

April 06, 2020

## Bata India Limited: Ratings reaffirmed at [ICRA]AA+ (Stable)

### Summary of rating action

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

\*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. 987.2 crore as on December 31, 2019) and its continuing debt-free status. 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 performance in 9M FY2020, primarily driven by growth in volumes in the non-retail segment- the company's operating income (OI) has improved by 8% to Rs 2,435.5 crore in 9M FY2020 from Rs. 2,250.1 crore in 9M FY2019. The company has adopted IndAS 116 in FY2020, which has led to a significant improvement in operating profitability for 9M FY2020 due to substantial rent payments. After adjusting for the same, the operating profitability has remained higher at 17.1% in 9M FY2020 compared with 16% in FY2019. The margin has improved on the back of higher revenues, revamped branding and marketing strategy, and initiatives to improve efficiency.

With the implementation of indAS116 there has been 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 and its operational and strategic support.

The rating, however, has been 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 has also factored in the challenges faced by the retail sector in light of the spread of COVID-19. ICRA has noted that BIL' accruals would be substantially affected by the closure of stores and manufacturing facilities while fixed costs would have to be met during this period (barring certain waiver given by the lessors for rentals). There also remains uncertainty concerning the timing of commencement of normal operations, and the extent of the impact on the revenues even after lockdown period is over in FY2021. ICRA would continue to closely monitor the developments and take the appropriate rating action, as and when required.

### 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 availed only non-fund based limits from banks. The company also has significant liquidity cushion with Rs. 987.2 crore of cash and liquid investments as of December 2019. Further, with implementation of Ind AS116 there has been identification of lease liabilities resulting in moderation of debt coverage indicators.

**Healthy operational profile with strong brand equity and established distribution network** - BIL has an established track record of over 80 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 1,499 retail stores including MBOs, and 264-franchisee stores as on December 31, 2019.

**Technical support from Bata Group** - BIL is a 52.96% 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 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.

## Credit challenges

**Adverse impact of COVID-19** - BIL's accruals would be substantially affected by the closure of stores and manufacturing facilities, while its fixed costs would have to be serviced during this period (barring waiver given by the lessors for rentals). There also remains uncertainty concerning the timing of commencement of normal operations, and the extent of the impact on the revenues even after the lockdown period is over in FY2021. ICRA would continue to closely monitor the developments and take the appropriate rating action, as and when required.

**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 has 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 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: Superior

BIL's liquidity is **superior** with healthy cash accruals, nil debt, and healthy cash balance of Rs. 987.2 crore as of December 31, 2019. 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 triggers:** A substantial and sustained improvement in revenues and accruals while maintaining the financial risk profile, will be a credit positive.

**Negative triggers:** Prolonged pressure on revenues and accruals 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	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in Footwear Industry</a>
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)

	FY2018	FY2019	H1FY2020 (Limited review)
Operating Income (Rs. crore)	2,634.2	2,931.1	1,604.7
PAT (Rs. crore)	220.5	329.0	172.3
OPBDIT/OI (%)	13.3%	16.3%	26.7%
RoCE (%)	24.8%	30.3%	36.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.4	1.0
Total Debt/OPBDIT (times)	0.0	0.0	0.0
Interest Coverage (times)	83.7	134.5	6.9
DSCR	67.9	106.2	6.4

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

**Any other information: None**

### Rating history for past three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2019		FY2018	FY2017
					6-Apr-2020	28-Mar-2019	20-Apr-2018	11-Apr-2017	-
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)	[ICRA]AA+ (Stable)	-	-

Amount in Rs. crore

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