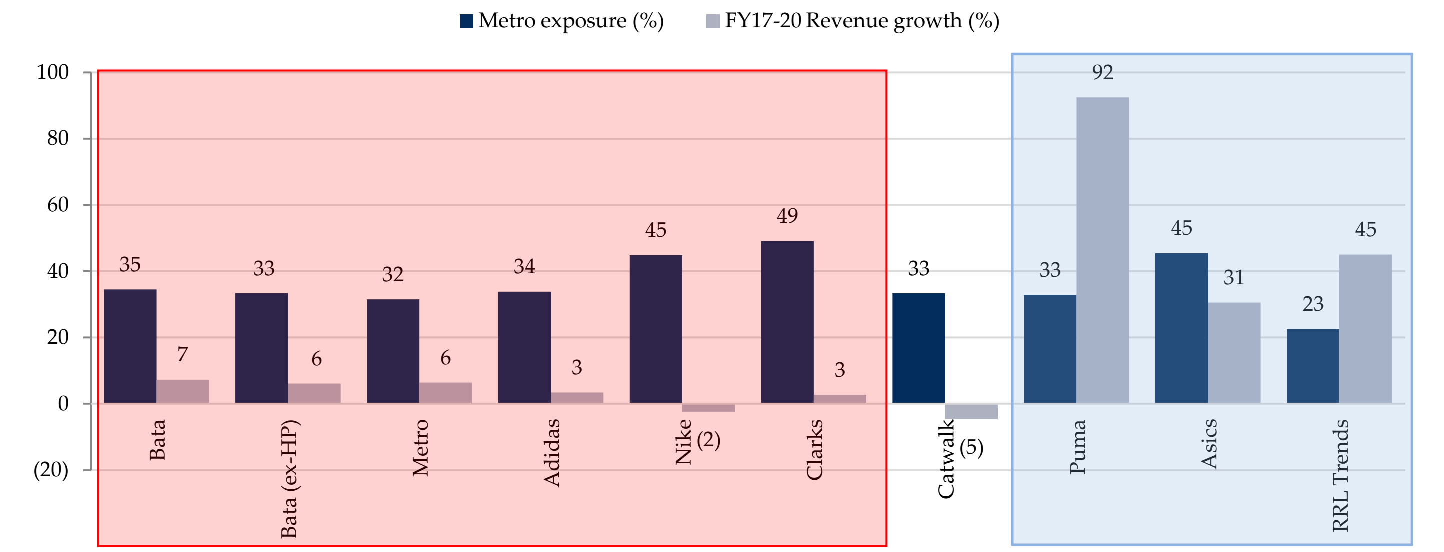


Source: Company, HSIE Research

Higher exposure to metros = higher vulnerabilities

- **Higher metro exposure = higher vulnerabilities in retail models:** The retail channel in footwear has had to contend with rising (1) international/D2C brands and (2) multi-brand channel choices for the metro consumer. Hence, counterintuitively, despite higher population density, footwear companies with a higher metro presence and a weak sports/at-leisure assortment are vulnerable to reducing sales density over time, especially after achieving a certain scale (>INR15bn). Note: Puma's and ASICS retail operations are in nascent stages (ergo, the healthy growth).
- Reliance Retail's Trends footwear has a higher tier-2/3 presence and sells more functional/affordable footwear; ergo, the product portfolio and retail footprint is more in sync with each other, which can be seen in Reliance Trends growth rates. Note: Trends footwear is believed to be growing faster than other categories in the format.

Store mix across key footwear companies: Over indexation to Metros could hurt sales density in the long run as this cohort is spoilt for choices. Bata seems to be the most vulnerable



Source: Company, HSIE Research

Our proprietary store map tracking retail footprint of footwear companies on basis of (1) per capita income and (2) population density also suggests that slower growing companies with a weaker sports/at-leisure assortment have an over-indexed presence to districts with a high per capita income. Sales densities for Bata (ex-HP) and Metro brands (ex-CROCS) flat to declining

PCI/Pop. Density	District (#)	Population	Bata	Hush Puppies	Metro	Khadim	Puma	Asics	Adidas	Red Tape-Mirza	Woodland
<INR100K	**298**	**574**	**21.5**	**4.9**	**15.0**	**45.0**	**15.3**	**9.1**	**20.5**	**24.4**	**14.9**
<300 Km²	105	124	2.0	-	2.0	3.0	2.3	2.3	1.8	1.9	2.5
1000-3000	50	167	9.3	1.2	7.0	18.7	4.9	4.5	8.8	10.8	5.0
3000-5000	2	5	1.0	1.2	1.5	0.3	1.2	-	1.5	2.3	1.7
300-500	51	76	3.2	-	2.5	5.1	4.5	2.3	3.3	1.4	2.2
500-1000	90	201	6.1	2.5	2.0	17.9	2.3	-	5.1	8.0	3.6
>500K	**2**	**3**	**2.5**	**7.4**	**1.5**	**-**	**3.3**	**4.5**	**4.3**	**4.7**	**2.2**
1000-3000	2	3	2.5	7.4	1.5	-	3.3	4.5	4.3	4.7	2.2
100-150K	**116**	**222**	**12.5**	**4.9**	**14.0**	**22.7**	**13.8**	**9.1**	**13.1**	**15.0**	**16.6**
<300	54	76	2.1	-	1.5	3.0	2.6	2.3	1.5	0.9	2.8
1000-3000	9	34	2.1	1.2	0.5	10.5	1.2	-	1.5	0.9	1.2
3000-5000	1	5	0.2	-	0.5	2.0	-	-	0.5	-	-
300-500	38	79	4.6	1.2	5.0	3.8	3.3	-	3.3	6.1	7.0
500-1000	14	28	3.5	2.5	6.5	3.5	6.8	6.8	6.3	7.0	5.6
150-200K	**90**	**190**	**20.3**	**12.3**	**23.0**	**15.4**	**21.8**	**22.7**	**19.9**	**21.1**	**22.2**
<300	31	67	2.3	-	0.5	0.8	1.4	-	0.5	0.9	3.6
1000-3000	6	16	1.4	2.5	3.5	0.3	2.3	4.5	1.8	-	2.3
3000-5000	1	1	0.2	-	0.5	0.3	0.2	-	0.3	-	-
300-500	29	52	3.2	-	3.5	2.5	4.0	-	3.8	8.5	4.5
5000+	2	9	8.2	6.2	7.5	9.2	5.9	6.8	7.3	-	3.7
500-1000	21	46	5.0	3.7	7.5	2.5	8.0	11.4	6.3	11.7	8.1
200-250K	**31**	**74**	**8.8**	**11.1**	**9.5**	**5.0**	**7.7**	**2.3**	**7.1**	**6.1**	**8.4**
<300	4	4	0.5	-	-	0.3	0.2	-	0.3	-	0.2
1000-3000	7	23	2.7	2.5	3.0	2.6	1.4	-	2.0	1.9	2.5
300-500	8	18	1.0	1.2	1.5	0.7	1.9	-	1.0	-	1.4
500-1000	12	28	4.6	7.4	5.0	1.4	4.2	2.3	3.8	4.2	4.3
250-300K	**8**	**30**	**6.4**	**13.6**	**9.0**	**1.2**	**10.8**	**11.4**	**6.1**	**6.1**	**8.1**
1000-3000	3	16	3.7	6.2	5.0	1.0	3.5	6.8	2.5	2.3	4.3
300-500	1	1	0.2	-	-	-	0.2	-	0.3	-	0.2
5000+	2	3	0.8	3.7	1.5	-	1.2	2.3	1.0	0.5	1.2
500-1000	2	10	1.8	3.7	2.5	0.1	5.9	2.3	2.3	3.3	2.3
300-500K	**14**	**57**	**25.1**	**43.2**	**20.0**	**7.5**	**23.0**	**36.4**	**25.8**	**22.1**	**21.4**
<300	1	0	-	-	-	-	-	-	-	-	-
1000-3000	1	2	0.4	-	-	-	0.5	-	0.3	0.9	0.5
3000-5000	1	10	7.8	14.8	7.0	4.2	6.3	6.8	6.3	5.2	4.5
300-500	4	4	1.5	1.2	1.5	0.1	1.9	2.3	0.5	-	1.1
5000+	4	33	14.5	27.2	11.0	2.2	13.4	27.3	16.9	14.6	14.4
500-1000	3	8	1.0	-	0.5	0.9	0.9	-	1.8	1.4	0.9
Gujarat	**27**	**55**	**2.8**	**2.5**	**8.0**	**3.3**	**4.2**	**4.5**	**3.3**	**0.5**	**6.2**
<300	12	19	0.4	-	2.0	1.2	0.7	-	0.8	-	1.2
1000-3000	1	0	-	-	-	-	-	-	-	-	-
300-500	5	13	0.3	-	0.5	0.3	0.5	-	0.5	-	0.9
500-1000	9	23	2.1	2.5	5.5	1.8	3.1	4.5	2.0	0.5	4.0

Source: Company, HSIE Research; How to read the table: For example: Bata has 14.5% of its total stores in 4 districts with a profile of (1) per capita income of INR300-500k and (2) population density of 5,000+ people/km2

Winning in distribution is not a given

- Many have used the distribution channel (especially wholesale) to scale before committing to a dedicated retail strategy. However, winning in distribution is not a given. Some of our key learnings via channel checks/interactions across the ecosystem are as follows:

    1. The wholesale channel works better for high volume/SKU, low AoV, functional footwear brands (Relaxo, Paragon, etc.) because it offers the distributor with high asset turns (courtesy higher purchase frequency). Online sales are restricted for this category as low AoVs don't lend themselves to profitable sales.

    2. Up to a certain scale (INR 5-10bn) and depending on the brand pull, the wholesale channel works effectively for strong sportswear/at-leisure brands (Skechers, Puma, etc.). Beyond that, to achieve scale, a strong online partnership is required.

    3. In the casual and formal categories, brand fragmentation is strong since brand loyalty is low in the marketplace (especially for women). Hence, scaling individual brands in these categories beyond a certain point (INR9-12bn) via wholesale is challenging.

    4. The number of profitable/sizable distributors (in wholesale) remains small (700-800). Hence, beyond a certain scale, it is more prudent to focus on increasing the throughput per distributor rather than raising the number of distributors. Many have succumbed to the expansion spree, as evidenced by increasing inventory and receivable days over time. Many (unlisted) brands have been rationalizing their distributor networks.

- We've attempted to reconcile the above insights/learnings with the performance of our footwear ecosystem's 23 members (four buckets). Lo and behold, most inferences ring true.

    Bucket 1: Steady growth + steady/improving RoCE: Ex-Metro brands, all companies belonging to this bucket are either distribution-heavy functional brands (like Relaxo) or strong sports/at-leisure brands (like Skechers). The latter has made meaningful inroads online. The former has been rationalizing its distribution network and improving its distribution efficiency.

    Bucket 2: Weak growth + steady RoCE: Companies like Bata with a strong formal positioning and an improving casual portfolio - both of which are fragmenting categories - have found it difficult to capture share in the faster-growing distribution (wholesale + online) channel. Hence, they have consistently lost market share within the ecosystem while maintaining a steady return profile. Company A is a performance sportswear brand undergoing restructuring.

    Bucket 3: Strong growth + investment mode: This third cohort of companies consists of up-and-coming functional wear and sports/at-leisure brands. Growth of this cohort is brisk. But so is the decline in working capital (return profile for some have deteriorated). Many in this cohort may have to make the difficult trade-off between restricting growth and improving WC efficiency at some point.

    Bucket 4: Laggards: This cohort includes (1) regional players with a weak assortment mix and distribution presence, (2) international brands undergoing restructuring (Reebok), and (3) the tail of functional brands where growth is absent or mediocre and focus is on resolving working capital woes (which can be seen in the deteriorating return profile of many in this cohort).

Business Models		FY17 RoCE	FY20 RoCE	FY17-20 revenue CAGR (%)
Growing + Steady RoCE				
Retail-heavy	Metro	22	28	12
Distribution-heavy	Relaxo	17	18	14
Distribution-heavy	Co. B	16	14	12
Distribution-heavy	Co. C	20	20	45
Weak growth + Steady RoCE				
Distribution/franchisee-heavy	Co. A	18	18	3
Retail-heavy	Bata	12	15	7
Growth + Investment mode				
Distribution-heavy	Co. C	5	2	19
Distribution/franchisee-heavy	Co. D	10	5	31
Retail-heavy	Co. E	(9)	15	29
Distribution-heavy	Co. F	0	17	20
Distribution-heavy	Co. G	39	15	10
Distribution-heavy	Co. H	7	0	51
Laggards				
Distribution-heavy	Mirza	13	8	10
Retail-heavy	Khadim	14	(3)	8
Distribution-heavy	Liberty	6	5	9
Retail-heavy	Co. I	(29)	(27)	3
Distribution-heavy	Co. J	0	15	(2)
Distribution-heavy	Co. K	19	32	1
Distribution-heavy	Co. L	7	(2)	(5)
Distribution-heavy	Co. M	9	6	6
Distribution-heavy	Co. O	25	14	(8)

Source: Companies, HSIE Research: For company-specific details contact HSIE Research

- **The crux:** In order to have both a long runway for growth (higher reinvestment rate) and a reasonable RoCE in footwear in a country with a per capita income of ~USD2,000, it is paramount to have (1) an assortment that is in sync with the larger market; i.e., more functional wear and affordable/fashionable sports/at-leisure wear (Refer SKU analysis), (2) a strong presence in a multi-brand ecosystem i.e., wholesale and online, and (3) consistently low cost of retailing.

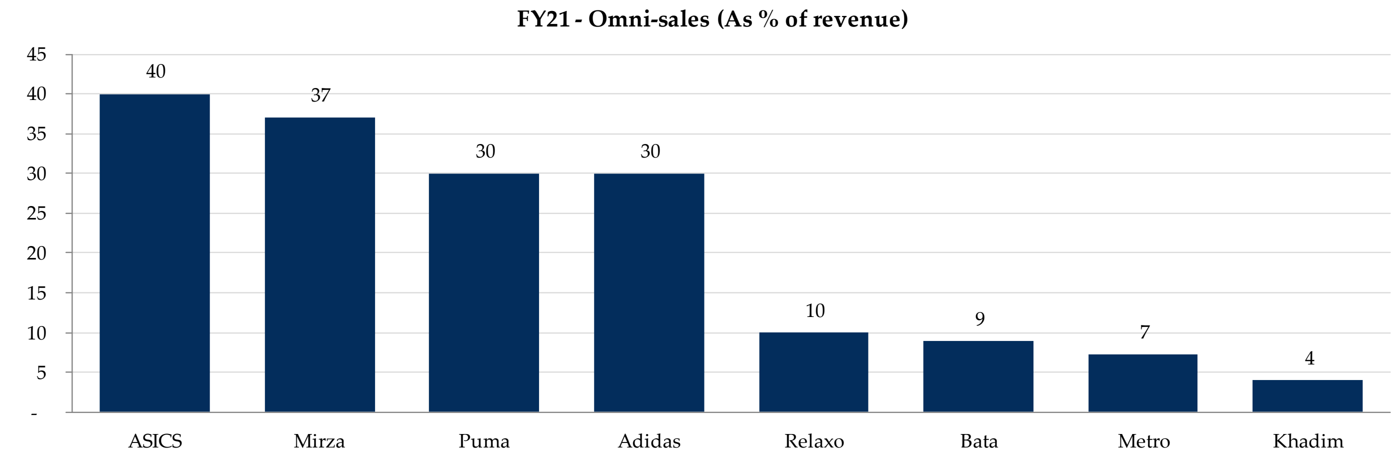
Online - the frontier to fight for!

- As mentioned in previous chapters, because it is becoming increasingly difficult to marry growth and unit economics in a pure-play retail setup in footwear, and wholesale has its own limitations beyond a certain scale (especially for closed footwear), online is increasingly becoming a key frontier to fight for.
- We analysed 1,00,000+ SKUs from major brands and key online platforms to determine who is more online-ready in the ecosystem – Bata doesn't score well and Relaxo, interestingly, fares better. International brands like Puma and Skechers have mastered the troika of pricing, assortment, and distribution.
- Meanwhile, India is becoming more relevant in global e-tailers' scale/profitability/capital decisions. Focus has shifted decisively to improving the profitability of the F&L segment. High-AoV and high-GM footwear would play a key enabler.
- Against this backdrop, many operationally inefficient brands may have to necessarily piggy-back on online platforms for sales and to nurse their WC cycle or risk losing market share.

- **International brands remain over-indexed online vis-à-vis listed peers:** As footfalls lose relevance to eyeballs, a strong online presence in footwear is imperative. International brands such as Puma, Skechers, and Adidas remain over-indexed to online platforms vis-à-vis listed peers. This is evident in their SKU representation **(Refer SKU analysis)** and their online contribution. Skechers' online sales have also increased significantly over the years (from single digit to mid-teens - estimated).

- Both Puma and Skechers have kept assortment aspirational yet affordable, and they have found a good balance between the three channels to further growth.

Peer-wise FY21 omni-sales contribution to sales (%) of key footwear companies



Source: Company, HSIE Research (estimates for unlisted companies)

SKU analysis

- **We analysed 1,00,000+ SKUs from major brands and key online platforms to determine which one is more online-ready in the ecosystem. Some of the inferences drawn from our research are as follows:**
- **Sports/at-leisure segment:** Bata remains significantly under-indexed in the faster sports/at-leisure segment vis-à-vis international peers (Puma and Adidas).
- Relaxo Footwear's Sparx brand has also increased its presence on online platforms like Myntra and Amazon.
- Even in terms of price points, Bata appears to be in no-man's land in the sports/at-leisure segment. The sheer assortment and variety offered by Puma, ASICS, and Nike in the INR1000-3000 and INR3000+ price ranges and by Sparx in the INR500-1000 price range, dwarfs that of Bata.
- **Casual shoes:** In casual shoes, which is a segment fraught with D2C brands, Bata has <2% SKUs across platforms. Puma leads this category too in representation.
- **Open footwear:** Bata has been attempting to gain online volumes via open footwear; its sandals & floaters SKUs have a reasonable representation online. Note: Making profitable sales online in the priced-for-mass category is difficult, given the low average order values (AoV) involved. Case in point: 85% of Relaxo's online sales are from closed footwear despite a reasonable SKU representation online for sandals and floaters.
- **Formal wear:** Bata and Metro's relative representation in formal footwear is reasonably strong. But the category overall isn't growing as fast as sports/at-leisure.

Men

Categories	Casual Shoes	Sports Shoes	Formal Shoes	Sandals & Floaters	Slippers & Flip Flops
Myntra					
Bata/Power/HP	1.8	1.4	3.3	4.5	1.7
Relaxo/Sparx	0.5	4.1	-	2.7	0.5
Adidas	1.1	5.7	-	0.8	2.5
Metro	1.2	-	4.9	6.7	0.1
Puma	7.1	14.8	-	1.6	4.9
Khadim	0.7	0.5	1.2	3.2	0.1
Nike	0.4	1.4	-	0.0	1.0
Reebok	0.4	2.4	-	0.4	0.9
Asics	0.2	0.8	-	-	0.4
Paragon	0.1	-	-	0.2	0.1
Others	86.6	68.9	90.7	79.9	87.8
All brands	**14053**	**7044**	**6855**	**5922**	**3961**
Flipkart					
Bata/Power/HP/bata leisure	1.0	0.5	1.3	1.2	0.9
Relaxo/Sparx/Flite/Bahamas	0.5	1.1	0.0	1.3	1.2
Adidas	0.6	2.3	-	0.2	0.3
Metro/Mochi/Walkway	0.6	0.0	0.6	1.2	0.1
Puma	2.7	3.9	-	0.3	0.5
Khadim	0.3	0.1	0.1	0.2	0.1
Nike	0.2	0.7	-	0.0	0.1
Reebok	0.0	1.4	-	0.1	0.2
Asics	0.2	0.8	-	-	0.0
Paragon	0.1	0.1	0.1	0.6	0.1
Others	93.8	89.0	97.8	95.0	96.7
All brands	**81974**	**80626**	**80333**	**80553**	**80548**
Ajio					
Bata/Power/HP/	4.83	1.73	5.98	5.65	2.07
Sparx	0.03	0.01	-	-	-
Adidas	2.09	4.43	-	1.05	2.23
Metro/Mochi/Walkway	1.08	0.32	6.77	3.52	13.46
Puma	11.62	16.31	-	3.92	3.63
Khadim	0.01	-	0.14	2.44	0.43
Nike		2.49	-	0.08	0.83
Reebok	0.73	2.94	-	1.05	1.50
Asics	0.48	1.57	-	-	0.57
Paragon	-	-	-	-	-
Others	78.7	70.2	87.1	82.3	75.3
All brands	**7658**	**8686**	**4948**	**3804**	**3001**
Amazon					
Bata/Power/HP/	3.8	3.3	14.3	9.5	8.6
Relaxo/Sparx	5.3	5.3	0.2	9.5	9.2
Adidas	7.5	20.0	0.1	1.9	1.6
Metro/Mochi/Walkway	3.8	0.1	6.2	12.0	2.7
Puma	30.0	20.0	0.4	4.8	5.0
Khadim	0.3	-	0.7	0.9	0.8
Nike	6.3	30.0	0.1	1.0	1.7
Reebok	0.3	6.2	-	0.6	1.2
Asics	3.0	10.0	0.0	0.0	0.2
Paragon	1.3	0.3	1.5	5.8	13.8
Total	**61.6**	**95.1**	**23.7**	**46.1**	**44.6**
Others	38.4	4.9	76.3	54.0	55.4
All brands	**10000**	**10000**	**6000**	**8000**	**4000**

Source: Companies, HSIE Research

Women

Categories	Casual Shoes	Sports Shoes	Flip Flops & Sandals	Flats	Heels
Myntra					
Bata/Power/Hush Puppies	2.7	1.8	1.0	2.1	2.5
Relaxo/Sparx	0.2	1.8	0.6	-	-
Adidas	1.7	4.6	1.1	-	-
Metro	1.2	-	0.1	3.4	7.7
Puma	-	26.9	4.6	0.0	-
Khadim	0.8	-	0.1	0.6	1.5
Nike	1.7	7.4	0.8	0.0	-
Reebok	0.7	3.2	0.3	-	-
Asics	0.3	2.7	0.4	-	-
Paragon	0.1	-	0.2	-	-
Others	90.7	51.6	90.7	93.9	88.3
All brands	**6330**	**2698**	**3442**	**14376**	**14436**
Ajio					
Bata/Power/Hush Puppies	4.1	0.8	1.3	2.2	2.4
Relaxo/Sparx	-	-	-	-	-
Adidas	1.9	7.4	1.2	0.0	-
Metro/Mochi/Walkway	0.4	2.6	6.4	5.8	9.9
Puma	9.4	17.9	0.9	-	-
Khadim	-	0.0	0.3	0.2	0.2
Nike	0.6	5.7	0.7	-	-
Reebok	1.0	5.7	0.3	0.0	-
Asics	-	0.2	-	-	-
Paragon	-	-	-	-	-
Others	82.7	59.6	88.8	91.7	87.5
All brands	**3673**	**2340**	**2958**	**10435**	**9860**
Amazon					
Bata/Power/Hush Puppies	1.1	1.7	3.9	14.4	2.5
Relaxo/Sparx/Flite/Bahamas	1.2	1.6	2.8	2.7	-
Adidas	5.4	13.7	0.8	0.1	0.2
Metro/Mochi/Walkway	9.8	0.3	31.7	16.3	22.2
Puma	14.3	12.6	1.7	0.3	4.3
Khadim	0.1	-	1.0	0.4	-
Nike	4.6	16.7	1.0	0.4	-
Reebok	0.2	3.8	0.2	0.0	-
Asics	1.5	12.8	0.0	-	-
Paragon	0.5	-	2.6	1.9	-
Others	61.3	36.9	54.5	63.6	70.7
All brands	**7000**	**6000**	**10000**	**4000**	**946**

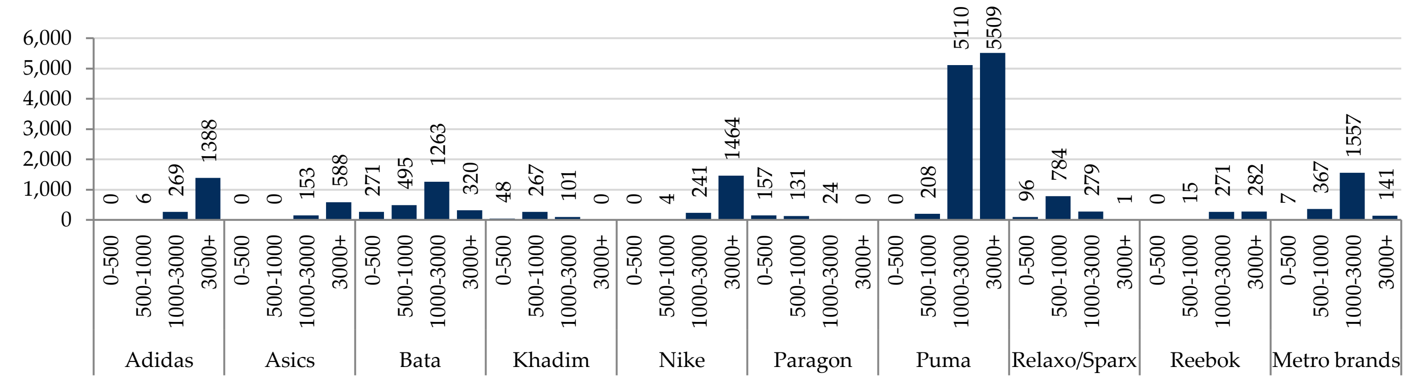
Source: Companies, HSIE Research

Kids

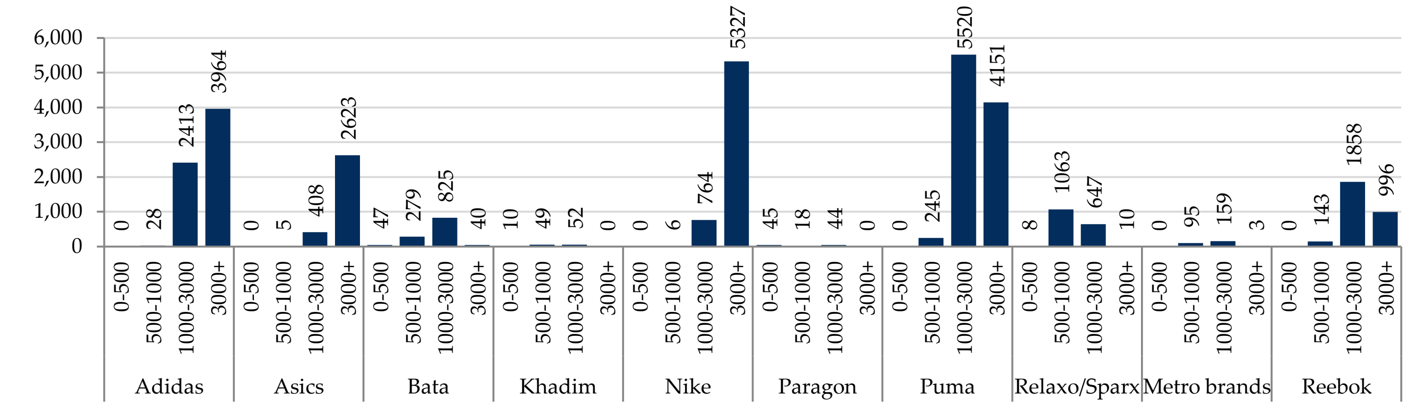
Categories	Casual Shoes	Sports Shoes	School Shoes	Flip Flops	Sandals
Myntra					
Bata/Power/Disney	4.9	-	4.3	2.8	7.3
Relaxo/Sparx	0.2	-	-	-	-
Adidas	1.1	8.2	5.3	1.2	0.2
Metro	1.3	-	25.5	-	3.0
Puma	16.1	21.3	1.1	1.9	0.9
Khadim	1.4	-	-	0.4	1.3
Nike	0.0	2.7	-	0.5	0.1
Reebok	0.6	0.7	-	-	-
Asics	0.2	1.9	-	-	-
Paragon	-	-	-	-	-
Others	74.1	65.3	63.8	93.2	87.1
All brands	2442	969	94	570	846
Flipkart					
Bata/Power/Disney	2.0	0.6	14.0	2.4	1.6
Relaxo/Sparx	0.2	0.7	0.4	0.0	1.3
Adidas	1.0	4.1	-	0.1	0.2
Metro	0.0	-	-	-	0.0
Puma	17.6	11.6	1.8	1.2	1.0
Khadim	1.9	0.8	0.8	0.1	0.6
Nike	0.2	1.6	-	0.1	0.1
Reebok	0.8	0.7	-	-	-
Asics	0.6	1.0	-	-	-
Paragon	0.4	0.4	7.0	2.1	4.1
Others	75.3	78.6	76.0	94.0	91.1
All brands	5000	5000	500	2367	3250
Amazon					
Bata/Power/Disney	1.7	0.8	22.0	6.1	25.9
Relaxo/Sparx/Flite/Bahamos	0.7	0.4	3.7	6.6	2.6
Adidas	4.9	20.0	0.7	0.9	2.4
Metro/Mochi/walkway	-	-	-	-	-
Puma	19.9	14.0	1.7	6.6	4.8
Khadim	0.5	-	0.8	1.9	0.5
Nike	7.6	20.1	0.5	1.7	2.7
Reebok	0.3	1.4	-	-	0.4
Asics	0.1	2.8	-	-	-
Paragon	0.3	-	13.0	9.3	4.9
Others	64.1	40.8	57.7	67.0	55.8
All brands	6000	2000	600	700	1000

