June 06, 2023

Bata India Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Non-fund-based – Term loan	15.00	15.00	[ICRA]AA+ (Stable); reaffirmed
Long-term- Unallocated	16.00	16.00	[ICRA]AA+ (Stable); reaffirmed
Total	**31.00**	**31.00**	

**Instrument details are provided in Annexure-I*

Rationale

While reaffirming the rating, ICRA considers Bata India Limited's (BIL) improved performance in FY2023, driven by a growth in both volumes and average selling price (ASP). The company's revenues improved by 45% to Rs. 3,451.6 crore in FY2023 from Rs. 2,387.7 crore in FY2022, albeit on a low base, driven by a 28% volume growth and a 13% increase in ASP over FY2022. Further, with the premiumisation of the product portfolio and revamped branding and marketing strategy, the company's operating profitability improved to 23.0% in FY2023 from 17.6% in FY2022. However, the same remained lower than the pre-Covid level as higher inflationary trend in costs relative to the realisation impacted the margins to an extent. The margin improvement, going forward, would hinge on the company's ability to further optimise the cost structure and improve product-mix towards higher ASP. ICRA also notes the large dividend payout of Rs. 698.9 crore in FY2023 and the Board recommended dividend of Rs. 13.50 per share amounting to Rs. 173.5 crore in the current fiscal, resulting in the reduction of net worth and liquidity. Nonetheless, the rating continues to derive comfort from BIL's robust financial risk profile, characterised by large cash and equivalents (~Rs. 531 crore as on March 31, 2023), continuing debt-free status, and consistently strong cash accruals, resulting in comfortable debt protection indicators. The rating continues to factor in BIL's established position in the Indian 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 entry of new brands, especially via the ecommerce route. Also, the fragmented nature of the Indian footwear industry, strong presence of the unorganised sector, and the vulnerability of BIL's profitability to raw material price fluctuations impact the rating. However, BIL's business and financial risk profiles are expected to remain commensurate with the rating category, given its limited capex plans and strong liquidity profile.

The Stable outlook on [ICRA]AA+ rating reflects ICRA's opinion that the company will continue to leverage upon its strong brand. Further, ICRA expects the company's debt metrics to remain comfortable over the medium term, with anticipated healthy accruals and in the absence of debt-funded capex plans.

Key rating drivers and their description

Credit strengths

Healthy improvement in performance in FY2023 – BIL's revenue surged 45% to Rs. 3,451.6 crore, aided by low base effect, increase in sale volumes by ~28% to 4.85 crore pairs and increase in ASP by 13% to Rs. 712 per pair in FY2023. Moreover, the operating margin improved to 23.0% in FY2023 from 17.6% in FY2022 (although not par with the pre-Covid level), supported by improvement in the mid-premium and premium categories with more focus on sneakers and casuals.

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 availed only non-fund-based limits from banks.

Accordingly, the capitalisation and coverage indicators remain strong. While large dividend payout in FY2023 reduced the company's net worth and liquidity, the same continue to remain comfortable.

Healthy operational profile with strong brand equity and established distribution network – BIL has an established track record of over 90 years, healthy market share in the organised Indian footwear industry with strong brand equity and a pan-India presence. The company has a diversified product portfolio and sells through an extensive retail and distributor network and offers a wide range of products across men's, women's and kids range, leather, casual and sportswear and has presence at various price points.

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 focus on asset light model of operations by opening more of franchise stores compared to company-owned and company-operated stores as well as remodelling of the existing ones.

Technical support from Bata Group – BIL is a 50.16% 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, and training of managers from its Group company and in turn, pays technical fees.

Credit challenges

Intense competition in industry – The competition is high in the Indian footwear industry. In the domestic market, the competition is on account of the unorganised nature of the industry, which is dominated by a large number of smaller-sized entities. In the international markets, the Indian footwear companies face competition from other countries with low cost of production. Moreover, sales of branded footwear through e-commerce platforms have increased competition as new brands can now enter the Indian market without creating 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.

Environmental and Social Risks

The environmental and social risks pertaining to manufacturing of the products remain the most significant sustainability risks for footwear companies. From raw material sourcing to production process, water is a critical resource for making footwear. BIL is taking several measures like Zero Liquid Discharge (ZLD) facilities, Sewage Treatment Plants (STP), Rainwater Harvesting tanks for water treatment/reuse – thereby reducing water consumption and wastage. BIL monitors Environmental KPIs on a monthly basis and necessary steps/initiatives are decided on the basis of that. The company also continuously encourages its employees to save natural resources wherever possible through campaigning and VMs.

Liquidity position: Strong

The liquidity position is strong, with healthy cash balance of over Rs. 530 crore as on March 31, 2023 although declined owing to the hefty dividend payout of Rs. 698.9 crore in FY2023. With regular cash accruals from business operations and no long-term debt commitment, BIL will be able to comfortably meet its commitments through internal accruals. In FY2024, 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 increase in revenues and profitability along with improvement in the liquidity position, could lead to a rating upgrade.

Negative factors – Prolonged pressure on revenues and profitability, adversely impacting the debt protection metrics or any large dividend payout or debt-funded capex adversely impacting 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	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of BIL. As on March 31, 2023, BIL had two subsidiaries, as mentioned in Annexure II below

About the company

BIL is a 50.16% 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 2,053 retail outlets across India and a large number of other outlets, served by various Bata dealers.

Key financial indicators (audited)

BIL Consolidated	FY2022	FY2023
Operating income	2,387.7	3,451.6
PAT	103.0	323.0
OPBDIT/OI	18%	23%
PAT/OI	4%	9%
Total outside liabilities/Tangible net worth (times)	0.9	1.2
Total debt/OPBDIT (times)	2.6	1.6
Interest coverage (times)	4.5	7.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					June 06,2023	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)	[ICRA]AA+ (Stable)
2	Unallocated	Long term	16.0	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Non-fund Based-Working Capital Facilities	Very simple
Long-term- 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non-fund Based-Working Capital Facilities	NA	NA	NA	15.0	[ICRA]AA+(Stable)
NA	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 II: List of entities considered for consolidated analysis

Company Name	BIL Ownership	Consolidation Approach
Way Finders Brands Limited	100.00%	Full Consolidation
Bata Properties Limited	100.00%	Full Consolidation

Source: BIL

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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.

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