May 03, 2021

Bata India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Fund-based working capital facilities	15.00	15.00	[ICRA]AA+(Stable) reaffirmed
Unallocated	16.00	16.00	[ICRA]AA+(Stable) reaffirmed
Total	**31.00**	**31.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation has taken into account Bata India Limited's (BIL) strong financial risk profile characterised by consistently strong cash accruals, large cash and equivalents (Rs. 1,000 crore as on March 31, 2021) and its continuing debt-free status, despite adverse market conditions in FY2021 as a result of the Covid-19 pandemic. The rating has also derived comfort from BIL's strong brand equity, its established market position in the Indian footwear market, its extensive distribution network and its pan-India presence. Further, the rating reaffirmation has factored in the healthy quarter-on-quarter improvement in revenues and operating margins in FY2021 (since the onset of the pandemic). The company has adopted IndAS 116 from FY2020 onwards, which has led to identification of lease liabilities, resulting in moderation of debt coverage indicators. The rating has continued to derive comfort from BIL's strong parentage (Bata Shoe Organization) and access to the parent's global research and development (R&D) capabilities as well as its operational and strategic support.

The rating, however, is constrained by the intense competition due to the aggressive expansion by new brands, the fragmented nature of the Indian footwear industry, the strong presence of the unorganised sector, and the vulnerability of BIL's profitability to raw material price fluctuations. The rating also factors in the challenges faced by the retail sector in light of the spread of COVID-19, especially in the last few weeks. ICRA notes that BIL's accruals would remain impacted by the second wave of Covid-19, wherein sales would remain constrained while fixed costs would remain high, notwithstanding some waiver of the company's rental expenses. There also remains uncertainty concerning the extent of the impact on the revenues even after the lockdown period is over. ICRA would continue to closely monitor the developments and take the appropriate rating action, as and when required.

The Stable outlook on [ICRA]AA+ rating reflects the belief that company will continue to leverage upon its strong brand and maintain healthy liquidity.

Key rating drivers and their description

Credit strengths

Strong financial risk profile characterised by nil debt, strong liquidity position and robust debt coverage indicators - Over the past several years, BIL has remained debt free and has primarily utilized non-fund based limits from banks. The company also has significant liquidity cushion with Rs. 1,000 crore of cash and liquid investments as of March 2021. ICRA notes that the entire capital expenditure in past few years has been made from internal accruals.

Healthy operational profile with strong brand equity and established distribution network - BIL has an established track record of 90 years and a pan-India presence. The company has a diversified product portfolio and sells through an extensive retail and distributor network. It sells rubber, canvas, leather and plastic footwear through 1,472 retail stores, including MBOs and 221-franchisee stores as on December 31, 2020.

Technical support from Bata Group - BIL is a 52.96% subsidiary of Bata (BN) BV, Amsterdam, a Group company with operations in more than 50 countries. The company has access to technical research and innovative programmes implemented by the Bata Group. It receives technical, strategic and managerial support in its various functions, including purchase, manufacture, training of managers from its Group company and in turn, pays technical fees.

Improvement in working capital management and optimisation of operations - The company has healthy working capital management, leading to low reliance on working capital limits. BIL's cash credit limits were withdrawn in 2016, indicating its healthy liquidity. Moreover, the company has been working on optimising operations with measures like closure of loss-making stores as well as remodelling of the existing ones, etc.

Credit challenges

Adverse impact of COVID-19 - BIL's accruals have been substantially affected by the closure of stores and manufacturing facilities, while its fixed costs have to be serviced during this period (barring waiver given by the lessors for rentals). There also remains uncertainty concerning the extent of the impact on the revenues and cash flows in FY2022.

Increase in competition – BIL has been facing intense competition in all product categories as established players have been setting up new manufacturing facilities, besides increasing capacities in their existing plants. Further, multinational majors like Clarks, Zara, etc. have made inroads into the organised footwear market in India. Moreover, the sales of branded footwear through e-commerce platforms have increased competition as new brands can now enter the Indian market without having to create a large nationwide distribution network.

Volatility in raw material prices may put pressure on profitability - The margins of the company are affected by raw material price fluctuations. Any adverse movement in the prices of raw materials may negatively impact the company's margins, considering its limited ability to pass on the price hike to customers owing to intense competition. Any major debt-funded capex shall also be a key monitorable going forward.

Liquidity position: Superior

BIL's liquidity is **superior** with healthy cash accruals, nil debt, and healthy cash balance of Rs. 1,000 crore as of March 31, 2021. The company is expected to continue to generate healthy surplus cash flows, even after accounting for working capital, capex and dividend payments.

Rating sensitivities

Positive factors - Significant and sustained improvement in revenues and accruals while maintaining the financial risk profile, could lead to an upward revision in rating.

Negative factors - Prolonged pressure on revenues and accruals or higher-than-expected impact of Covid-19, or deterioration in the financial risk profile of the entity could lead to a downward revision in ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Footwear Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	Consolidated

About the company

BIL is a 53% subsidiary of Bata (BN) BV, Amsterdam—a BSO Group company. BIL is one of the largest footwear manufacturers in India and sells a wide range of footwear in canvas, rubber, leather, and plastic. The company has four manufacturing units at Batanagar (Kolkata), Bataganj (Bihar), Peenya (near Bangalore), and Hosur (Tamil Nadu). BIL at present sells footwear under the Bata brand through more than 1,763 retail outlets across India and a large number of other outlets, served by various Bata dealers.

Key financial indicators (audited)

BIL Consolidated	FY2019	FY2020	9M FY 2021(Limited review)
Operating Income (Rs. crore)	2931.1	3056.1	1118.57
PAT (Rs. crore)	329.0	328.9	-118.79
OPBDIT/OI (%)	16%	27%	4%
PAT/OI (%)	11%	11%	-11%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.9	Not available
Total Debt/OPBDIT (times)	0.0	1.5*	Not available
Interest Coverage (times)	134.5	7.1	0.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation-includes lease liabilities in terms of IndAS116*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31,2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2019		Date & Rating in FY2018
					May 03,2021	Apr 06,2020	28-Mar-2019	20-Apr-2018	Apr 11, 2017
1	Non-fund Based-Working Capital Facilities	Long-term	15.0	-	[ICRA]AA+(Stable)	[ICRA]AA+(Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	Unallocated	Long-term	16.0	--	[ICRA]AA+(Stable)	[ICRA]AA+(Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)

Complexity level of the rated instruments

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
Non-fund Based-Working Capital Facilities	-	-	-	15.0	[ICRA]AA+(Stable)
Unallocated	-	-	-	16.0	[ICRA]AA+(Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
Coastal Commercial & Exim Limited	100.0%	Full Consolidation
Way Finders Brands Limited	100.0%	Full Consolidation
Bata Properties Limited	100.0%	Full Consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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