

## Bata India Limited

April 20, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Unallocated	0.0	2.0	[ICRA]AA+ (Stable); Reaffirmed
Non-fund based-Working Capital Facilities	31.0	29.0	[ICRA]AA+ (Stable); Reaffirmed
<b>Total</b>	<b>31.0</b>	<b>31.0</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA+ (pronounced ICRA double A plus) for the Rs. 31-crore bank facilities of Bata India Limited (BIL or the company)<sup>1</sup>. The outlook on the long-term rating is Stable.

### Rationale

The rating reaffirmation takes into account BIL's strong financial risk profile characterised by healthy cash accruals, efficient working-capital management, increase in profitability indicators in 9M FY2018, strong liquidity position, and debt-free status. The ratings continue to factor in BIL's established position in the domestic market characterised by dominant market position, strong brand and wide distribution reach, BIL's strong parentage (Bata Shoe Organization) and access to research implemented by the Bata Group. Further, the rating draws comfort from management's stated intention to fund the future capex requirements entirely through internal accruals, which will assist BIL in maintaining its debt-free status. The rating, however, is constrained by muted volume growth in 9M FY2018 on account of increasing competition. ICRA expects the pressure on volumes to persist over short term due to the entry of multiple global players in the premium segment of the market. However, considering BIL's limited capex plans and strong liquidity profile, the company's business and financial risk profile is expected to remain commensurate with the rating category. Nonetheless, the rating continues to be constrained by exposure of company's accruals to fluctuations in raw material prices.

### Outlook: Stable

ICRA believes that BIL will continue to benefit from its comfortable operational and financial metrics along with its strong liquidity and debt-free status. The outlook may be revised to Positive in case of healthy growth in cash accruals and if the company maintains its current liquidity and debt-free status. The outlook may be revised to Negative if cash accrual is lower than expected, or if the company undertakes any major debt-funded capital expenditure.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Key rating drivers

### Credit strengths

**Established market position with strong brand name and wide distribution network** - BIL has an established track record of over 80 years and a pan-India presence. The company sells rubber, canvas, leather and plastic footwear through 1369 retail stores and 264 franchisee stores as on December 31, 2017.

**Improvement in accruals in 9M FY2018** - The company's OPBDITA increased from Rs. 220.92 crore in 9M FY2017 to Rs. 271.49 crore in 9M FY2018 due to renegotiation of rentals and multiple other efficiency improvement initiatives undertaken by the company.

**Support from Bata Group** - BIL is a 53% subsidiary of Bata (BN) BV, Amsterdam, a Group Company which has operations in more than 50 countries. BIL has access to 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 fees.

**No debt; strong liquidity position and robust debt-coverage indicators** - Over the past several years, BIL has remained debt free and has availed only non-fund based limits from banks. Accordingly, the capitalisation and coverage indicators remain strong.

### Credit challenges

**Almost flat YoY growth in volumes sold in 9M FY2018** - BIL's sales volume growth remained muted due to the impact of demonetisation in FY2017 and GST in 9M FY2018, alongside intense competition.

**Increase in competition** - The competition has been intensifying 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. Additionally, the sale of branded footwear through e-commerce increases competition as new brands can 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 the raw material price fluctuation. Any adverse movement in the prices of raw materials may have an adverse impact on the company's margins, considering its limited ability to pass on the price hike to customers owing to intense competition.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in the Footwear Industry](#)

### 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 1,369 retail outlets across India and a large number of other outlets, served by various Bata dealers.

In 9M FY2018, the company reported a net profit of Rs. 171.5 crore on an operating income (OI) of Rs. 2,004.01 crore compared with a net profit of Rs. 122.81 crore on an OI of Rs. 1,899.2 crore in 9M FY2017.

### Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	2,422.71	2,474.26
PAT (Rs. crore)	217.39	158.95
OPBDIT/OI (%)	11.38%	11.26%
RoCE (%)	27.43%	19.00%
Total Debt/TNW (times)	-	-
Total Debt/OPBDIT (times)	-	-
Interest Coverage (times)	158.23	69.06
NWC/OI (%)	16%	13%

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Non-Fund Based	Long Term	29.0	-	April 2018 [ICRA]AA+ (Stable)	April 2017 [ICRA]AA+ (Stable)	-	March 2016 [ICRA]AA+ (Stable)
2 Unallocated	Long Term	2.0	-	[ICRA]AA+ (Stable)	-	-	-

### Complexity level 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](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Unallocated	-	-	-	2.00	[ICRA]AA+ (Stable)
NA	Non-Fund Based Bank Facilities	-	-	-	29.00	[ICRA]AA+ (Stable)

Source: Bata India Limited

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