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Retail - Footwear

Putting the best FOOT forward

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Retail - Footwear: Putting the best FOOT forward

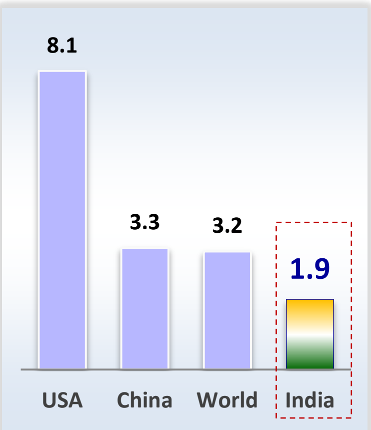
Putting the best FOOT forward

Retail - Footwear

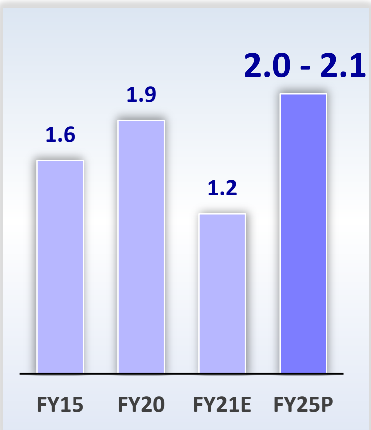
Companies

	TP (INR)	Rating
Metro Brands	1,000	Buy
Campus Activewear	640	Buy
Relaxo	1,020	Neutral
Bata India	1,925	Neutral

Global per capita Footwear consumption (CY19)



Per capita Footwear consumption in India



Putting the best FOOT forward

Huge headroom for growth for the organized players

- **The INR960b Indian Footwear market (FY20) is witnessing a unique transformation over the last few years. India's young populace with high aspiration and having an improved fashion quotient is driving demand, especially for Casual, Athleisure, Sneakers and Women's footwear, et al.**
- **Over one-third of the market is composed of high-ASP products, primarily catered by organized/branded players, where investment in EBO is the key. The resulting heavy investment and execution challenge create an entry barrier, as is evident from a handful of large Footwear brands in the industry.**
- **In contrast, the lower-ASP product category offers high opportunity in both open and closed footwear organized segments, led by customer shift towards organized market. However, it needs product/distribution strength to command competitive advantage.**
- **In our Footwear coverage universe, we like: a) Campus – as it has created the right in-house capability to tap the large-scale opportunity in mass sports footwear market and b) Metro – due to its ability to run an efficient footwear 'Retail' network that can drive scale.**
- **BATA's recent brand/product refreshment and store addition targets are steps in the right direction, but they are yet to reflect meaningfully on customer reception and improved earnings growth.**
- **Relaxo is a dominant player in the open footwear segment, but it has lately faced intense competition from the unorganized players. Further, its strategy to drive growth in the closed footwear segment may take time to succeed.**
- **We initiate coverage with a BUY rating on Campus and Metro and Neutral rating on Bata and Relaxo.**
- **Key downside risks in the footwear industry: a) high inflation that could soften industry demand, b) rising input costs and GST that could hit gross margin, and c) competition from growing foreign brands.**
- **Key upside risks in the footwear industry: a) swift recovery in low-ASP category, b) inflation cooling-off early that will increase margin higher than expected.**

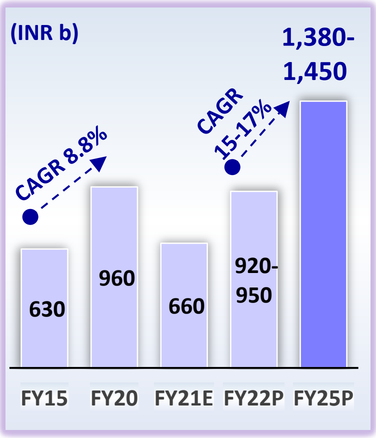
A steadily growing market undergoing a unique transformation

The Indian Footwear market is valued at INR960b as on FY20, of which, over one-third is composed of high-ASP products predominantly catered by organized/branded players growing at 1.5x the rate of overall market growth (15% CAGR over FY15-20). The market is witnessing a unique transformation over the last few years. India's young populace with high aspiration and having an improved fashion quotient, is driving demand, especially for Casual, Athleisure, Sneakers and Women's footwear, et al., as many brands have made deeper inroads in this space through the EBO channel given the huge growth potential. This has amplified consumer spends, reflecting in growing premiumization and steadily improving ASPs.

An efficient retail model to drive scale in the Premium Footwear market

Nearly one-third of the market is composed of premium high-ASP products, where investment in their own retail network is the key. The resulting heavy investment makes it critical to run a very efficient retail model, thereby creating an execution challenge and a strong entry barrier. This is evident from a handful of (EBO) Footwear retailers, with a revenue of over INR10b, which have a sticky customer

Indian Footwear market size (value)



base (METRO) and superlative store economics. These features translate into a healthy margin, return ratios, and long runway of growth for the companies.

Mass segment needs strong product capability and deep distribution reach

The low-ASP product categories that constitute two-thirds of the market primarily operate via the distributor model. Plagued by the unorganized players offering commoditized products, the key is to create a strong product capability, sharp pricing and deep distribution reach to incentivize customers to use better quality branded products.

Prefer players – Campus/Metro – with the ability to drive scale

Under our Footwear coverage universe, we like: a) **Campus** – as it has created the right in-house capability to tap the large-scale opportunity in mass sports footwear market, sharp pricing and deep distribution network to leverage growth; and b) **Metro** – due to its ability to run an efficient footwear 'Retail' network with industry leading store productivity and healthy growth that can drive scale. **BATA's** recent brand/product refreshment and deepening reach through franchise, MBO and online modes are all steps in the right direction, but they are yet to reflect meaningfully on customer reception and improved earnings growth. **Relaxo** is a dominant player in the open footwear segment with in-house capabilities and strong competitive position; but it has lately faced intense competition from unorganized players. Further, its strategy to drive growth in the closed footwear segment may take time to succeed.

Valuation and view

- There are two key underlying prerequisites for a healthy stock valuation: a) the quality of growth, which can be attributed to a strong returns profile and FCF position, and b) the quantity of growth (upwards of 20% PAT growth).
- All the Footwear retailers covered here have scored exceedingly well on the quality front, which is evident from: a) the best-in-class return profile driven by prudent working capital and healthy asset turns and b) the strong cashflows as apparent from the internally funded growth capex for over 10 years.
- Hence, the quantity of growth is the determining factor for valuation. Clearly Metro and Campus have delivered exceedingly well on the growth factor and have a far superior outlook. At P/E of 47x/65x, respectively on one year forward (FY24E), however, the stocks appear rich, factoring in the potential growth over the next two years. Yet, we believe, the next 3-5 years growth in business does offer reasonable upside in the stock given: a) the huge opportunity in the footwear market, b) both Metro and Campus' superior capability and intention to grow at an accelerated pace, and c) only a handful of players have achieved scale with profitability.
- We ascribe a rich P/E multiple of 50x and 55x to Metro and Campus on FY25E EPS, given their higher growth visibility, to arrive at our TP of INR1,000 and INR640, respectively.
- Bata and Relaxo, on the other hand, are solid players with dominant positions but have seen moderate growth with rich valuations at P/E of 47x and 78x, respectively on one year forward (FY24E). We ascribe P/E of 40x and 60x on FY25E, arriving at our TP of INR1,925/INR1,020, respectively.
- **Consequently, we initiate coverage with a BUY rating on Campus and Metro and Neutral rating on Bata and Relaxo.**

Metro Brands: Efficiently run business model; Initiate with a BUY rating

Metro Brands' ability to run an efficient retail network, as witnessed by the superlative productivity of INR25,000/sq. ft. and store-level EBITDA margin of 25%, has translated into healthy net cash balance sheet and superlative RoIC. It has scored well on growth with consistent double-digit revenue/PAT growth over the last 10 years. Being one-third the size of BATA, there is a huge opportunity for the company to expand its store count. Recent brand tie-ups with third-party products could provide further growth opportunity. We have factored in revenue/PAT CAGR of 31%/37% over FY22-25E fueled by healthy store additions and strong recovery in SSSG. We value the stock at 50x P/E on FY25E EPS, i.e., at par with our footwear coverage universe, to arrive at our TP of INR1,000. **Initiate coverage with a BUY rating.**

Key downside risks to our call: a) rising input cost and GST, b) modest store additions, and c) competition from foreign brands.

Campus: In the right place; Initiate with a BUY rating

Campus with its vertically integrated manufacturing ecosystem and superior product quality has created an edge over the Indian sportswear market, which is dominated by the foreign brands. Its effective cost management, quick time to market and premiumization push are benefiting from the tectonic shift towards the sportswear category within the footwear market. Campus' tenable earnings growth, strong returns profile and self-sustainable growth model warrants rich valuation. We factor in supernormal revenue/PAT CAGR of 29%/42% over FY22-25E, respectively**.** We ascribe a P/E of 55x, on Mar'25E EPS, i.e. at marginal premium to our footwear coverage universe to arrive at our TP of INR640. **Initiate coverage with a BUY rating.**

Key downside risks to our call: a) weak industry demand in tier 2-3 cities, b) rising input cost, and c) execution risk in new regions.

Bata: Footwear trailblazer – awaiting rejuvenation in growth!

Bata is India's largest and oldest Footwear retail brand. After witnessing abysmal growth in the past, it has now revitalized its customer perception and growth. Its product revamp initiatives through the recently launched sneaker studio in stores and women-oriented products, have led to a reduction in its average customer age. This has helped in improving ASP and gross/EBITDA margins, but growth has been missing despite a strong balance sheet. Management has aggressive plans to add 500 franchise stores and expand MBO/online reach with a target to achieve INR50-55b revenue in FY25 (30% CAGR over FY22-25E). We factor in revenue/PAT CAGR of 23%/81%, respectively over FY22-25E, building recovery that is still missing unlike peers. We ascribe a P/E of 40x, on FY25E EPS i.e. at ~25% discount to our footwear coverage universe to arrive at our TP of INR1,925. **Initiate coverage with a Neutral rating.**

Key downside risks to our call would be: a) revival of growth, b) rising input costs and GST, and c) competition from foreign brands.

Relaxo: Riding on India's organized footwear shift

Relaxo is a dominant player in the open footwear segment. Its a) wide distribution reach, b) competitive pricing, and c) strong brand recall, render it with an edge over the unorganized footwear market. However, Relaxo has lately faced intense competition given the widening price arbitrage due to volatile RM prices. Improvement in ASP and increasing demand for closed footwear in Sports and Athleisure (S&A) are its key growth levers. However, its strategy to drive growth in the closed footwear segment may take time to succeed due to the diverse business dynamics v/s open footwear segment. The stock is trading at a rich valuation of ~78x PE on FY24E. We factor in revenue/PAT CAGR of 16%/22% over FY22-25E, respectively. Given the soft growth trajectory, the Relaxo premium to our footwear coverage of 32% should shrink. We ascribe a P/E of 60x on FY25E EPS to arrive at our TP of INR1,020. **Initiate coverage with a Neutral rating.**

Key downside risks to our call are: a) weak industry demand in the value retail segment, and b) rising input costs.

Footwear universe peer comparison

Exhibit 1: Footwear valuation

Company Name	Reco	Mcap (b)	CMP (INR)	TP (INR)	Upside (%)	RoE%				RoCE%				PE		
						FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Metro Brands	Buy	213	783	1000	28	20.0	26.2	24.9	24.0	14.9	18.8	17.8	17.4	56.5	47.4	40.3
Campus Activewear	Buy	170	554	640	16	28.1	30.7	29.0	28.3	23.5	26.3	26.9	27.9	86.0	64.8	47.5
Relaxo	Neutral	268	1078	1020	-5	14.0	14.0	16.5	17.9	13.2	13.2	15.5	16.7	103.3	78.0	63.1
Bata India	Neutral	236	1838	1925	5	5.8	20.3	20.5	20.1	6.0	15.8	16.4	16.7	57.5	46.6	38.6

Company Name	Rev gr. % 20-22	Revenue (INR b)				Rev gr. % 22-25	EBITDA margin (%)				PAT (INR b)			
		FY22	FY23E	FY24E	FY25E		FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
Metro Brands	2	13.4	21.1	25.2	29.8	31	30.5	32.1	32.0	32.5	2.1	3.8	4.5	5.4
Campus Activewear	28	11.9	16.1	20.3	25.5	29	20.2	21.0	21.7	22.8	1.2	2.0	2.6	3.6
Relaxo	5	26.5	28.7	34.6	41.4	16	15.7	16.9	17.6	18.0	2.3	2.6	3.4	4.3
Bata India	-12	23.9	34.8	39.1	43.9	23	17.5	15.7	17.3	18.6	1.0	4.1	5.1	6.1

Source: MOFSL, Company

Exhibit 2: Retail coverage valuation

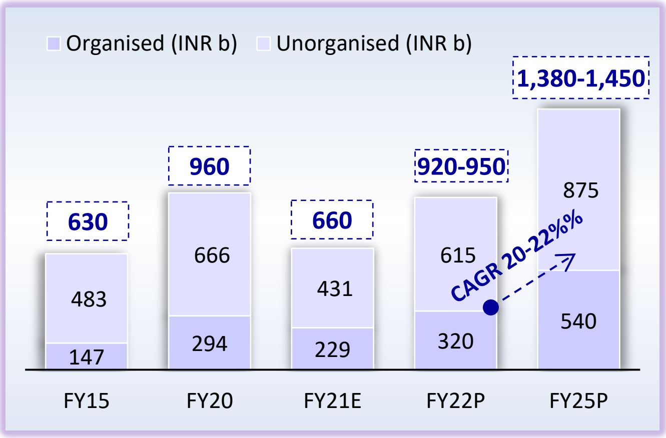
Company Name	Reco	Mcap (b)	CMP (INR)	TP (INR)	Upside (%)	RoE%			RoCE%			PE	
						FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY23E	FY24E
Trent	Buy	510	1435	1530	7	1.8	15.2	19.6	2.0	9.3	11.1	130.8	85.2
ABFRL	Buy	319	340	380	12	-4.4	14.4	14.6	3.3	13.0	13.4	73.9	63.0
VMART	Buy	56	2,840	4,210	48	1.4	9.9	14.3	6.2	8.8	11.2	59.7	36.5
DMART	Neutral	2932	4527	3,740	-17	11.5	17.8	18.5	11.4	16.8	17.0	109.6	87.8
Shoppers Stop	Neutral	82	752	610	-19	-72.6	73.0	43.8	2.3	11.0	10.4	55.6	53.0

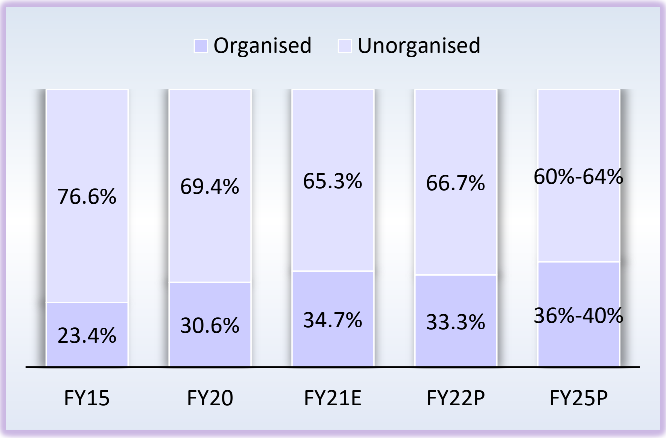
Company Name	Rev gr. % 20-22	Revenue (INR b)			Rev gr. % 22-24	EBITDA margin (%)			PAT (INR b)		
		FY22	FY23E	FY24E		FY22	FY23E	FY24E	FY22	FY23E	FY24E
Trent	14	45.0	76.6	95.9	46	12.8	15.5	16.7	0.3	3.9	6.0
ABFRL	-4	81.4	120.4	140.3	31	13.5	16.6	16.7	-1.2	4.3	5.1
VMART	0	16.7	25.9	32.7	40	12.3	14.0	14.1	0.1	0.9	1.4
DMART	12	309.8	468.3	581.8	37	8.1	9.0	8.9	14.9	26.7	33.4
Shoppers Stop	-14	24.9	38.6	42.2	30	10.7	17.6	17.7	-0.9	1.1	1.2