Source: Companies, HSIE Research

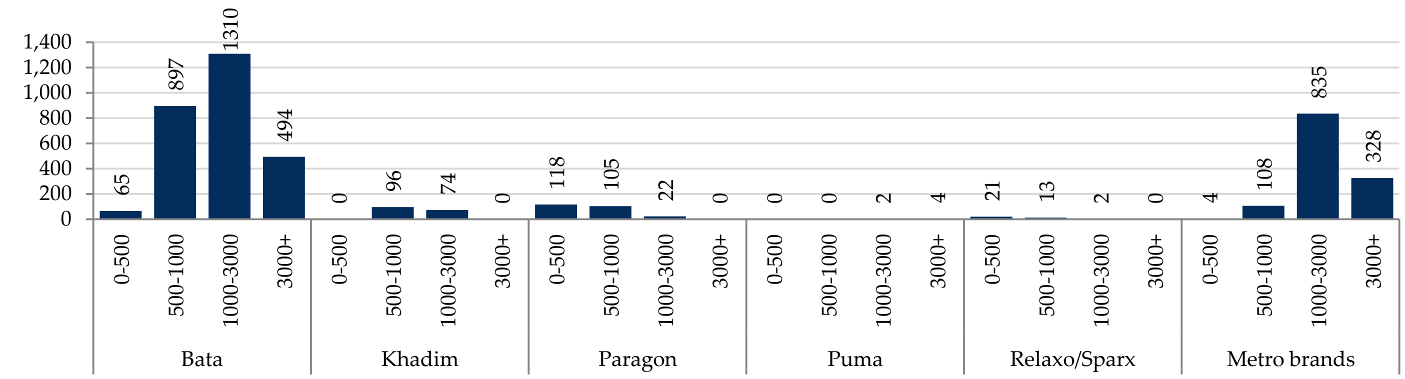
Casual shoes: While Bata remains relatively fairly represented across price points in casual shoes, the category itself is highly fragmented for an individual brand to make a meaningful mark (Bata accounts for <2% of SKUs)



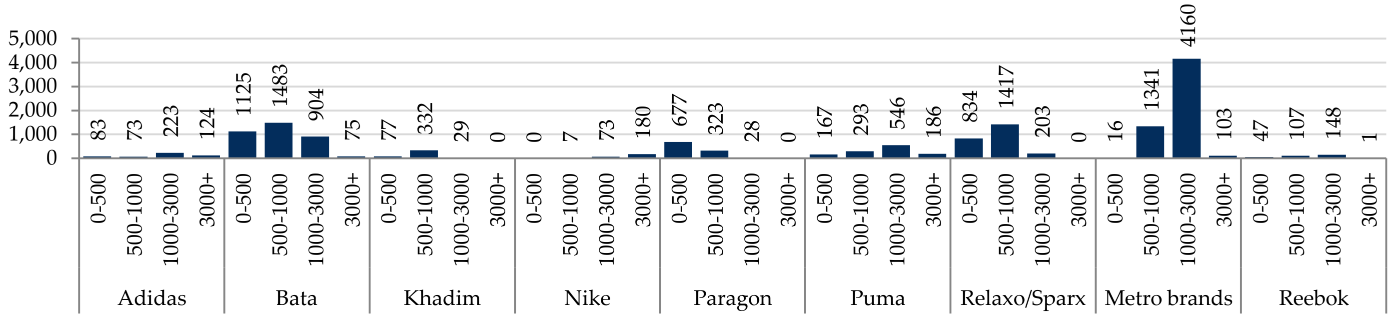
Sports shoes: International brands dominate the faster growing sports/at-leisure segment. Bata meaningfully lags peers in this category, Relaxo's Sparx fares well in the INR500-1000 price range



Bata dominates the formal shoes segment, followed by Metro brands

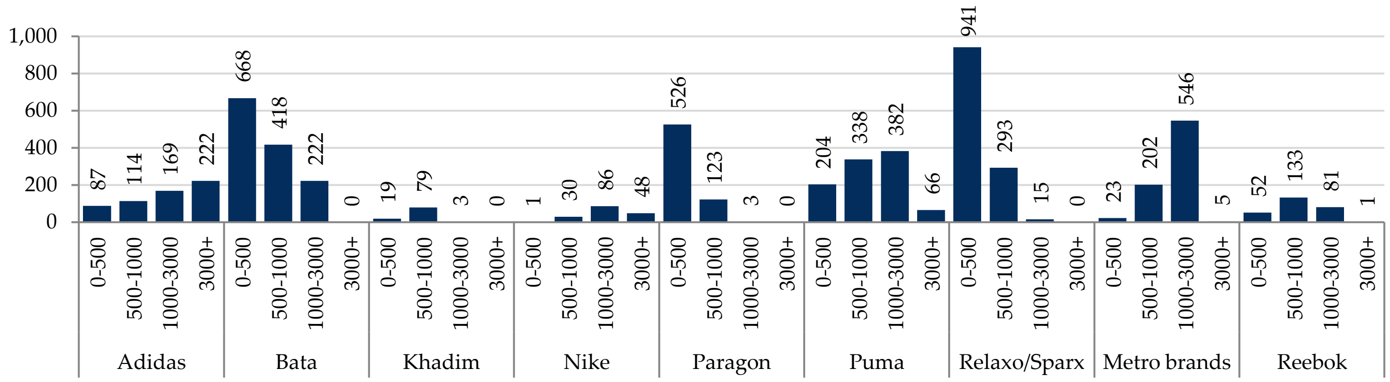


Bata is gaining online volumes via open footwear; its sandals and floaters SKUs have a reasonable representation online. However, the category is increasingly becoming competitive with international brands like Puma and domestic ones like Relaxo consistently improving their representation at the higher and lower ends

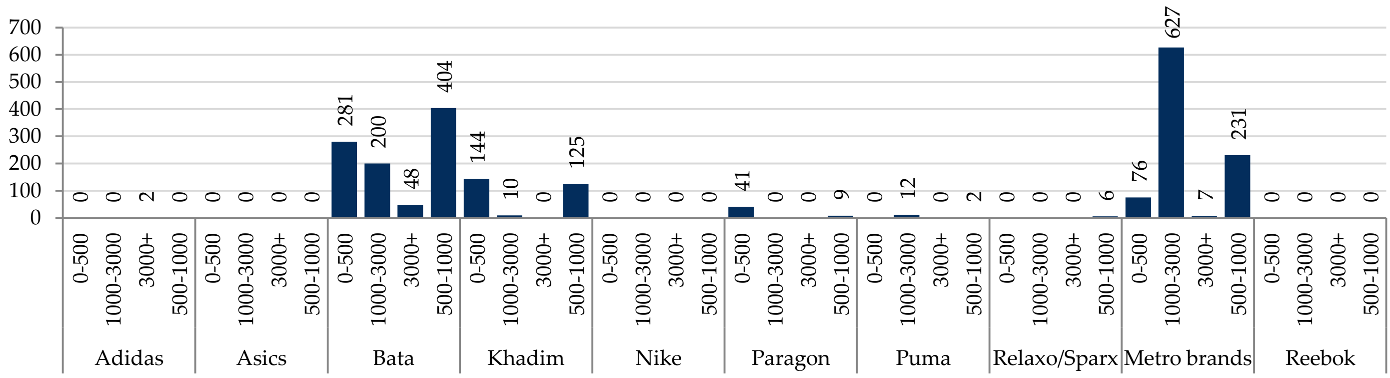


Source: Companies, HSIE Research

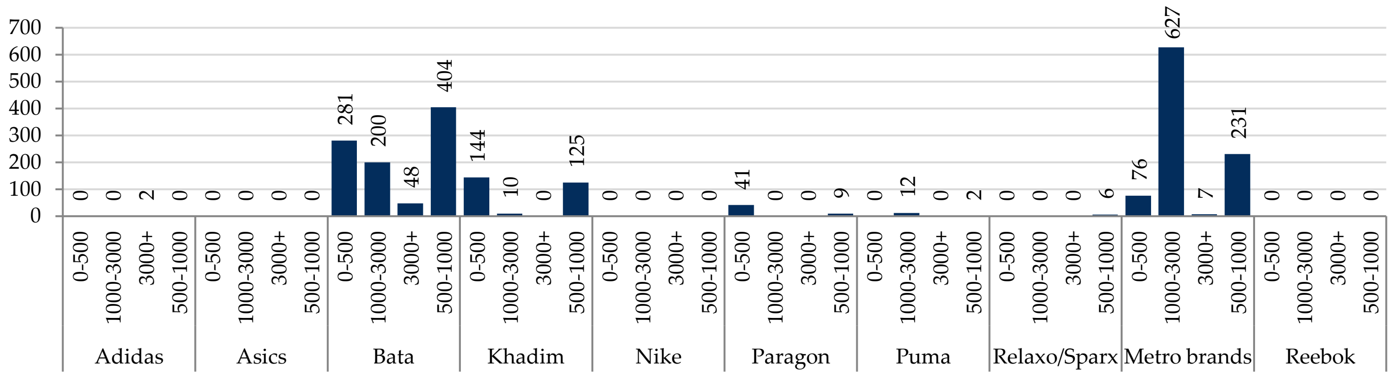
…ditto for slippers and flipflops, although Relaxo and Paragon dominate this segment



Peer-wise representation in flats



Peer-wise representation in heels

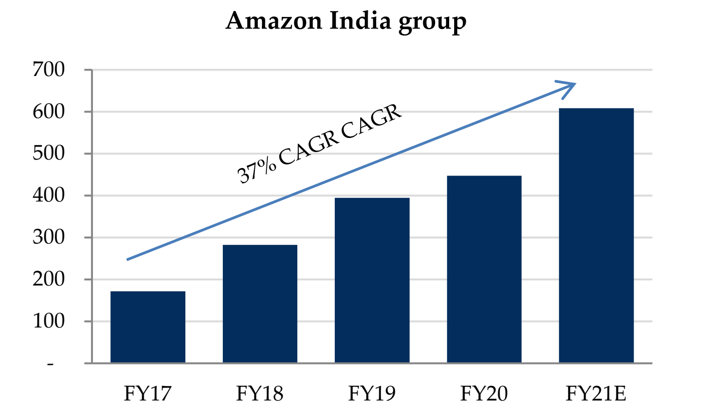


Source: Companies, HSIE Research

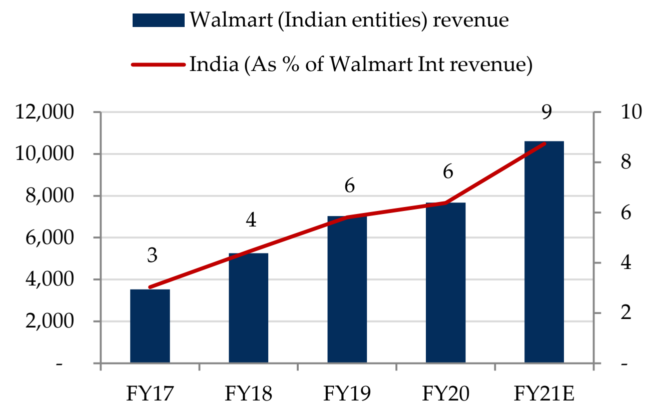
- **India's relevance continues to increase amongst global e-tailers'**

#1. Topline: Amazon international's rest of the world (RoW) segment has consistently outpaced its operations in other countries over CY15-20 (grew at 44% CAGR; now constituting 12% of Amazon International's topline). Amazon India/Flipkart's operations are estimated to have grown at 35-37% CAGR over FY17-20.

Amazon India/Flipkart's operations continue to gain relevance in global e-tailers' financials



Source: Company, HSIE Research

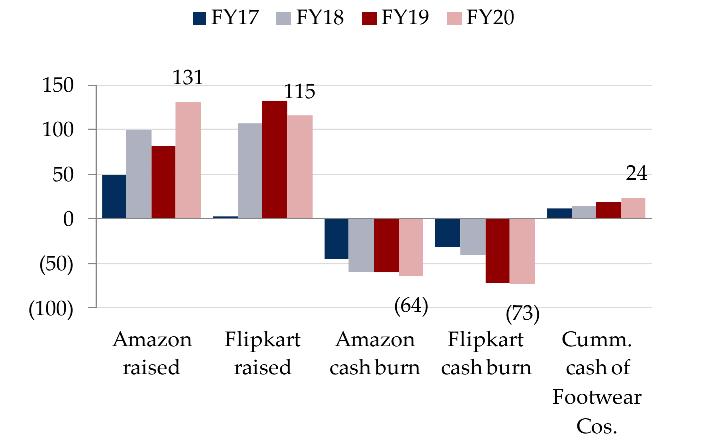


Source: Company, HSIE Research

#2. Capital allocation decisions: Amazon has significantly expanded its international fulfilment centre footprint (27% CAGR over CY15-20). A sizeable share of this footprint expansion is likely to have come from India. This is also true for Walmart-backed Flipkart (Amazon/Flipkart have cumulatively raised INR397/458bn respectively over FY14-20). These investments are likely to increase delivery densities for e-tailers while decreasing fulfilment costs (15-20% of sales) in the medium to long term.

<u>**Fun fact:**</u> Amazon/Flipkart's combined FY20 fund raise is 10x that of 23 Indian footwear companies combined.

Amazon/Flipkart group's FY20 fund raise is 10x that of the 23 footwear companies combined (INR bn)…



Source: Company, HSIE Research (estimates, unadjusted for RPT transactions)

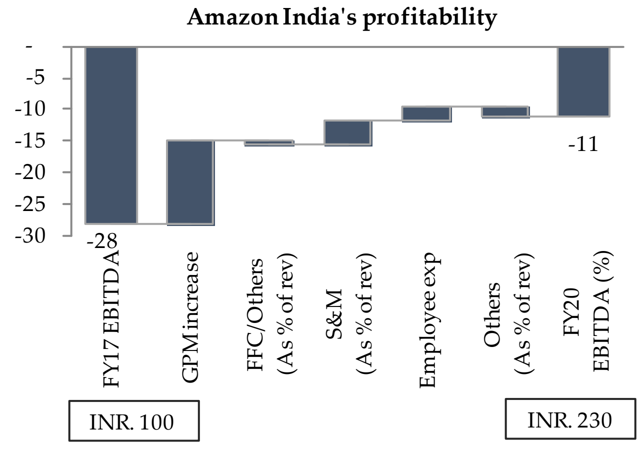
…which has helped in beefing up their fulfillment area

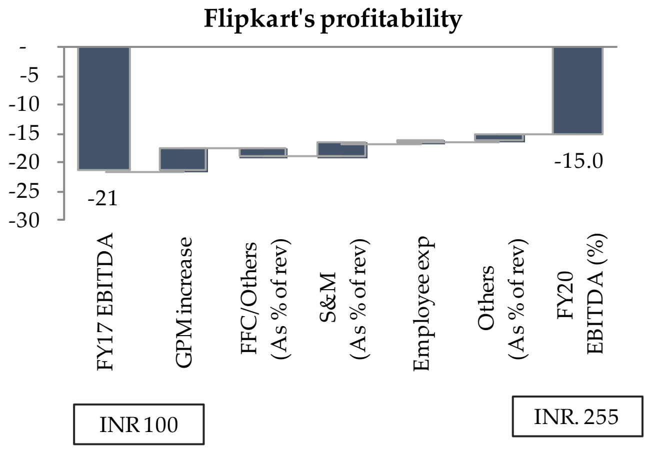
Source: Company, HSIE Research

- **E-tailers' train focus on improving Fashion & Lifestyle (F&L) profitability:** Interactions across the e-tail ecosystem inform us that the focus on the F&L segment (including footwear) to juice out profitability has increased since FY18. Key levers for improving profitability are (1) Adding more high AoV, GM categories to the portfolio (such as footwear-ex mass segment) to aid fixed cost absorption (data corroborates this trend as well), and (3) reduce returns expenses.

- **In its CY20 annual report, Walmart attributed the GM increase primarily to Flipkart's improving mix (along with reduced fuel sales in the US).**

Indian e-tailers continues to improve on scale, profitability, and efficiency

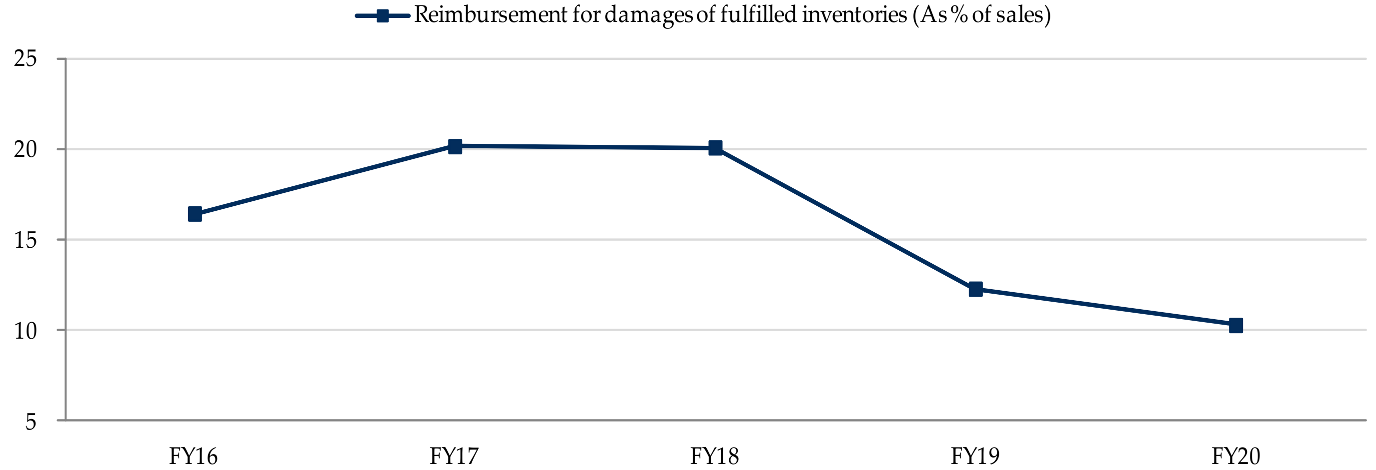




Source: Company, HSIE Research, All entities (Ex-AWS). Note: Financials are unadjusted for Related party transactions, hence, inferences are strictly directional. Base revenue indexed to INR 100

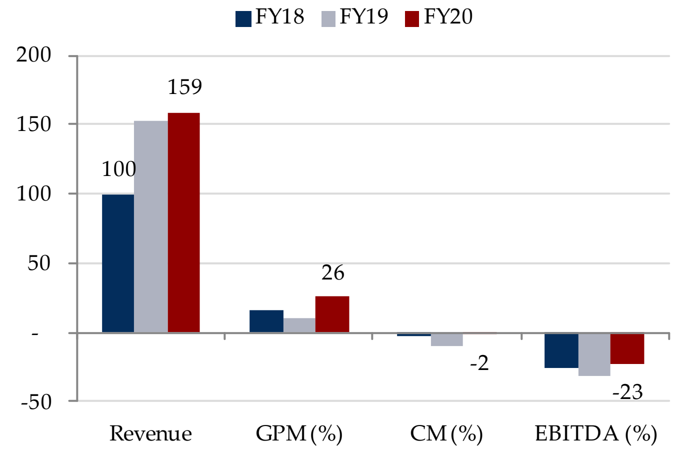
Source: Company, HSIE Research, Note: Financials are unadjusted for related party transactions, hence, inferences are strictly directional. Base revenue indexed to INR 100

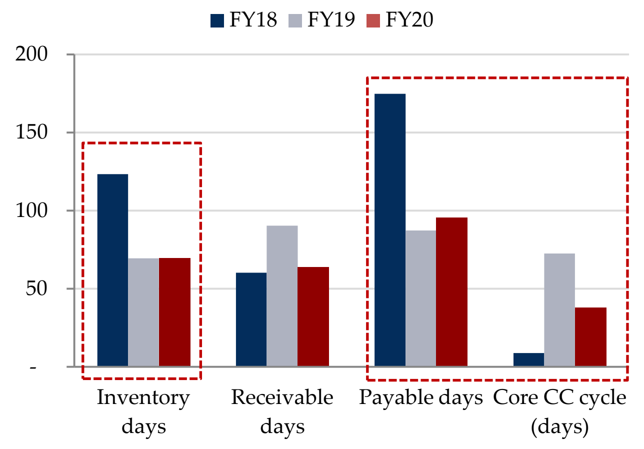
Reimbursements for damages of fulfilled inventory for a key e-tailer has significantly dropped over FY17-20. This 'bad' cost is likely to meaningfully decline in FY21 too, as returns have reduced during the pandemic



Source: Company, HSIE Research

Myntra's gross margins/WC improving too – we reckon a function of adding higher AoV, GM and faster moving categories, footwear is likely a key enabler for this especially the sports/at-leisure segment





Source: Company, HSIE Research, Note: Financials unadjusted for Related party transactions, hence, inferences are strictly directional, Revenue indexed to 100

- **Advantage platforms!** Over FY17-20, many footwear companies have consistently increased their GM or gross profit per pair to either cushion rising operating costs and salvage EBITDAM or to improve profitability. However, this has come at the expense of (1) growth, (as the TAM keeps getting narrower with higher prices/positioning) and (2) deteriorating WC cycle. Many high-end brands such as Nike, Reebok, Adidas, and Clarks seem to be guilty of this. We believe online platforms present an opportunity for inefficient brands to correct course in terms of rejuvenating sales and alleviating WC woes. However, it is likely to come at the cost of profitability as platforms would squeeze higher sourcing margins from weaker operators. Note that only 7/22 companies saw their cost of operations improve over FY17-20.

Many brands are caught hiding behind high GM to cushion rising cost of operations

Company	FY20 - GM (%)	FY20 - Opex (as % of sales)	FY20 - EBITDAM (%)	FY17-20 GM expansion/(contraction)(bp)	FY17-20 Opex expansion/(contraction) (bp)	FY17-20 EBITDAM expansion/(contraction) (bp)	Mkt share gain/(loss)
Co. A	62	54	8	(245)	(373)	128	(36)
Co. B	27	46	(19)	288	244	43	(28)
Co. C	55	45	10	1,184	180	1,004	(66)
Co. D	52	45	7	307	284	23	(38)
Co. E	46	43	2	(118)	693	(810)	(28)
Co. F	45	42	3	376	421	(46)	90
Bata	58	41	16	438	(70)	508	(332)
Co. G	45	39	6	308	(215)	523	24
Co. H	45	37	7	152	(2)	154	20
Co. I	44	36	8	725	(62)	787	(162)
Liberty	40	34	6	(233)	(47)	(186)	(46)
Metro	56	34	22	370	(85)	455	(32)
Khadim	34	34	(0)	(359)	724	(1,083)	(72)
Co. J	38	33	5	98	601	(503)	30
Relaxo	47	32	15	(57)	(150)	93	(3)
Mirza	44	31	14	(197)	156	(353)	18
Co. K	48	29	19	532	295	237	61
Co. L	44	27	17	715	(125)	840	(82)
Co. M	39	27	12	(325)	(61)	(264)	(79)
Co. N	47	26	20	670	(189)	859	(221)
Co. O	40	23	17	839	(32)	870	183
Co. P	33	20	13	(313)	107	(420)	81

Source: Company, HSIE Research

Many performance-based sportwear and select functional wear footwear companies are struggling on the WC front

Inventory + Receivables (days)	FY17	FY18	FY19	FY20	Payables (days)	FY17	FY18	FY19	FY20	Fy17-20 rev CAGR
Bata	116	118	113	112	Bata	76	81	77	60	7
Relaxo	93	94	95	94	Relaxo	28	33	30	28	14
Co. N	152	134	154	187	Co. N	45	33	40	49	3
Co. F	183	123	157	139	Co. F	114	94	130	108	19
Mirza	129	193	187	160	Mirza	15	32	26	28	10
Liberty	209	181	169	225	Liberty	69	68	58	113	9
Co. I	157	153	157	157	Co. I	46	38	55	49	(2)
Co. L	117	125	153	192	Co. L	55	71	63	64	1
Co. J	240	234	292	260	Co. J	34	57	52	78	31
Co. A	180	304	343	343	Co. A	37	85	74	74	(5)
Co. P	55	73	88	96	Co. P	14	28	27	32	10
Co. H	95	127	84	82	Co. H	34	70	31	34	12
Co. M	58	67	74	94	Co. M	24	22	18	34	(8)
Co. D	111	109	127	107	Co. D	41	50	46	37	6
Co. K	0	203	172	157	Co. K	0	78	49	61	20
Co. G	167	131	96	127	Co. G	109	131	58	86	29
Co. O	216	246	224	318	Co. O	37	57	51	91	45
Co. E	116	234	120	153	Co. E	44	160	90	115	51
Co. R	59	68	87	104	Co. R	14	15	16	28	(11)
Co. Q	205	221	199	285	Co. Q	53	73	52	90	41

Source: Company, HSIE Research

Peer-wise core cash conversion cycle (in days)

	FY17	FY18	FY19	FY20
	40	38	36	52
Relaxo	64	62	65	66
Co. N	107	102	114	138
Co. F	69	29	27	31
Mirza	114	161	161	133
Liberty	140	113	111	112
Co. I	112	115	102	107
Co. L	62	54	90	127
Co. J	206	176	240	182
Co. A	143	219	269	269
Co. P	41	45	61	64
Co. H	61	58	53	48
Co. M	34	45	56	60
Co. D	69	59	82	71
Co. K	0	125	122	95
Co. G	58	0	38	41
Co. O	179	189	172	227
Co. E	72	75	30	38
Co. R	45	52	72	76
Co. Q	151	149	147	195

Source: Company, HSIE Research

Brand spend – Does it work? Who knows?

