Bata India Limited

March 28, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-fund Based-Working Capital Facilities	29.0	15.0	[ICRA]AA+ (Stable); Reaffirmed
Unallocated	2.0	16.0	[ICRA]AA+ (Stable); Reaffirmed
Total	**31.0**	**31.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into account Bata India Limited's (BIL) robust performance in 9M FY2019, driven by growth in both volumes and average selling price (ASP). The company's operating income (OI) improved by 12% to Rs. 2,249.1 crore in 9M FY2019 from Rs. 2,004.0 crore in 9M FY2018, driven by a 3% growth in volumes and a 9% increase in ASP over 9M FY2018. Further, with the premiumisation of the product portfolio, revamped branding and marketing strategy, and efficiency improvement initiatives undertaken, the company's operating profitability improved to 17% in 9M FY2019 from 14% in 9M FY2018. The rating continues to derive comfort from BIL's robust financial risk profile characterised by large cash and equivalents (~Rs. 800 crore as on December 31, 2018), continuing debt-free status, and consistently strong cash accruals resulting in comfortable debt protection indicators. BIL stands to benefit from the reduction in Goods and Sales Tax (GST) on footwear priced below Rs. 1,000.0 to 5% from 18% and increase in import duty on footwear to 25% from 20%. The rating continues to factor in BIL's established position in the domestic footwear market, strong brand, pan-India presence and wide distribution reach, BIL's strong parentage (Bata Shoe Organization) and access to research implemented by the Bata Group.

The rating, however, is constrained by intense competition due to the entry of new brands, especially via the e-commerce route. Also, 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 impact the ratings. However, BIL's business and financial risk profile are expected to remain commensurate with the rating category, given its limited capex plans and strong liquidity profile.

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 a 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 its cash accrual is lower than expected, or if it undertakes any major debt-funded capital expenditure.

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 1,402 retail stores and 264 franchisee stores as on December 31, 2018.

Robust improvement in accruals in 9M FY2019 - The company's OPBDITA increased to Rs. 382.8 crore in 9MFY2019 from Rs. 271.5 crore in 9M FY2018 due to the marketing campaigns undertaken by BIL over the last two years. This, coupled with focus on premiumisation, renegotiation of rentals, and multiple other efficiency improvement initiatives undertaken by the company, have led to an increase in OPBDITA.

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. The company has access to technical research and innovative programmes implemented by the Bata Group. It receives guidance and managerial support in its various functions including purchase, manufacture, training of managers from its Group company, and in turn, it 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

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 in India. Moreover, the sale of branded footwear through e-commerce platforms 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 raw material price fluctuations. Any adverse movement in the prices of raw materials may have a negative impact on the company's margins, considering its limited ability to pass on the price hike to customers owing to intense competition.

Liquidity position

Over the past several years, Bata has remained debt free, with only non-fund based limits for working capital requirements outstanding from banks. The liquidity position is extremely strong with Rs. 800.1 crore of cash and bank balance as on December 31, 2018.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the 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 1,666 retail outlets across India and a large number of other outlets, served by various Bata dealers.

Key financial indicators (audited)

	FY2017	FY2018	9MFY2019 (Limited Review)
Operating Income (Rs. crore)	2,474.3	2,634.2	2,249.1
PAT (Rs. crore)	159.0	220.5	241.4
OPBDIT/ OI (%)	11.3%	13.3%	17.0%
RoCE (%)	19.0%	24.8%	-
Total Debt/ TNW (times)	-	-	-
Total Debt/ OPBDITA (times)	-	-	-
Interest coverage (times)	69.1	83.7	129.4

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 and Rating March 2019	Date and Rating April 2018	Date & Rating in FY2018 April 2017	Date & Rating in FY2017 -	Date & Rating in FY2016 March 2016
1	Non-Fund Based Working Capital Facilities	Long Term	15.0	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	[ICRA]AA+ (Stable)
2	Unallocated	Long Term	16.0	-	[ICRA]AA+ (Stable)	[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

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	Non-Fund Based Bank Facilities- SBI	-	-	-	16.0	[ICRA]AA+ (Stable)
NA	Non-Fund Based Bank Facilities- SBI	-	-	-	15.0	[ICRA]AA+ (Stable)

Source: Bata India Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	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:

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