Source: MOFSL, Company

FOOTWEAR - KEY CHARTS

Improving share of organized Footwear-Retail

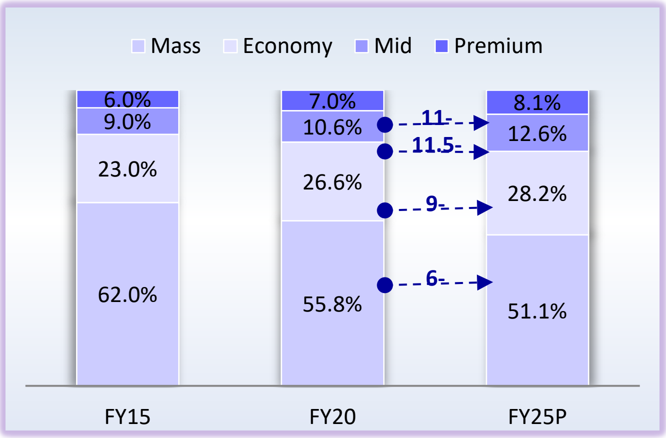


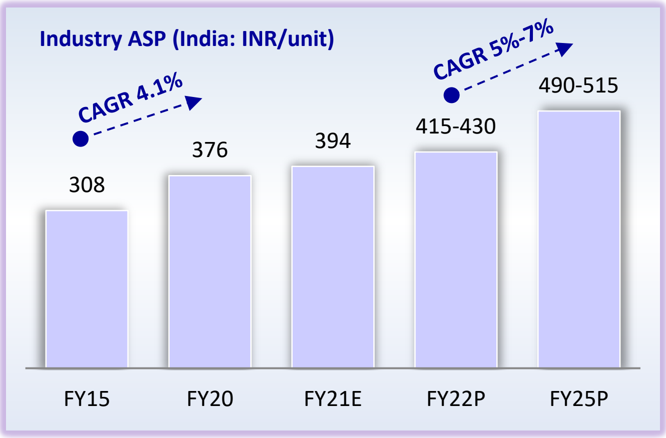


Source: CRISL Research

Organized players to benefit from improved brand acceptance and rising urbanization

Shift towards premiumization leading to increased ASP

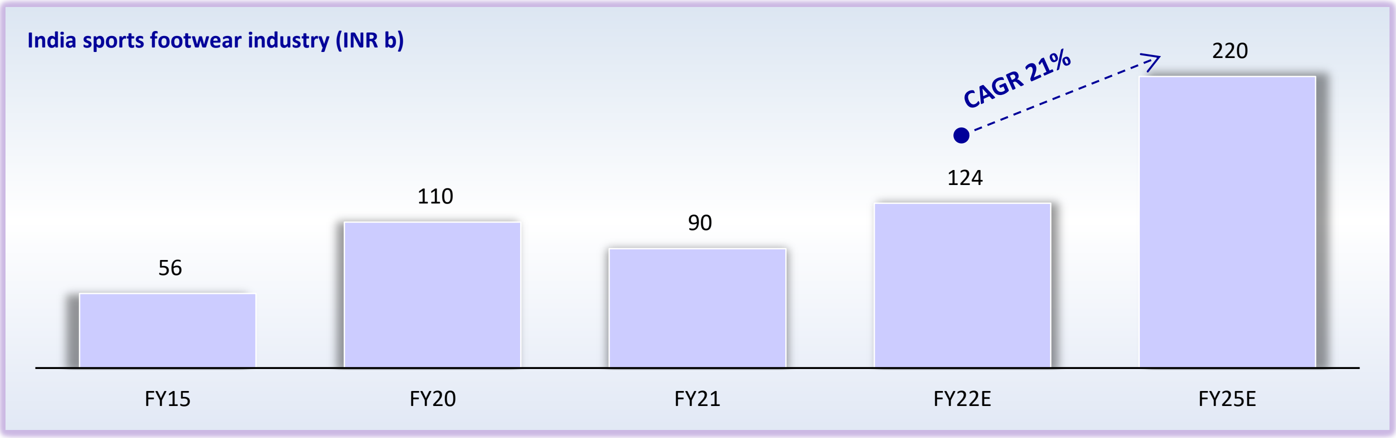




Source: Technopak Analysis; Campus RHP

Shift in consumer preference towards fashionable and branded products to drive higher ASP

Increased awareness towards health and higher participation in sports will drive strong growth



Source: Technopak Analysis

FOOTWEAR - KEY CHARTS

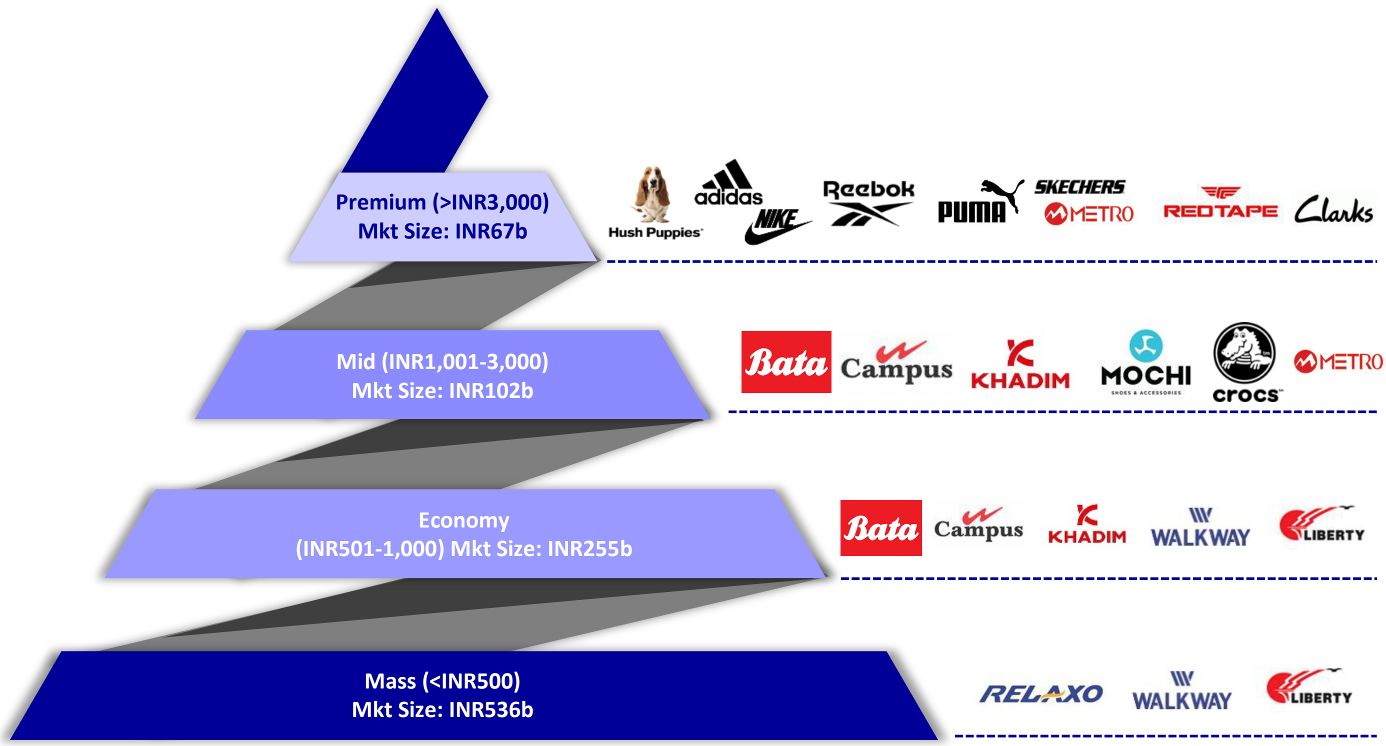
Financial snapshot of Footwear players (data for FY20 unless mentioned otherwise)

Companies	Annual revenue (INR b)	CAGR (FY16-20) (%)	Gross Margins (%)	Cost of retailing (%)	EBITDA margins (%)	PAT Margins (%)	RoCE (%)	RoE (%)	Net Debt/ EBITDA(x)
Adidas India	12.0	8	47	25	21	13.4	18	17	-2.4
Bata India	30.6	6	58	30	27	10.8	17	18	0.1
Clarks Footwear	1.4	2	27	38	-10	-31.2	-25	42	-1.6
Crocs India	2.6	32	46	45	1	0.7	2	2	-13.1
Inc5 Shoes	1.5	6	61	54	6	0.4	6	4	5.6
Khadim India	7.9	11	36	31	4	-4.0	-0	-12	8.2
Lakhani Footwear	4.4	7	41	35	6	0.5	8	3	3.3
Liberty Shoes	6.5	10	48	38	9	1.2	6	4	1.9
M & B Footwear	0.5	-33	44	60	-16	-11.9	-7	-9	3.7
Metro Brands	12.9	12	56	28	27	12.4	15	21	0.5
Mirza Int.	12.6	8	44	31	14	3.8	9	8	1.5
Mochiko Shoes^	1.1	-4	38	34	4	1.8	10	10	1.7
Nike India	7.6	0	44	36	8	4.2	38	-19	-3.8
Puma Sports India***	12.1	10	46	50	-3	-10.3	-25	NM	-11.4
Reebok India	4.3	5	44	27	17	16.1	27	-3	31.1
Relaxo Footwears	24.1	9	57	40	17	9.4	18	19	0.1
Skechers*	8.0	54	41	26	15	8.1	19	29	1.7
Paragon	16.3	18	45	37	7	3.2	18	19	1.4
Campus**	11.9	24	50	30	20	10.5	24	28	0.6

^FY19 data, * includes for India and South Asia, ** CAGR taken from FY18-22; data taken for FY22, ***financials are in CY