"Half the money I spend on advertising is wasted; the trouble is, I don't know which half"

- John Wanamaker

- While we believe that assortment relevance, pricing, and distribution make-up are key enablers for consistent growth (reinvestment opportunities) and a healthy return profile, we also believe that consistent A&P spends play a role in improving brand awareness. It is just that, like John Wanamaker, we've historically found ourselves inept at pointing out its correlation to consumer purchase decisions.
- For instance, while Paragon's A&P spending has increased since FY18, the majority of its market share gains occurred prior to FY18. Meanwhile, Relaxo's share of A&P spend has decreased from FY17 to FY20, but its market share has remained relatively stable.
- Bata's market share loss rate has nearly halved between FY17 and FY20. One could argue that the increase in A&P spending was beneficial. However, Metro's A&P spending relative to Bata's has only declined. But the former has largely maintained its market share from FY17 to FY20. Ditto with Khadim and Mirza.
- Reebok A&P spending kept increasing between FY17 and FY20. However, the rate of market share loss has only accelerated since then.
- Only Skechers and Puma have a growing share of the ecosystem's A&P and revenue. However, these could simply be attributed to their assortment relevance, pricing, and distribution.

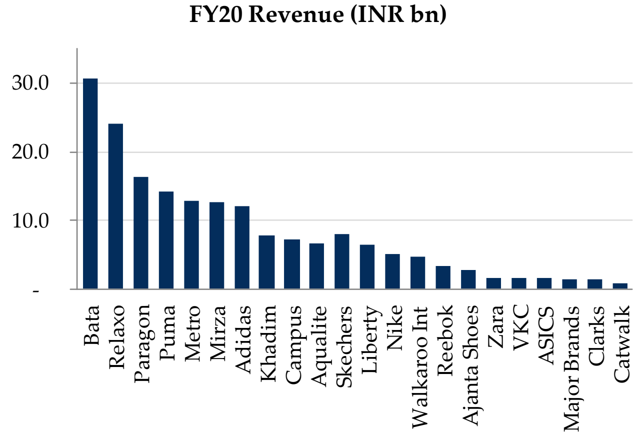
Peer-wise relative share in A&P spending over FY15-20

	FY15	FY16	FY17	FY18	FY19	FY20	FY15-20 Market share gain/(loss, bp)	FY17-20 Market share gain/(loss, bp)
Paragon	8%	10%	8%	13%	16%	13%	187	20
Relaxo	13%	18%	16%	14%	11%	12%	6	(3)
Bata	7%	6%	6%	7%	10%	10%	(714)	(332)
Puma	4%	5%	4%	3%	4%	7%	142	90
Khadim	9%	8%	7%	5%	6%	5%	14	(72)
Adidas		10%	9%	8%	8%	9%	(40)	(221)
Metro	5%	6%	7%	6%	6%	7%	54	(32)
Skechers SA				4%	4%	4%	291	183
Mirza	3%	5%	5%	5%	5%	6%	22	18
Reebok	2%	3%	4%	5%	5%	6%	(44)	(82)
Nike	16%	17%	14%	11%	10%	7%	(178)	(162)
Campus			9%	8%	4%	3%	61	61
ASICS	5%	4%	3%	2%	3%	3%	86	30
Ajanta Shoes			2%	3%	2%	3%	(119)	(38)
Liberty		2%	1%	1%	2%	3%	(109)	(46)
Major Brands	2%	3%	2%	1%	2%	2%	(70)	(66)
Clarks	2%	1%	1%	1%	1%	1%	(25)	(28)
VKC	0%	0%	0%	0%	0%	0%	(76)	(79)
Skechers India	0%	0%	0%	1%	0%	0%	72	24
Walkaroo Int	1%	1%	1%	0%	0%	0%	49	81

Source: Company, HSIE Research

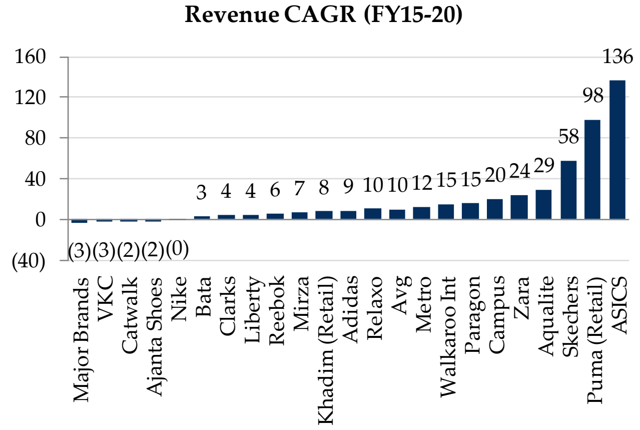
Annexure: peer-wise key comparables

Peer-wise revenue (INR mn)



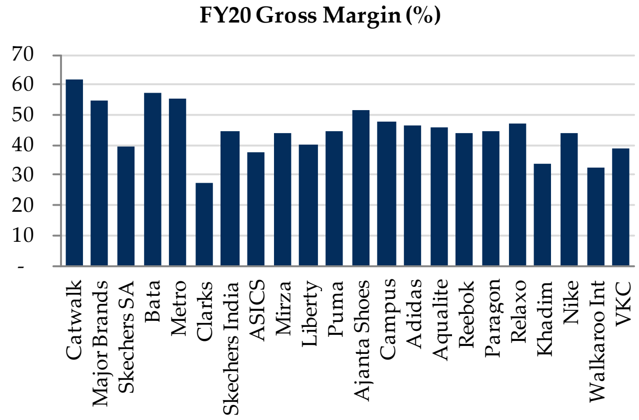
Source: Company, HSIE Research

Peer-wise revenue CAGR over FY15-20



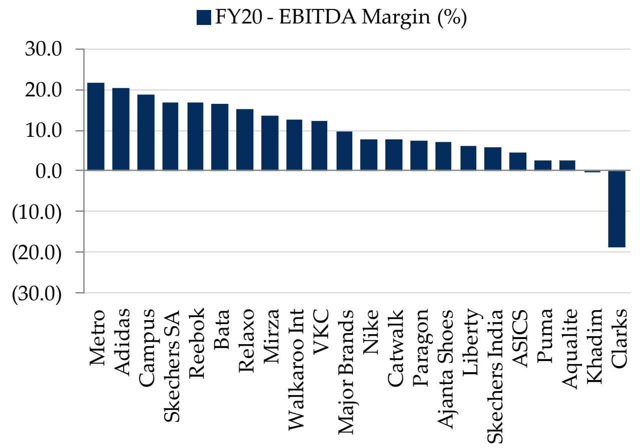
Source: Company, HSIE Research

Peer-wise gross margins (%)



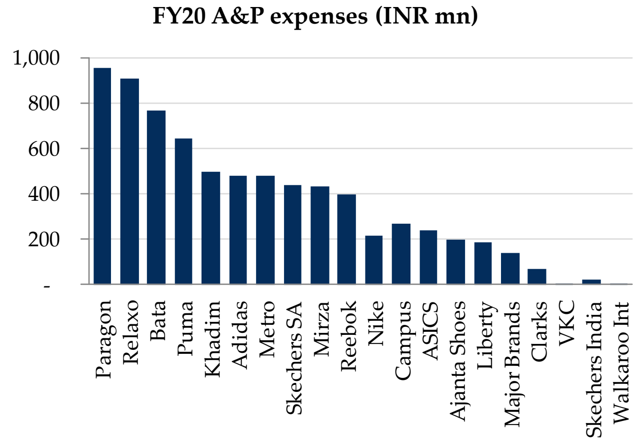
Source: Company, HSIE Research

Peer-wise EBITDA margins (%)

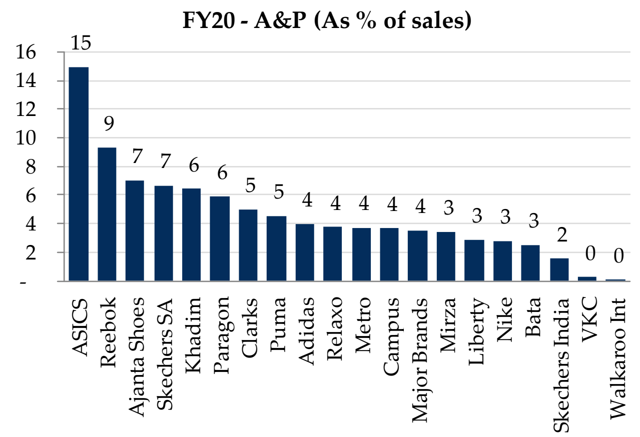


Source: Company, HSIE Research

Peerwise: A&P spends in absolute terms and as % of sales

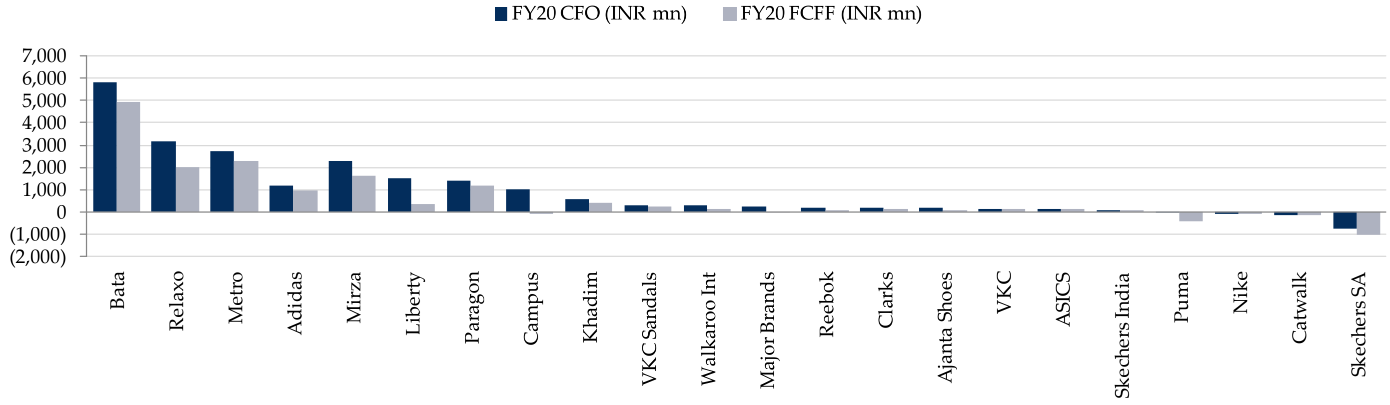


Source: Company, HSIE Research



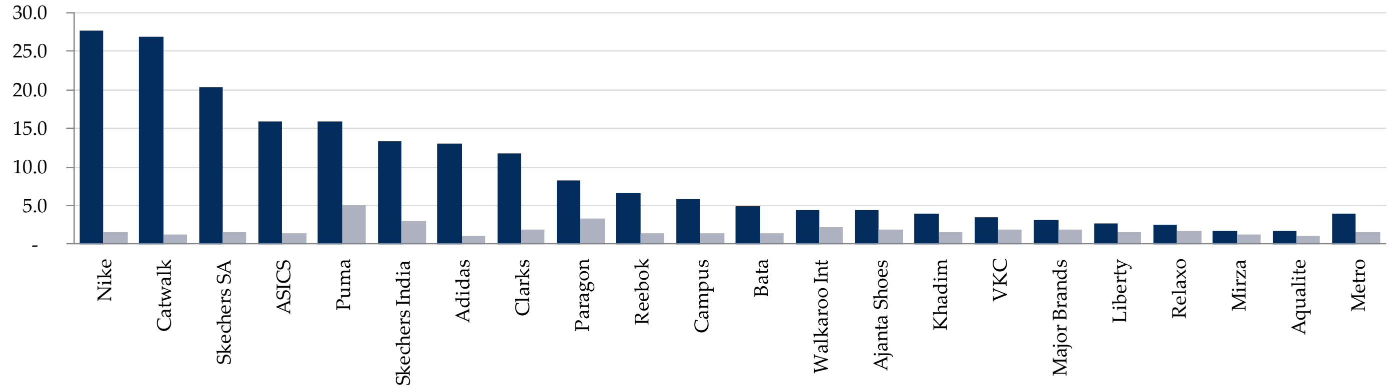
Source: Company, HSIE Research

Peer-wise CFO/FCFF profile: Few footwear companies generate reasonable free cash flow



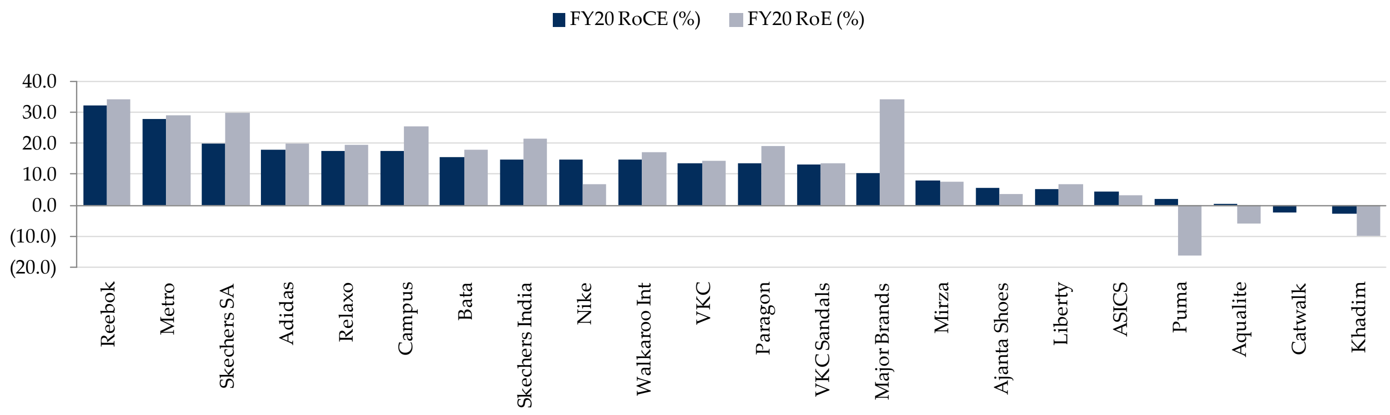
Source: Company, HSIE Research

Peer-wise fixed asset and total asset turns (x)



Source: Companies, HSIE Research

Peer-wise return profile (%)



Source: Companies, HSIE Research

Bata India

Can battered Bata pivot?

Bata's premiumisation-volume trade-off strategy proved sub-optimal vis-a-vis peers over FY15-20 (lost 700bp+ market share over FY15-20; 17/22% FY20 revenue/EBITDA share). Most peers premiumised, too, along with earning volumes. Bata, too, intends to rev up volumes via asset-light formats. This note is an attempt to assess the potency of these levers. We build in sales/EBITDA/PAT CAGRs of 6/4/9% over FY20-24E and a full recovery in return profile by FY24 (RoCE: 15%). We initiate coverage with a SELL recommendation and DCF-based TP of INR 1,400/sh (implying 38x FY24 P/E).

- **Battered over FY15-20, premiumisation saved Bata the blushes:** Bata ceded significant market share (700bps+ over FY15-20) to brands in sports/at-leisure-wear (Puma, Skechers) and functional wear (Relaxo, Paragon) as peers outdid Bata on (1) wholesale/online aggression (30-95% of mix vs Bata's ~14%), (2) brand spends (3-15% of sales vs Bata's 2.5% of sales), and (3) assortment relevance (refer **SKU analysis**). Premiumisation helped Bata maintain its EBITDA share (22%) within the ecosystem. However, searching potent volume levers to anchor incremental growth is crucial.
- **Are Bata's volume levers potent enough?** Channel checks corroborate Bata's rise in focus on open-footwear/sneakers to earn volumes via wholesale/online channels (it still lags peers in assortment relevance). Given the low base in wholesale/online, the above strategy should keep channel growth rates healthy (18/25% CAGR over FY20-24 resp). Expect wholesale to contribute ~63/44% of incremental volume/value over FY20-24. However, achieving distribution efficiency of a functional brand (Relaxo) is a stretch.
- **Retail expansion to be franchisee-led:** Given the dwindling sales density of many formal-heavy footwear brands **(refer Bata/Metro)**, franchisees-led expansion is an imperative to backstop deterioration in portfolio unit economics. Bata, too, intends to hit 500 stores by FY25 (220 in FY21). Long-term franchisee unit economics/RoI will be key to scale this volume lever. We pencil in franchisees to add 24/25% of the incremental volume/sales over FY20-24 and form ~12% of Bata's retail sales by FY24.
- **Financials:** Expect Bata to clock 6% revenue CAGR (volume-led) over FY20-24 (driven by wholesale/online). The rising skew of wholesale/online in the mix, are likely to push GM and cost of retailing down to 53/38% (vs 57.6/41% in FY20). We build an EBITDA CAGR of 4% over FY20-24 (FY24 EBITDAM: 15.3% vs 16.3% in FY20). RoE/RoCE to fully recover (19/15%) by FY24.
- **Valuation and outlook:** Bata gaining fair share in wholesale/online seems par for the course. That said, scaling beyond a certain level (INR9-12bn in wholesale) is tough as one needs to contend with strong international sports brands at the higher end and functional value brands at the lower end. Hence, while estimates are generous, re-rating warrants strong execution. We assign a DCF-based TP of INR 1,400/sh (implying 38x FY24 P/E).

Financial summary

Financial Summary	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	30,561	17,085	25,677	33,532	37,951
EBITDA	4,994	(900)	1,953	4,679	5,789
APAT	3,431	(939)	1,653	3,668	4,587
Dil. EPS (Rs/sh)	26.7	(3.3)	13.3	29.9	37.5
P/E (x)	66.4	(675.9)	133.3	59.3	47.3
EV/EBITDA (x)	43.7	(241.0)	111.0	45.8	36.5
ROE (%)	17.8	(1.7)	8.5	17.3	18.9
ROCE (%)	15.5	(5.7)	4.8	13.4	14.8

Source: Company, HSIE Research

SELL

CMP *(as on 01 Dec 2021)*	INR 1,891
Target Price	INR 1,400
NIFTY	17,167

KEY STOCK DATA	
Bloomberg code	BATA IN
No. of Shares (mn)	129
MCap (INR bn) / ($ mn)	243/3,267
6m avg traded value (INR mn)	1,089
52 Week high / low	INR 2,262/1,264

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	6.5	22.8	22.5
Relative (%)	5.9	11.7	(6.7)

SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	59.52	52.96
FIs & Local MFs	14.47	15.57
FPIs	5.33	5.23
Public & Others	20.68	26.24
Pledged Shares	0	0

Source : BSE

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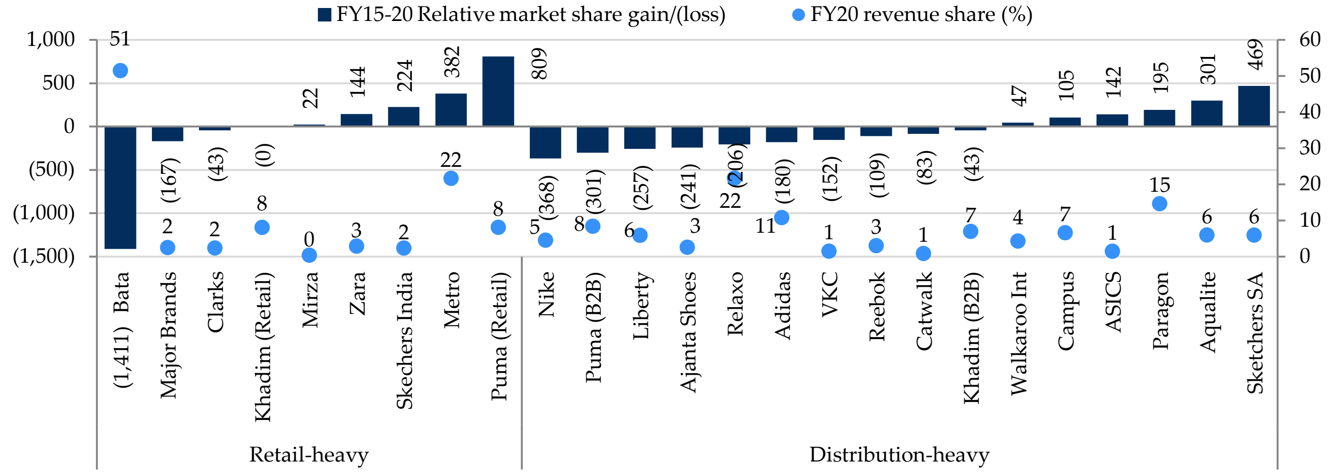
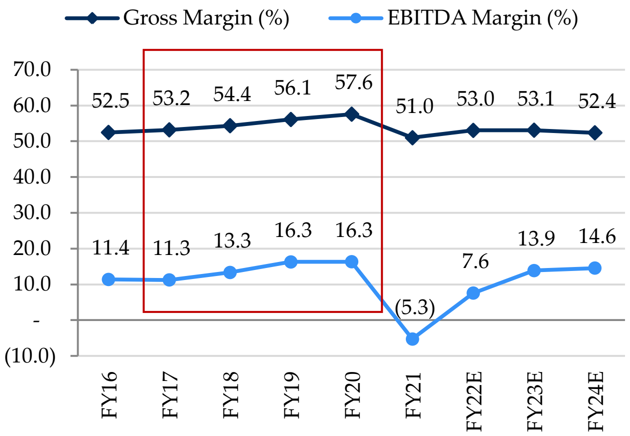
Focus Charts

Bata remains the biggest organised footwear retailer but it has ceded significant market share (even among retail-heavy models) as its pricing, assortment and distribution strategies seem disjointed during this phase

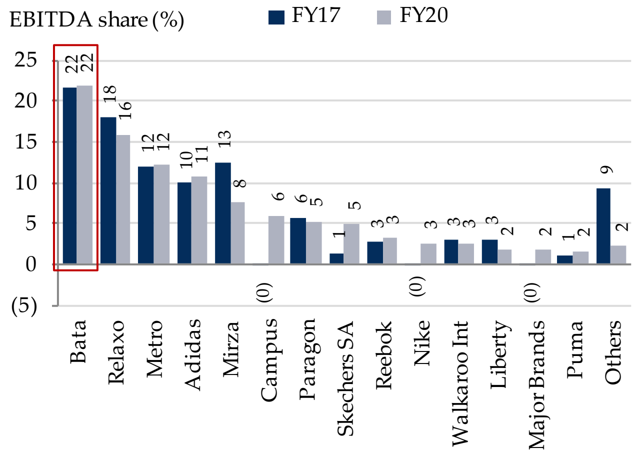


Source: Company, HSIE Research, Note: bases used for computation of relative market share are different for Retail-heavy and distribution-heavy models

Premiumisation cushions profitability (not sustainable) and Bata's relative share in the profit pool

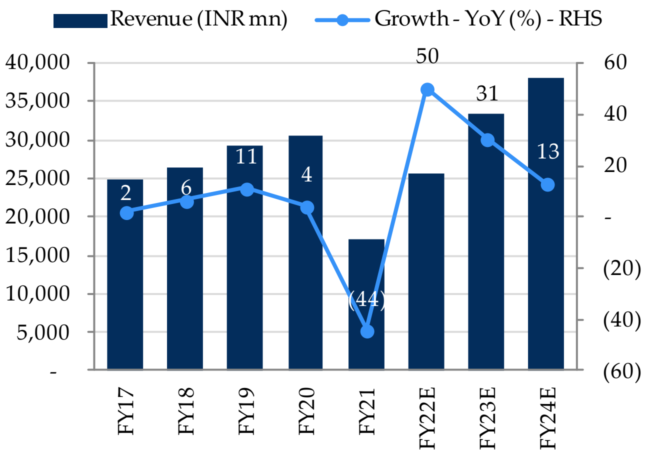


Source: Company, HSIE Research

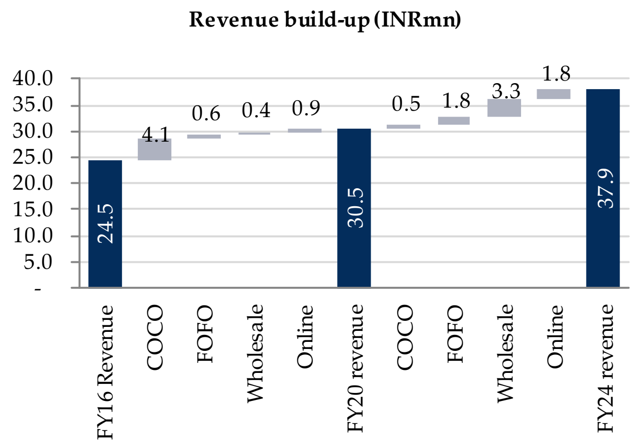


Source: Company, HSIE Research

Wholesale and omni-sales are likely to be volume anchors, ergo growth anchors, going forward



