April 11, 2017

Bata India Limited

Instrument	Amount Rated	Outstanding Rating
	In Rs. Crore	
Non Fund Based	31	[ICRA]AA+ (Reaffirmed)

Rating Action

ICRA has reaffirmed the [ICRA]AA+ (pronounced ICRA double A plus)[1] rating for Rs. 31 crore[2] non-fund-based limits of Bata India Limited (BIL). The outlook of the long-term rating is stable.

Detailed Rationale

The rating reaffirmation takes into account BIL's strong credit risk profile characterised by healthy cash accruals, strong liquidity position and debt free status. The ratings continue to factor in Bata's strong parentage (Bata Shoe Organization) and its access to technical research and innovative programmes implemented by the Bata Group, BIL's established position in the domestic market characterized by dominant market position, strong brand and wide distribution reach. Further, rating draws comfort from management's stated intention to fund the future capex requirements entirely through internal accruals, which will assist Bata in maintaining its debt free status. The rating is however constrained by increasing competitive intensity and moderation in demand, which led to muted revenue growth in last two years. ICRA expects the pressure on volumes to persist over short term; however, considering Bata's limited capex plans and strong liquidity profile, ICRA expects Bata's business and financial risk profile to remain commensurate with the rating category.

Going forward, pace of expansion and its impact on risk profile coupled with company's ability to organically grow on an expanded revenue base while maintaining its profitability and working capital will be the key rating sensitivities.

Key Rating Drivers

Credit Strength

- Established market position with strong brand and pan-India distribution network
- Retail stores restructuring initiatives like closure of cash-drain retail stores, remodelling of existing stores and opening new stores on changed format likely to provide better returns
- Improving product mix with increasing contribution from relatively higher value and better gross profit margin leather footwear and premium segment brands like Hush Puppies, Marie Claire, Dr. Scholl's etc.
- Significant cash and equivalents, debt-free status and strong free cash flow from operations provide financial flexibility

[1] For complete rating scale and definitions, please refer to ICRA's Website, www.icra.in, or any of the ICRA Rating Publications
[2] 100 lakh = 1 crore = 10 million

Credit Weakness

- Muted growth in turnover during last three years on account of increase in competition intensity and weak consumer demand
- Decline in profitability margin during last three years due to disruption caused during implementation of supply chain IT systems, pressure on sales volume amid increase in marketing expenses
- Highly competitive industry characterised by presence of large number of small to medium sized players and significant revenues coming from unorganised sector
- Significant price volatility in major raw materials, inability to pass on the entire increase in raw material prices to the customers because of the price elastic Indian Footwear market

Detailed Description of Key Rating Drivers Highlighted Above

Significant outsourcing of work continues; though company still opts for in-house production for leather footwear

Over the last many years, Bata has increased the outsourcing of labour intensive work which has led to consistent and substantial reduction in employee cost and other overheads. During 9MFY2017, its reliance on outsourcing continued. However, it also retained its focus on in-house production largely of leather footwear leading to healthy utilization of available capacity. Leather footwear commands higher realizations as well as better profit margins compared to rubber, canvas and plastic footwear.

Sales volumes have remained under pressure in the recent quarters, however, increasing share of higher value add products led to turnover growth

In 9MFY2017. Bata's operating income witnessed a YoY growth of ~1% in 9M FY2017 primarily due to ~4% increase in products average realizations while its sales volumes witnessed a decline of ~3%. Increasing competitive pressures and price elastic Indian footwear market has made it difficult for the company to grow its sales volumes since the past few years. Besides this, internal issues relating to introduction of new supply chain IT systems led to disruptions in inventory at the retail stores level, thereby resulting in subdued sales volumes during the next few quarters. However, the supply chain related issues got resolved as the management temporarily suspended the implementation of IT systems. Nonetheless, volumes are likely to stay under pressure due to intense competition in the Indian footwear industry.