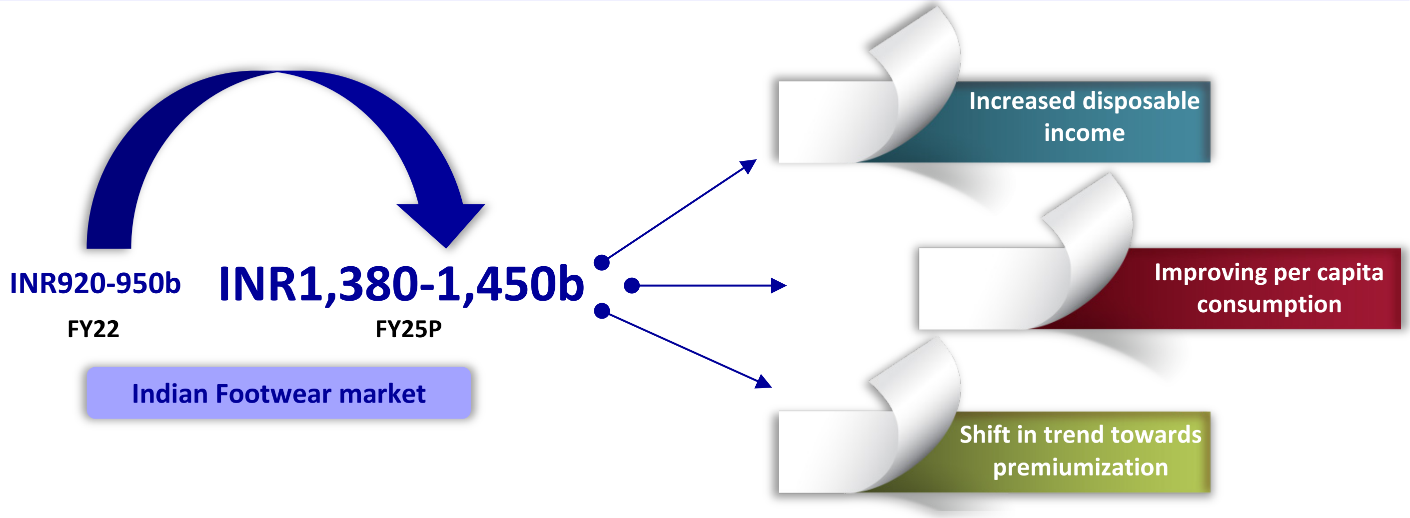
Source: Company, MOFSL

Target segments of Indian Footwear companies by product pricing



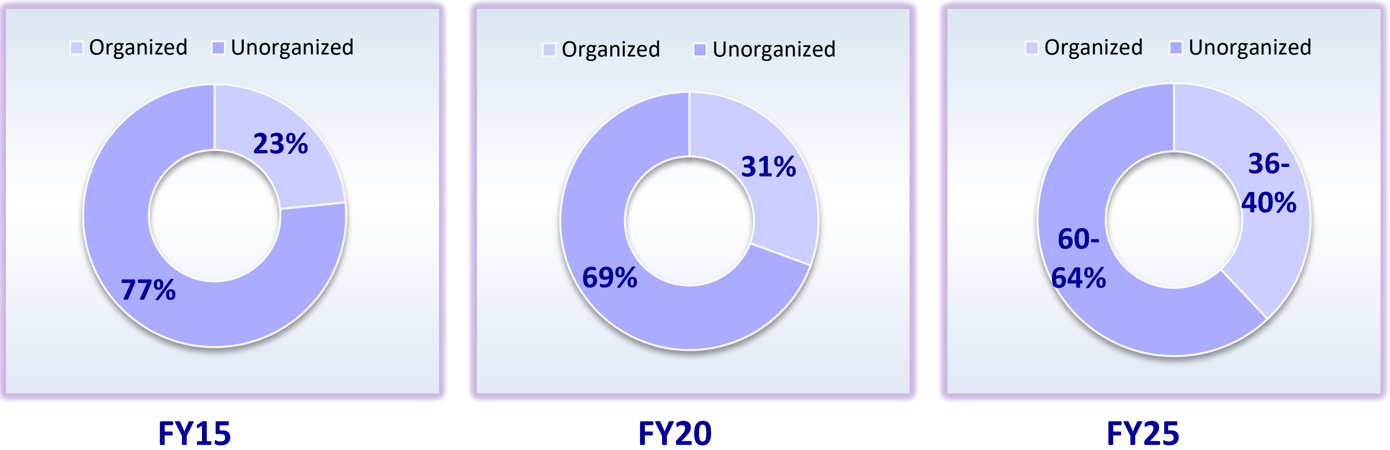
Source: Company, MOFSL

Indian Footwear market pegged to grow at 15-17% CAGR over FY22-25



Source: CRISIL Research

Rising share of Organized Retail within the Indian Footwear industry

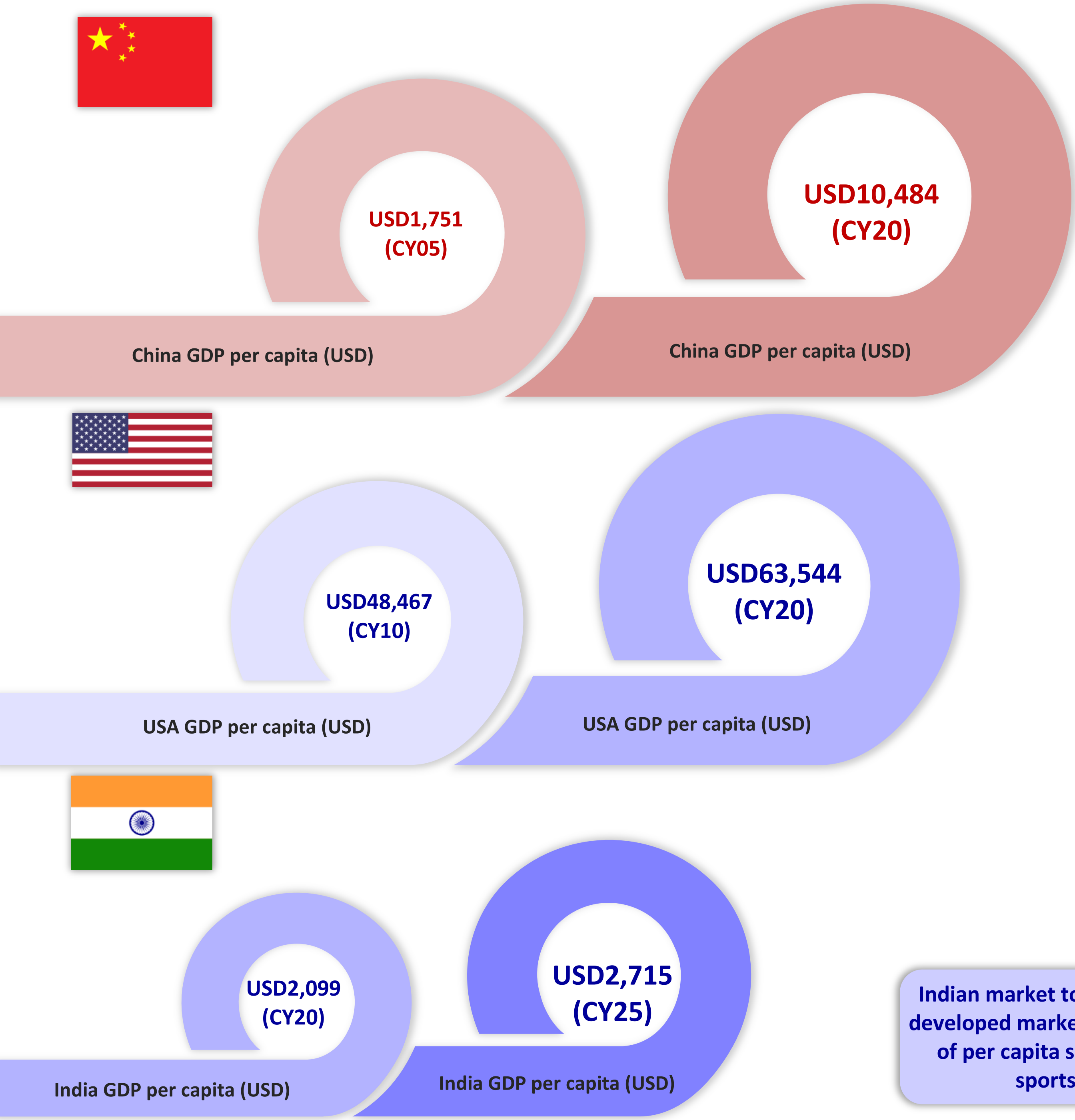


Source: CRISIL Research

Footwear market: Growth drivers and key trends, challenges

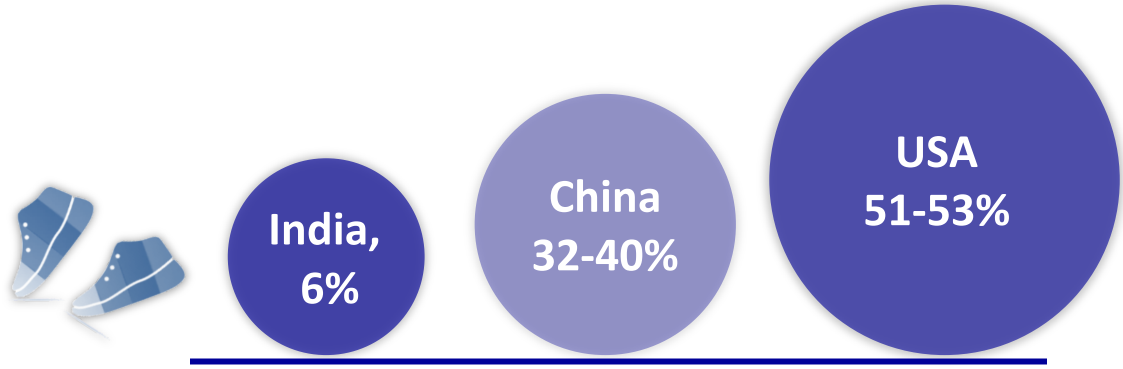
FOOTWEAR - KEY CHARTS

Acceleration in India's GDP to drive sporting-related spends, similar to that in USA and China (USD)



Indian market to replicate developed markets in terms of per capita spend on sports

Huge scope for Increase in Sports Participation in India v/s China and US



Huge headroom for growth on sports participation as compared to developed markets

Source: Campus Activewear, Technopak

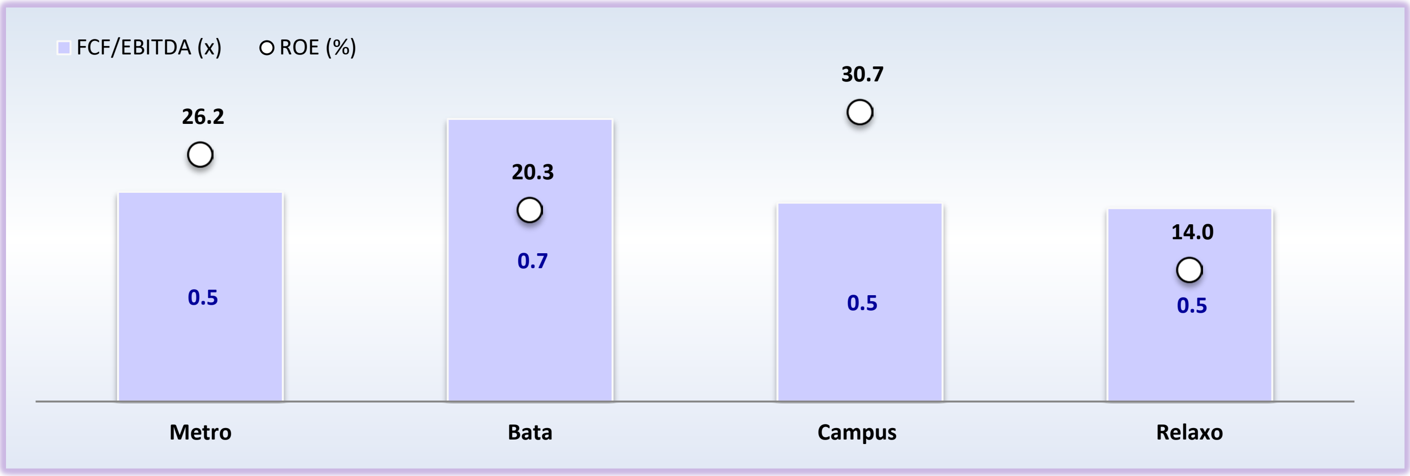
Brand-wise SKUs across price-points

Brands	Total Footwear SKU	Mass (sub-INR500)	Economy (INR501-1,000)	Mid (INR 1,001-1,500)	Mid Premium (INR1,501-2,000)	Premium (INR2,001-3,000)	Premium Plus (over INR3,000)
Adidas	7,059	●	●	●	●	●	●●
Asian Footwear	1,509	●	●●●	●	●	●	●
Asics	898	●	●	●	●	●	●●●
Bata	518	●	●●	●	●	●	●
Campus	6,388	●	●●	●	●	●	●
Decathlon	234	●	●	●	●	●	●●
Fila	1,000	●	●	●	●	●	●●●
HRX	291	●	●	●	●	●●	●●
Khadim	154	●	●●●	●	●	●	●
Lancer	2,100	●	●●	●	●	●	●
Liberty Shoes	288	●	●●	●	●	●	●
Lotto	200	●	●	●	●	●	●●●
Metro Shoes	0	●	●	●	●	●	●
Mirza Int.	682	●	●	●	●	●	●●●
New Balance	2,012	●	●	●	●	●	●●●
Nike	1,953	●	●	●	●	●	●●●
Onitsuka Tiger	453	●	●	●	●	●	●●●
Puma	4,630	●	●	●	●	●	●●●
Reebok	1,282	●	●	●	●	●	●●●
Relaxo	932	●	●●	●	●	●	●
Skechers	525	●	●	●	●	●	●●●
Under Armour	128	●	●	●	●	●	●●●

77-100%: ●●●; 34-76%: ●●; 0-33%: ●

Source: Campus RHP, Technopak, MOFSL

Strong cash flow generation coupled with robust RoE (FY23)



Source: MOFSL

Retail model v/s distribution model

	Retail model		Distribution model	
	Bata	Metro Brands	Relaxo	Campus
Product Category	Family Store	Family Store	Majorly open footwear brand	Sport Footwear brand
ASP (INR)	627	1,341	152	620
Volume (m)	38.1	10.0	175	19.3
Gross Margin (%)	55	58	54	50
Cost of retailing (%)	37	27	38	30
EBITDA Margin (%)	18	30	16	20
Debtor days	11	16	35	35
Inventory days	292	274	93	170
Payable days	153	151	31	112
NWC days	150	138	97	93
Stores (EBO)	1573	624	394	107
Distributors	N.A	N.A	650	425
Asset turnover*	0.8	0.7	1.9	1.6
RoCE*	6%	15%	13%	24%

*Relaxo's high manufacturing assets are included

Source: MOFSL, Company

A gradual shift towards organized players

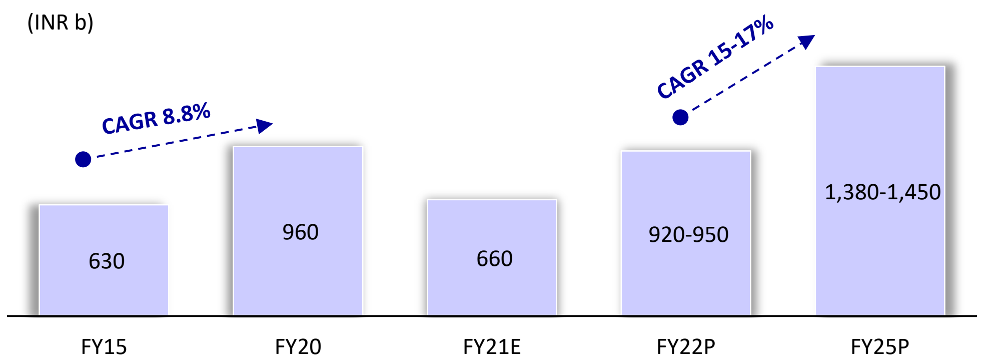
Organized segment is likely to grow backed by:
- a shift in the perception of footwear to a fashion statement.
- higher aspirational levels, and digital penetration
- emergence of value brands and improved penetration

Organized Footwear market to grow at 20%

The Indian Footwear market clocked an 8.8% CAGR over FY15-20 to INR960b. Going forward, it should clock 15-17% CAGR in value terms over FY22-25 aided by both volume and price increases, according to CRISIL. The market is shifting from mass to higher-priced economy, as well as towards the mid- and premium-priced segments. The share of organized players in the overall Footwear industry is ~30% as of FY20, translating into a market size of INR294b, which should increase to 36-40% by FY25E. Organized players have grown at a higher rate (15% CAGR) over FY15-20 due to a rise in urbanization levels and increasing acceptance of brands and modern Retail formats by Indian consumers. The implementation of GST in FY18 has spawned structural changes across India's supply chain and logistics network.

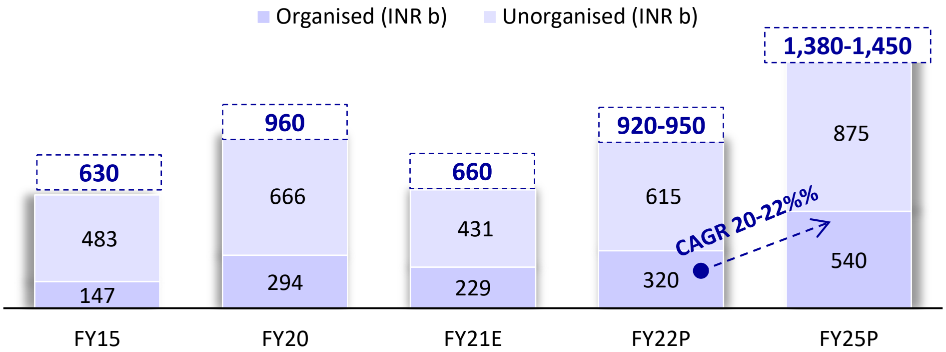
- Going forward, the Organized segment is expected to grow at 20-22% CAGR over FY22-25 on the back of:
  - The shift in the perception of footwear to a fashion statement from a utility product.
  - Increasing exposure to global fashion brands, higher aspiration levels, and digital penetration are driving increased demand for branded Footwear.
  - Emergence of value brands and improved penetration of EBOs in Tier II and below towns.
  - Increased share of e-retail (online) as various modern retailers adopt an increasingly multi-channel approach to reach customers across varied age and income profiles.

Exhibit 3: Indian Footwear market size (value)