Source: Company, HSIE Research

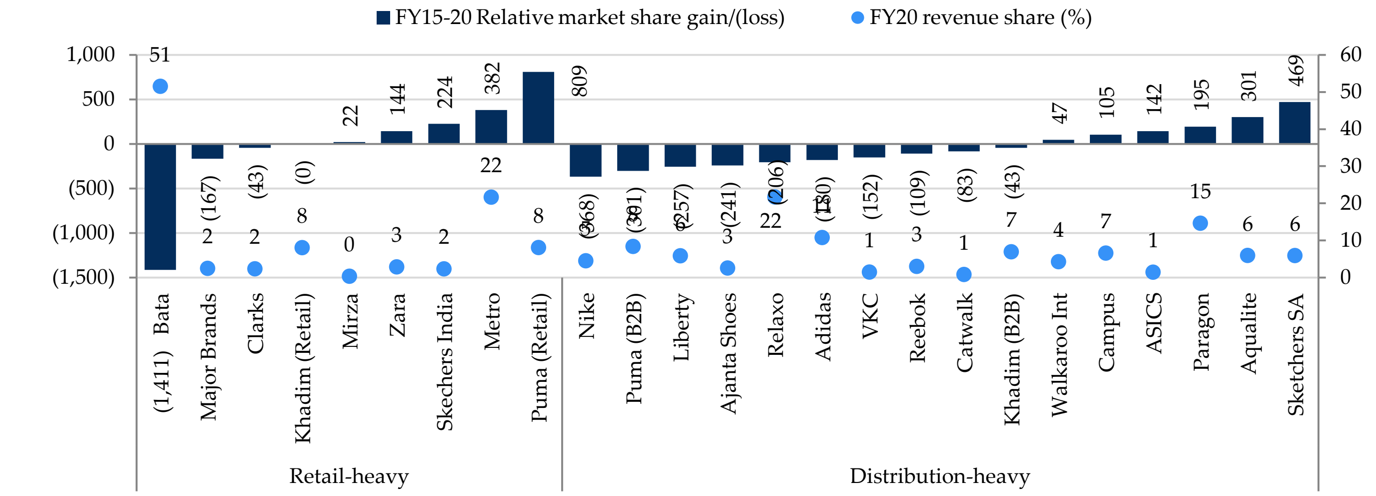


Source: Company, HSIE Research

Premiumisation saves the blushes over FY15-20

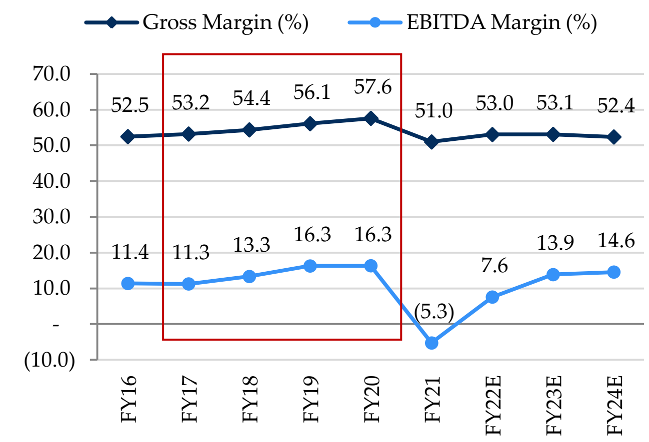
- **Bata was battered over FY15-20 in terms of relative market share within the ecosystem with its share declining ~700bps (1400bps+ among retail-heavy models); however, premiumisation saved it the blushes (in terms of share in profit pool).**
- FY17 onwards, since Mr. Sandeep Kataria took over the reins (CEO), the company decisively shifted focus to premiumisation and addressed multiple concerns on customer experience, brand fatigue, cost overheads, and merchandise make-up. We believe the premiumisation drive was a low-hanging fruit as Bata's pan-India retail presence (refer **Store Map** based on population density and per capita income) naturally lent itself to optimising gross profit/pair (from INR254/pair in FY17 to INR356/pair in FY20) and consequently EBITDA/pair (from INR55/pair in FY17 to INR101/pair in FY20).
- This trend is amply clear as, despite the meaningful relative revenue market share loss, Bata has managed to broadly maintain its share within the ecosystem's profit pool over FY17-20.
- **As per our estimates, volume/sq. ft has declined at 5% CAGR over FY16-20 in the retail segment. Note: over FY16-20, revenue/area/volume/realisation CAGRs stood at 6/5/0/6% respectively.**

While Bata lost significant market share (even among retail-heavy models) over FY15-20…

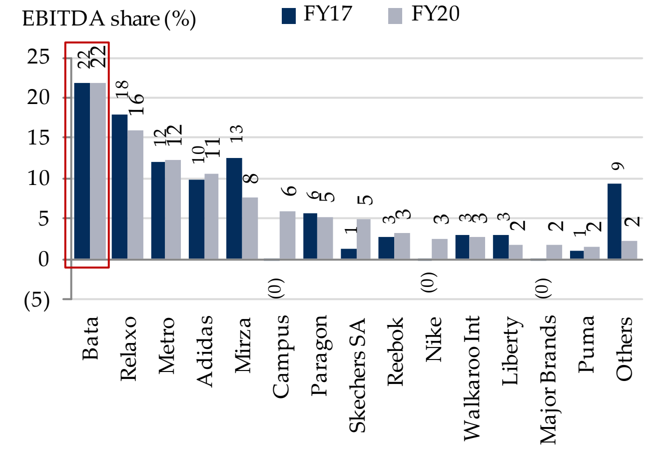


Source: Company, HSIE Research

…premiumisation cushioned profitability (not sustainable) and protected its relative share in the profit pool



Source: Company, HSIE Research

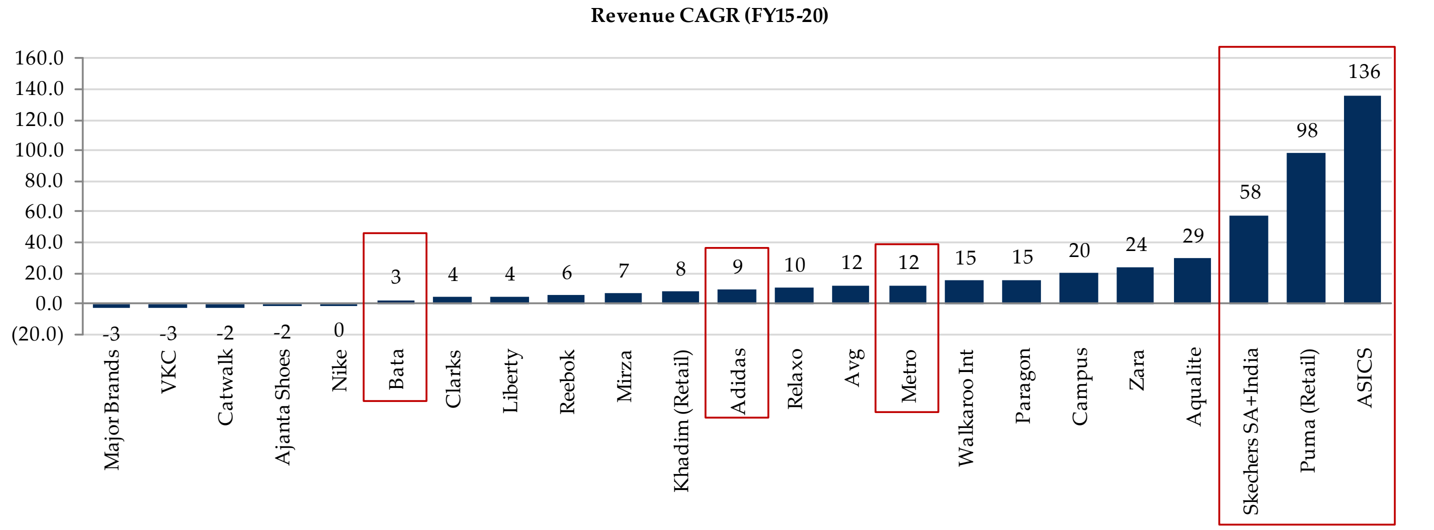


Source: Company, HSIE Research, 23 footwear companies used as ecosystem base to compute relative share (%)

Underpinnings of market share loss

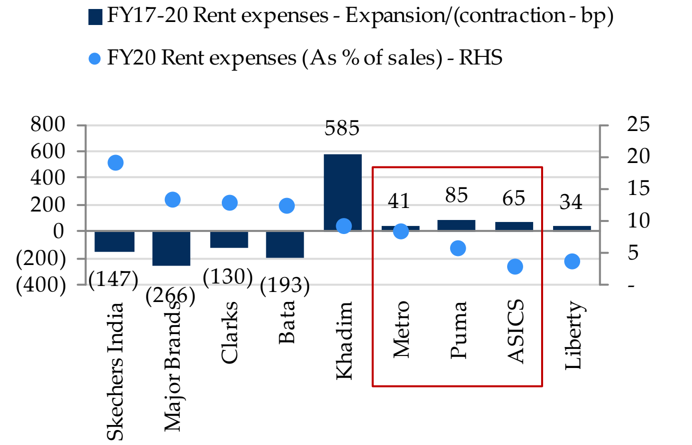
- **Our read-through across the footwear ecosystem** suggests that the underpinnings of Bata's market share loss (FY15-20) have been its (1) inability to make its presence felt in more Indian districts via the asset-light wholesale and online channel, (2) under-indexed marketing purse, (3) under-representation in the faster growing sports/at-leisure category.
- To add insult to injury from a competitive standpoint, a few select peers (such as Puma and ASICS) have been revving up their retail footprint (which can be seen in their rising contribution from retail and rising rent bills). Skechers SA, too, has initiated the merger process with Skechers Retail India to tap operational synergies and reap benefits from economies of scale, which should in turn help the company become more competitive with time.

Even in the predominantly closed footwear cohort, peers outdid Bata



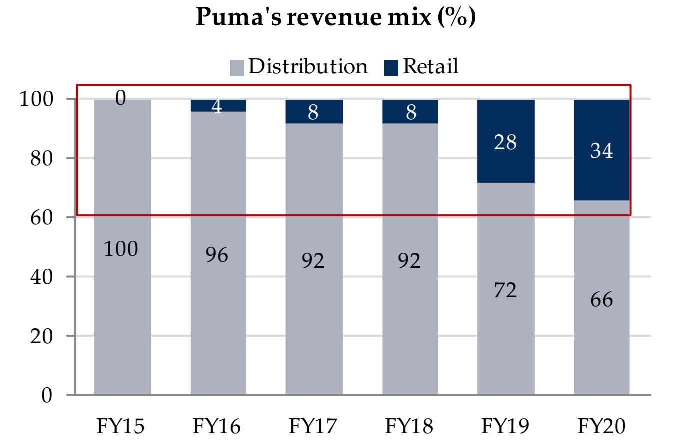
Source: Company, HSIE Research, Note: Retail portion in mix used for Khadim and Puma. For Sketchers, Both India and South Asia entity combined

Select players have stepped up their retail expansion plans as can be seen from rising rentals



Source: Company, HSIE Research

Case in point - Puma: retail revenue has grown at a 98% CAGR (FY16-20); now accounts for 34% of sales



Source: Company, HSIE Research

In search for the volume lever

- In this chapter, we attempt to decipher the potency of each volume lever:

#Volume lever 1: wholesale channel:

- Wholesale, historically, has proven to be the most successful channel for many brands and has helped them achieve scale. However, via channel checks and interactions across the ecosystem, we learnt that:

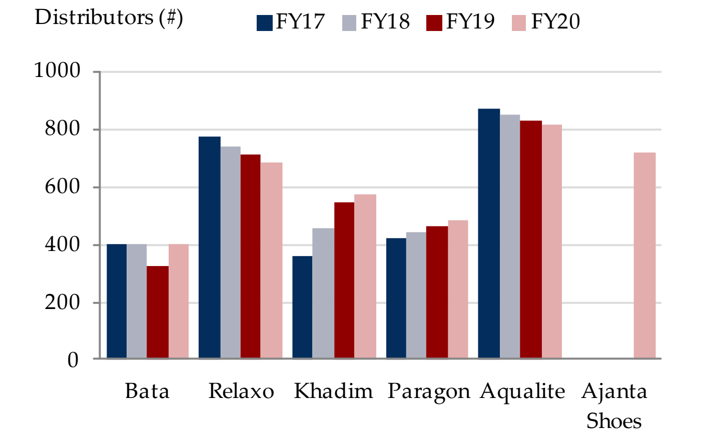
  (a) this channel works better for (1) high volume/SKUs, low AoV, functional footwear brands (Relaxo, Paragon, etc.) and/or (2) strong sportswear/at-leisure brands (Skechers, Puma, etc.).

  (b) It gets difficult to grow for brands in casual and formal categories via wholesale beyond a certain scale (INR9-12bn) as both these categories have low loyalties in the marketplace.

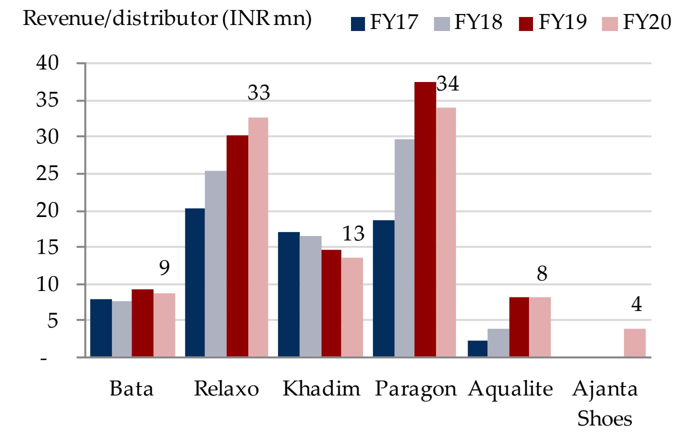
  (c) there are not many distributors who are comfortably profitable. Our interactions across several unlisted distribution-heavy companies suggests that, beyond 700-800 distributors, it doesn't make sense to expand the distributor base and a more prudent strategy would be to improve upon the throughput per distributor.

  (d) even strong international sports brands have been increasingly focusing on improving (1) revenue/distributor and (2) online sales (which form a part of distribution revenue).

Most distribution-heavy models (Relaxo, Paragon, Aqualite) have been focusing on improving throughput/distributor as distributor additions have plateaued for many



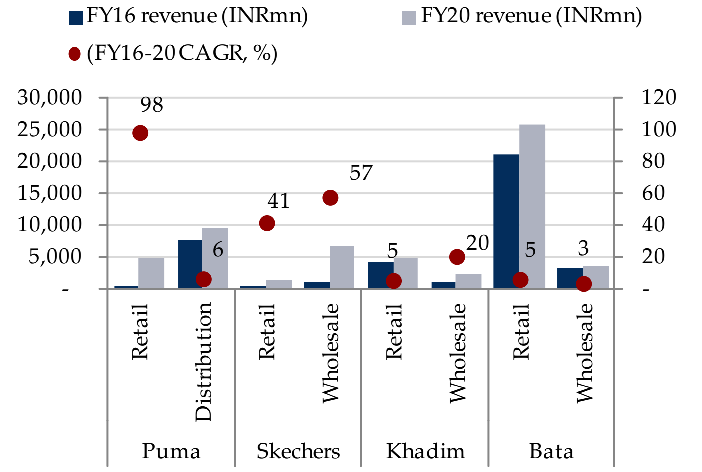
Source: Company, HSIE Research, no. of distributors for unlisted companies are estimates



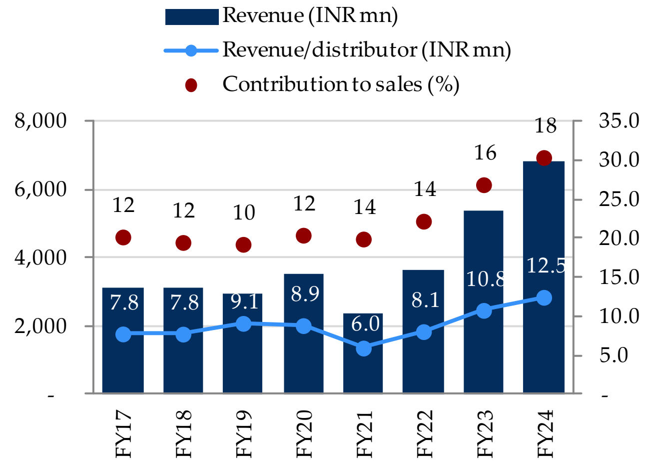
Source: Company, HSIE Research, Estimates used for unlisted companies

- **Bata could gain its fair distribution share**: With Mr. Gunjan Shah on board as MD & CEO (forte: supply chain, cost management and distribution), we do expect Bata to gain its fair share within the wholesale channel. Hence, we have penciled in ~45-50 distributor additions annually (to touch 545 distributors) and an improvement in revenue/distributor to ~INR13mn (similar to that of Khadim) by FY24 (from ~INR9mn in FY20). However, expecting Bata to juice out revenue/distributor similar to functional wear brands like Relaxo and Paragon is a stretch. We expect Bata's contribution to sales from wholesale to touch 18% (INR6.8bn) by FY24. Execution remains key and any disappointment in this vertical will meaningfully impact our estimates and Bata's fair value.

While Bata has lagged peers in distribution performance, it is a low-hanging fruit to pluck; we pencil in revenue/distributor to touch INR12-13mn, similar to that of Khadim's by FY24



Source: Company, HSIE Research, Note Skechers SA/Retail used as proxy for distribution/Retail

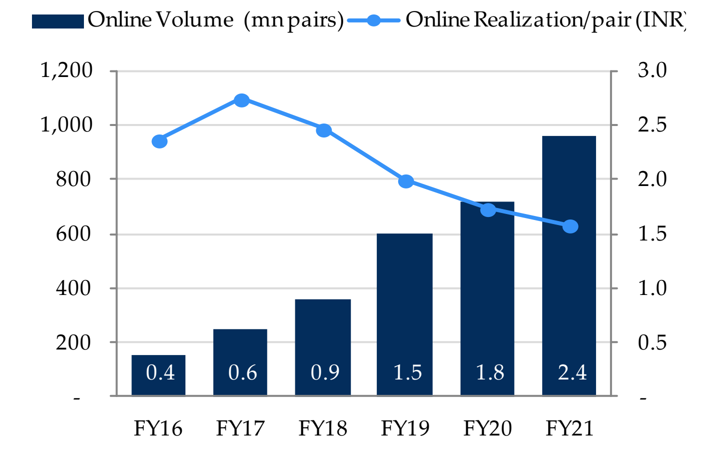


Source: Company, HSIE Research

#Volume lever 2: online/omni-channel:

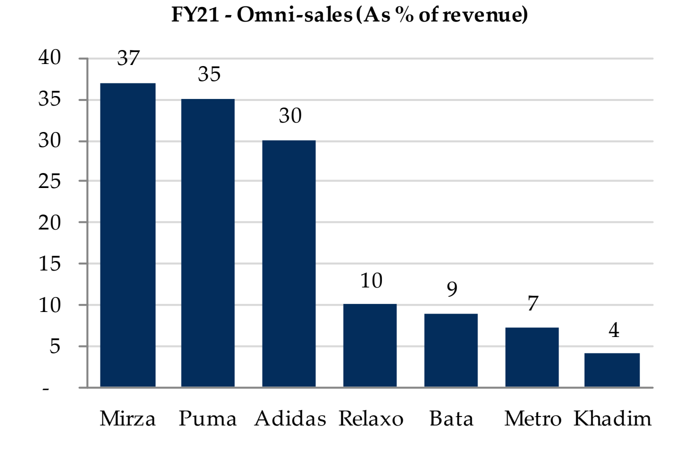
- **Bata's online presence remains underindexed**: A strong online presence can be a strong volume lever. Bata, too, has made heavy investments for being omni-channel ready (now offers home delivery from 1,200+/1,526 stores). So from a distribution standpoint, Bata seems ready. Then what gives?
- Based on our **SKU analysis** across major platforms, we suspect Bata's achilles heel is its assortment availability/relevance. Key learnings:
  - (a) In the faster growing sports/at-leisure category, Bata is meaningfully underindexed across price points vis-a-vis international brands like Puma, Skechers and Nike and domestic brands like Sparx.
  - (b) In the casual segment, while Bata is fairly spread out across price points, its overall share in the category is miniscule (~1.8% in Myntra) as brand loyalty in this segment is nearly absent.
  - (c) The company remains strong in the formal footwear segment.
  - (d) Bata has been stepping up its online presense, especially in open footwear (fiercely competitive category) to earn volumes - amply clear in the decline in online realisation/pair (down from ~INR1,100/pair in FY17 to INR635/pair in FY21).
- Hence, while Bata has made meaningful omni-channel investments over the years and grown its online sales at 37% CAGR over FY16-20 (albeit on a low base), unless it fixes its positioning in the lucrative sports/at-leisure segment and/or casual segment, it is likely to continue lagging peers in its online strategy. We pencil in a 25% CAGR in online sales (volume/realisation CAGR: 21/4% respectively) over FY20-24, given the low base.

Bata's online sales value has lagged volumes as focus seems to be on open footwear



Source: Company, HSIE Research

Peer-wise omni-channel sales (As % of sales)

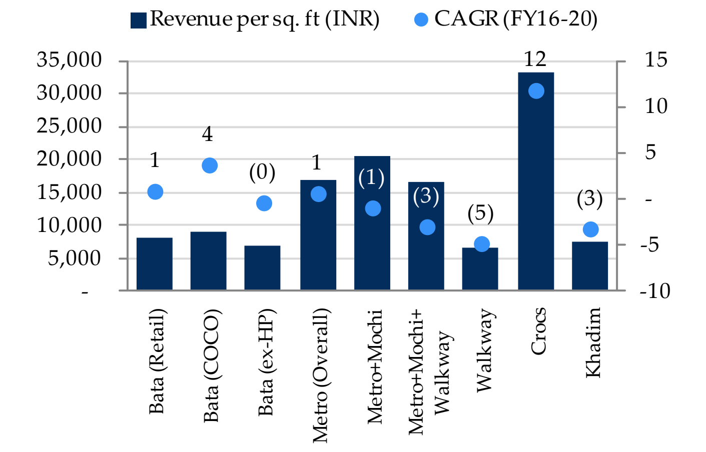


Source: Company, HSIE Research, estimates used for Puma and Adidas

#Volume lever 3: retail franchisees:

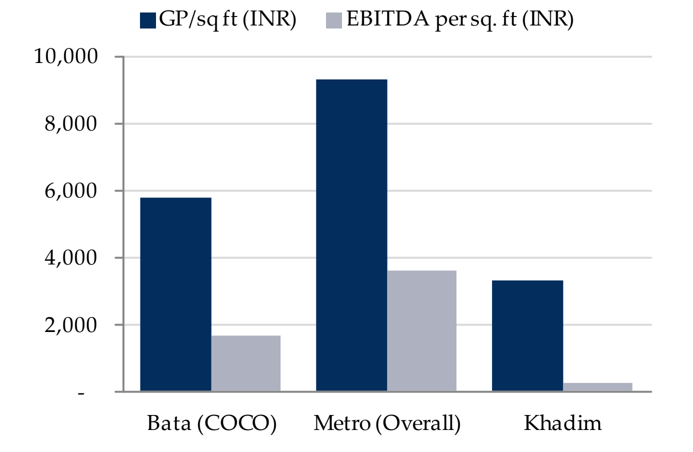
- **Retail expansion via franchisees is increasingly becoming an imperative:** Sales density (revenue/sq. ft) for retail-heavy footwear companies (Bata/Metro) with a strong presence in formal wear (slow moving) and the ever-fragmenting casual wear has been on the decline (Bata-ex-HP/Metro-ex-Crocs revenue/sq.ft CAGR over FY16-20 stood at 0/-3% respectively). We suspect Bata's overindexed metro presence relative to peers (as this consumer cohort are more brand aware and less brand loyal) in conjuction with the assortment relevance may have added to the stagnation in sales density. As per our estimates, for Bata, volume/sq. ft has declined at 5% CAGR over FY16-20 in the retail segment, courtesy its focus on premiumisation.
- Given that premiumisation is not a strategy one can bank on in perpetuity, there is a need for an asset-light (franchisee-led) volume lever to further topline; consequently, operating leverage-led profitability growth, else the pressure on cost of retailing could consistently inch up once premiumization lever gets exhausted.
- Note: Bata's cost of retailing remained stagnant at ~41% over FY16-20. However, a close look at the make-up of expenses informs that rental and other expense savings (via franchisee-led expansion and relocations) predominantly cushioned the deteriorating employee cost structure and rising A&P budget.

Sales density growth for flagship brands of Bata/Metro seem to have plateaued



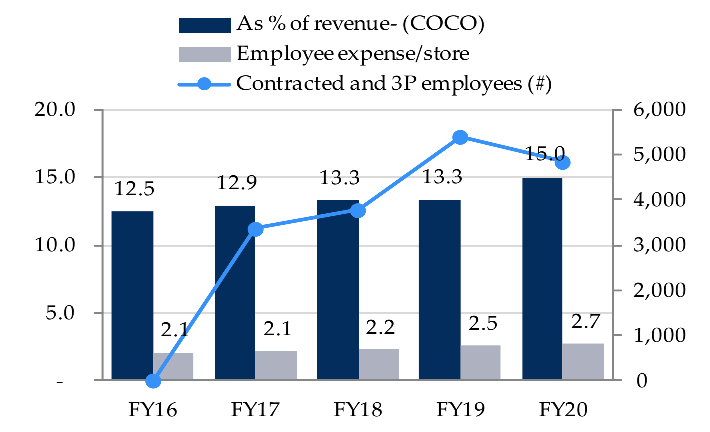
Source: Company, HSIE Research

Peer-wise profitability/sq. ft

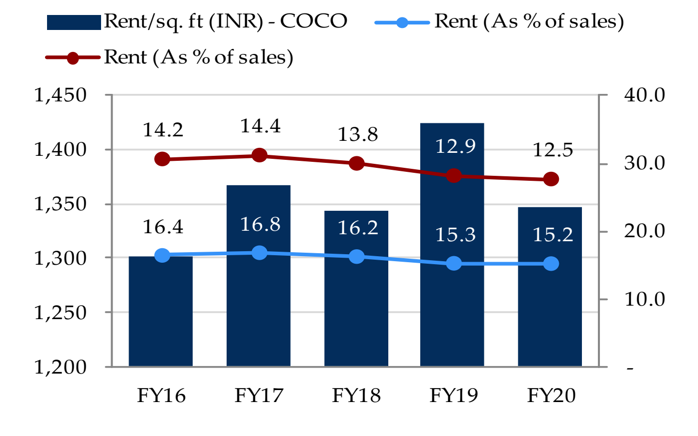


Source: Company, Metro DRHP, HSIE Research

Bata's cost of retailing remained stagnant at ~41% over FY16-20 as rental savings (via franchisee-led expansion and relocations) predominantly cushioned the deteriorating employee cost structure and rising A&P budget



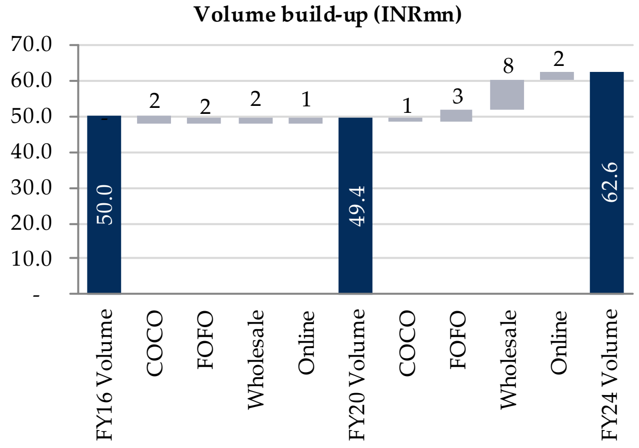
Source: Company, HSIE Research



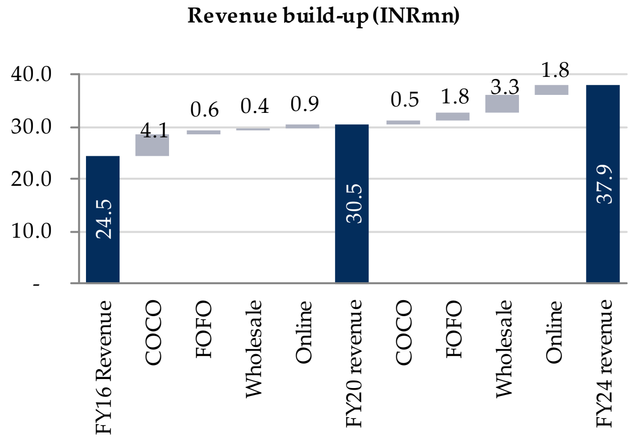
Source: Company, HSIE Research, Blue line is Rent as % of sales on COCO base

- **Bata's franchisee roadmap:** Bata scaled its franchisee network from scratch to 220 over FY16-21 and intends to touch 500 franchisee stores by FY25 (HSIE: 485). While channel checks suggest Bata's open footwear collection has garnered reasonable traction recently, long-term franchisee unit economics and RoI will be key for the scalability of this volume lever.
- We pencil in Bata's franchisees to add 24/25% of the incremental volume and sales over FY20-24 (given the low base) and account for ~12% of Bata's retail sales by FY24.

