May 05, 2022

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 considered Bata India Limited's (BIL) strong financial risk profile, characterised by healthy net worth levels, large cash and equivalents (~Rs. 1,000 crore as on March 31, 2022) and its continued debt-free status, despite adverse market conditions in the last two fiscals because of the Covid-19 pandemic. The rating reaffirmation also factors in the healthy quarter-on-quarter improvement in revenues and operating margins in FY2022 (since the second wave of the pandemic). Further, the performance is expected to improve significantly in the current fiscal on the back of improved demand from all segments including school, office and casual. The rating also derives comfort from BIL's strong brand equity and established market position in the Indian footwear market along with extensive distribution network and its pan-India presence. The rating continues 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 the new brands, fragmented nature of the Indian footwear industry, strong presence of the unorganised sector, and vulnerability of BIL's profitability to raw material price fluctuations. The rating also factors in the challenges faced by the retail sector amid the pandemic in the last couple of years. ICRA notes that BIL's accruals would be impacted if any fresh wave of the pandemic emerges, which would constrain sales keeping the fixed costs high, notwithstanding some possible waiver on the company's rental expenses. ICRA would continue to closely monitor the developments and take appropriate rating action, as and when required.

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

Key rating drivers and their description

Credit strengths

Improvement in performance in FY2022 compared to FY2021 although full recovery is yet to happen – The company has reported a healthy improvement in performance in FY2022 with an expected revenue growth of over 30% although it would be lower than the pre-Covid levels by approximately 20-25%. While the recovery had been sharp in Q2 FY2022 and Q3 FY2022, the revenue is estimated to have been slightly impacted in Q4 FY2022 owing to the adverse impact of the third wave of the pandemic in January 2022. However, the absolute impact is expected to be much lower than the first and the second wave. The operating margin is expected to improve to ~15% in FY2022 from 9% in FY2021, but still lower against FY2020 levels. The revenue and margins are expected to improve further in FY2023, thereby reflecting the pre-pandemic levels.

Strong financial risk profile characterised by nil debt, strong liquidity position and robust net worth and debt coverage indicators – Over the past several years, BIL has remained debt free and has primarily utilised non-fund based limits from banks. The company has significant liquidity cushion with Rs. 1,000 crore of cash and liquid investments as of March 2022. ICRA notes that the entire capital expenditure in the past few years has been funded through internal accruals. The net-worth remained strong at around Rs. 1,678 crore as on September 30, 2021. Nil debt and low financial expenses resulted in healthy debt coverage indicators for the company.

Healthy operational profile with strong brand equity and established distribution network – BIL has been in the business of manufacturing footwear for around nine decades and has an established track record in the footwear industry in India. The company has a pan-India network of 1,488 retail stores including MBOs and 284 franchise stores (as on December 31, 2021), supplying BIL's products. Going forward, the company plans to increase its footprints primarily through the franchise model, thus improving the share of asset-light business. BIL has plans to increase the franchise stores to ~500 over the next three years primarily in tier 2/3/4 cities. BIL has a large product portfolio with various sub-brands at multiple price points, catering to the needs of a wide customer base across men's and women's range.

Healthy 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.

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 etc from its Group company and in turn, pays technical fees.

Credit challenges

Increase in competition – BIL has been facing intense competition across 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, 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 will also be a key monitorable, going forward.

Liquidity position: Superior

BIL's liquidity is **superior** with healthy cash balance of over Rs. 1,000 crore as on March 31, 2022. While cash accruals from business operations were impacted in FY2021 and FY2022, no long-term debt commitments support liquidity. BIL will be able to comfortably meet its commitments through internal accruals and still be left with significant cash surplus. Going forward, with improvement in scale, the company is expected to generate healthy cash accruals, even after accounting for working capital, capex and dividend payments.

Rating sensitivities

Positive factors – Significant and sustained improvement in revenues and profitability, while maintaining the liquidity position, could lead to a rating upgrade.

Negative factors – Prolonged pressure on revenues and profitability, adversely impacting debt protection metrics or a significant deterioration in the liquidity position could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Entities in Footwear Industry](#)
Parent/Group Support	None
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of BIL. As on December 31, 2021, BIL had two subsidiaries, as mentioned in Annexure 2 below

About the company

BIL is a 52.96% 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 sells footwear under the Bata brand through more than 1,772 retail outlets across India and a large number of other outlets, served by various Bata dealers.

Key financial indicators

BIL Consolidated	FY2020(A)	FY2021(A)	9M FY2022(Limited review)
Operating Income (Rs. crore)	3,056.1	1,708.5	1722.5
PAT (Rs. crore)	329.0	-89.3	40.0
OPBDIT/OI (%)	27%	9%	15%
PAT/OI (%)	11%	-5%	2%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.8	NA
Total Debt/OPBDIT (times)	1.5*	6.4*	NA
Interest Coverage (times)	7.1**	1.6**	3.8**

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; A-Audited; P-Provisional includes lease liabilities in terms of IndAS116**considers interest on lease liabilities also*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31,2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 05,2022	**May 03,2021**	**Apr 06,2020**	**-**
1	Non-fund Based-Working Capital Facilities	Long-term	15.0	-	[ICRA]AA+(Stable)	[ICRA]AA+(Stable)	[ICRA]AA+(Stable)	-
2	Unallocated	Long-term	16.0	--	[ICRA]AA+(Stable)	[ICRA]AA+(Stable)	[ICRA]AA+(Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-fund Based-Working Capital Facilities	Very simple
Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

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	NA	NA	NA	15.0	[ICRA]AA+(Stable)
Unallocated	NA	NA	NA	16.0	[ICRA]AA+(Stable)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
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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