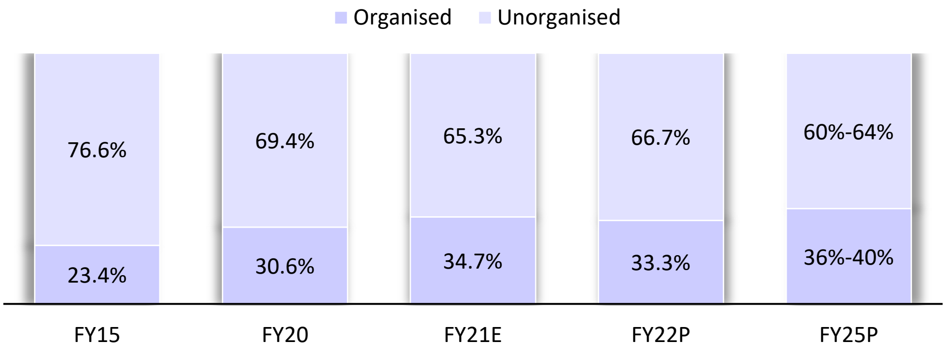
Source: MOFSL, CRISIL Research

Exhibit 4: Organized segment to grow by 20-22% over FY22-25



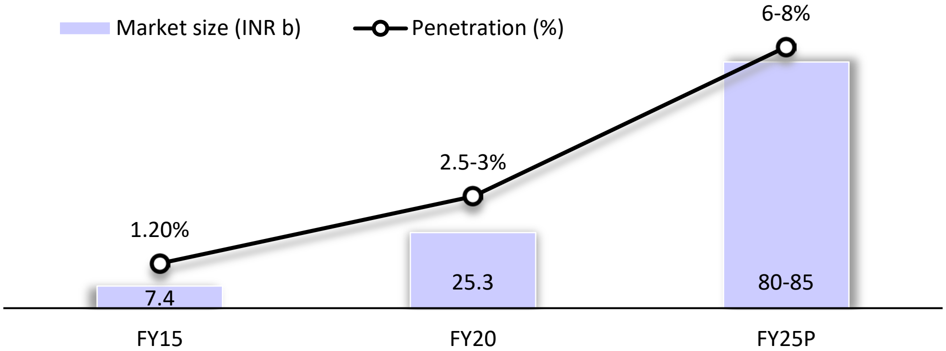
Source: MOFSL, CRISIL Research

Exhibit 5: Organized Retail share



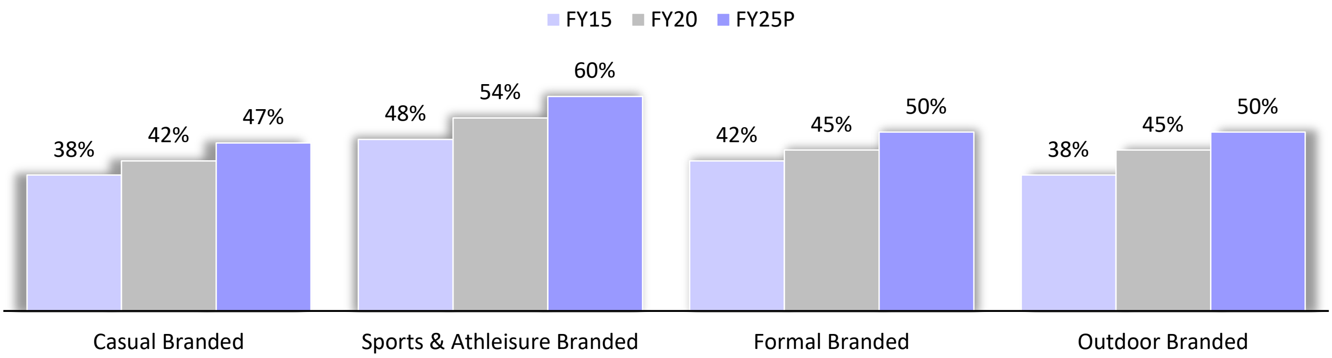
Source: MOFSL, CRISIL Research

Exhibit 6: Increased penetration of e-retail in Footwear



Source: MOFSL, CRISIL Research

Exhibit 7: Increased penetration of organized retail across segments in Footwear

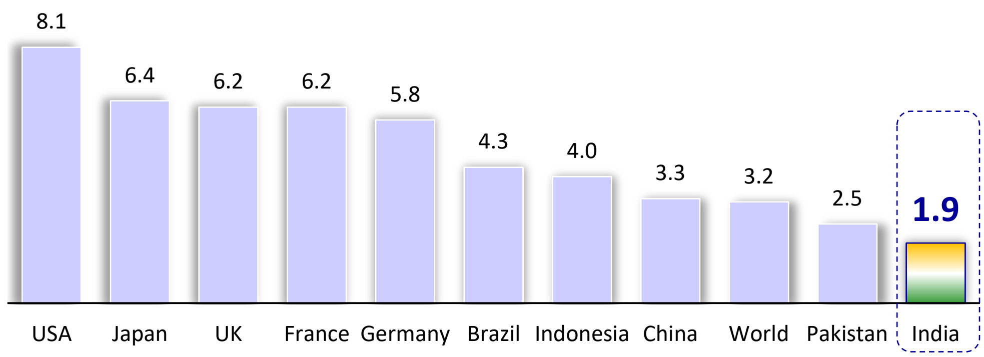


Source: MOFSL, CRISIL Research

Improved consumption to provide headroom for growth

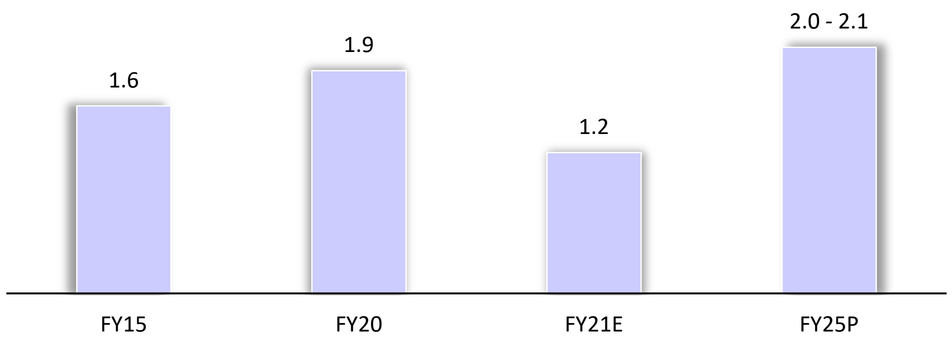
India's per capita annual consumption of footwear stood at 1.9 pairs as of CY19, which is very low compared to its peers and the global average of 3.2 pairs. This provides headroom for growth going forward as annual consumption is expected to touch 2-2.1 pairs by FY25.

Exhibit 8: Global per capita Footwear consumption (CY19)



Source: CRISIL Research

Exhibit 9: Annual per capita Footwear consumption in India



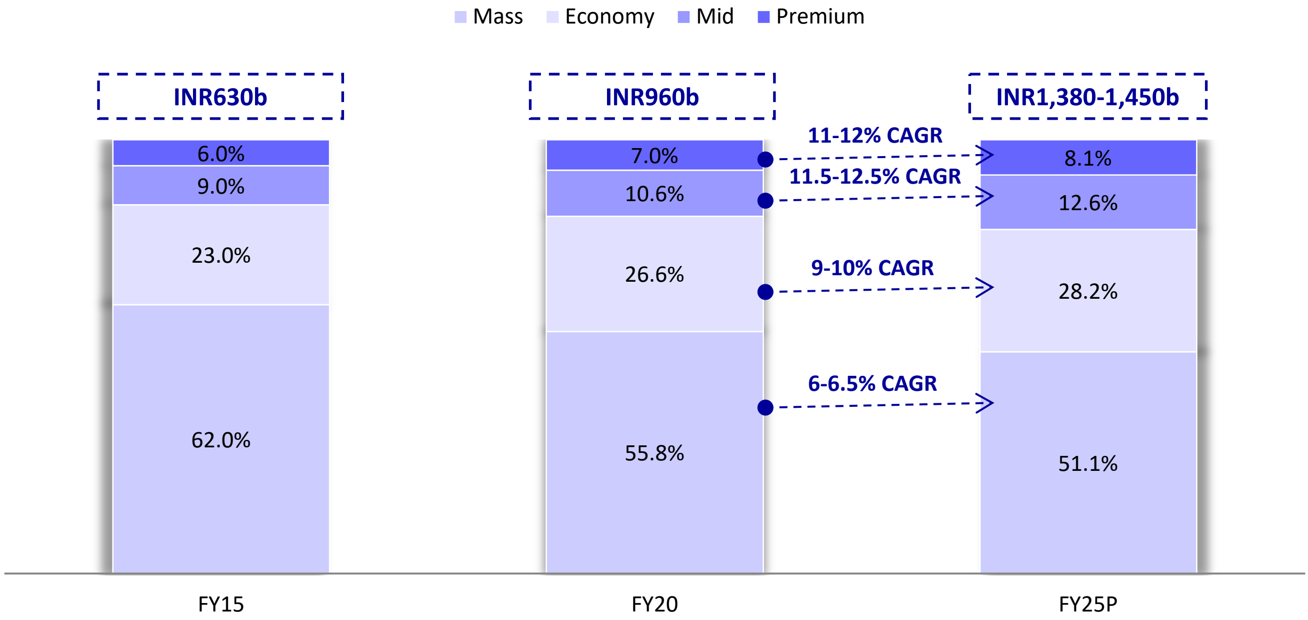
Source: CRISIL Research

A shift towards higher ASP is expected led by improved demand and penetration of branded retailers

Premiumization playing out

- The share of the Mass segment (ASP below INR500) in the Indian Footwear market fell to 56% in FY20 from 62% in FY15. This decline in market share has benefitted higher price-point categories – Economy (INR501-1,000), Mid (INR1,001-3,000), and Premium (INR3,001 and above) price range segments, which have clocked over 12% CAGR over FY15-20. These segments are largely catered to by large organized/branded players with their own EBO network.
- Going forward, the Indian Footwear market is expected to shift in favor of higher ASP segments – Economy, Mid, and Premium price segments. While the Mass segment, which occupies a dominant share, may clock 6-7% CAGR over FY20-25, the higher price point segment is expected to grow at a higher rate (10-11% CAGR). Increasing demand for branded footwear, intensified penetration of organized retail, and the retail network of branded retailers are fueling this growth.

Exhibit 10: Market moving towards premiumization



*Mass – INR500 and below, Economy: INR501-1,000, Mid: INR1,001-3,000, Premium: INR3,001 and above Source: MOFSL, CRISIL

Exhibit 11: Footwear market SKUs across price points – Weightage of Mid and Premium segments (%)

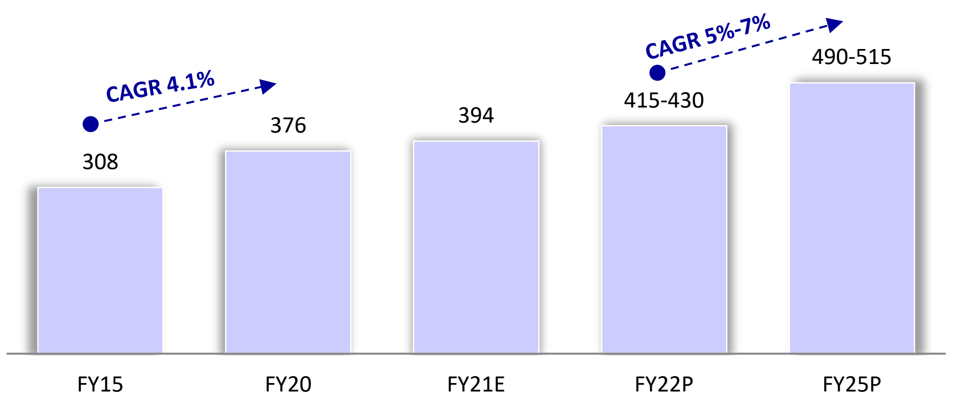
Brands	Total Footwear SKU	Mass (sub-INR500)	Economy (INR501-1,000)	Mid (INR1,001-1,500)	Mid Premium (INR1,501-2,000)	Premium (INR2,001-3,000)	Premium Plus (over INR3,000)
Adidas	7,673	0	1	4	4	18	73
Asian Footwear	3,970	8	77	15	0	0	0
Asics	1,496	0	0	2	2	4	92
BATA	5,176	17	31	8	12	11	21
Campus	6,388	10	45	23	18	3	Sub-1
Decathlon	292	3	13	15	18	18	32
Fila	1,000	0	0	0	0	0	100
HRX	470	0	0	0	0	30	70
KHDM	1,281	37	49	8	3	2	Sub-1
Lancer	600	0	65	15	20	0	0
Liberty Shoes	1,516	21	38	12	12	8	9
Lotto	200	0	0	0	0	0	100
Metro Shoes	1,419	0	0	0	6	9	85
MRZI	1,364	0	0	0	0	7	93
New Balance	3,049	0	0	0	1	4	95
Nike	2,570	0	0	0	0	6	94
Onitsuka Tiger	453	0	0	0	0	0	100
Puma	7,234	0	0	0	10	30	60
Reebok	1,644	0	1	3	4	10	82
RLXF	5,175	78	16	4	2	0	0
Skechers	1,117	0	0	0	0	6	94
Under Armour	160	0	0	0	0	3	97

Source: Technopak Analysis, Campus DRHP

Increasing ASP in the market

A shift towards high-value products has led to growth in India's Footwear market as the perception of footwear has changed to a fashion statement from a utility product. Brand consciousness and the demand for trendy designs are driving a gradual shift in consumer preference to premium from mass-market Footwear categories which is likely to drive ASP higher for the Footwear industry. According to Technopak, ASP of the Indian Footwear industry is expected to increase by 5-7% annually, led by the availability of additional designs and greater consumer awareness on fashion trends.

Exhibit 12: Average selling price of Footwear in India (INR per unit)

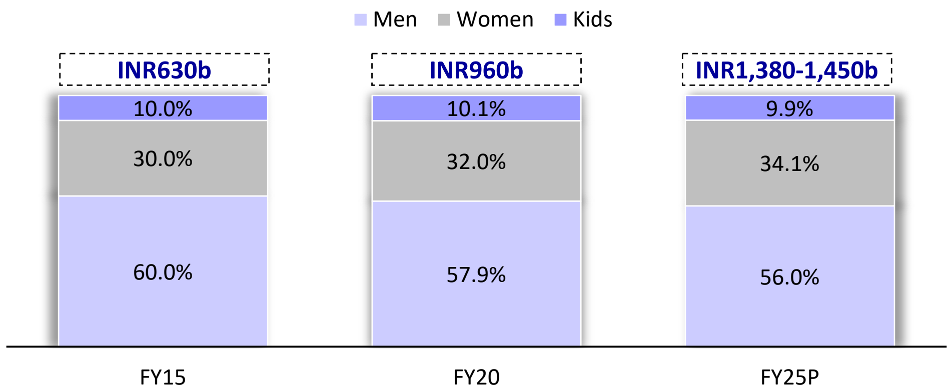


Source: MOFSL, Technopak

Womenswear driving growth

Women's Footwear as a category is gaining significant traction, with increasing participation of women in the workforce. Branded players are offering improved designs and choices. Demand for Women's Formals and Comfort-wear has led to an increase in the share of the Women's category, which clocked 10% CAGR over FY15-20 and should continue to outperform.

Exhibit 13: Gender-wise breakup of the Footwear industry



Source: CRISIL Research, MOFSL

Indian S&A market is projected to double by FY25

Indian S&A market having a long runway for growth

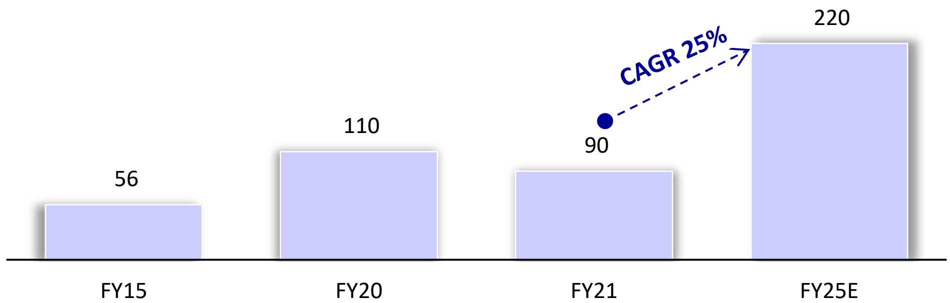
The Indian S&A market which remains highly under penetrated, is estimated to grow ~16% CAGR over FY20-25 and almost double (USD2.6b in FY20). This paves way for strong growth opportunity within the domestic players to explore and grow in this segment with new designs and products. India currently is expected to witness similar growth witnessed by China during the period of FY05 to FY15 (~24% CAGR) where Leading brands like Anta, Li-Ning, etc. captured a large share of the market.

- While the Casual segment is the largest segment under Footwear, S&A is witnessing faster growth and gradually consolidating market share. Increased awareness about health, fitness, and wellbeing have become important factors driving most Retail categories (viz. Food and Grocery, Apparel and accessories, Gadgets, etc.).
- Footwear too is witnessing the same trend, with the size of the S&A Footwear market expected to double in value terms to ~INR220b by FY25 (over FY20).
- Increase in discretionary income, coupled with growing Infrastructure to support sports and physical activities, will encourage consumers to spend on Active-wear products.
- Improved spending on sports as a result of increased sports participation is expected to improve for Indian Market as the country sees improved GDP per capita.
- Youth and middle-aged consumers are increasingly adopting an active lifestyle by participating and engaging in activities such as running, gym, tennis, cricket, badminton, football, trekking, etc. As the ASP of Sports Footwear is 75-150% higher than Casual Footwear, the increased demand from this category has created significant growth potential for the Footwear industry.

Exhibit 14: Indian S&A and Casual Footwear Market Size projected to Reach INR 882bn by FY25

Sources: Technopak Analysis, Campus Presentation

Exhibit 15: Indian Sports Footwear industry (INR b)



Source: Technopak Analysis

Opportunities for the Indian Sportswear brand

- While foreign sportswear brands hold high technology edge and a strong brand value given their global presence and band endorsement by sports celebrities.
- But despite their high ASPs, it garners meager 40-45% gross margins due to their high import duties. This creates high cost advantage for domestic players.
- Further as India is witnessing high demand for Sports footwear, large part of Indian footwear market – ~75% is below INR1,000 price point, making it unaffordable for the mass. This leaves huge opportunity for Indian players to tap the sports footwear market.

Exhibit 16: ASP of Footwear players – S&A players are operating at a premium

Brands	ASP in INR
Adidas	~1,800-2,400
Asian Footwear	~600-800
Asics	~1,900-2,300
BATA	~900
Campus	~600-700
Decathlon	~800-1,100
Fila	~2,800-3,200
HRX	~1,200-1,500
KHDM	~1,000-1,300
Lancer	~700-900
Liberty Shoes	~500-700
Lotto	~3,000-3,300
Metro Shoes	~1,200-1,400
MRZI	~3,300-3,600
New Balance	~3,200-3,600
Nike	~2,900-3,200
Onitsuka Tiger	~3,400-3,800
Puma	~2,800-3,400
Reebok	~3,000-3,300
RLXF	~150-250
Skechers	~3,600-4,000
Under Armour	~4,000-4,500

Source: Technopak Analysis

Exhibit 17: Player-wise Footwear SKU – Major focus on S&A (%)

Brands	Total Footwear SKUs	Casual	S&A	Formal	Outdoor	School Uniform
Adidas	7,673	0	92	0	8	0
Asian Footwear	3,970	62	38	0	0	0
Asics	1,486	21	60	0	19	0
BATA	5,176	69	10	17	2	2
Campus	6,388	0	100	0	0	0
Decathlon	292	0	80	0	20	0
Fila	1,000	0	100	0	0	0
HRX	470	34	62	0	4	0
KHADIM	1,281	38	12	30	17	3
Lancer	3,000	20	70	2	4	4
Liberty Shoes	1,516	52	19	18	9	2
Lotto	200	0	100	0	0	0
Metro Shoes	1,419	63	0	20	17	0
MIRZA	1,364	15	50	30	4	1
New Balance	3,049	30	66	0	4	0
Nike	2,570	15	76	0	9	0
Onitsuka Tiger	453	0	100	0	0	0
Puma	7,234	28	64	0	8	0
Reebok	1,644	6	78	0	16	0
RLXF	5,175	72	18	5	0	5
Skechers	1,117	10	47	4	39	0
Under Armour	160	15	80	0	5	0

Source: Technopak Analysis

Competition from online and international brands is heating up

With the emergence of the online channel, competition has intensified further as more players can display their product lines to attract customers. This has forced Footwear brands to introduce new designs and styles at a faster pace to stay relevant amid the rising competition.