We expect Bata's franchisees to drive 24/25% of the incremental volume/value over FY20-24



Source: Company, HSIE Research



Source: Company, HSIE Research

Franchisee payback expected to be ~3 years and heavily dependent on sales density

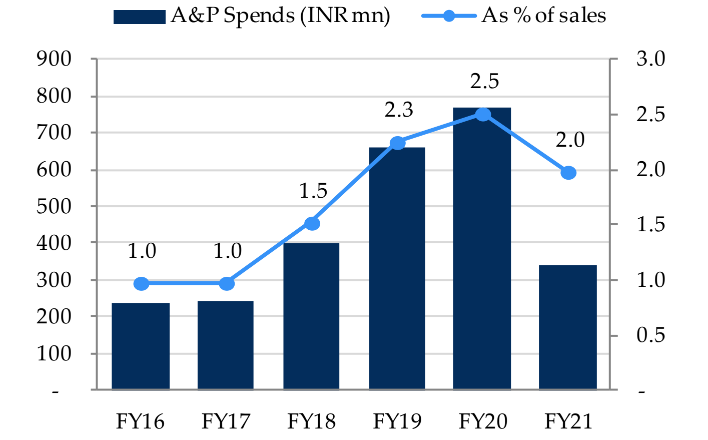
Particulars	Annual figures	Key assumptions
Area (sq. ft.)	1000	Avg store size
Sales (INR mn)	4.8	INR 4,800/sq.ft - Assuming 20% lower sales density vs COCO (ex-Hush Puppies)
Commission (INR mn)	1.7	Commission margin 34-35% (net GST)
Emolovee Cost (Rs)	0.7	4 employees @ INR 15-20,000/executive
Rent (Rs)	0.5	Assuming 1/3rd rate of COCO i.e, INR 40/sq.ft/month
Electricity (Rs)	0.3	
Admin expenses (Rs)	0.1	
Total expenses (Rs)	3.2	
EBIDTA (Rs)	1.6	
Investments (Rs mn)		
lnventory	2.5	
Capex	1.5	~INR 1,500/sq.ft.
Deposit	0.4	9 months' rent as deposit
Franchisee Fees	0.3	Fees for free signage, training, in-store branding etc..
Total	4.7	
Payback (years)	3.0	

Source: Company, HSIE Research

Adjusted for scale, Bata's brand spends lag peers'

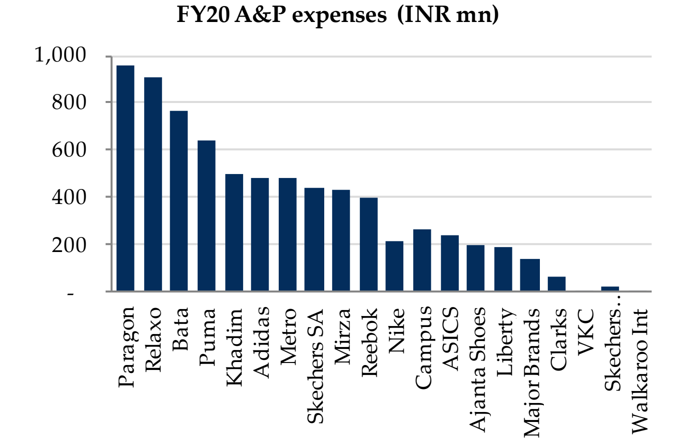
- **Brand spends lag peers':** Despite Bata increasing its marketing purse over FY16-20 from 1% to 2.5% (from INR240mn in FY16 to INR770mn to FY20), there is very little to show for in terms of volume/sales growth. Inventory efficiency (on COGs), in fact, has deteriorated by 21 days over the same period to 245 days. Note: Bata's inventory days are among the highest within the top 23 footwear companies, despite its A&P purse being the third-largest within the same universe. Note: in terms of percentage of sales, marketing spends continue to lag most peers.
- Meanwhile, many peers such as Skechers and ASICS and strong distribution-heavy peers such as Relaxo and Paragon have fared far better in terms of inventory efficiency.

Bata's A&P purse has been on the rise…



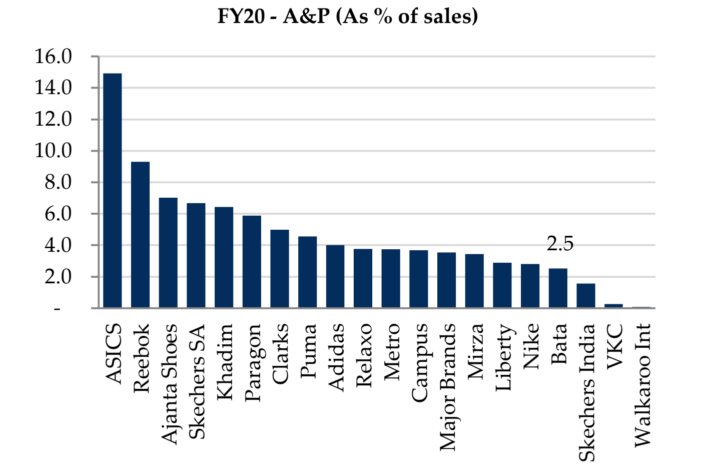
Source: Company, HSIE Research

…and remains high in absolute terms



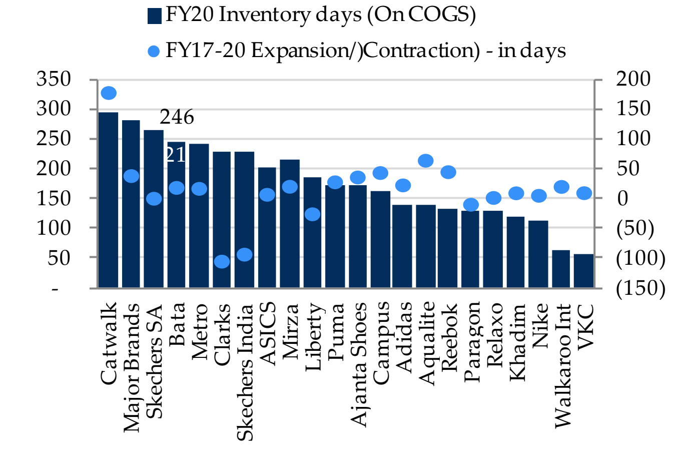
Source: Company, HSIE Research

…but lags in relation to scale…



Source: Company, HSIE Research

…and has not resulted in improved inventory efficiency



Source: Company, HSIE Research

Performance during the pandemic

- **Bata lagged peers in recovery as well as agility to maneuver cost of retailing:** In general, the footwear industry has been meaningfully impacted, given restricted personal mobility. However, on a relative basis, even within its immediate peer-set, Bata lagged in recovery as well as the agility to maneuver the cost of retailing (refer table below). The lag in recovery and gross margin cut vis-à-vis peers, we suspect, could be attributed to (1) a steeper shift from closed to open footwear vs peers, (2) weaker distribution footprint, and (3) lower manufacturing cost absorption (~50% of Bata's produce is manufactured in-house vs nil for Metro).

- **On cost of retailing:** Khadim might not be a direct comparison as it has a higher distribution and franchisee skew. However, even if one compares Bata's opex savings to Metro's (predominantly retail presence; similar to Bata), savings across virtually all cost overheads (employee/A&P/other expenses) have lagged that of the latter's**.**

Recovery and agility weaker than peers during the pandemic

INR mn	Bata			Metro			Khadim		
	FY20	FY21	Var (%)	FY20	FY21	Var (%)	FY20	FY21	Var (%)
Revenue	**30,561**	**17,085**	**-44.1**	**12,852**	**8,001**	**-37.7**	**7,719**	**6,262**	**-18.9**
Gross Margin (%)	57.6	51.0	-659	55.6	54.9	-65	33.7	25.8	-793
EBITDA	4,993.9	(899.9)	-118	2,777	1,161	-58	-20	-180	784
EBITDAM (%)	**16.3**	**(5.3)**	**-2,161**	**21.6**	**14.5**	**-710**	**-0.3**	**-2.9**	**-261**
Cost of Retailing (%)	41.2	56.2	1,501	34.0	40.4	645	34	29	-532
Employee	3,764	3,398	-9.7	1,268	1,026	-19.1	733	608	-17.0
Rent	3,814	2,769	-27.4	1,089	795	-27.0	399	279	-30.1
A&P	769	339	-55.9	480	161	-66.5	497	199	-60.0
Others	4,255	3,103	-27.1	1,532	1,253	-18.2	991	706	-28.7
Total opex	**12,601**	**9,610**	**-23.7**	**4,368**	**3,235**	**-25.9**	**2,620**	**1,793**	**-31.6**

	Relaxo			Liberty			Mirza		
	FY20	FY21	Var (%)	FY20	FY21	Var (%)	FY20	FY21	Var (%)
Revenue	**24,105**	**23,592**	**-2.1**	**6,521**	**4,581**	**-29.8**	**12,612**	**10,489**	**-16.8**
Gross Margin (%)	47	50	258	40	43	331	44.2	43.9	-36
EBITDA	3,637	4,559	25.3	397	513	29.0	1,718	1,183	-31.1
EBITDAM (%)	**15**	**19**	**424**	**6**	**11**	**510**	**13.6**	**11.3**	**-234**
Cost of Retailing (%)	32	30	-165	34	32	-179	30.6	32.6	199
Employee	2,940	3,014	2.5	903	730	-19.2	1,078	894	-17.1
Rent	452	396	-12.4	246	-90	-136.6	12	7	
A&P	908	696	-23.4	188	59	-68.7			
Others	3,431	3,071	-10.5	884	780	-11.8	2,771	2,777	0.2
Total opex	**7,731**	**7,177**	**-7.2**	**2,221**	**1,478**	**-33**	**3,861**	**3,677**	**-4.8**

Source: Company, HSIE Research

Key assumptions

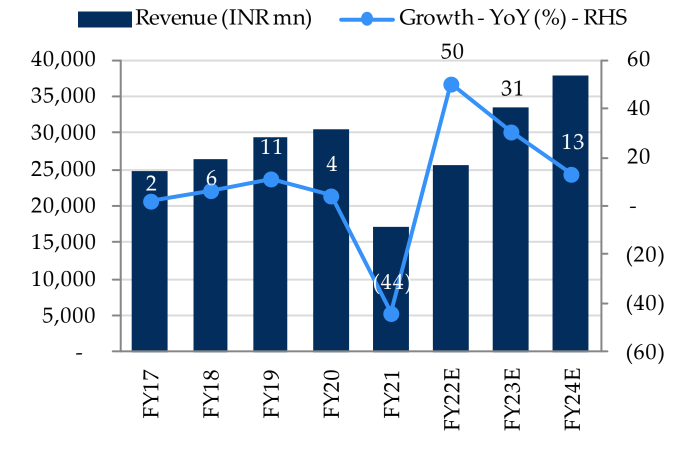
	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue from operations	24,227	24,743	26,342	29,311	30,561	17,085	25,677	33,532	37,951
YoY (%)		*2.1*	*6.5*	*11.3*	*4.3*	*(44.1)*	*50.3*	*30.6*	*13.2*
EBITDA	2,758	2,786	3,514	4,771	4,994	(900)	1,953	4,679	5,789
EBITDAM (%)	*11.4*	*11.3*	*13.3*	*16.3*	*16.3*	*(5.3)*	*7.6*	*14.0*	*15.3*
Revenue mix (%)									
-Retail	85.5	84.8	84.9	85.8	84.3	77.1	78.2	76.6	74.1
-Wholesale	13.0	12.5	11.8	10.2	11.6	14.0	14.2	16.1	17.9
-Online/Omni-Channel	1.5	2.8	3.3	4.1	4.1	8.9	7.7	7.3	8.0
Volume/Realization									
Volume (mn pairs)	50	47	47	47	49	32	44	56	63
YoY (%)		*(6.0)*	*-*	*0.5*	*4.5*	*(35.3)*	*38.5*	*26.7*	*11.6*
Net Realization (INR)	491	533	562	620	618	534	580	597	606
YoY (%)		*8.5*	*5.5*	*10.4*	*(0.3)*	*(13.5)*	*8.5*	*3.1*	*1.4*
Stores (#)	1,265	1,293	1,375	1,415	1,558	1,526	1,586	1,656	1,736
Additions (#)		*28.0*	*82.0*	*40.0*	*143.0*	*(32.0)*	*60.0*	*70.0*	*80.0*
Retail space (mn sq ft)	2.7	2.6	3.0	3.1	3.2	3.0	3.0	3.1	3.2
YoY (%)		*(1.1)*	*14.9*	*2.0*	*5.2*	*(7.7)*	*2.1*	*2.6*	*3.2*

Source: Company, HSIE Research

Financial analysis

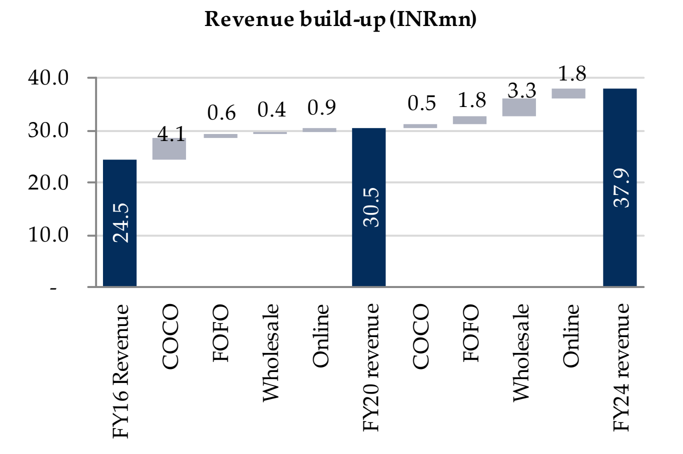
- We build in a revenue CAGR of 5.6% for Bata over FY20-24 (~INR38bn), primarily underpinned by wholesale and online. Both these verticals are pegged to contribute 68/80%+ of incremental revenue and volume respectively. The pace mirrors performance over FY16-20; however, it lags Bata's decadal revenue CAGR of 10.8%. Note: franchisee performance is key to our estimates; any disappointment on this front could derail our estimates. We expect franchisee sales to grow at 40% CAGR (on a low base) and contribute 25/24% on incremental sales/volume respectively.

Baking in 6% revenue CAGR over FY20-24…



Source: Companies, HSIE Research

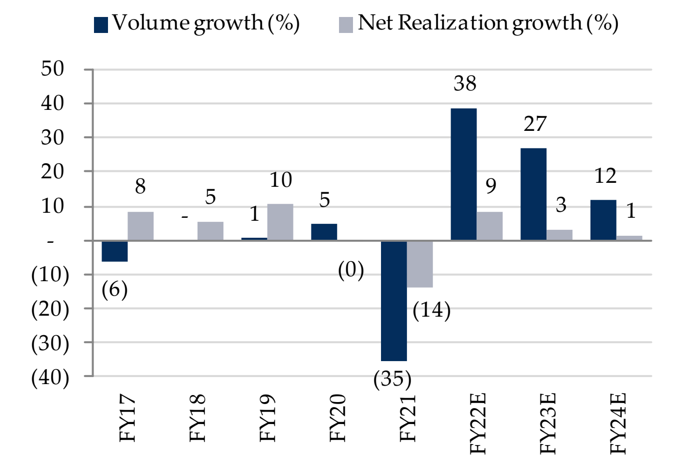
…with over two-thirds to be contributed by wholesale and online



Source: Companies, HSIE Research

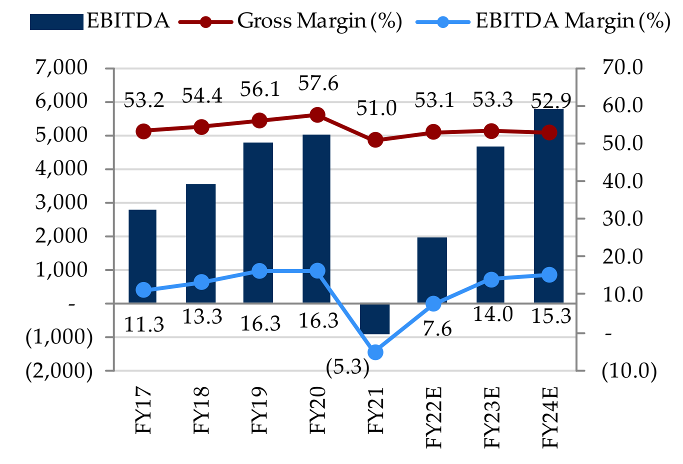
- Volume CAGR of 6% baked in with net realisations stabilising to INR606/pair (similar to FY20). Gross margins would inch lower (~53% vs 57.6% in FY20) as (1) lower margin wholesale and online businesses anchor growth and (2) price hikes lag RM inflation, courtesy a shift in focus to rev up volumes. However, given the lower cost of retailing (for wholesale/online), EBITDA margin recovery is likely to be reasonable. We are building in 15% EBITDA margin by FY24 (implying an EBITDA CAGR of 3.3% over FY20-24).

6% volume CAGR built in with stabilising net realisation (INR606/pair)…



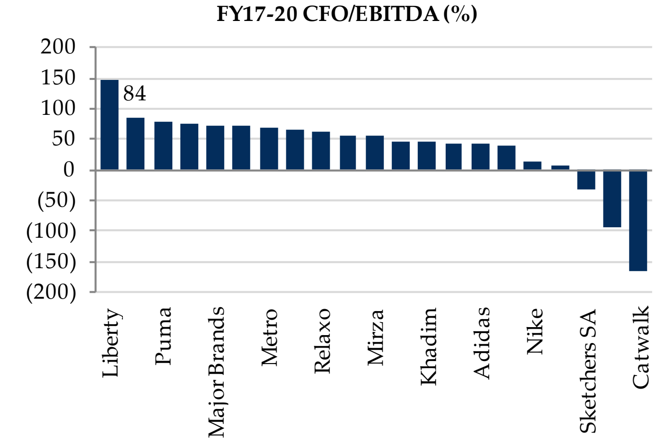
Source: Company, HSIE Research

…GM to inch lower, given the expected tilt in revenue mix to wholesale/online. EBTDAM recovery (15%) to be reasonable as cost of retailing inches down too

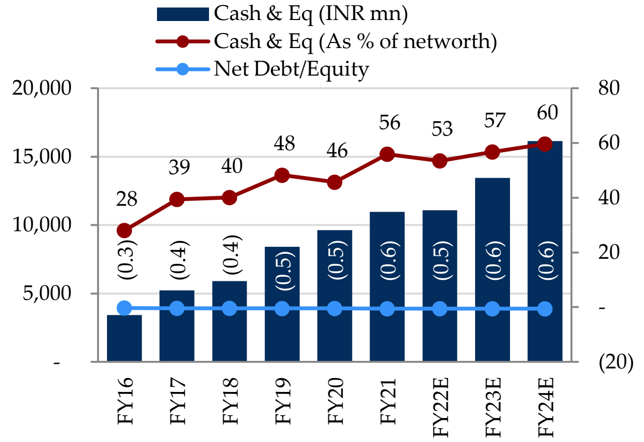


Source: Company, HSIE Research

Bata's CFO/EBITDA conversion has always been best-in-class; however, given the incrementally asset-light volume levers, the rising cash pile (56% of net worth) can be unnerving for investors in the absence of an inorganic reinvestment opportunity



Source: Company, HSIE Research



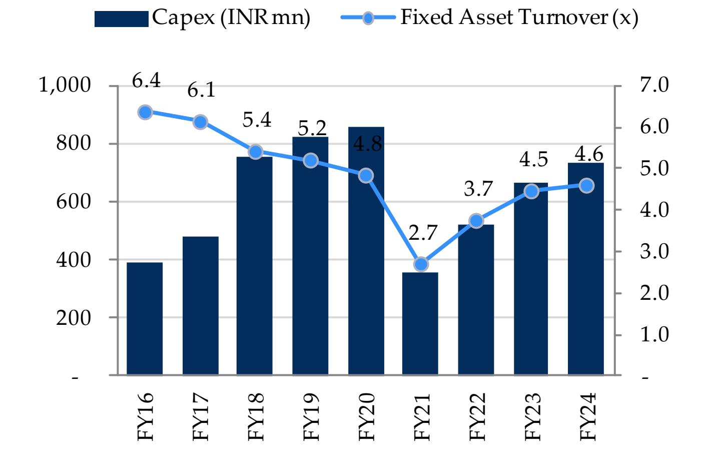
Source: Company, HSIE Research

Bata's faster cash conversion is courtesy lower receivable+higher payable days vis-a-vis peers; we suspect, in the long run, receivable days should converge (not factored in) among key players if Bata wants to make any meaningful impact in distribution/franchisees

	FY16	FY17	FY18	FY19	FY20	FY21
Bata						
Inventory days	103	105	106	105	104	130
Receivables days	11	10	12	8	8	17
Payables days	65	76	81	77	60	94
Core CC Cycle	**49**	**40**	**38**	**36**	**52**	**53**
Metro						
Inventory days	106	106	95	109	107	132
Receivables days	10	12	13	16	20	23
Payables days	40	43	48	58	57	93
Core CC Cycle	**77**	**75**	**60**	**67**	**70**	**62**
Relaxo						
Inventory days	61	65	59	64	68	65
Receivables days	23	28	36	31	26	28
Payables days	26	28	33	30	28	34
Core CC Cycle	**58**	**64**	**62**	**65**	**66**	**59**
Khadim						
Inventory days	69	68	62	71	80	82
Receivables days	24	46	62	61	56	70
Payables days	24	46	62	61	56	70
Core CC Cycle	**69**	**68**	**62**	**71**	**80**	**82**
Liberty						
Inventory days	113	121	113	106	111	162
Receivables days	77	88	68	63	113	87
Payables days	77	88	68	63	113	87
Core CC Cycle	**113**	**121**	**113**	**106**	**111**	**162**
Mirza						
Inventory days	104	103	144	137	120	148
Receivables days	25	26	50	49	41	28
Payables days	25	26	50	49	41	28
Core CC Cycle	**104**	**103**	**144**	**137**	**120**	**148**

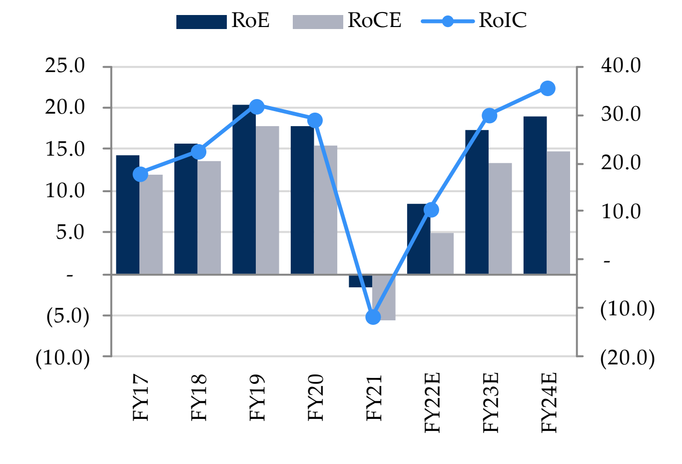
Source: Company, HSIE Research

Expect fixed asset turns (x) to nearly rebound to FY20 levels by FY24…



Source: Company, HSIE Research

…ditto for its return profile



Source: Company, HSIE Research

Bata's capital allocation over FY16-21

Sources of funds (INR bn)	FY16	FY17	FY18	FY19	FY20	FY21	Total
Cash from operations (excl WC change)	2,445	2,037	2,447	3,304	6,500	2,409	29,945
Other income	179	265	398	494	637	750	3,269
Total	**2,625**	**2,302**	**2,846**	**3,797**	**7,137**	**3,159**	**33,214**
Application of funds (Rs bn)							
Working capital	1,486	123	1,998	1,263	2,553	(2,534)	14,326
Capex	391	477	754	822	857	357	8,413
Investments	-	-	-	-	-	-	(558)
Dividend	502	540	541	618	969	515	5,716
Borrowings	-	-	-	-	-	-	(300)
Others	(128)	1,441	(375)	1,052	3,191	4,428	5,144
Net change in cash	375	(280)	(72)	43	(434)	393	473
Total	**2,625**	**2,302**	**2,846**	**3,797**	**7,137**	**3,159**	**33,214**
WC + Capex as % of sources of funds	**71.5**	**26.1**	**96.7**	**54.9**	**47.8**	**(68.9)**	
Cumm. WC + Capex as % of sources of funds							**68.5**

Source: Company, HSIE Research

Valuation

- Our DCF-based target price of INR 1,400/sh for Bata (implying 38x FY24 P/E) assumes: (1) 10-year revenue CAGR: 8.7%; (2) EBITDA margin expansion of ~220bps over FY20-30E; (3) FY20-40 FCFF CAGR: 13% (FY20-30E FCFF CAGR: 14.6%, FY30-40E CAGR: 11%); (4) WACC: 10.5%; (5) terminal growth: 6%, 10-year cumulative FCFF/EBITDA conversion of 60% over FY20-30E.