Retail restructuring initiatives continues with opening of new stores, closure of cash drain stores and remodelling of existing stores

Retail stores restructuring has been an on-going activity for Bata since the past few years where-in it has been continuously closing cash drain stores and opening new stores in better locations with improved interiors and optimum space. As part of restructuring efforts, Bata added 72 new stores, closed down 32 stores and renovated 58 stores in 9MFY2017. These initiatives have led to increase in revenue per store over the years.

Support from Bata Group

Bata is a 53 per cent subsidiary of Bata (BN) BV, Amsterdam - a BSO Group Company which has operations in more than 50 countries. Bata has access to the benefits of technical research and innovative programmes implemented by the Bata Group. The company receives guidance and managerial support in its various functions including purchase, manufacturing, training of managers from its Group Company and in turn pays technical fee to them.

Moderate growth in operating income in 9M FY2017 along with decline in profit margins

Operating income of the company declined by 10%, from Rs. 2694 crore in FY2015 to Rs. 2425 crore in FY2016 and remained flat in 9MFY2017 (at Rs. ~1258) due to increase in competitive intensity and sales disruption due to supply side ERP systems issue. This has also impacted the operating profit margins, which fell from 12.40% in FY2015 to 11.20% in FY2016 and subsequently to 10.78% in 9MFY2017, due to decline in sales volumes and increased spending on marketing campaign, investments in e-commerce and building up the marketing team.

Efficient working capital management helps in maintaining Bata its debt free status

With efficient working capital management and funding of capital expenditure through internal accruals, Bata has not resorted to external borrowings since April 2010 onwards and hence it continues to maintain its debt free status at the end of December 2015. Further, with healthy profitability and decline in interest expense and debt levels, the credit profile of the company has significantly improved over the years. Going forward, with the company's continued focus on increasing its foothold in the premium category footwear and efforts to control excess costs, ICRA expects Bata's operational profile to remain healthy. The capital expenditure going forward will be towards opening new retail stores and modernizing plant and machinery in the existing manufacturing facilities, this is proposed to be funded entirely through internal accruals which will assist Bata in maintaining its debt free status and ensure comfortable debt protection metrics.

Going forward, company's ability to grow on an expanded revenue base while improving profitability will be the key rating sensitivities.

Analytical Approach
Not Applicable
Link to the Applicable Criteria
http://www.icra.in/Files/Articles/Footwear-Dec%202016.pdf

About the Company
Bata India Limited (Bata) is a 53 per cent subsidiary of Bata (BN) BV, Amsterdam - a BSO Group Company. Bata 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 a licensed capacity of 628 lakh pairs per annum spread across its five manufacturing units at Batanagar (Kolkata), Faridabad (Haryana), Bataganj (Bihar), Peenya (near Bangalore), and Hosur (Tamil Nadu). Bata currently sells footwear under the Bata brand through more than 1279 retail outlets across India and a large number of other outlets, served by various Bata dealers.

Status of non-cooperation with previous CRA (if applicable):
Not Applicable

Table: Rating History for last three years:

S. No	Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	**Amount (Rs. Cr.)**	**Rating (FY2018)**	**Date(s) & Rating(s) (FY2016)**	**Date(s) & Rating(s) (FY2015)**	**Date(s) & Rating(s) (FY2014)**
				Apr-17	**Mar-16**	**Mar-15**	**Mar-14**
	Non-fund-based Limits	Long-term	31	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)

Note on complexity levels of the rated instrument:

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 www.icra.in

Table: Details of Instrument

Instrument	Date of Issue	Interest/ Discount Rate	Date of Maturity	Size of Issue (Rs Cr)	Current Rating & Outlook
Non-fund-based Limits	--	--	--	31	[ICRA]AA+ (stable)

Name and Contact Details of the Rating Analyst(s):

Mr. K. Ravichandran,
(Tel No. +91-44-45964301)
ravichandran@icraindia.com

Mr. Shubham Jain
(Tel. No: +91-124-4545306)
shubhamj@icraindia.com

Mr. Kapil Banga,
(Tel No. +91-124-4545391)
Kapil.banga@icraindia.com

Name and Contact Details of Relationship Contacts:
Jayanta Chatterjee
(+91-80-4332 6401)
jayantac@icraindia.com

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.
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For more information, visit **www.icra.in**

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	