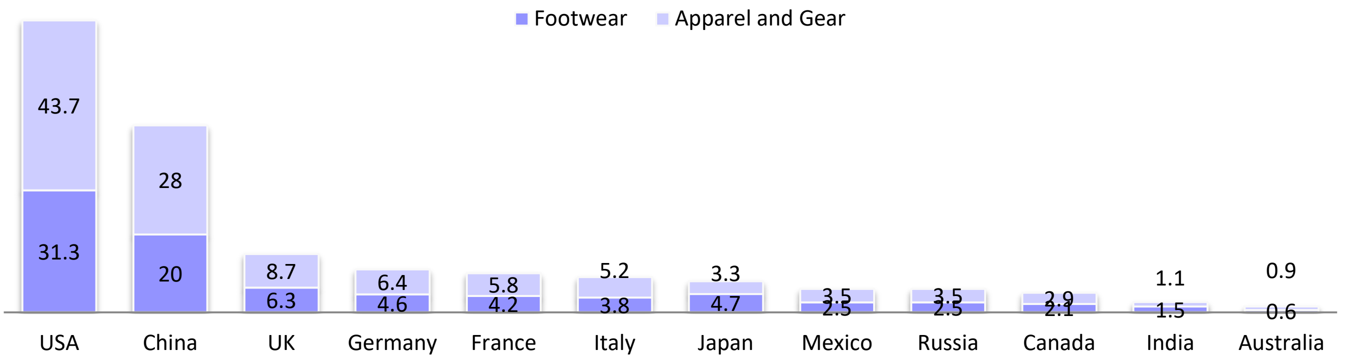
Online sales comparison

Footwear players have significantly ramped up its online sales in the last couple of years. Campus's online sales is at ~33% v/s mere 8% in FY20, better than even foreign peers like Adidas/Puma, which garner 25%/20% of their sales from this channel. While Metro and Bata have reached 10%/9% at present from 4%/3% of sales in FY20, respectively, an annual growth of over 20%. For local peers such as RLXF, the online platform contributed ~7.5% of sales in FY20.

Global S&A retail market

The global S&A market, which mainly consists of apparel, footwear, and gears, is projected to report a 6-8% CAGR during the next five years aided by rising incomes and spending power, favorable trends for athleisure, and a shift in the consumer buying preferences. While the US remains the largest market within this segment, faster growth is expected in Asia Pacific countries.

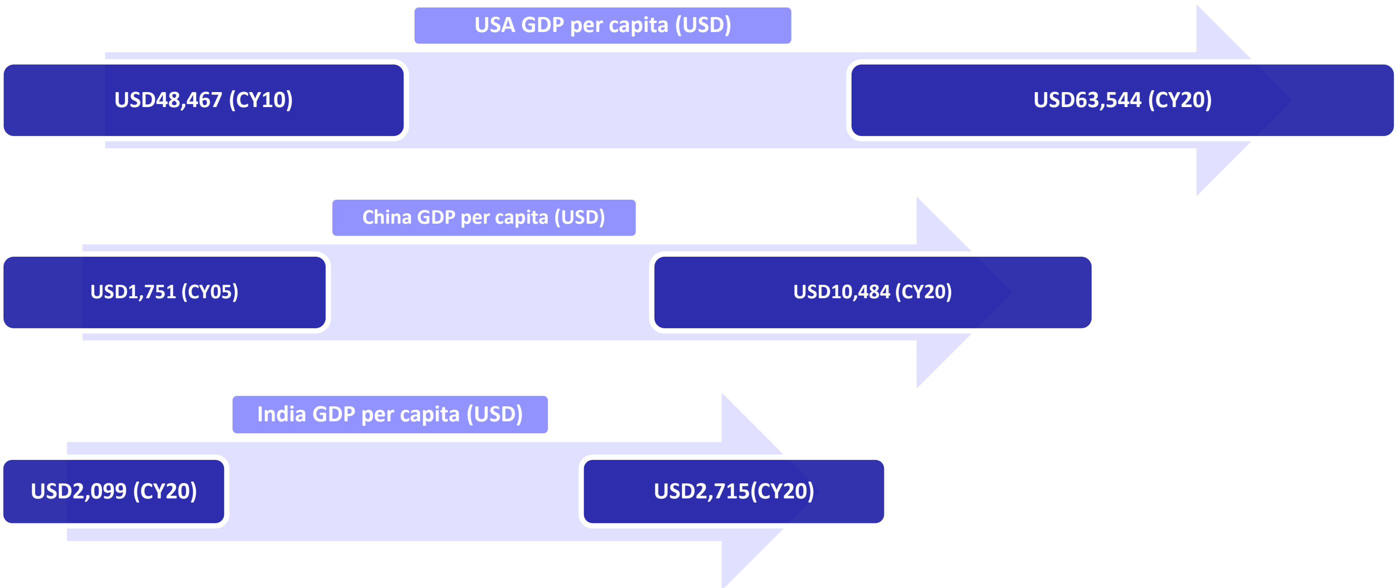
Exhibit 18: Region wise global S&A retail market – FY20 (USD b)



Source: Technopak Analysis

China's domestic S&A market (being the second largest after the US), which stood at USD48b in FY20, is likely to post ~10% CAGR upto FY25. Looking at growth in the US/China and the scale achieved over the last couple of decades, India has a strong growth opportunity in this segment.

Exhibit 19: Improved GDP per capita presents huge opportunity for higher spending on sports v/s developed markets (USD)



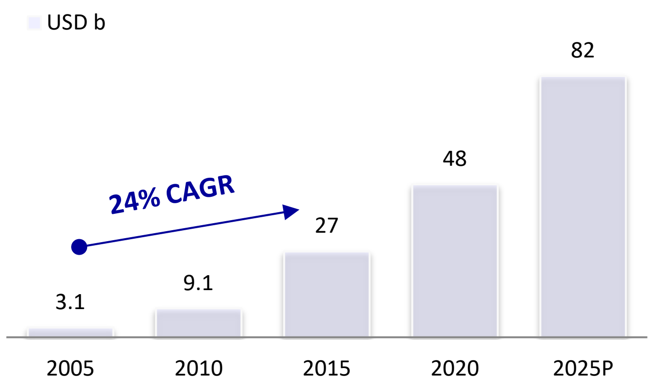
.Source: Technopak Analysis

Exhibit 20: Global S&A retail market along with per capita expenditure

FY20	S&A Retail (USD b)	Per Capita Expenditure in S&A (USD)
Global	335	
USA	75	227
China	48	34
UK	15	221
Germany	11	131
India	3	2

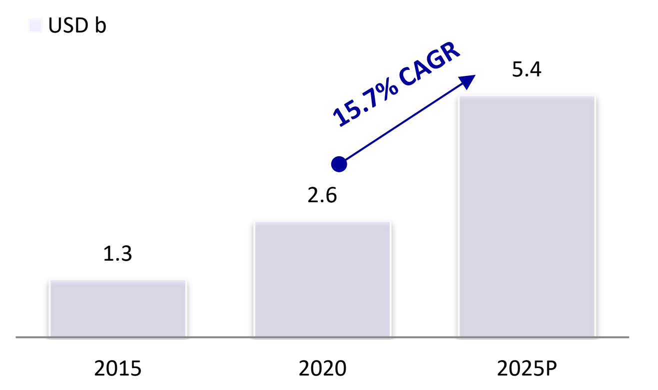
Source: Technopak Analysis

Exhibit 21: China's S&A retail market posted strong growth during CY05-15



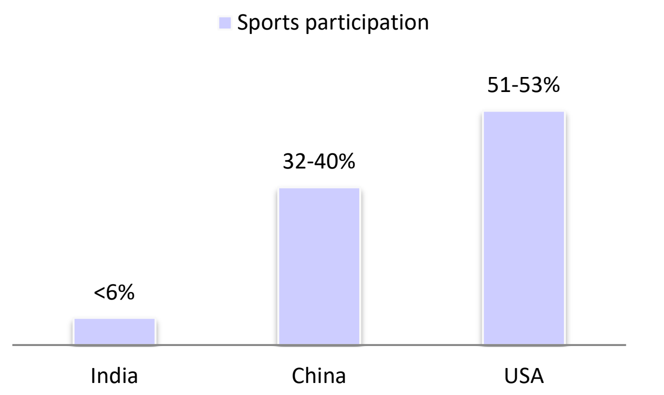
Source: Technopak Analysis

Exhibit 22: India's S&A retail market to clock ~16% CAGR



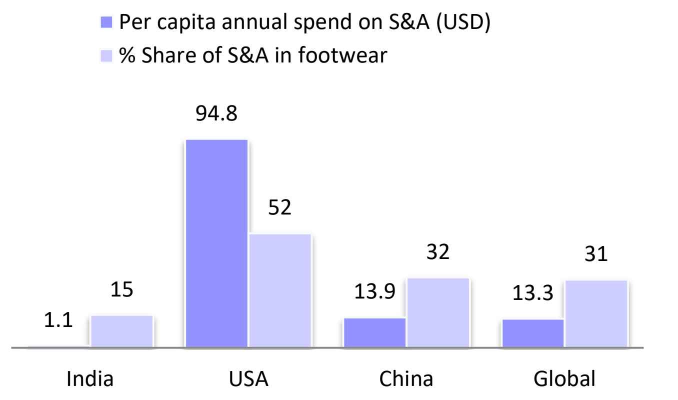
Source: Technopak Analysis

Exhibit 23: Huge scope for increase in sports participation in India v/s China and the US (CY20)



Source: Technopak Analysis

Exhibit 24: India's per capita expenditure and share of S&A in footwear remain lower v/s developed markets (CY20)



Source: Technopak Analysis

Case studies on the fast growing China S&A wear market

The segment growth can be tracked by taking the case studies of Anta Sports and Li-Ning – the Chinese companies that are primarily into manufacturing and retailing of S&A wear.

The studies reiterate the following observations:

- S&A wear saw robust growth and huge scale in China. India so far does not have any large domestic sportswear brand and foreign sportswear brands are not affordable for the mass.
- Chinese sportswear brands achieved strong double-digit growth indicating strong growth opportunities for domestic players during the growth period.
- Revenue share for Anta has been better, which could mainly be attributable to its presence across tiers and higher offerings of products that it has developed over the years through various acquisitions.
- Companies, in addition to improving their footprints, have also focused on improving the share of online segment – to meet the changing customer needs – as evident from the higher share of online/e-commerce division (of ~30%).
- Companies are focusing more on offering better products that are evident from their significant share of R&D costs.

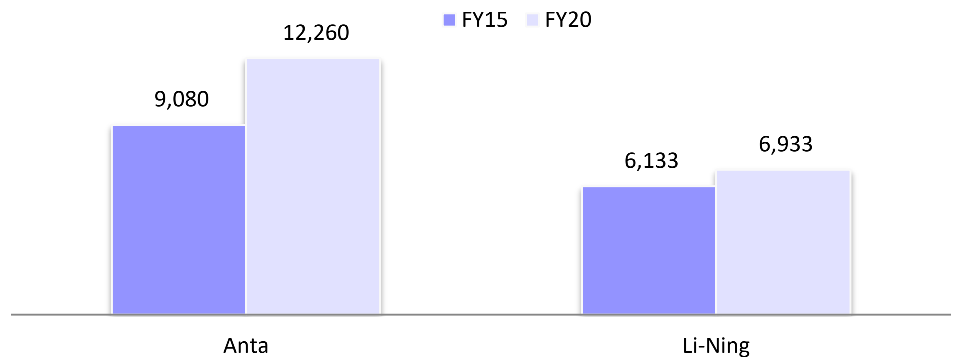
Exhibit 25: Comparative case studies of Anta and Li-Ning

	Anta	Li-Ning
Total Revenues (CY15) USD b	1.2	1.1
Total Revenues (CY21) USD b	7.6	3.5
CAGR (FY15-20)	46%	25%
Business model	From distribution-led approach to D2C in order to meet the changing customer needs	Single brand, multi-categories, diversified channels
Store presence	12,260 (9,080 in FY15)	6933 (6,133 in FY15)
Online share in Revenue	30%	30%
Market presence	Tier 1/2/3 and below through various product portfolios	Metro and top tier cities
Acquisition	Fila China (2009), Henan Material (2015), Finland's Amer Sports (2019), KINGKOW (2017)	N.A
R&D cost as % of revenue	2.5%	2.2%

Source: Campus RHP

China's growth story within S&A reflects strong growth opportunity for Indian players.

Exhibit 26: Improved footprint additions over FY15-20



Source: Campus RHP

Exhibit 27: Peer comparison for international S&A wear players

USD m	2007	2015	2021	CAGR (15-21, %)
Anta				
Revenue	393	1,171	7,649	46
EBITDA	68	460	2,209	37
PAT	71	325	1,196	30
M.Cap	3,460	6,874	40,528	43
Li-Ning				
Revenue	572	1,128	3,500	25
EBITDA	88	66	950	71
PAT	62	-7	610	-347
M.Cap	3,856	1,252	28,595	87
Nike Inc				
Revenue	16,326	30,601	46,710	9
EBITDA	2,402	4,781	8,072	11
PAT	1,492	3,273	6,115	13
M.Cap	28,472	87,131	2,15,334	20
Adidas				
Revenue	12,669	18,776	25,114	6
EBITDA	1,380	1,686	3,677	17
PAT	607	818	1,700	16
M.Cap	15135	19,559	55,235	23
Lululemon Athletica*				
Revenue	269.9	1,797	4,402	20
EBITDA	59.8	434	1,230	23
PAT	30.8	273	616	18
M.Cap	3007	9,402	42,844	35

* Data pertains to 2008 instead of 2007

Source: Bloomberg

Peer Analysis

We have undertaken a detailed peer analysis of retail/listed companies to gauge the revenue and operating performance of companies.

- **Limited players have achieved scale:** A handful of listed players like BATA, Metro Brands, Campus, Relaxo and few others players have achieved scale and a healthy financial position in the market. Foreign players, which have a decent scale of over INR10b, are largely in the Sportswear space.
- **Localization of product remains the key:** One of the key factors that has worked for few players is localization of products. The ability to localize the look and feel of its brands and products has allowed it to scale up the business, with the former being a market leader in terms of revenue market share.
- **Product premiumization:** Increasingly there is a trend towards premiumization across footwear players, given the high demand in that category. Footwear players in the higher ASP segment of ~INR1000+ are seeing good traction. METRO garners healthy ASP of INR1,400-1,500, while Campus and Bata are seeing improving ASP with better product mix.
- **Deep retail/distribution network:** BATA/METRO hold deep retail network, with 1,577/629 stores as of Mar'21. The companies have stores in cities across tiers as compared to foreign Sports brands that hardly have 20% scale and a retail presence in selected metro cities and Tier I and II towns. On the contrary players with lower ASP players like Relaxo and Campus have built a deep distribution to drive growth.
- **Aggressive store addition target:** BATA has a target to reach 500 franchise stores against current ~300 stores, while Metro targets to add ~250 stores over the next three year. Campus should also add ~125 stores p.a. mostly through FOFO models.