DCF valuation (INR mn):

DCF (INR m)	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY35E	FY40E
Revenue	**33,532**	**37,951**	**42,485**	**47,478**	**52,874**	**58,577**	**64,429**	**70,427**	**1,04,071**	**1,45,806**
EBIT*(1-t)	**2,974**	**3,704**	**4,426**	**5,253**	**6,104**	**7,032**	**7,959**	**8,813**	**13,487**	**19,098**
Depreciation	686	745	809	877	951	1,029	1,062	1,090	1,313	1,364
Capex	(667)	(736)	(803)	(873)	(946)	(1,019)	(1,088)	(1,155)	(1,446)	(1,297)
As % of revenue	*(2.0)*	*(1.9)*	*(1.9)*	*(1.8)*	*(1.8)*	*(1.7)*	*(1.7)*	*(1.6)*	*(1.4)*	*(0.9)*
Changes in WC (Winv)	(634)	(672)	(573)	(485)	(558)	(715)	(631)	(618)	(698)	5,168
As % of revenue	*(1.9)*	*(1.8)*	*(1.3)*	*(1.0)*	*(1.1)*	*(1.2)*	*(1.0)*	*(0.9)*	*(0.7)*	*3.5*
FCFF	**2,358**	**3,041**	**3,859**	**4,772**	**5,551**	**6,327**	**7,302**	**8,131**	**12,657**	**24,333**
YoY (%)	*103.7*	*28.9*	*26.9*	*23.7*	*16.3*	*14.0*	*15.4*	*11.4*	*8.8*	*36.9*
Interest (1-t)	(18)	(18)	(19)	(19)	(20)	(20)	(20)	(21)	(23)	(26)
Net Borrowings	-	-	-	-	-	-	-	-	-	-
FCFE	**2,340**	**3,022**	**3,840**	**4,753**	**5,531**	**6,307**	**7,282**	**8,110**	**12,634**	**24,308**
YoY (%)	*105*	*29*	*27*	*24*	*16*	*14*	*15*	*11*	*10*	*37*
EOP date	**Mar-23**	**Mar-24**	**Mar-25**	**Mar-26**	**Mar-27**	**Mar-28**	**Mar-29**	**Mar-30**	**Mar-35**	**Mar-40**
Years to DCF date	0.2	1.2	2.2	3.2	4.2	5.3	6.3	7.3	12.3	17.3
PV (FCFF)	**2,301**	**2,686**	**3,086**	**3,455**	**3,638**	**3,754**	**3,922**	**3,954**	**3,744**	**4,376**
Terminal Value										**5,79,495**

DCF Date	Dec-22
Kd	**10.0**
Kd*(1-t)	**7.5**
Ke	**10.5**
Net Debt (Mar-22E)	(10,703)
Debt/Equity	-
PV-Explicit Period	65,703
PV-Terminal Value	1,03,561
Equity Value (INR m)	**1,79,967**
Equity value per share (INR)	**1,400**
FY24 Implied EV/EBITDA (x)	29.2
FY24 Implied P/E (x)	**37.8**
Terminal growth rate (%)	6.0
WACC	10.5
Terminal FCF multiple (x)	24.8
No. of shares (mn)	128.5
CMP	**1,887**
Upside/(Downside)	**-25.8%**

Source: Companies, HSIE Research

Sensitivity Analysis

		WACC (%)				
		9.5	**10.0**	**10.5**	**11.0**	**11.5**
Terminal growth rate (%)	**5.0**	1,574	1,392	1,245	1,125	1,024
	5.5	1,698	1,484	1,315	1,179	1,067
	6.0	1,857	1,599	**1,400**	1,244	1,117
	6.5	2,072	1,747	1,507	1,323	1,177
	7.0	2,373	1,946	1,645	1,422	1,251

Company profile

- Bata India is the largest retailer and leading manufacturer of footwear in India and is a part of the Bata Shoe Organization.
- Its retail presence spans 1,526 owned and franchisee stores and ~3mn sq. ft. The company also sells its merchandise on bata.in.
- Offerings include spread categories such as footwear, accessories, and bags across brands such as Bata, Hush Puppies, Naturalizer, Power, Marie Claire, Weinbrenner, North Star, Scholl, Bata Comfit and Bubblegummers. The company is present in India for over 85 years.
- It sells more than 47mn pairs of footwear in a typical year (~32mn in FY21) and serves 120,000+ customers every day.
- The company also operates a large non-retail distribution network through its urban wholesale division and caters to millions of customers through over 30,000 dealers.

Key personnel

Name	Designation	Description
Mr. Rajeev Gopalakrishnan	Managing Director	He has been a part of the Bata Shoe Organization for the past 30 and has played various roles. Prior to becoming MD, he served as MD at Bata Bangladesh (one year) and Bata Thailand (three years)
Mr. Gunjan Shah	Chief Executive Officer	Mr. Gunjan Shah is an accomplished leader with experience ranging across consumer durables, telecom & FMCG. In his last role, he was the Chief Commercial Officer at Britannia Industries. At Britannia, he has led various functions - commercial, sales, marketing and supply chain
Ms Vidya Srinivasan	Chief Financial Officer	She is a qualified CA and also holds a PGBDM degree from IIM - Ahmedabad. Previously, she worked with Puma Sports India Pvt. Ltd as Executive Director - Finance, Legal and IT and CFO. She has over 23 years of experience in finance, strategy, business planning, legal and commercial functions. She has worked with reputed organisations like Aditya Birla Retail Ltd, Glenmark Pharmaceuticals Ltd, Kearney.
Mr. Sanjay Kanth	Sr. Vice President - Manufacturing & Sourcing	Mr. Kanth has a BA in Economics, a Diploma in Marketing Management and an MBA (Operations), and over three decades of experience. Mr. Kanth started off in the manufacturing department at Bata India in July 2012 and, prior to that, he worked at Adidas Technical Services Pvt. Ltd. as the Head of Operations.
Mr. Matteo Lambert	Chief Collection Manager	Mr. Lambert started joined Bata India in June 2013, and currently as the CCM, he is responsible for bringing new styles and designs to Bata's portfolio. He earned his Bachelor Degree in Literature and Social Studies and previously worked with the Artsana Group.
Mr. Kumar Sambhav Verma	Head of Omni Channel – Asia	Mr. Verma with about two decades of experience has spent the second half at Bata India. He holds a B. Com. and a PG Diploma in Marketing Management. He heads the omni-channel division at Bata

Source: Company, HSIE Research

Key Risks

Name	Description
Better-than-expected wholesale traction	While we remain optimistic of Bata's wholesale channel growth (low base), our learnings from the ecosystem suggests that scaling beyond 800 distributors is difficult. However, Bata finding meaningful success in wholesale especially in its open footwear, could pose an upside risk to our growth, and return profile estimates
Better-than-expected omni-traction	We expect Bata to gain a reasonable share via its omni-efforts (25% CAGR over FY20-25) as it continues to improve on its online assortment. However, a non-linear growth tratejectory could pose an upside risk.
Retail Performance	While we remain circumspect on Bata's ability to improve upon its COCO unit economics and a meaningful change in volume/SSSG in this format could pose an upside risk to our estimates

Source: Company, HSIE Research

Financials

Income Statement

Year End (March)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	**24,743**	**26,342**	**29,311**	**30,561**	**17,085**	**25,677**	**33,532**	**37,951**
Growth (%)	2.1	6.5	11.3	4.3	(44.1)	50.3	30.6	13.2
Material Expenses	11,581	12,024	12,871	12,966	8,375	12,044	15,668	17,872
Employee Expense	2,732	2,956	3,311	3,764	3,398	3,738	4,015	4,329
A&P Expense	242	401	661	769	339	539	738	873
Rent Expense	3,564	3,622	3,793	3,814	2,769	3,212	3,502	3,702
Other selling and distribution Expense	928	939	1,004	1,127	726	982	1,242	1,402
Other Expenses	2,910	2,885	2,900	3,127	2,376	3,210	3,688	3,985
EBITDA	**2,786**	**3,514**	**4,771**	**4,994**	**(900)**	**1,953**	**4,679**	**5,789**
EBITDA Growth (%)	**1.0**	**26.1**	**35.8**	**4.7**	**(118.0)**	**(317.0)**	**139.6**	**23.7**
EBITDA Margin (%)	**11.3**	**13.3**	**16.3**	**16.3**	**(5.3)**	**7.6**	**14.0**	**15.3**
Depreciation	650	605	640	643	629	655	686	745
EBIT	**2,135**	**2,909**	**4,130**	**4,351**	**(1,529)**	**1,297**	**3,993**	**5,044**
Other Income (Including EO Items)	244	503	682	687	895	975	1,054	1,267
Interest	40	42	35	23	23	23	24	25
PBT	**2,339**	**3,370**	**4,777**	**5,014**	**(657)**	**2,249**	**5,024**	**6,286**
Total Tax	749	1,165	1,487	1,583	(273)	552	1,221	1,524
PAT before share of associate earnings	**1,590**	**2,205**	**3,290**	**3,431**	**(383)**	**1,697**	**3,803**	**4,763**
Share of associate earnings	-	-	-	-	-	-	-	-
RPAT	**1,590**	**2,205**	**3,290**	**3,431**	**(383)**	**1,697**	**3,803**	**4,763**
Exceptional Gain/(loss)	217	-	-	-	46	-	-	-
Adjusted PAT	**1,806**	**2,205**	**3,290**	**3,431**	**(337)**	**1,697**	**3,803**	**4,763**
APAT Growth (%)	**26.6**	**22.1**	**49.2**	**4.3**	**(109.8)**	**(603.4)**	**124.1**	**25.2**
Adjusted EPS (Rs)	**14.1**	**17.2**	**25.6**	**26.7**	**(2.6)**	**13.2**	**29.6**	**37.1**
EPS Growth (%)	**26.6**	**22.1**	**49.2**	**4.3**	**(109.8)**	**(603.4)**	**124.1**	**25.2**

Balance Sheet

Year End (March)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
SOURCES OF FUNDS								
Share Capital - Equity	643	643	643	643	643	643	643	643
Reserves	12,601	14,104	16,776	20,459	18,968	20,045	23,072	26,517
Total Shareholders Funds	**13,243**	**14,747**	**17,418**	**21,102**	**19,610**	**20,687**	**23,715**	**27,160**
Long Term Debt	-	-	-	-	-	-	-	-
Short Term Debt	-	-	-	-	-	-	-	-
Total Debt	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net Deferred Taxes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other Non-current Liabilities & Provns	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL SOURCES OF FUNDS	**13,243**	**14,747**	**17,418**	**21,102**	**19,610**	**20,687**	**23,715**	**27,160**
APPLICATION OF FUNDS								
Net Block	2,680	2,964	3,165	3,365	2,902	2,770	2,751	2,743
CWIP	298	121	173	199	336	336	336	336
Other Non-current Assets	1,005	1,055	1,099	2,225	2,045	2,045	2,045	2,045
Total Non-current Assets	**3,983**	**4,140**	**4,436**	**5,789**	**5,283**	**5,151**	**5,132**	**5,124**
Inventories	7,138	7,652	8,394	8,737	6,083	8,090	9,646	10,709
Debtors	694	894	664	633	794	1,126	1,102	1,300
Other Current Assets	2,196	2,817	2,844	2,198	1,904	2,321	2,848	3,067
Cash & Equivalents	**5,220**	**5,912**	**8,403**	**9,639**	**10,968**	**10,703**	**12,730**	**15,415**
Total Current Assets	**15,248**	**17,274**	**20,305**	**21,207**	**19,748**	**22,240**	**26,327**	**30,491**
Creditors	5,124	5,835	6,160	5,034	4,397	5,487	6,431	7,174
Other Current Liabilities & Provns	864	832	1,162	860	1,024	1,217	1,313	1,280
Total Current Liabilities	**5,988**	**6,667**	**7,322**	**5,894**	**5,421**	**6,704**	**7,744**	**8,455**
Net Current Assets	9,260	10,607	12,982	15,313	14,328	15,536	18,583	22,036
TOTAL APPLICATION OF FUNDS	**13,243**	**14,747**	**17,418**	**21,102**	**19,610**	**20,687**	**23,715**	**27,160**

Source: Company, HSIE Research

Cash Flow Statement

Year ending March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	2,339	3,370	4,777	4,872	(1,166)	2,249	5,024	6,286
Non-operating & EO Items	(341)	(416)	(733)	(638)	(440)	(975)	(1,054)	(1,267)
Interest Expenses	40	42	35	1,177	1,035	23	24	25
Depreciation	650	605	634	2,958	2,648	655	686	745
Working Capital Change	528	(844)	147	(682)	2,066	(1,474)	(1,019)	(769)
Tax Paid	(651)	(1,154)	(1,410)	(1,870)	468	(552)	(1,221)	(1,524)
OPERATING CASH FLOW (a)	**2,565**	**1,603**	**3,451**	**5,817**	**4,611**	**(73)**	**2,439**	**3,496**
Capex	(477)	(754)	(822)	(857)	(357)	(524)	(667)	(736)
Free Cash Flow (FCF)	2,088	849	2,629	4,960	4,254	(597)	1,772	2,760
Investments	-	-	-	-	-	-	-	-
Non-operating Income	(1,811)	(365)	(1,955)	(1,033)	(170)	975	1,054	1,267
INVESTING CASH FLOW (b)	**(2,288)**	**(1,119)**	**(2,776)**	**(1,890)**	**(527)**	**452**	**387**	**530**
Debt Issuance/(Repaid)	(17)	(15)	(14)	(13)	(11)	(23)	(24)	(25)
FCFE	260	469	660	3,915	4,072	355	2,802	4,002
Share Capital Issuance	-	-	-	-	-	-	-	-
Dividend	(540)	(541)	(618)	(969)	(515)	(620)	(775)	(1,318)
Others	-	-	-	(3,379)	(3,165)	-	-	-
FINANCING CASH FLOW (c)	**(557)**	**(556)**	**(631)**	**(4,361)**	**(3,691)**	**(643)**	**(799)**	**(1,342)**
NET CASH FLOW (a+b+c)	**(280)**	**(72)**	**43**	**(434)**	**393**	**(265)**	**2,027**	**2,685**
EO Items, Others	-	-	1	1	1	1	1	1
Closing Cash & Equivalents	5,220	5,912	8,403	9,639	10,968	10,703	12,730	15,415

Key Ratios

	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
PROFITABILITY (%)								
GPM	53.2	54.4	56.1	57.6	51.0	53.1	53.3	52.9
EBITDA Margin	11.3	13.3	16.3	16.3	9.5	18.7	23.0	23.7
EBIT Margin	8.6	11.0	14.1	14.2	(6.0)	8.4	14.1	15.0
APAT Margin	7.3	8.4	11.2	11.2	(2.0)	6.6	11.3	12.5
RoE	14.2	15.8	20.5	17.8	(1.7)	8.4	17.1	18.7
RoIC (or Core RoCE)	18.0	22.6	31.9	29.1	(11.5)	10.4	28.5	33.2
RoCE	11.9	13.6	17.7	15.5	(5.7)	4.8	13.5	14.8
EFFICIENCY								
Tax Rate (%)	29.3	34.6	31.1	31.6	24.4	25.2	25.2	25.2
Fixed Asset Turnover (x)	6.1	5.4	5.2	4.8	2.7	3.7	4.5	4.6
Inventory (days)	105.3	106.0	104.5	104.3	130.0	115.0	105.0	103.0
Debtors (days)	10.2	12.4	8.3	7.6	17.0	16.0	12.0	12.5
Other Current Assets (days)	32.4	39.0	35.4	26.3	40.7	33.0	31.0	29.5
Payables (days)	75.6	80.9	76.7	60.1	93.9	78.0	70.0	69.0
Other Current Liab & Provns (days)	12.7	11.5	14.5	10.3	21.9	17.3	14.3	12.3
Cash Conversion Cycle (days)	59.6	65.1	57.0	67.8	71.8	68.7	63.7	63.7
Net D/E (x)	(0.4)	(0.4)	(0.5)	(0.5)	(0.6)	(0.5)	(0.5)	(0.6)
Interest Coverage (x)	52.9	69.3	116.5	185.4	(67.2)	55.4	165.5	204.9
PER SHARE DATA (Rs)								
EPS	14.1	17.2	25.6	26.7	(2.6)	13.2	29.6	37.1
CEPS	19.1	21.9	30.6	31.7	2.3	18.3	34.9	42.8
Dividend	3.5	4.0	6.3	4.0	4.0	5.0	8.5	11.0
Book Value	103.0	114.7	135.5	164.2	152.6	161.0	184.5	211.3
VALUATION								
P/E (x)	134.6	110.2	73.9	70.8	(721.0)	143.2	63.9	51.0
P/BV (x)	18.4	16.5	14.0	11.5	12.4	11.8	10.2	8.9
EV/EBITDA (x)	85.4	67.5	49.2	46.7	(257.9)	119.0	49.2	39.3
EV/Revenues (x)	9.6	9.0	8.0	7.6	13.6	9.0	6.9	6.0
OCF/EV (%)	1.1	0.7	1.5	2.5	2.0	(0.0)	1.1	1.5
FCF/EV (%)	0.9	0.4	1.1	2.1	1.8	(0.3)	0.8	1.2
FCFE/Mkt Cap (%)	0.1	0.2	0.3	1.6	1.7	0.1	1.2	1.6
Dividend Yield (%)	0.2	0.2	0.3	0.2	0.2	0.3	0.4	0.6

Source: Company, HSIE Research, NOTE: EBITDAM (%) are on post IND-AS 116 basis

INSTITUTIONAL RESEARCH

Relaxo Footwears

An offspring of value and branding

Our readers are aware of our affinity for disciplined value plays across the discretionary space as these provide (1) a larger TAM, (2) ample headroom to premiumise, and (3) predictability in growth, profitability, and cash flow. Relaxo is just that – a well-rounded offspring of value and branding. Inhouse manufacturing (high gross margins, consistent quality) and branding provide pricing power (FY10-20 net realisation CAGR: 7.3%) in a low-value purchase without disturbing volumes. Relaxo remains head and shoulders above peers in key areas of fixed asset investments (2-8x of peers), working capital management, cost structures, and marketing budgets (3-8x of peers; 3.7% of sales). Bottomline: we can't fault the company. Alas! Its valuation remains punchy and we'd prefer better entry points to get more constructive on it. We initiate coverage on Relaxo with a SELL recommendation and DCF-based TP of INR 1,050/sh (implying 55x FY24 P/E). We build in sales/EBITDA/PAT CAGRs of 13/18/19% over FY20-24E and 270bp rise in RoCE to 20% by FY24.

- **Low order values + inhouse manufacturing + branding = pricing power:** Relaxo champions the low-ticket functional wear segment for the masses (HSIE: 80% urorganised). Hence, its growth runway remains long. Its low order value (net realisation stands at INR138/pair; at MRP ~INR225-230/pair, bill size: INR450-460); ensures that, for 85% of Relaxo's business, online intrusion remains off-limits. Inhouse manufacturing ensures handsome and consistent gross margins (45-50% over FY15-20), even at low AoVs. This, coupled with low cost structure (ex-A&P), allows the company to consistently reinvest in branding and charge a small, absolute, but attractive (percent) premium over the ecosystem.
- **Head and shoulders above peers in key areas:** Adj. for restructuring among immediate peers, we reckon Relaxo has largely maintained its relative revenue share (FY20: 29%). However, it has improved its share in the profit pool over FY15-20 (FY20: 38%). Interestingly, unlike many peers, share gains have come by optimising revenue/distributor and cost structures (ex-A&P), which allows Relaxo to maintain its marketing arbitrage (3-8x ad spends vs peers). In key areas like fixed asset investments (2-8x of peers) and working capital management, too, Relaxo outdoes peers. Meanwhile, many mass functional wear peers have seen a rise in inventory + receivables and cost structures, which may compel them to rein in growth and heal their working capital woes before resuming growth ambitions. Advantage Relaxo!
- **Valuation and outlook:** Relaxo's model is just what an investor looks for in discretionary plays – an unrelenting focus on delivering value, large TAM, disciplined cost structures, long premiumisation lever, and branding power to enjoy a small, absolute, but handsome percentage premium in a relatively immature ecosystem. Positives seem priced in, though. We build in sales/EBITDA/PAT CAGRs of 13/18/19% (realisation/volume CAGR: 9/4%) over FY20-24E and a 270bp rise in RoCE to 20% by FY24. We initiate with SELL rating and DCF-based TP of INR 1,050/sh (implying 55x FY24 P/E).

Financial summary (INR mn)

	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	24,105	23,592	27,910	33,417	38,907
EBITDA	3,637	4,559	4,675	5,818	6,965
APAT	2,309	3,049	3,011	3,843	4,711
Dil. EPS (Rs/sh)	9.3	12.3	12.1	15.5	18.9
P/E (x)	139.0	105.3	106.6	83.6	68.2
RoIC (%)	17.1	20.6	20.0	23.3	26.9
ROCE (%)	17.6	19.4	16.8	18.9	20.4

Source: Company, HSIE Research

SELL

CMP *(as on 01 Dec 2021)*	INR 1,287
Target Price	INR 1,050
NIFTY	17,167

KEY STOCK DATA	
Bloomberg code	RLXF IN
No. of Shares (mn)	249
MCap (INR bn) / ($ mn)	320/4,303
6m avg traded value (INR mn)	336
52 Week high / low	INR 1,448/715

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	7.6	18.3	76.5
Relative (%)	7.0	7.2	47.3

SHAREHOLDING PATTERN (%)

	Jun-21	Sep-21
Promoters	70.92	70.92
FIs & Local MFs	7.34	7.17
FPIs	3.49	3.56
Public & Others	18.25	18.35
Pledged Shares	0	0

Source : BSE

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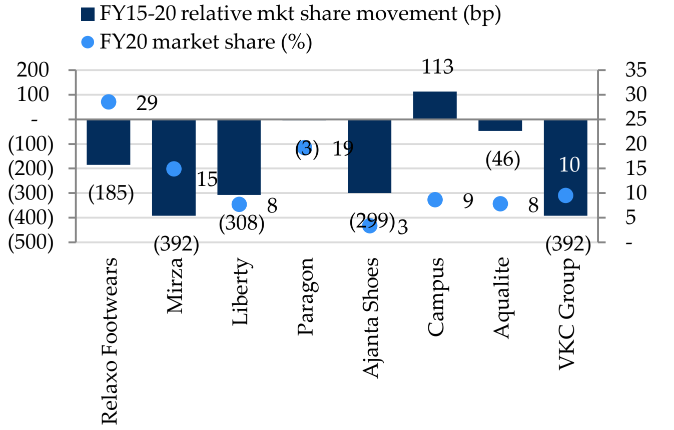
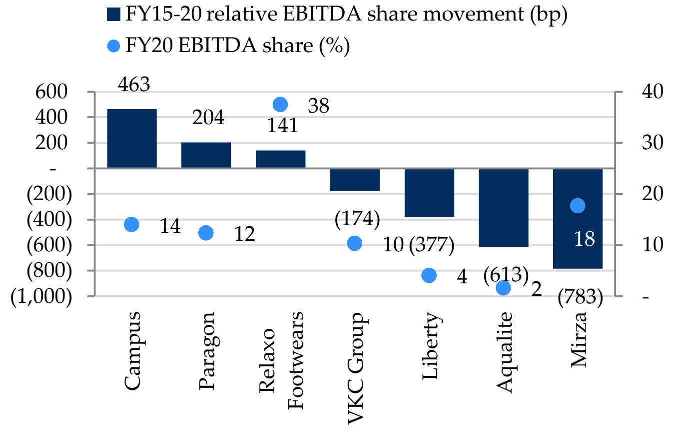
Focus Charts

Optically it seems Relaxo ceded some market share to smaller peers, but adjusted for restructuring among peers, Relaxo is estimated to have held market share; profitability share continues to improve as the tail struggles to manage growth, profitability, and asset efficiency

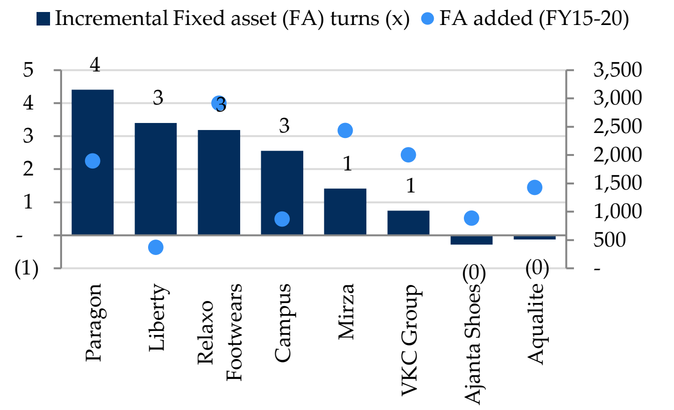


Source: Company, HSIE Research

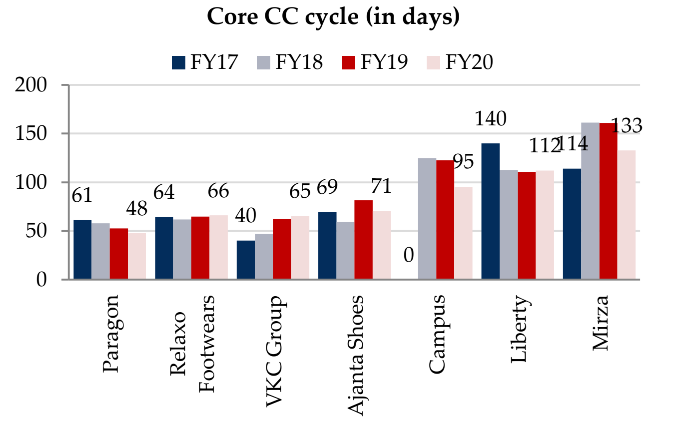


Source: Company, HSIE Research

Relaxo continues to lead in capacity addition and is among the fastest in sweating assets within immediate peer set…