Exhibit 28: Qualitative snapshot of Footwear retailers

Companies	Geographic presence	Retail stores	Distributors/ sales point /Sales Point	Footwear contribution (%)	Online Contribution (%)	Operating model Model	Volume (m)	Production capacity (m)	ASP	Promoters /investor	Categories
Adidas India	Pan India	353			25	R/D/P				Adidas	M, W, K, S,
Bata India	Pan India	1,814			7	R/D/P	38.1	21	627	Bata	M, W, K, S,
Clarks	Pan India	50	600	100	15	R/D/P			3,742	Future	M, W, F, C
Crocs India	Presence in 50 cities	100	1500	100		R/D (Distributio			2,800	Crocs	M, W, K, C
Inc5 Shoes	Dominant in Tier I/II	49	225			R/P				Regal Shoes	M, W, S, F, C
KHDM India	Pan India	785	615	100	3	R/D/P	29.2	36	202	Mr. Satya	M, W, K, S,
Lakhani Footwear	No. of retail	NA	350	100		D/P		55.0		Mr. KC Lakhani	M, W, K, S, C
Liberty Shoes	Pan India	400	150	100		R/D/P		18.3		Gupta	M, W, K, S,
M&B	Insignifican	2				R/D				Mr. Inder	M, S, F, C
Metro	Pan India	624		90	7	R	10.0		1,341	Malik	M, W, K, S,
MRZI.	Pan India	276	1040			R/D/P		6.4	1,057	Mirza	M, W, S, F,
Mochiko				100		P		14.4			
Nike India	Pan India	150				R/D				Nike	M, W, K, S,
Puma Sports	Pan India	370			20	R/D				Puma SE	M, W, K, S,
Reebok India	Pan India	216			25	R/D				ABG/Aditya	M, W, K, S,
Relaxo	Pan India	394	700	100		R/D/P	175.0	245	152	Promoter	M, W, K, S,
Sketchers	Pan India	223		100		R/D				Skechers	M, W, K, S,

*R = Retail, D = Distribution, P = Production, M = Men, W = Women, K = Kids, S = Sports, F = Formal, C = Casual; Source: Company, media articles, MOFSL

Exhibit 29: Financial snapshot of the Footwear players (data of FY20 unless mentioned otherwise)

Companies	Annual revenue (INR b)	CAGR (FY16-20) (%)	Gross Margins (%)	Cost of retailing (%)	EBITDA margins (%)	PAT Margins (%)	RoCE (%)	RoE (%)	Net Debt/ EBITDA(x)
Adidas India	12.0	8	47	25	21	13.4	18	17	-2.4
Bata India	30.6	6	58	30	27	10.8	17	18	0.1
Clarks Footwear	1.4	2	27	38	-10	-31.2	-25	42	-1.6
Crocs India	2.6	32	46	45	1	0.7	2	2	-13.1
Inc5 Shoes	1.5	6	61	54	6	0.4	6	4	5.6
Khadim India	7.9	11	36	31	4	-4.0	-0	-12	8.2
Lakhani Footwear	4.4	7	41	35	6	0.5	8	3	3.3
Liberty Shoes	6.5	10	48	38	9	1.2	6	4	1.9
M & B Footwear	0.5	-33	44	60	-16	-11.9	-7	-9	3.7
Metro Brands	12.9	12	56	28	27	12.4	15	21	0.5
Mirza Int.	12.6	8	44	31	14	3.8	9	8	1.5
Mochiko Shoes^	1.1	-4	38	34	4	1.8	10	10	1.7
Nike India	7.6	0	44	36	8	4.2	38	-19	-3.8
Puma Sports India***	12.1	10	46	50	-3	-10.3	-25	NM	-11.4
Reebok India	4.3	5	44	27	17	16.1	27	-3	31.1
Relaxo Footwears	24.1	9	57	40	17	9.4	18	19	0.1
Skechers*	8.0	54	41	26	15	8.1	19	29	1.7
Paragon	16.3	18	45	37	7	3.2	18	19	1.4
Campus**	11.9	24	50	30	20	10.5	24	28	0.6

^FY19 data, * includes for India and South Asia, ** CAGR taken from FY18-22; data taken for FY22, ***financials are in CY

Exhibit 30: Store presence

	FY18	FY19	FY20	FY21	FY22
No of Stores					
Listed					
Bata	1,375	1,545	1,696	1,688	1,814
Metro	419	504	551	586	624
RLXF	302	343	390	398	394
Campus Footwear	16	32	37	45	107

Source: MOFSL, Company

Exhibit 31: Volume trajectory

	FY18	FY19	FY20	FY21	FY22
Volume (m Pairs)					
Listed					
BATA	47	47	49	32	38
METRO	NA	9	10	6	10
RLXF	157	184	179	191	175
Campus Footwear	NA	12	14	13	19

Source: MOFSL, Company

Exhibit 32: Average selling price

	FY18	FY19	FY20	FY21	FY22
ASP (INR)					
Listed					
BATA	559	620	618	534	627
METRO	NA	1,321	1,346	1,328	1,341
RLXF	124	125	135	124	152
Campus Footwear	NA	481	509	546	620

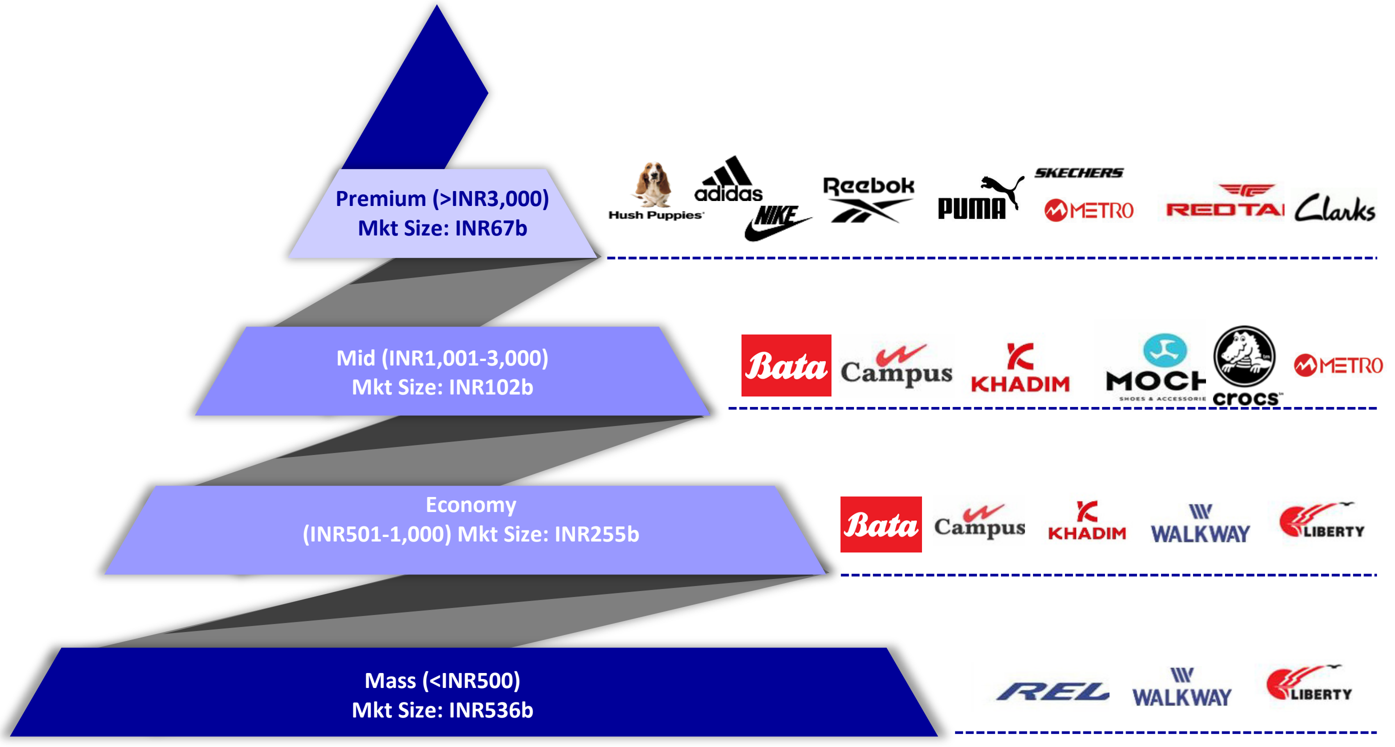
Source: MOFSL, Company

Exhibit 33: Average store size

	FY18	FY19	FY20	FY21	FY22
Avg Store Size (Sq. Ft)					
Listed					
Bata	2,189	1,987	1,904	1,765	1,692
Metro	NA	1,277	1,261	1,230	1,271
RLXF	NA	NA	NA	NA	NA
Campus Footwear	NA	769	769	769	762

Source: MOFSL, Company

Exhibit 34: Target segments of Indian Footwear companies by product pricing



Sources: BATA AR, Campus RHP, MOFSL

Retail model v/s distribution model

There are two offline sales models prevailing in the Footwear industry: a) the retail model – Exclusive Brand Outlet (EBO), and b) the distribution model.

- Typically, lower ASP products are largely sold through the conventional distributor model in order to cover the wide depth of small retailers which constitute nearly two-third of the market. The higher ASP products – premium brands are predominantly run on EBO networks to display their complete range and maintain brand positioning.
- **High gross margin:** An EBO has better brand recall and is able to sell premium products, which gives it a higher pricing power (as reflected in the higher ASP of BATA, METRO, and Sportswear brands). This translates into a higher gross margin. Typically, distributors cater to the unorganized smaller players selling low-ASP products with lower brand recall and pricing power. However, Campus and Relaxo both through their in-house facilities have created cost efficiency and thus healthy margin and yet attained strong product quality to drive scale.
- **Neutral EBITDA margin advantage:** While an EBO garners higher gross margin, the high cost of retailing largely offsets gross margin benefits. The distributor model entails a lower cost of retailing and caters to a wider network, thereby generating higher volumes and improving the ability to leverage fixed costs. This leaves both models with similar EBITDA margin levels.
- **Asset heavy model:** The EBO model requires greater investments on stores, making it a high investment model. This creates a barrier for new premium brands and makes it hard to scale. Further, it becomes key to drive store productivity and achieve healthy asset turns and profitability. The conventional distributor model does not require capital investments, but focuses on production to drive cost competency.
- **Brand creation:** Distributors and local footwear retailers are flooded with brands and have a low incentive to stock inventory of new brands, unless it is a recognized brand, or there is a pull factor from customers, or are offered higher distribution margins. Thus making it difficult to create a D2C brand. Alternatively, companies develop own retail chain to create a recognized brand in the market. However, given the localized nature of the business, it increases the customization and store profitability.
- **Working capital:** Investment in working capital remains largely the same for both the retail as well as the distribution model, with the key difference being that a retailer may have to stock higher store inventory, while the distribution model operates on receivables as channel credit. The only difference is if the brand has a pull, then it could limit the receivable days as evident in the case of Campus, thereby shifting the burden of working capital onto the distributor.
- **Return ratios:** Despite operating an asset heavy model, BATA and METRO (retailer) have been able to maintain a healthy return profile, with its average ROCE/RoIC at ~20%, which is a difficult ask. Campus and Relaxo have invested in in-house facility but yet garner healthy return profile thanks to the cost efficiency and high asset turns.
- **Growth:** The biggest advantage of operating a distributor model is the acceleration in growth due to the low investment requirement in retail and ability to penetrate the market faster. This can also be partly achieved through the asset light franchisee route. But with in-house production, it increases the burden of adding incremental capacity to fuel growth.

- **Entry barriers:** A low-ASP product has a lower entry barrier as a distributor could flood the market. Less brand conscious customers can impact pricing. High ASP products sold through the EBO channel may create brand loyalty and customer stickiness, which allows it to compete better and garner higher return ratios.

Retail model v/s distribution model

	RETAIL MODEL	DISTRIBUTION MODEL
ASP (INR)	👟👟	👟
Volume (m)	👟	👟👟
Gross margin (%)	👟👟	👟
Brand recall	👟👟👟	👟
EBITDA margin (%)	⟷	⟷
Geographic reach	👟	👟👟

Strong: 👟👟👟 **High:** 👟👟 **Moderate:** 👟 **Neutral:** ⟷ Source: MOFSL, Company

Exhibit 35: Retail model v/s distribution model economics

	Retail model		Distribution model	
	Bata	Metro Brands	Relaxo	Campus
Product Category	Family Store	Family Store	Majorly open footwear brand	Sport Footwear brand
ASP (INR)	627	1,341	152	620
Volume (m)	38.1	10.0	175	19.3
Gross Margin (%)	55%	58%	54%	50%
Cost of retailing (%)	37	27	38	30
EBITDA Margin (%)	18	30	16	20
Debtor days	11	16	35	35
Inventory days	292	274	93	170
Payable days	153	151	31	112
NWC days	150	138	97	93
Stores (EBO)	1573	624	394	107
Distributors	N.A	N.A	650	425
Asset turnover*	0.8	0.7	1.9	1.6
RoCE*	6%	15%	13%	24%

*Relaxo's high manufacturing assets are included Source: MOFSL, Company

Comparison of store economics in Footwear v/s other categories

Typically, premium retailers, who command higher ASP and margins, have to invest heavily on the look and feel of their store and inventory. Due to their higher ASPs, margins too are higher.

In order to analyze store economics across the Footwear, Apparels, and Food categories, we have included various parameters such as sales, investment, area, and cost of retailing at the store level. METRO's overall business economics is dominated by a healthy gross margin, lesser retailing costs, and lower store investments (capex and working capital), which allows it to garner healthy asset turns. Its ability to achieve good store economics is derived from healthy scale.

Exhibit 36: Store economics of Footwear retailers

	Particulars (INR m)	Bata	Liberty	Khadim*	Relaxo	Adidas	Reebok	Puma	Metro	Campus
Stores	Stores	1578	400	785	390	353	216	370	624	107
	Area per store	1,904	1,000	736	1,000	1,250	1,600	1,250	1,271	762
Investment	Investment/sqft	3,220	4,000	4,143	4,558	6,250	6,250	6,250	8,337	3,937
	Initial investment	6.1	4	3.0	4.6	7.8	10	7.8	10.6	3.0
Revenue	Revenue/sqft (INR)	8,188	10,000	8,608	4,678	10,179	4,652	13,736	16,934	10,000
	Annual store revenue	15.6	10	6.3	4.7	12.7	7.4	17.2	21.5	7.6
Costs	Gross profit at store level	9.0	4.8	3.2	2.5	5.7	3.1	7.7	12.5	3.8
	Gross margin at store level (%)	**57.4**	**47.6**	**50.8**	**53.0**	**45.0**	**42.0**	**45.0**	**57.9**	**50.0**
	EBITDA	3.2	0.9	1.5		3.6	2.5	6.0	5.4	1.4
	margin (%)	20.6	8.5	23.8		28.0	33.5	35.0	25.0	19.0
	Corporate expense	0.7	0.2	1.1		0.9	1.7	5.6	0.8	-0.1
	EBITDA at company level	**2.5**	**0.7**	**0.5**	**0.5**	**2.6**	**0.8**	**0.5**	**4.6**	**1.5**
	EBITDA margin at company level (%)	16.3	6.7	7.1	11.0	20.7	10.8	2.6	21.2	20.2
Performance	**RoI (%)**	52	21.3	49.5	NA	45.6	24.9	76.9	51	48
	Payback period (yrs)	1.9	4.7	2.0	NA	2.2	4.0	1.3	2.0	2.1

*For KHDM, revenue/sq. ft. is a blend of the COCO and FOFO model - COCO/FOFO revenue/sq. ft. of ~14,500/5,460; Source: Primary research, media articles, MOFSL

	FOFO					FOCO
Particulars (INR m)	BURGERKI	McDonald's	Pizza Hut	Subway	KFC	WoW! Momo
Annual turnover	42.0	45.6	27.4	11.9	45.6	10.6
Store size (sq. ft.)	1300-1400	2600-3200	2600-3200	750-1000	2500-3000	350
Revenue/sq. ft.	31,093	15,733	9,440	13,557	16,591	30,171
Capex	22.5	37.5	22.5	4.5	32.5	2.4
Store EBITDA	5.5	6.4	4.9	2.5	6.8	
EBITDA margin (%)	13%	14%	18%	21%	15%	
Royalty	1.9	2.1	2.1	0.9	3.4	
Royalty as a percentage of revenue	4.5%	4.5%	7.5%	7.5%	7.5%	
Profit to franchisee	3.6	4.3	2.9	1.6	3.4	0.6
Asset turnover	1.9	1.2	1.2	2.6	1.4	4.3
RoI	16%	12%	13%	36%	11%	26%
Payback period (years)	6.31	8.65	7.83	2.81	9.50	3.84

Source: Technopak Bok, Media articles, MOFSL

Exhibit 37: Store economics of Apparel retailers

	FOCO		FOFO
Particulars	WLDL	Zudio	ABFRL EBO
Area (sq. ft.)	15-25k	6-8k	
Revenue per sq. ft. (INR)	28,462	18,257	
Annual store revenue	512	128	15
Franchisee income	88	22	15
Total expense	73	17	13.8
Franchisee profit	15	5	1.2
Franchisee margin	*17%*	*24%*	*8%*
Initial investment	67.7	19	5
Asset turnover	7.6	6.8	3.0
RoI	22%	28%	24%
Payback period (years)	4.5	3.6	4.2

Source: Primary research, Company, MOFSL

Putting the best FOOT forward

metro BRANDS — Pg31
Efficiently run business model; Initiate with a BUY

CAMPUS — Pg57
In the right place; Initiate with a BUY rating

RELAXO — Pg89
Riding on India's organized footwear shift

Bata — Pg113
Footwear trailblazer – awaiting rejuvenation in growth!

Metro Brands

BSE SENSEX	S&P CNX
58,841	17,531

CMP: INR783 TP: INR1,000 (+28%) Buy

Efficiently run business model; Initiate with a BUY

- **Metro Brands (METRO)'s success lies in its superlative store economics, with 2x store productivity v/s BATA, and healthy profitability.**
- **A strong brand appeal, a healthy portfolio of in-house and third-party brands and an efficient demand-pull supply chain model ensures product freshness in stores.**
- **It has consistently added new stores at 12% CAGR over the last six years and has a strong Balance Sheet and management will to continue to grow. We have factored in 13% footprint CAGR over FY22-25, driving 31% revenue CAGR.**
- **Its high RoIC of 20%, led by efficient working capital and store economics, and healthy growth outlook warrants rich valuation. We initiate coverage with a Buy rating and a TP of INR1,000/share.**
- **Key downside risks to our call: a) rising input cost and GST, b) modest store additions, and c) competition from foreign brands.**

Premium Footwear player with strong store economics

METRO's success lies in its superlative store economics. Operating in the premium Footwear space, through own retail network (COCO) is imperative to achieve a successful store-level profitability to garner scale. Its ability to run an efficient retail network, led by its superlative productivity of ~INR25,000/sq. ft. and store-level EBITDA margin of 25% has translated in a superior payback period of below two years. Factors like: a) right store size, b) wide product basket, which caters to the family audience, and c) prioritizing productivity over store cost (incentivizing staff and ideal store locations) allows it to garner healthy store economics. This, is turn, gives legs to its growth initiatives.

Huge growth opportunity

METRO has consistently added new stores (12% CAGR) over the last six years across its four brands, and achieved EBITDA margin of >21% (pre-Ind AS 116). This underlines its sustainable growth capabilities. Yet, its store count is one-third the size of BATA, underscoring the opportunity to expand store count. METRO's a.) strong annual cash flow generation (of INR3b-INR5b can potentially fund more than 250 stores), b.) management intent to boost its footprint by double-digits, and c.) robust store economics, and last 10-years' history of consistent store additions gives us enough confidence in its ability to drive growth. We factor 13% footprint CAGR along with the sharp business recovery seen in the last few quarters to drive 31% revenue CAGR over FY22-25E.

Strong product capabilities create a pull model

Catering to a price-conscious (average price point of ~INR1,400) and aspirational consumer segment, METRO's robust funnel of product designs has created a strong brand appeal. Its value proposition lies in it being a family store, holding a wide portfolio and offering products across gender and categories, including Casual, Formal, and others.

Stock Info

Bloomberg	METROBRA IN
Equity Shares (m)	272.0
M.Cap.(INRb)/(USDb)	217.5 / 2.7
52-Week Range (INR)	870 / 426
1, 6, 12 Rel. Per (%)	-7/38/-
12M Avg Val (INR M)	292
Free float (%)	25.7

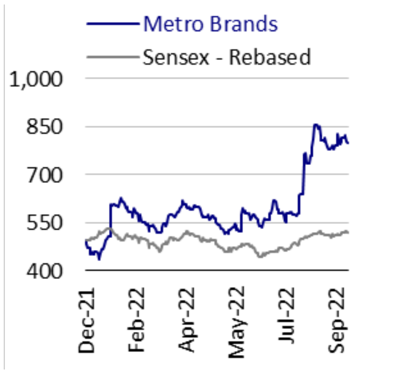
Financial Snapshot (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	13.4	21.1	25.2
EBITDA	4.1	6.7	8.1
Adj. PAT	2.1	3.8	4.5
EBITDA Margin (%)	30.5	32.1	32.0
Adj. EPS (INR)	7.8	13.9	16.6
EPS Gr. (%)	NM	78.0	19.5
BV/Sh. (INR)	47.6	60.5	75.8
Ratios			
Net D:E	(0.1)	(0.0)	(0.1)
RoE (%)	20.0	26.2	24.9
RoCE (%)	14.9	18.8	17.8
Payout (%)	9.6	9.5	9.5
Valuations			
P/E (x)	100.5	56.5	47.3
EV/EBITDA (x)	52.6	31.9	26.5
EV/Sales (X)	16.0	10.2	8.5
Div. Yield (%)	0.1	0.2	0.2
FCF Yield (%)	1.1	1.6	2.6

Shareholding pattern (%)

As On	Jun-22	Mar-22
Promoter	74.3	74.3
DII	4.9	4.6
FII	3.2	3.4
Others	17.6	17.8

Stock Performance (1-year)



The healthy mix of own and third-party brands (70:30) allows it to improve variety, including Sportswear – an area where it has a low own product mix. With multiple formats – Metro, Mochi, and Crocs, it is able to cater to a wider audience across age groups, fashion quotients, and occasions to garner higher productivity. Its efficient demand-pull model engages with vendors to ensure its portfolio remains fresh.

Lean balance sheet, robust cash generation

METRO's strong store economics, along with a lease-based COCO model, has enabled it to create an asset-light approach and yet optimize revenue. At the store level, it has a strong asset turn (2.8x), including inventory and capex. Its demand-led lean inventory level is well supported by low discounting/ provisioning and robust supply chain, with predictive models and auto replenishments. This has resulted in an efficient working capital at 138 days, which, along with the lease model, led to strong RoIC (19.7%) and FCF (INR2.3b) in FY22. We expect RoIC (excluding cash) to improve to 27.7%/27.1%/28.2% in FY23/FY24/FY25. Its strong cash generation is evident from an estimated cumulative OCF of INR9.9b over FY23-24E, which should suffice for ~250 store additions annually (including inventory), thus enabling it to fund growth internally. Its strength is evident from the continuously rising cash levels since the last 5-7 years which is piled up despite the internally funded healthy growth.

Valuation and view

METRO trades at rich valuations, backed by: a) a balance sheet that is par excellence, with a healthy RoIC of 20% for FY22 (65% on Pre IND-AS 116), and b) internally funded growth, because of a strong OCF-to-EBITDA ratio of over 50% over the last five years. It has seen healthy double-digit revenue/PAT growth consistently over the last 10 years. We have factored in revenue/PAT CAGR of 31%/37% over FY22-25E, respectively, led by healthy store additions and strong recovery in SSSG. We value the stock at 50x P/E on FY25E EPS, i.e., at par with our footwear coverage universe, to arrive at our TP of INR1,000. **Initiate coverage with a BUY rating.** The company's combination of superior store economics and strong runway of growth should allow it to garner rich valuations going ahead.

Strong store level economics

It is imperative to build a successful EBO model (achieve store level profitability) to scale up a premium Footwear business. METRO's revenue productivity is among the best in the industry (~INR25,000/sq. ft.), with an average realization rate of ~INR1,400. This has allowed it to garner healthy store economic. METRO's ability to run an efficient EBO network, led by its superlative productivity of ~INR25,000/sq. ft. and store-level EBITDA margin of >25% has translated in a superior payback period of mere below two years. Factors like: a) the right store size, including the use of the mezzanine/loft space for storage, b) wide product basket catering to the family audience, c) prioritizing revenue optimization over cost (high staff incentives and top store locations) allow it to garner healthy store economics. This, is turn, gives legs to its growth initiatives.

- **Store-level capex:** It spends ~INR4-5m towards capex, ~INR5-7m towards inventory, and an additional INR1m towards security deposit. Total capex is INR11-12m. Adjusting for payables, net capex is INR8m.

Exhibit 1: Format-wise store set-up cost

Per store	Capex	Inventory	Security deposit	Total
Metro	5.04	5.51	1.23	11.8
Mochi	5.15	5.38	1.21	11.7
Walkway	2.82	3.26	0.6	6.7
Crocs	2.77	2.11	0.76	5.6

Source: MOFSL, Company

- **Store-level revenue:** It generates a store-level revenue of INR22m, i.e. 2.8x asset turnover, with a realization of ~INR1,400 and annual store volumes of 16k pieces.
- **Store profitability:** Gross margin remains healthy (55-57%), led by a superior realization rate. The additional cost of retailing is 30-32%, which includes rent, employee and other cost. It earns a store level EBITDA margin of >25%, 500bp higher than the reported pre-Ind AS 116 margin of 20-21% (average of four years: FY17-20). This works out to a store-level EBITDA of INR5.4m and a payback of below 2 years.
- **Focus on building an asset-light model:** It operates via leased stores and aims to turn profitable from the first year itself. The management believes that if a retail store loses money in the first year itself, it is a challenge to turn it around as costs go up every year.

Exhibit 2: Store economics garner a payback period of less than two years (INR m; FY22)

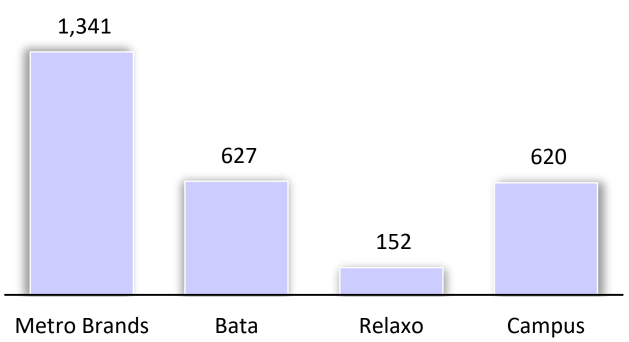
	Total	Per Store	Per sqft
Capex	2,370	3.8	2,988
Security Deposit	564	0.9	711
Inventory	4,242	6.8	5,349
Payables	2,343	3.8	2,955
Total Investment	**4,832**	**8**	**6,093**
Revenue	**13,429**	**21.5**	**16,934**
Volume (m)	**10**	**16,045**	**13**
Price (INR)	**1,341**	**1,341**	**1,341**
Asset turns	*2.8*	*2.8*	*2.8*
Raw Material	5,659	9.1	7,136
Gross Profit	**7,770**	**12.5**	**9,798**
Gross Margin	**57.9%**	**57.9%**	**57.9%**
Rent	1,657	2.7	2,385
as a % of revenue	*12%*	*12%*	*14%*
Employee Cost	1,212	1.9	1,745
as a % of revenue	*9%*	*9%*	*10%*
Others	1,543	2.5	1,946
as a % of revenue	*11%*	*11%*	*11%*
Store Level EBITDA	*3,357*	*5.4*	*4,233*
Store Level EBITDA margin	*25%*	*25%*	*25%*
Corporate and Other overheads	513	0.8	738
as a % of revenue	*4%*	*4%*	*4%*
EBITDA	**2,844**	**4.6**	**3,586.4**
EBITDA margin	***21%***	***21%***	***21%***
Dep	303	0.5	435
Dep rate	13%	13%	15%
EBIT	2,542	4	3,151
ROCE/ROIC	**53%**	**53%**	**52%**
Payback	**1.9**	**1.9**	**1.9**

Source: MOFSL, Company

Drivers of superior throughput (revenue/sqft)

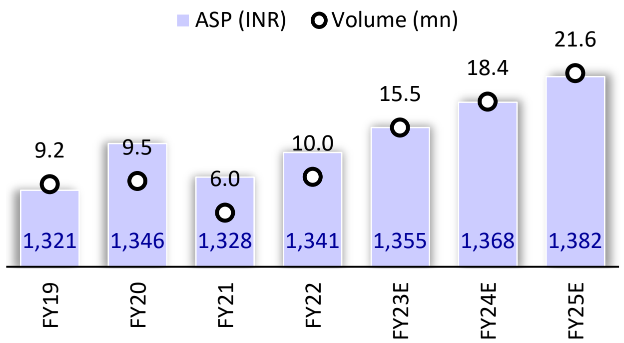
- The high revenue/sq. ft., ahead of its industry peers, is certainly a key driver behind its strong store economics. Its higher productivity accrues from the **15% higher revenue/store and 40% lower store size,** nearly doubles throughput. Its greater revenue/store is due to its higher price points volume/store v/s peers. A smaller store size is a key growth driver. The mezzanine/loft in each store is used to store inventory. This allows it to operate with a smaller store size.

Exhibit 3: Higher price points v/s peers (FY22) (INR)



Source: MOFSL, Company

Exhibit 4: Higher ASP and volume to drive revenue growth



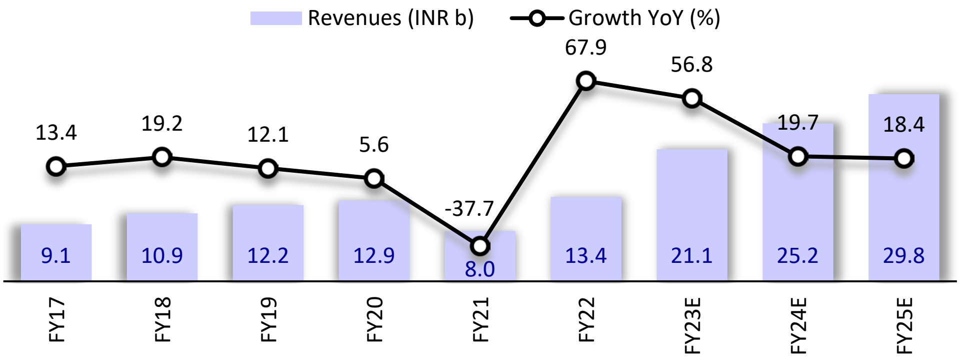
Source: MOFSL, Company

Exhibit 5: Format-wise store sizes (sq. ft.)

Format	Store size (as stated by the company)
Metro	1,600
Mochi	1,500
Walkway	1,350
Crocs	600
Fitflop	450

Source: MOFSL, Company

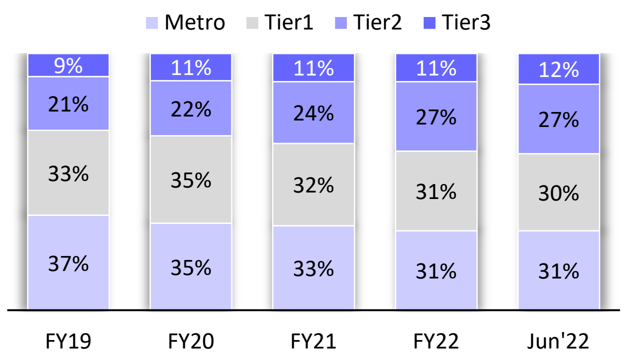
Exhibit 6: Expect revenue to grow by 31% CAGR over FY22-25E



Source: MOFSL, Company

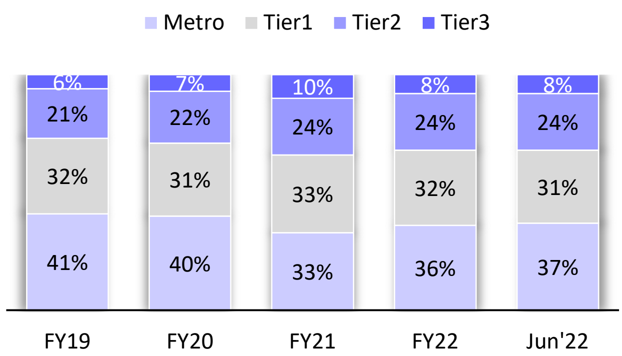
- **Qualitatively**, a.) Having stores at the right place and of the right size, along with suitable merchandise as per the location/region, drives store throughput. b) Metro's entrepreneurial model helps optimize revenue by incentivizing employees. Assuming seven employees per store, the average monthly payout is INR25-30k for a store employee, with the bulk of it being variable. c) The right mix of in-house and third-party brands also helps in filling gaps in customer requirements and thus optimizing revenue.