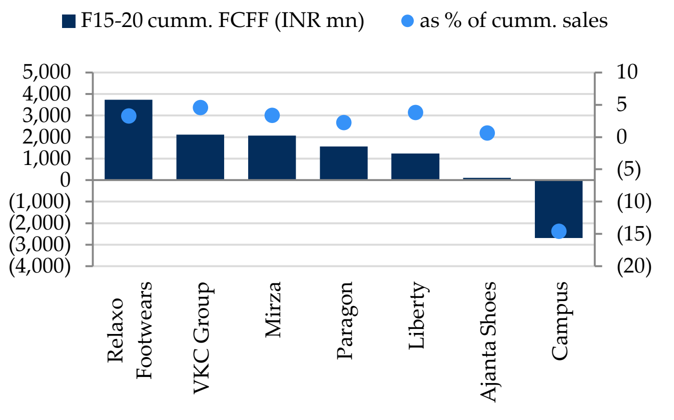


Source: Company, HSIE Research

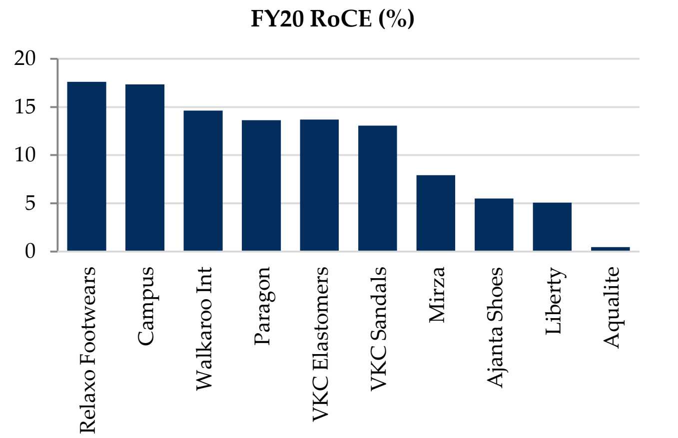


Source: Company, HSIE Research

…consequently, leads peer set in free cash generation and return profile



Source: Company, HSIE Research

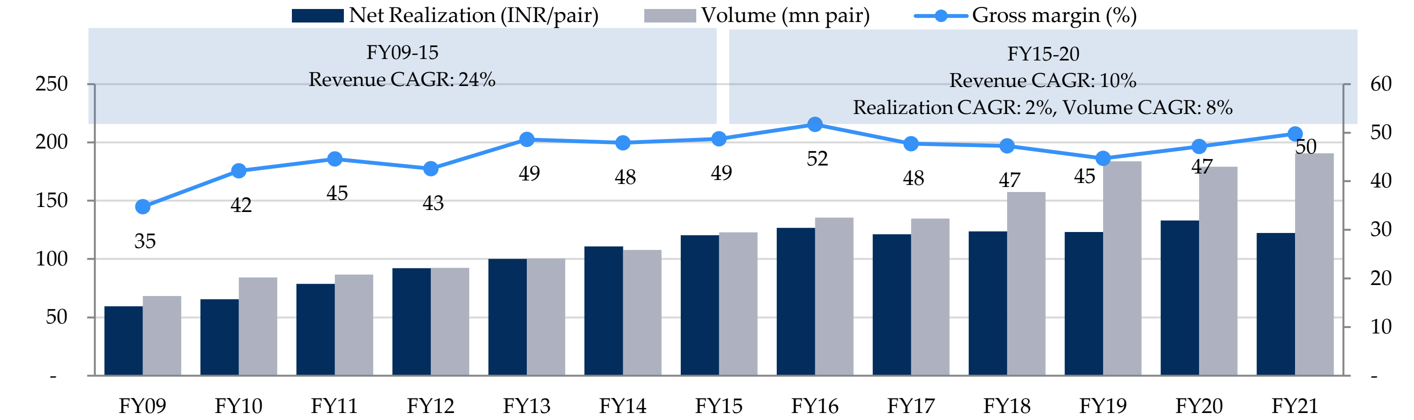


Source: Company, HSIE Research

When value meets branding

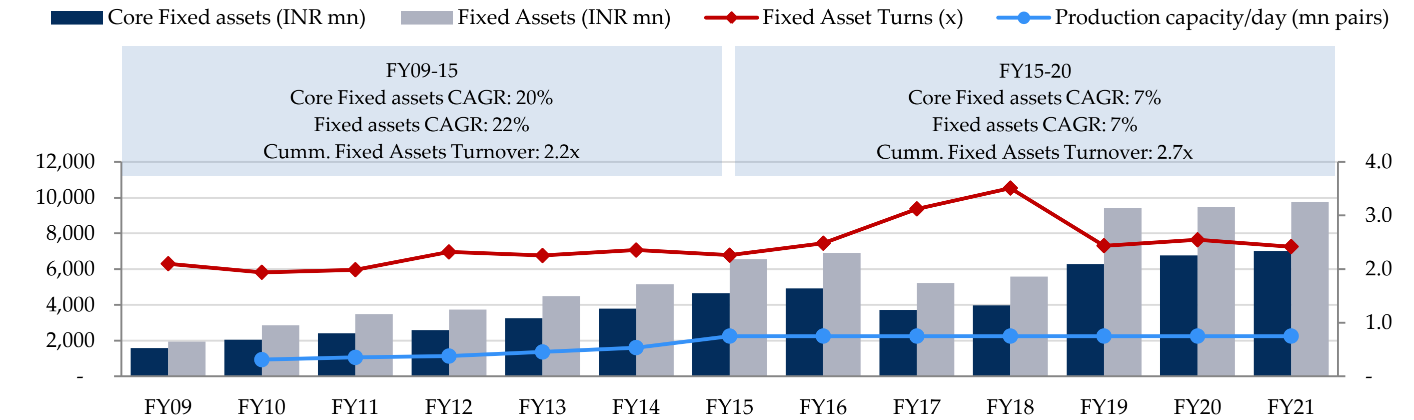
- **Low order values + inhouse manufacturing + branding = pricing power:** Relaxo champions the low-ticket functional wear segment for the masses, which is mostly unorganised (HSIE: 80% urorganised; Relaxo's share in this segment is estimated at 5-6%). Ergo, the growth runway remains long. Its net realisation stands at INR138/pair (at MRP ~INR225-230/pair). Even if one considers a bill size of two goods per order (INR450-460/order), it is nearly impossible to make a profitable sale online, i.e., for ~85% of Relaxo's business, online intrusion remains off-limits.
- Even at low AoVs, inhouse manufacturing ensures handsome and consistent gross margins (45-50% over FY15-20). This, combined with low cost structure (ex-A&P), enables the company to consistently reinvest in branding and charge a small absolute premium (INR30-40 per pair vs fellow organised peers and INR60-65 vs unorganised folks) but handsome percentage premium (30-40%).
- If one looks at Relaxo's ten-year history, the first half (FY09-15) is marked by rapid expansion fuelled by all levers – volume (10.2%) and premiumisation/price hikes (12.4%). The big jump in volumes during this phase was supported by healthy capacity additions (19%) while the jump in premiumization was due to an aggressive increase in marketing spends to push Sparx/Flite (esp FY13 onwards). The second half was focused on improving capacity utilisation and the premiumisation lever was less effective. This is evident in the moderate improvement in realisation and increase in core/total fixed asset turnover from FY15 to FY20.

Relaxo: the decade gone by



Source: Company, HSIE Research

Relaxo's fixed asset movement over FY09-21



Source: Company, HSIE Research, Core fixed assets defined as Land + Buildings + Leasehold improvements + Plant & Machinery + Moulds

Masters growth-profitability-asset turn equation

- Optically, it appears that a small portion of Relaxo's market share was taken by select mass functional wear brands like Paragon, Campus and Aqualite too. Some of these peers have had to restructure their corporates. Hence, adj. for this restructuring, we reckon Relaxo might have largely maintained its relative revenue share. That said, some of the functional wear peers have witnessed a rise in their inventory + receivables, so we suspect that a few may have to rein in growth to repair their working capital before resuming their growth ambitions (Aqualite, Ajanta Shoes, VKC Group, Campus Activewear, etc).

  As a result, now is an opportune time for Relaxo to add capacity and resume its market share gain narrative. Lo and behold! Relaxo is accomplishing just that. It recently added 0.15mn pairs/day (capacity now 1mn/pairs per day) to spur growth. We suspect the newly added capacity will be utilised to augur the value added portfolio, i.e., affordable sports shoes (along with the bread-and-butter open footwear) because there are many weak operators in the INR500-1000 sports shoe category to win share from. Also, there is a dearth of sports shoe brands in this price bracket.

Optically it seems Relaxo ceded some market share to smaller peers, but adjusted for restructuring among peers, Relaxo is estimated to have held market share; profitability share continues to improve as the tail struggles to manage growth, profitability, and asset efficiency

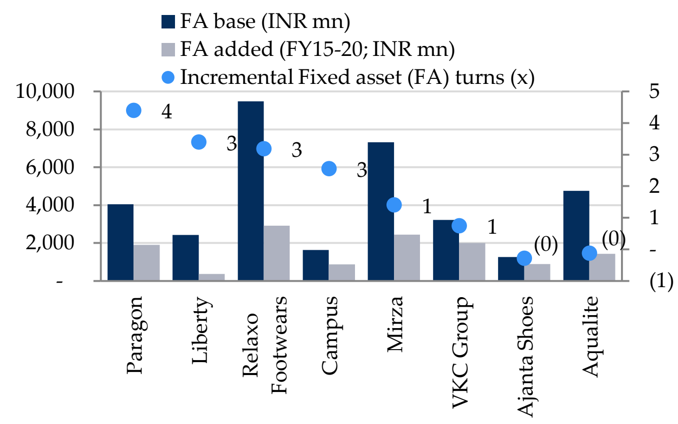
Rel. mkt share (%)	FY15	FY16	FY17	FY18	FY19	FY20
Relaxo Footwears	30	33	33	29	28	29
Mirza	19	18	19	14	14	15
Liberty	11	9	10	8	7	8
Paragon	16	16	16	19	21	19
Ajanta Shoes	6	6	5	4	3	3
Campus	-	-	0	8	7	9
Aqualite	4	4	4	5	8	8
VKC Group	13	15	13	12	11	10

Source: Company, HSIE Research

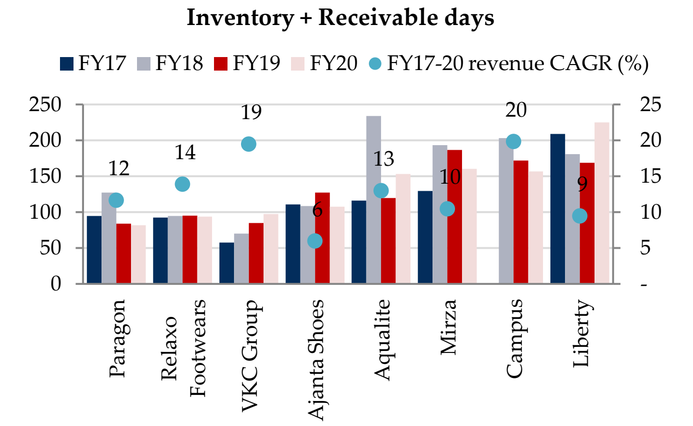
Rel. EBITDA share (%)	FY15	FY16	FY17	FY18	FY19	FY20
Campus	-	-	- 0	9	11	14
Paragon	10	13	11	9	10	12
Relaxo Footwears	36	35	35	34	35	38
VKC Group	12	14	18	16	14	10
Liberty	8	6	6	5	5	4
Aqualite	2	2	3	4	8	2
Mirza	26	25	25	20	16	18

Source: Company, HSIE Research,

Even in the quieter FY15-20 phase, Relaxo added more capacity than peers and is among the fastest firms (along with Paragon) in sweating assets within its immediate peer set



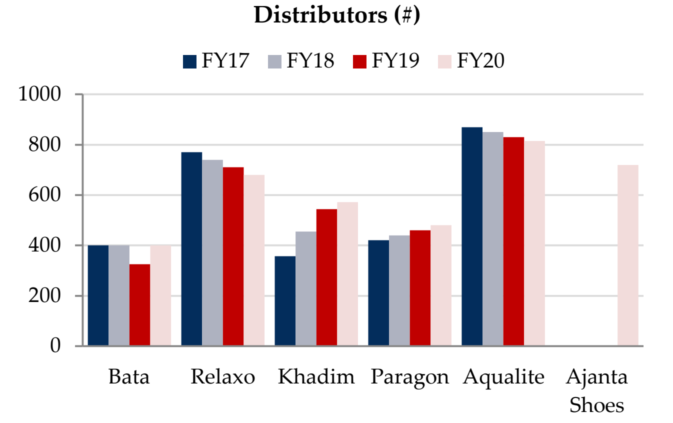
Source: Company, HSIE Research, Note: For VKC, Only financials of Walkaroo Int + VKC Elastomer + VKC Sandals considered



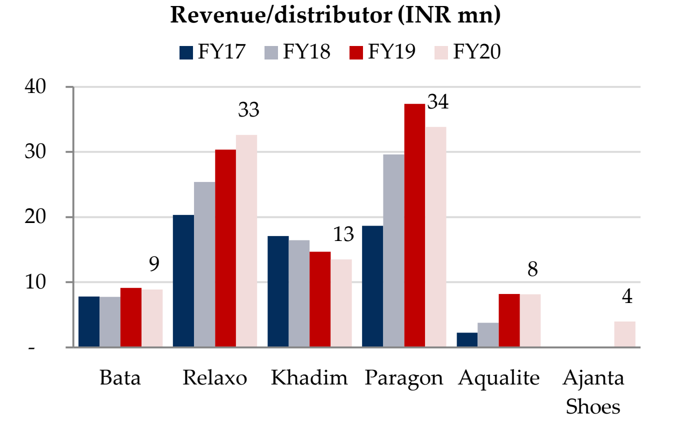
Source: Company, HSIE Research, Note: For VKC, Only Walkaroo Int + VKC Elastomer + VKC Sandals considered

- We suspect, unlike many peers, Relaxo's secret sauce of mastering the growth-profitability-asset turn equation lies in broadening its product offerings for distributors and acquiring distributor shelf share rather than going a mile wide and an inch deep.

Strong distribution-heavy models (Relaxo, Paragon) enjoy meaningfully higher throughput/distributor as India doesn't have profitable distributors beyond the top 700-800, and weaker peers are yet to mature on this front



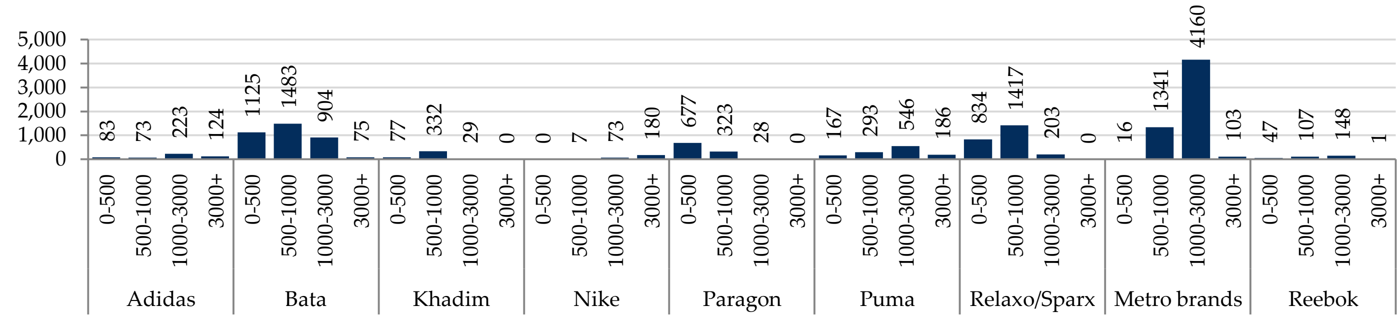
Source: Company, HSIE Research, no. of distributors for unlisted companies are estimates



Source: Company, HSIE Research, Estimates used for unlisted companies

- Our industry-wide interactions and SKU analysis suggest that the INR500-1000 sports shoe segment remains a white space for brands to capture. We believe Relaxo is well-placed to make a difference in this category, given its fixed asset and A&P budget arbitrage over peers. The company already leads this category online and offline in terms of representation via its Sparx brand. Filling this gap could provide a reasonable premiumisation lever with long-term benefits. Hence, we build in a net realisation CAGR of 4% over FY19-23 (higher than the 2% net realisation CAGR over FY15-20 – a phase wherein capacity utilisation took precedence over premiumisation). Also, given that net realisation, at INR133, remains low and Relaxo's basic Hawaii offering still accounts for ~45-50% of volumes and ~28% of revenue, the premiumisation is likely to be long as the company plugs distribution gaps.

The INR500-1000 affordable sports shoe segment is a white space for the industry that Relaxo can exploit with its manufacturing prowess and advertisement purse (peers lag by a mile!)



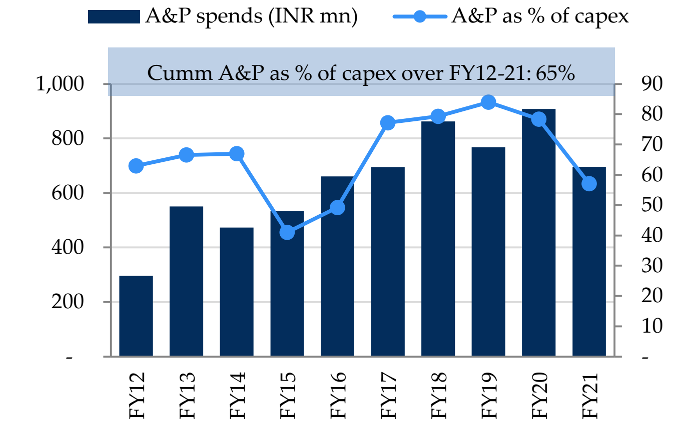
Source: Company, HSIE Research, Note: The above SKU chart is the online SKU base of companies and is used simply as a representation for white spaces across categories

Brand spends head and shoulders above peers

Brand spends head and shoulders above peers': Given Relaxo's scale, it's A&P budget remains head and shoulders above peers' and forms a key capital allocation decision for the company. The company cumulatively spent 3-8x more than the peers (ex-Paragon) over FY15-20.

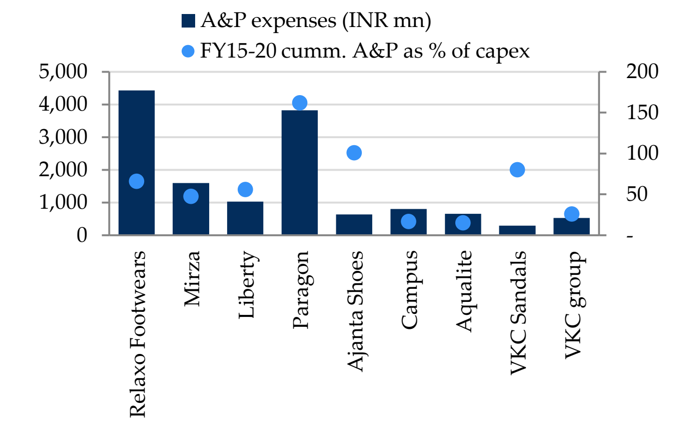
We believe that within the mass functional wear category (distribution-led models), companies having (1) a disciplined cost structure (ex-A&P), (2) decent working capital management, and (3) good capacity headroom are likely to be nimbler to invest in branding, which in turn should help them deepen their MBO/distributor shelf share. Advantage Relaxo! The cost of operations (ex-A&P) for most firms in this cohort has increased. Some of these names are also suffering from a deteriorating WC (as highlighted earlier). This backdrop could translate into lesser rope in terms of branding spends, which is crucial to gain share within the segment.

Relaxo's brand spends over FY12-21 = 65% of Capex spends…



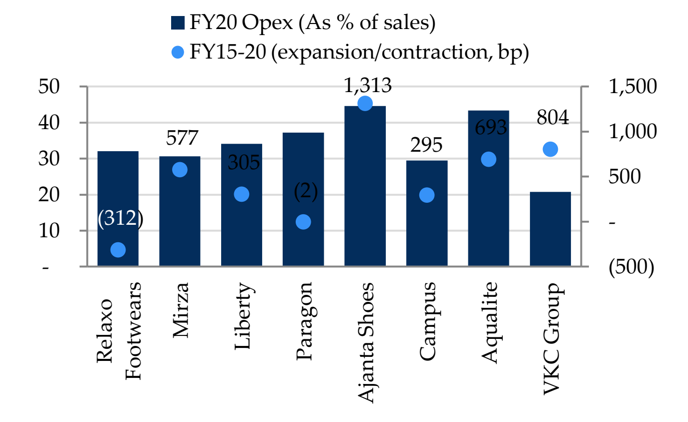
Source: Company, HSIE Research

…and are head and shoulder above peers

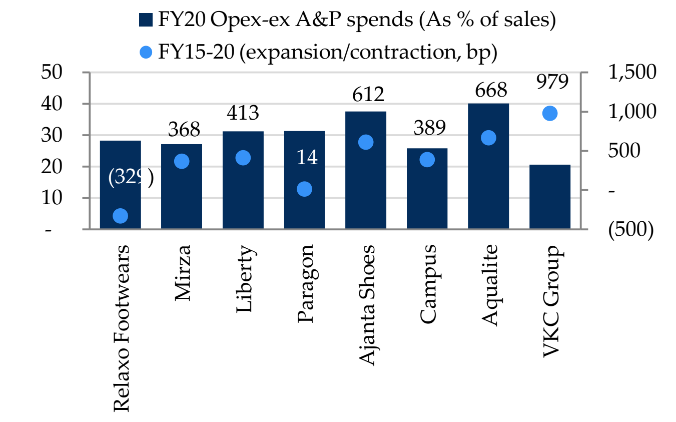


Source: Company, HSIE Research

The tail in distribution-led models (mass functional wear) does not seem to have enough wiggle room to spend, given the company's already-rising cost of operations



Source: Company, HSIE Research, Note: For Paragon, Campus and Aqualite FY18-20 financials considered given restructuring

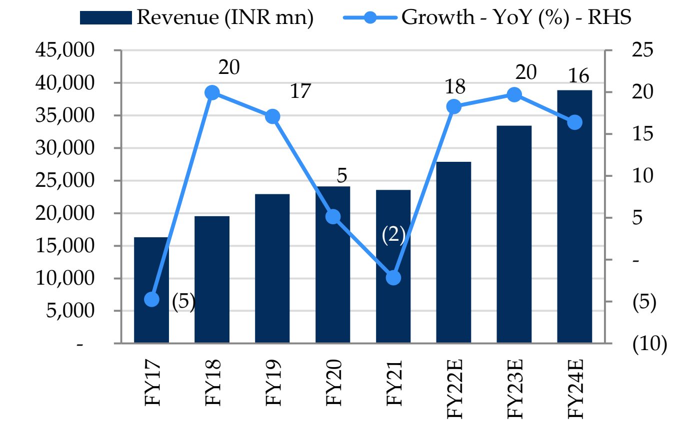


Source: Company, HSIE Research, Note: For Paragon, Campus and Aqualite FY18-20 financials considered given restructuring

Financial analysis

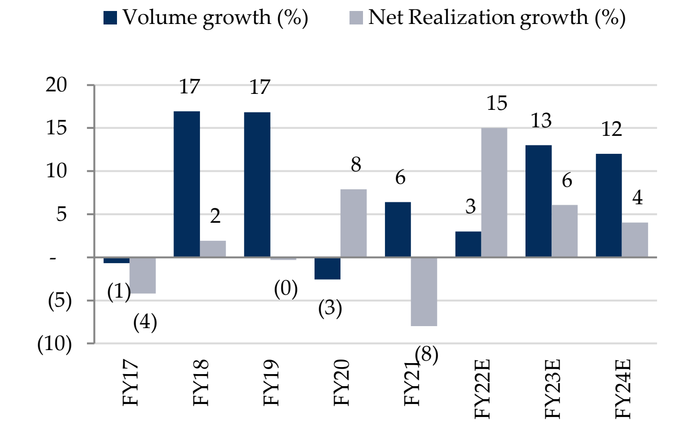
- We build in a revenue CAGR of 13% CAGR for Relaxo over FY20-24 (~INR39bn), primarily underpinned by 8.5/4% volume/net realisation growth (vs 8/2% over FY15-20). We bake in higher realisation growth (vs FY15-20; still lower than 7.3% over FY10-20) on the back of (1) Relaxo improving on its Sparx/Flite sales, given the white space offered by the ecosystem at this price point and (2) inflation-infused price hikes.

Baking in 14% revenue CAGR over FY20-24…



Source: Company, HSIE Research

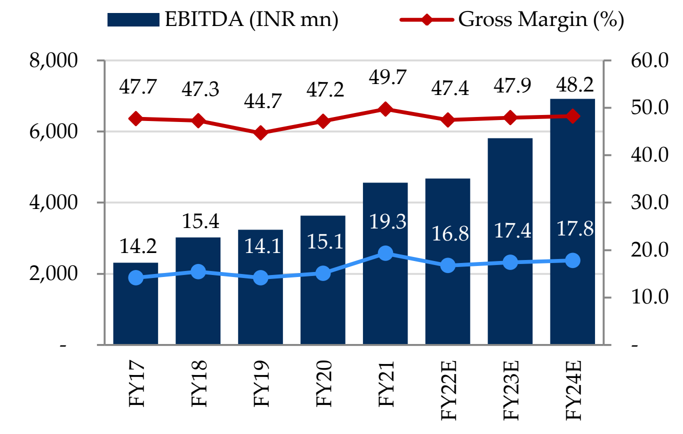
…underpinned by 9/4% volume/realization growth



Source: Company, HSIE Research

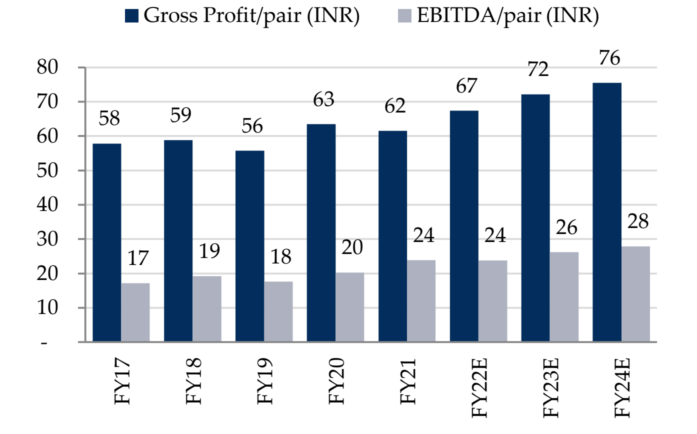
- We build in a 230bp GM contraction in FY22 to account for the rampant RM spike (especially in EVA). GMs are likely to stabilise at ~48% over FY22-24, as Relaxo counters the RM spikes by product price hikes in H1FY22. It has already taken 15% price hikes till Oct-21.
- We build in a steadily improving EBITDA margin profile over FY22-24 (implying an EBITDA CAGR of 17.5% over FY20-24).

Stable EBITDAM improvement built over FY22-24



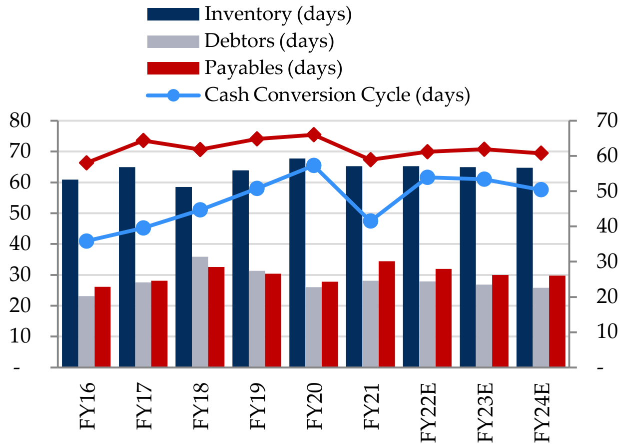
Source: Company, HSIE Research

…baking in 1/8% improvement in GP/EBITDA per pair



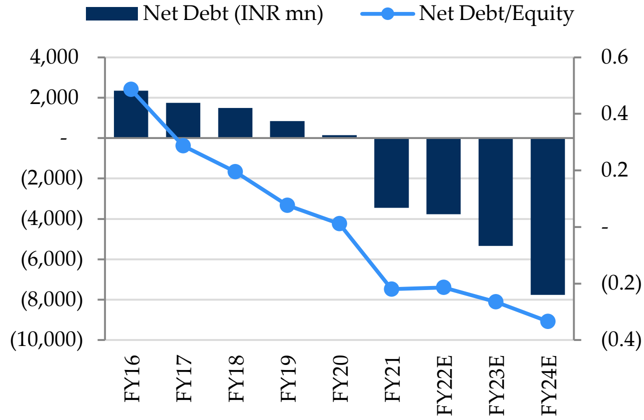
Source: Company, HSIE Research

Working capital is likely to remain stable at ~60 days



Source: Company, HSIE Research

…to remain net cash too



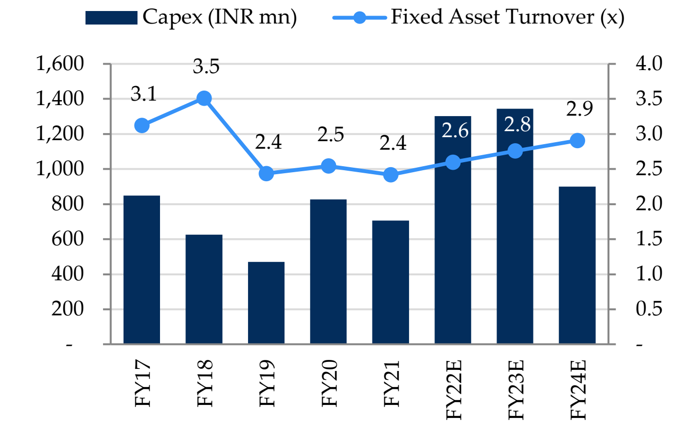
Source: Company, HSIE Research

What we really like about Relaxo is its quality of cash conversion…the reliance of vendor support (payable days) among the least within peers

	FY16	FY17	FY18	FY19	FY20	FY21
Bata						
Inventory days	103	105	106	105	104	130
Receivables days	11	10	12	8	8	17
Payables days	65	76	81	77	60	94
Core CC Cycle	**49**	**40**	**38**	**36**	**52**	**53**
Metro						
Inventory days	106	106	95	109	107	132
Receivables days	10	12	13	16	20	23
Payables days	40	43	48	58	57	93
Core CC Cycle	**77**	**75**	**60**	**67**	**70**	**62**
Relaxo						
Inventory days	61	65	59	64	68	65
Receivables days	23	28	36	31	26	28
Payables days	26	28	33	30	28	34
Core CC Cycle	**58**	**64**	**62**	**65**	**66**	**59**
Khadim						
Inventory days	69	68	62	71	80	82
Receivables days	24	46	62	61	56	70
Payables days	24	46	62	61	56	70
Core CC Cycle	**69**	**68**	**62**	**71**	**80**	**82**
Liberty						
Inventory days	113	121	113	106	111	162
Receivables days	77	88	68	63	113	87
Payables days	77	88	68	63	113	87
Core CC Cycle	**113**	**121**	**113**	**106**	**111**	**162**
Mirza						
Inventory days	104	103	144	137	120	148
Receivables days	25	26	50	49	41	28
Payables days	25	26	50	49	41	28
Core CC Cycle	**104**	**103**	**144**	**137**	**120**	**148**

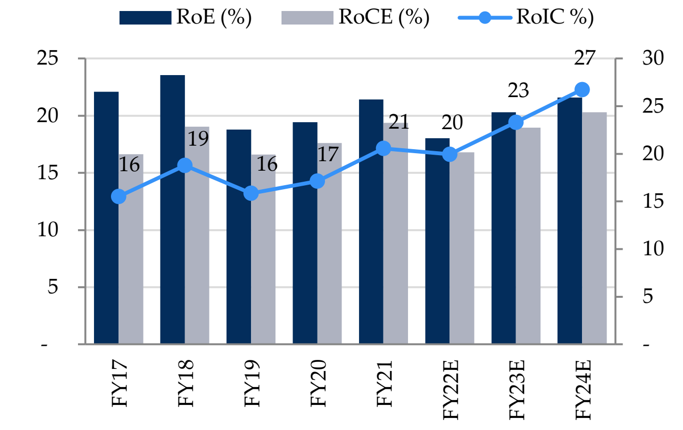
Source: Company, HSIE Research

Expect fixed asset turns (x) to improve to 2.9x by FY24…



Source: Company, HSIE Research

…building in 270bp RoCE improvement over FY20-24



Source: Company, HSIE Research

Relaxo's capital allocation over FY16-21

	FY16	FY17	FY18	FY19	FY20	FY21	Total
Sources of funds (Rs bn)							
Cash from Operations (excl WC change)	1,897	1,863	2,275	2,553	3,387	4,201	22,777
Other Income	3	7	5	18	4	7	57
Total	**1,899**	**1,871**	**2,280**	**2,572**	**3,391**	**4,208**	**22,834**
Application of funds (Rs bn)							
Working Capital	302	61	732	1,319	198	(930)	3,127
Capex	1,344	900	1,087	914	1,159	1,219	11,996
Investments	(39)	(0)	(5)	(321)	(11)	3,306	2,926
Dividend	72	87	145	218	643	-	1,311
Borrowings	30	625	217	416	1,240	439	1,259
Others	211	185	108	43	155	137	2,194
Net change in cash	(21)	13	(4)	(17)	6	38	21
Total	**1,899**	**1,871**	**2,280**	**2,572**	**3,391**	**4,208**	**22,834**
WC + Capex as % of sources of funds	**86.7**	**51.4**	**79.8**	**86.8**	**40.0**	**6.9**	
Cumm. WC + Capex as % of sources of funds							**66.2**

Source: Company, HSIE Research

Valuation

- Our DCF-based target price of INR 1,050/sh for Relaxo (implying 55x FY24 P/E) assumes: (1) 10-year revenue CAGR: 13%; (2) EBITDA margin expansion of ~390bps over FY20-30E; (3) FY20-40 FCFF CAGR: 17% (FY20-30E FCFF CAGR: 19%, FY30-40E CAGR: 15%); (4) WACC: 10.5%; (5) terminal growth: 6%, 10-year cumulative FCFF/EBITDA conversion of 52% over FY20-30E.

DCF valuation (INR mn):

	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY35E	FY40E
Revenue	**33,417**	**38,907**	**44,900**	**51,356**	**58,628**	**66,933**	**75,356**	**84,841**	**1,59,555**	**2,67,735**
EBIT*(1-t)	**3,672**	**4,452**	**5,250**	**6,099**	**7,071**	**8,200**	**9,354**	**10,675**	**21,517**	**37,581**
Depreciation	911	1,015	1,129	1,253	1,385	1,526	1,675	1,830	2,679	3,757
Capex	(1,270)	(1,401)	(1,527)	(1,643)	(1,759)	(1,874)	(1,959)	(2,036)	(2,393)	(3,481)
As % of revenue	*3.8*	*3.6*	*3.4*	*3.2*	*3.0*	*2.8*	*2.6*	*2.4*	*1.5*	*1.3*
Changes in WC (Winv)	(875)	(555)	(811)	(915)	(1,018)	(1,149)	(1,139)	(1,267)	(2,187)	767
As % of revenue	*2.6*	*1.4*	*1.8*	*1.8*	*1.7*	*1.7*	*1.5*	*1.5*	*1.4*	*(0.3)*
FCFF	**2,438**	**3,511**	**4,042**	**4,794**	**5,680**	**6,703**	**7,931**	**9,202**	**19,616**	**38,624**
YoY (%)	*158.5*	*44.0*	*15.1*	*18.6*	*18.5*	*18.0*	*18.3*	*16.0*	*15.8*	*21.1*
EOP date	**Mar-23**	**Mar-24**	**Mar-25**	**Mar-26**	**Mar-27**	**Mar-28**	**Mar-29**	**Mar-30**	**Mar-35**	**Mar-40**
Years to DCF date	-	1.0	2.0	3.0	4.0	5.0	6.0	7.0	12.0	17.0
PV (FCFF)	**2,438**	**3,178**	**3,311**	**3,555**	**3,813**	**4,073**	**4,362**	**4,582**	**5,936**	**7,102**
Terminal Value										**9,16,688**
DCF Date	**Mar-23**									
Kd*(1-t)	**7.5**									
Ke	**10.5**									
Net Debt (Mar-22E)	(3,775)									
PV-Explicit Period	88,693									
PV-Terminal Value	1,68,549									
Equity Value (INR m)	**2,61,017**									
Equity value per share (INR)	**1,050**									
FY24E Implied EV/EBITDA (x)	**36.9**									
FY24E Implied P/E (x)	**55**									
Terminal growth rate (%)	6.0									
WACC	10.5									
Terminal FCF multiple (x)	24.7									
No. of shares (mn)	248.6									
CMP	**1,287**									
Upside/(Downside) (%)	**(18.4)**									

Source: Company, HSIE Research

Sensitivity Analysis

		WACC (%)				
		9.5	**10.0**	**10.5**	**11.0**	**11.5**
Terminal growth rate (%)	**5.0**	1,179	1,032	913	816	735
	5.5	1,280	1,107	971	860	770
	6.0	1,409	1,201	**1,050**	913	811
	6.5	1,582	1,321	1,128	978	860
	7.0	1,825	1,482	1,240	1,060	921

Company profile

- Relaxo, the largest footwear manufacturer in India, was incorporated in 1984 and has been serving the nation for four decades. It is today ranked among the top 500 most valuable companies.
- The footwear manufacturer has very successfully married growth and unit economics, and it remains one of the few footwear companies with a vast distribution moat. Its brands target different customers from tier 2/3/4 cities. It sells more than 190mn pairs of footwear every year and serves 120,000+ customers every day.
- Relaxo offers footwear, accessories, and bags across brands such as Relaxo, Flite, Sparx, Bahamas, Boston, Mary Jane, Kids fun, Casualz, and Schoolmate. Relaxo's milestones in terms of offerings is a testament to the success of its premiumisation drive over the decades.
- Retails in more than 400+ EBOs pan-India and almost 10+ ecommerce platform.

Key personnel

Name	Designation	Description
Ramesh Kumar Dua	Managing Director	Over 46 years of experience in sales and marketing, production and new product development in the footwear industry. Director in Relaxo Rubber Private Limited & Marvel Polymers Private Limited. Commerce graduate and rubber technologist (LPRI, London).
Mukand Lal Dua	Whole Time Director	Over 47 years of experience in new product development and quality control in the footwear industry, as Director in Relaxo Rubber Private Limited & Marvel Polymers Private Limited.
Nikhil Dua	Whole Time Director	Over 24 years of experience in production and new product development and comes with rich knowledge of product mix in the footwear industry. Commerce graduate who has studied at International School of Modern Shoe-making, Czech Republic.
Deval Ganguly	Whole Time Director	Over 39 years of experience in areas of manufacturing, project and plant management in various reputed organisations. Joined the company in 2011 as President, Manufacturing, and was elevated to the Board w.e.f 5.11.2012. He is a B.Tech from IIT Kanpur.
Pankaj Shrimali	Independent Director	Over 36 years of experience in areas of finance, accounts, secretarial, corporate management, legal & corporate consultancy services, strategic management and investment banking for reputed corporate houses. Fellow member of ICAI, ICSI, and Institute of Cost Accountants of India.
Vivek Kumar	Independent Director	Over 21 years of experience as operational head in leading Indian companies; he is also a management consultant for many corporates in the areas of quality, productivity, environment, and safety. MBA from Faculty of Management Studies, Delhi University and Electrical Engineer from IIT Roorkee.
Rajeev Bhadauria	Independent Director	Over 33 years of experience in Human Resource. Past association with JSPL, Reliance ADA group & NTPC at various positions in Human Resource. B.A. & LLB from Allahabad University and management diploma from Power Management Institute, New Delhi.

Source: Company, HSIE Research

Key risks

Name	Description
Better-than-expected wholesale traction	While we remain optimistic of Bata's wholesale channel growth (low base), our learnings from the ecosystem suggest that scaling beyond 800 distributors is difficult. However, Bata finding meaningful success in wholesale, especially in its open footwear, could pose an upside risk to our growth and return profile estimates.
Better-than-expected omni-traction	We expect Bata to gain a reasonable share via its omni-efforts (25% CAGR over FY20-25) as it continues to improve on its online assortment. However, a non-linear growth trajectory could pose an upside risk.
Retail Performance	We remain circumspect on Bata's ability to improve its COCO unit economics and a meaningful change in volume/SSSG in this format could pose an upside risk to our estimates.

Source: Company, HSIE Research

Financials

Income Statement

Year End (March)	FY09	FY10	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	**4,075**	**5,537**	**16,312**	**19,569**	**22,921**	**24,105**	**23,592**	**27,910**	**33,417**	**38,907**
Growth (%)			(4.7)	20.0	17.1	5.2	(2.1)	18.3	19.7	16.4
Material Expenses	2,658	3,202	8,526	10,315	12,671	12,736	11,856	14,668	17,395	20,136
Employee Expense	362	554	1,770	2,141	2,587	2,940	3,014	3,405	4,060	4,715
A&P Expense	132	208	695	862	768	908	696	1,033	1,236	1,440
Freight Expenses	296	384	1,653	1,835	2,134	2,238	2,157	2,622	3,119	3,588
Other Expenses	113	282	1,358	1,396	1,519	1,645	1,310	1,507	1,788	2,062
EBITDA	**514**	**907**	**2,309**	**3,021**	**3,243**	**3,637**	**4,559**	**4,675**	**5,818**	**6,965**
EBITDA Growth (%)			**(3.7)**	**30.8**	**7.4**	**12.2**	**25.3**	**2.6**	**24.4**	**19.7**
EBITDA Margin (%)	**12.6**	**16.4**	**14.2**	**15.4**	**14.1**	**15.1**	**19.3**	**16.8**	**17.4**	**17.9**
Depreciation	105	155	515	543	624	685	704	817	911	1,015
EBIT	**409**	**752**	**1,795**	**2,478**	**2,619**	**2,952**	**3,855**	**3,858**	**4,908**	**5,950**
Other Income (Including EO Items)	22	41	136	45	130	91	228	223	285	402
Interest	191	256	150	86	69	79	38	58	57	57
PBT	**240**	**538**	**1,780**	**2,436**	**2,680**	**2,964**	**4,045**	**4,024**	**5,135**	**6,295**
Total Tax	97	161	581	826	925	655	996	1,013	1,293	1,584
PAT before share of associate earnings	**142**	**377**	**1,200**	**1,611**	**1,754**	**2,309**	**3,049**	**3,011**	**3,843**	**4,711**
Share of associate earnings	-	-	-	-	-	-	-	-	-	-
RPAT	**142**	**377**	**1,200**	**1,611**	**1,754**	**2,309**	**3,049**	**3,011**	**3,843**	**4,711**
Exceptional Gain/(loss)	(4)	(0)	-	-	-	-	-	-	-	-
Adjusted PAT	**146**	**377**	**1,200**	**1,611**	**1,754**	**2,309**	**3,049**	**3,011**	**3,843**	**4,711**
APAT Growth (%)		**157.6**	**3.4**	**34.3**	**8.9**	**31.6**	**32.0**	**(1.2)**	**27.6**	**22.6**
Adjusted EPS (Rs)	**0.6**	**1.5**	**4.8**	**6.5**	**7.1**	**9.3**	**12.3**	**12.1**	**15.5**	**18.9**
EPS Growth (%)		**157.6**	**3.4**	**34.3**	**8.9**	**31.6**	**32.0**	**(1.2)**	**27.6**	**22.6**

Balance Sheet

Year End (March)	FY09	FY10	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
SOURCES OF FUNDS										
Share Capital - Equity	60	60	120	120	124	248	248	248	248	248
Reserves	680	1,039	5,944	7,492	10,927	12,476	15,476	17,435	19,927	22,988
Total Shareholders Funds	**740**	**1,099**	**6,064**	**7,612**	**11,051**	**12,724**	**15,724**	**17,684**	**20,176**	**23,237**
Long Term Debt	639	910	709	393	-	-	-	-	-	-
Short Term Debt	445	559	1,075	1,141	869	192	-	200	200	200
Total Debt	**1,084**	**1,469**	**1,784**	**1,534**	**869**	**192**	**-**	**200**	**200**	**200**
Net Deferred Taxes	**95**	**184**	**255**	**263**	**344**	**248**	**228**	**228**	**228**	**228**
Other Non-current Liabilities & Provns	**-**	**-**	**4**	**7**	**0**	**1,474**	**1,154**	**1,154**	**1,154**	**1,154**
TOTAL SOURCES OF FUNDS	**1,919**	**2,753**	**8,107**	**9,416**	**12,264**	**14,637**	**17,106**	**19,266**	**21,758**	**24,819**
APPLICATION OF FUNDS										
Net Block	1,405	2,217	5,410	5,249	8,481	7,911	7,544	7,540	7,596	7,679
CWIP	186	67	624	1,376	114	456	1,180	1,180	1,180	1,180
Other Non-current Assets	-	-	9	6	1	1,903	1,856	1,856	1,856	1,856
Total Non-current Assets	**1,591**	**2,284**	**6,043**	**6,631**	**8,597**	**10,270**	**10,580**	**10,576**	**10,632**	**10,715**
Inventories	398	672	2,902	3,139	4,015	4,477	4,221	4,994	5,952	6,898
Debtors	197	209	1,232	1,924	1,966	1,721	1,815	2,131	2,460	2,758
Other Current Assets	153	271	483	947	1,444	1,900	1,684	2,457	2,640	2,722
Cash & Equivalents	**28**	**11**	**44**	**47**	**24**	**43**	**3,459**	**3,977**	**5,539**	**7,961**
Total Current Assets	**776**	**1,163**	**4,660**	**6,057**	**7,449**	**8,141**	**11,178**	**13,560**	**16,591**	**20,339**
Creditors	247	350	1,257	1,749	1,909	1,838	2,228	2,447	2,747	3,176
Other Current Liabilities & Provns	201	345	1,339	1,522	1,872	1,936	2,424	2,424	2,719	3,059
Total Current Liabilities	**448**	**694**	**2,596**	**3,271**	**3,781**	**3,774**	**4,652**	**4,871**	**5,465**	**6,235**
Net Current Assets	**328**	**468**	**2,064**	**2,785**	**3,668**	**4,368**	**6,526**	**8,690**	**11,126**	**14,104**
TOTAL APPLICATION OF FUNDS	**1,919**	**2,753**	**8,107**	**9,416**	**12,264**	**14,637**	**17,106**	**19,266**	**21,758**	**24,819**

Source: Company, HSIE Research

Cash Flow Statement

Year ending March	FY09	FY10	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	244	538	1,780	2,436	2,680	2,917	3,912	4,024	5,135	6,295
Non-operating & EO Items	(5)	4	5	10	43	38	(90)	(223)	(285)	(402)
Interest Expenses	191	256	150	86	69	169	171	58	57	57
Depreciation	105	155	515	543	624	1,094	1,100	817	911	1,015
Working Capital Change	(48)	(153)	(61)	(732)	(1,319)	(198)	930	(1,645)	(875)	(555)
Tax Paid	(76)	(80)	(587)	(801)	(863)	(831)	(891)	(1,013)	(1,293)	(1,584)
OPERATING CASH FLOW (a)	**411**	**719**	**1,802**	**1,543**	**1,235**	**3,188**	**5,131**	**2,018**	**3,651**	**4,825**
Capex	(593)	(848)	(900)	(1,087)	(914)	(1,159)	(1,219)	(1,116)	(1,270)	(1,401)
Free Cash Flow (FCF)	(182)	(130)	902	456	321	2,030	3,912	902	2,381	3,424
Investments	-	-	0	5	321	11	(3,306)	-	-	-
Non-operating Income	1	0	6	(2)	24	(9)	(7)	223	285	402
INVESTING CASH FLOW (b)	**(592)**	**(848)**	**(894)**	**(1,084)**	**(569)**	**(1,157)**	**(4,532)**	**(893)**	**(985)**	**(999)**
Debt Issuance/(Repaid)	178	130	(827)	(364)	(497)	(1,414)	(610)	142	(57)	(57)
FCFE	(3)	0	81	95	169	618	(11)	1,267	2,609	3,770
Share Capital Issuance	-	-	18	46	32	32	49	-	-	-
Dividend	(11)	(17)	(87)	(145)	(218)	(643)	-	(748)	(1,048)	(1,347)
Others	-	-	-	-	-	-	-	-	-	-
FINANCING CASH FLOW (c)	**167**	**112**	**(895)**	**(463)**	**(682)**	**(2,026)**	**(562)**	**(606)**	**(1,105)**	**(1,403)**
NET CASH FLOW (a+b+c)	**(14)**	**(17)**	**13**	**(4)**	**(17)**	**6**	**38**	**519**	**1,561**	**2,423**
EO Items, Others	-	-	-	-	-	-	-	-	-	-
Closing Cash & Equivalents	27	10	37	40	22	41	77	596	2,157	4,580

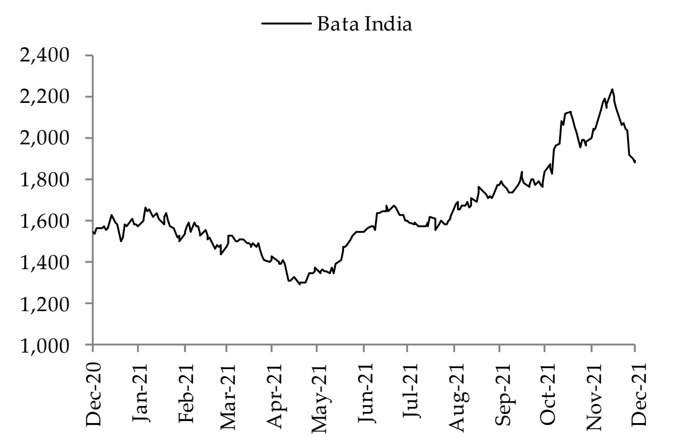
Source: Company, HSIE Research

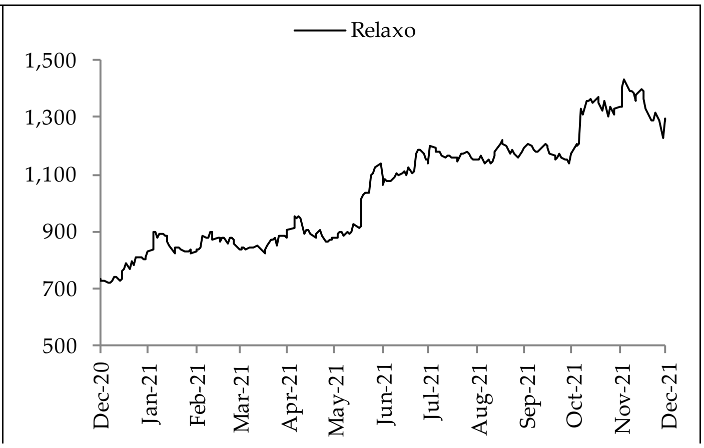
Key Ratios

	FY09	FY10	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
PROFITABILITY (%)										
GPM	34.8	42.2	47.7	47.3	44.7	47.2	49.7	47.4	47.9	48.2
EBITDA Margin	12.6	16.4	14.2	15.4	14.1	15.1	19.3	16.8	17.4	17.9
EBIT Margin	10.0	13.6	11.0	12.7	11.4	12.2	16.3	13.8	14.7	15.3
APAT Margin	3.6	6.8	7.4	8.2	7.7	9.6	12.9	10.8	11.5	12.1
RoE		41.0	22.1	23.6	18.8	19.4	21.4	18.0	20.3	21.7
RoIC (or Core RoCE)		22.8	15.5	18.8	15.9	17.1	20.6	20.0	23.3	26.9
RoCE		23.8	16.6	19.0	16.6	17.6	19.4	16.8	18.9	20.4
EFFICIENCY										2.8
Tax Rate (%)	40.0	29.9	32.6	33.9	34.5	22.1	24.6	25.2	25.2	25.2
Fixed Asset Turnover (x)	2.1	1.9	3.1	3.5	2.4	2.5	2.4	2.6	2.8	2.9
Inventory (days)	35.7	44.3	64.9	58.6	63.9	67.8	65.3	65.3	65.0	64.7
Debtors (days)	17.7	13.7	27.6	35.9	31.3	26.1	28.1	27.9	26.9	25.9
Other Current Assets (days)	13.7	17.9	10.8	17.7	23.0	28.8	26.0	32.1	28.8	25.5
Payables (days)	22.1	23.0	28.1	32.6	30.4	27.8	34.5	32.0	30.0	29.8
Other Current Liab & Provns (days)	18.0	22.7	30.0	28.4	29.8	29.3	37.5	31.7	29.7	28.7
Cash Conversion Cycle (days)	26.9	30.2	45.2	51.1	58.0	65.5	47.5	61.6	61.0	57.6
Net D/E (x)	1.4	1.3	0.3	0.2	0.1	0.0	(0.2)	(0.2)	(0.3)	(0.3)
Interest Coverage (x)	2.1	2.9	11.9	28.8	38.0	37.4	102.8	67.0	85.9	105.0
PER SHARE DATA (Rs)										
EPS	0.6	1.5	4.8	6.5	7.1	9.3	12.3	12.1	15.5	18.9
CEPS	1.5	2.8	9.1	11.0	12.2	15.0	18.1	18.9	23.0	27.4
Dividend	0.8	1.5	1.0	1.5	1.8	1.2	2.5	3.5	4.5	5.5
Book Value	6.1	9.1	50.4	63.2	91.8	105.7	130.6	146.9	167.6	193.1
VALUATION										
P/E (x)	2,193.9	851.6	267.7	199.3	183.0	139.0	105.3	106.6	83.6	68.2
P/BV (x)	210.2	141.4	25.6	20.4	14.1	12.2	9.9	8.8	7.7	6.7
EV/EBITDA (x)	627.0	355.7	139.8	106.8	99.3	88.3	69.7	67.9	54.3	45.0
EV/Revenues (x)	79.1	58.3	19.8	16.5	14.0	13.3	13.5	11.4	9.4	8.1
OCF/EV (%)	0.1	0.2	0.6	0.5	0.4	1.0	1.6	0.6	1.2	1.5
FCF/EV (%)	(0.1)	(0.0)	0.3	0.1	0.1	0.6	1.2	0.3	0.8	1.1
FCFE/Mkt Cap (%)	(0.0)	0.0	0.0	0.0	0.1	0.2	(0.0)	0.4	0.8	1.2
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.3	0.4

Source: Company, HSIE Research

1 Yr Price Movement





Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

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