Exhibit 7: Presence across segments



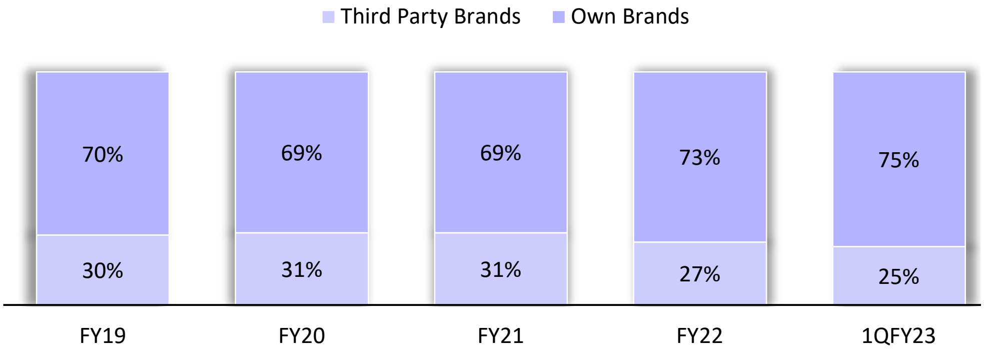
Source: MOFSL, Company

Exhibit 8: Revenue share from each segment



Source: MOFSL, Company

Exhibit 9: Revenue share from own and third-party brands

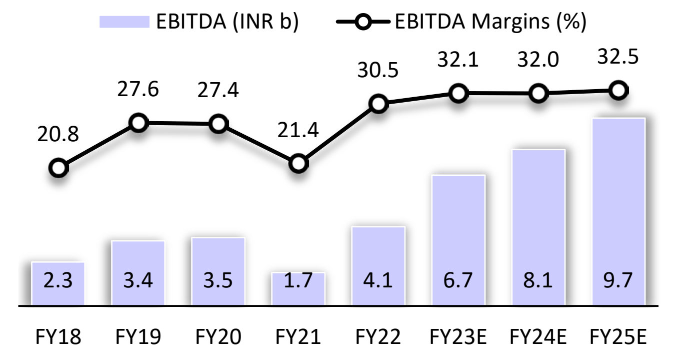


Source: MOFSL, Company

EBITDA margin trend to improve

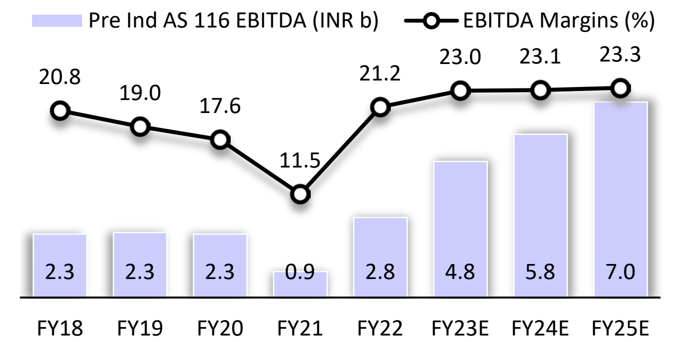
- METRO's higher EBITDA margin profile is based on a healthy (55-57%) gross margin. This is on account of the high ASP and limited (6-8%) discounted sales. Its pre-COVID, pre-Ind AS 116 EBITDA margin (Calc.) stands at 21.2% (FY22 levels).
- Incremental margin levers: COVID-led cost rationalization should aid margin. Further improving product mix towards high ASP products too should help. But given that it operates at optimum pricing and discount levels, it has limited levers for further margin upside.

Exhibit 10: EBITDA margin post Ind AS 116



Source: MOFSL, Company

Exhibit 11: EBITDA margin pre-Ind AS 116



Source: MOFSL, Company

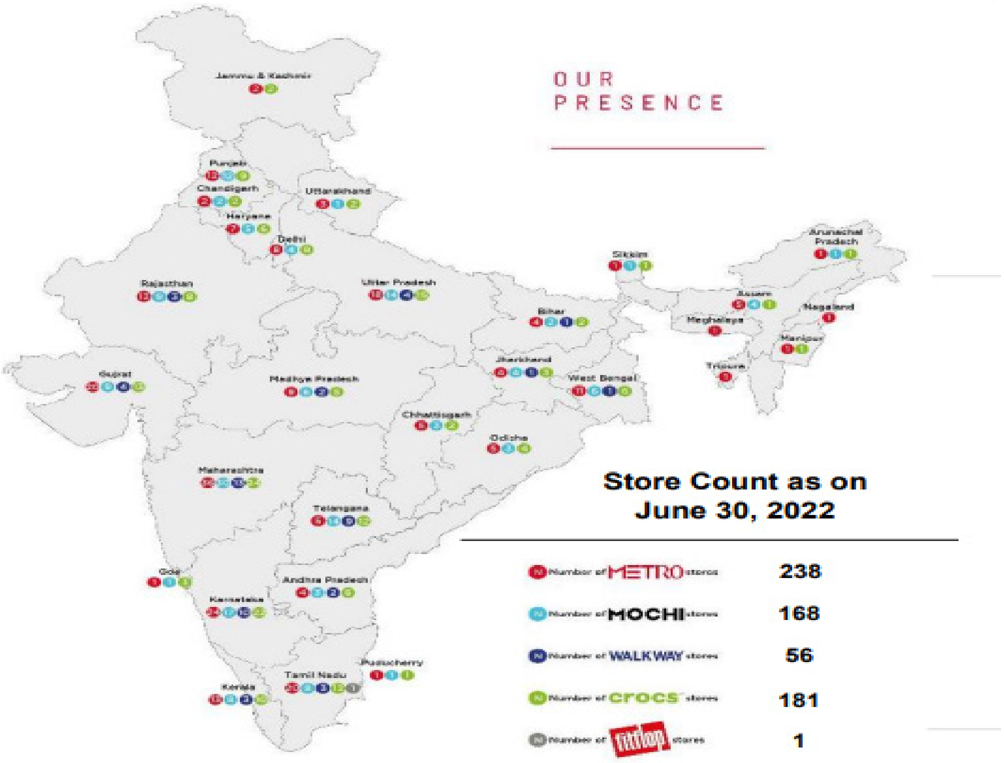
A huge growth opportunity

- **METRO's**
  - **a) strong cash flows (generates an OCF of over INR3b annually that can potentially fund 250 stores),**
  - **b) the management's intent to grow its footprint by double-digits,**
  - **c) robust store economics, and**
  - **d) its last 10-year track record of consistent store additions offers us enough confidence in its ability to drive growth.**
- **We have factored in a 14% footprint CAGR over FY22-24E coupled with sharp recovery in SSSG should 37% revenue CAGR. Below are key growth levers:**

1. New store additions and capex

- METRO's store count has grown by 644 stores in 147 cities as of Jun'22 from 419 stores in FY18, a growth of >50%. Last year in RHP it had targeted to add 260 stores over next few year. Since then it has already added 34/15 stores at gross/net level. We feel it will comfortably achieve this target. Assuming a capex of INR5m per store, it will require INR400m for the same which should be comfortably funded through internal accruals.
- Metro/Mochi have 238/168 stores (as of Jun'22) against more than 1,600 stores for BATA, thus offering it huge growth opportunities.
- In the past, METRO has been opportunistic by adding stores aggressively during the benign Real Estate market and stepped off the pedal when the market was heated. It added 95 stores in FY19. Prior to that, store additions were in the 60-65 stores range.

Exhibit 12: Pan India player



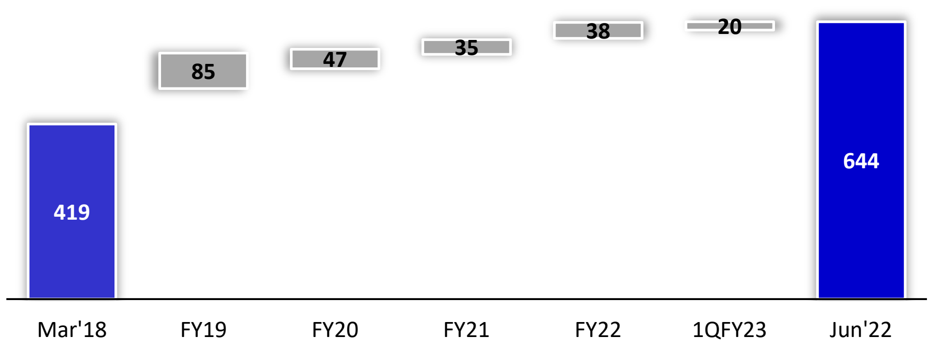
Source: MOFSL, Company

Exhibit 13: Format-wise store count

	FY19	FY20	FY21	FY22	Jun'22
Metro	209	218	219	231	238
Mochi	136	145	145	162	168
Walkway	63	70	73	53	56
Crocs	96	118	149	178	181
FitFlop	0	0	0	0	1
Total	**504**	**551**	**586**	**624**	**644**

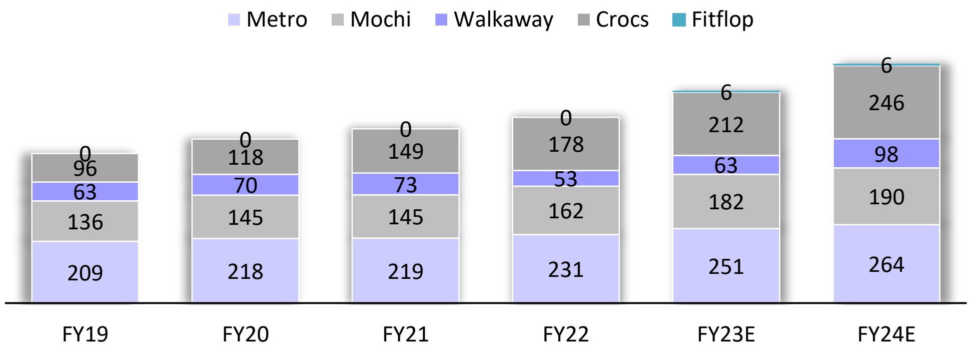
Source: MOFSL, Company

Exhibit 14: Store additions over the period



Source: MOFSL, Company

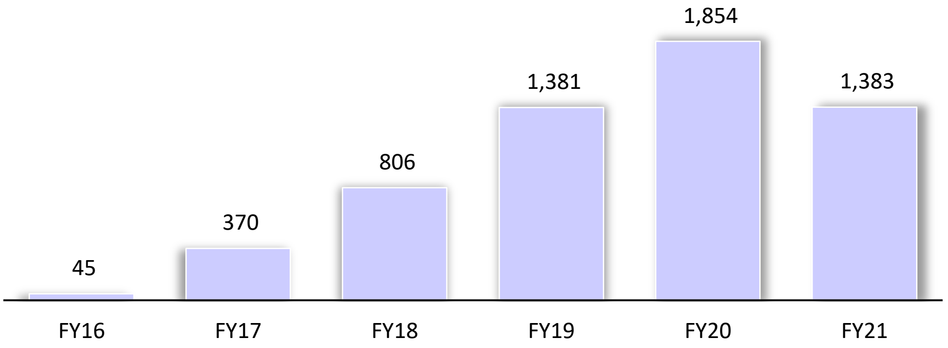
Exhibit 15: Format-wise store trajectory



Source: MOFSL, Company

- **FitFlop:** METRO entered into a long-term **exclusive agreement with FitFlop in Jan'22. With this agreement, METRO gained exclusive rights for sale and distribution across all formats, including EBO, MBO, distribution, and digital mediums in India.** Catering to the fast growing Wellness category, *it provides a range of flip flops and footwear* in the *Premium segment,* which could be the next driver of growth. The company recently opened 1 EBO for this brand and could end the year with additional 5 stores.
- **Walkway:** In 4QFY22, it discontinued Walkway SIS in D-mart shutting about 19 Walkway stores. It remains profitable but is lower than Metro/Mochi. Going forward, store addition should be largely in Tier 3/4/5 towns (given the lower rental, better store economics and good demand) predominantly through the franchise route. Company has 9 franchise stores (2 added in 6m). Given the lower ASP nature of the product, we think a distribution model could well reduce cost and improve profitability for the brand.

Exhibit 16: Gross revenue growth for Crocs remained strong during FY16-20 (INR m)

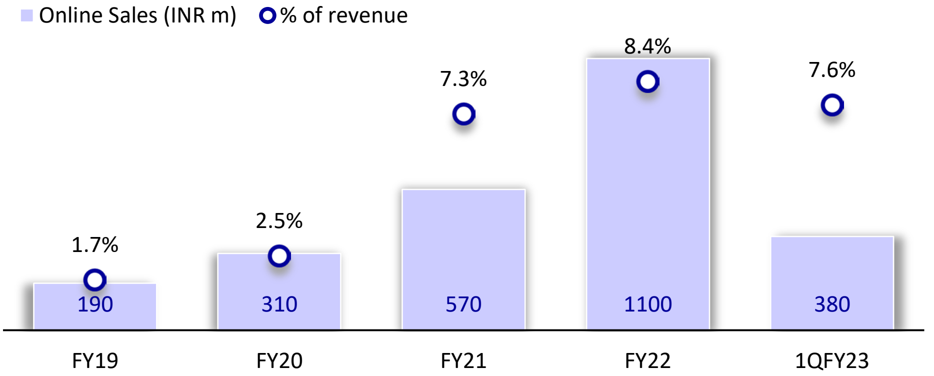


Source: MOFSL, Company

2. **SSSG:** Historically, METRO has witnessed single-digit SSSG, however, in the last couple of quarters, SSSG is estimated to be strong double digit led by ASP improvement (passing on rising RM cost and mix improvement). A sizeable portion of its cost is variable in nature, including staff and a part of the rent. This has enabled it to maintain its EBITDA margin over the last 10 years.

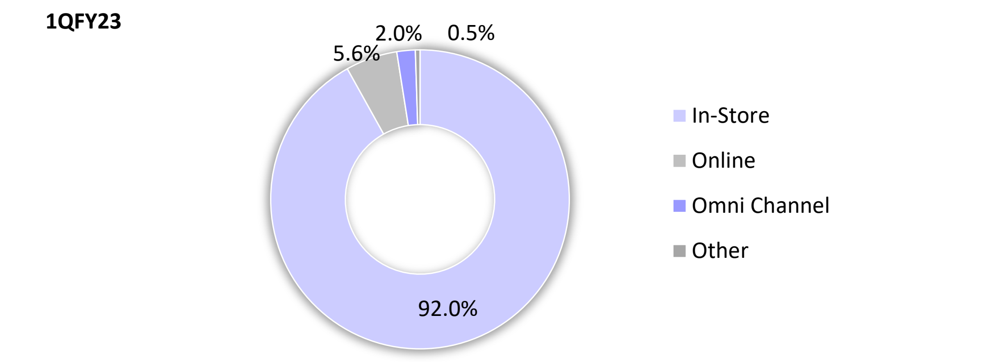
3. **The increased contribution of e-commerce and omnichannel:** The online channel, which contributed 7.5% to total sales in FY21 improved to 8.4% in FY22. Going forward, 25-30% business should accrue from the omnichannel, which saw growth double in the last couple of years. Captive sites/market place garner 50%/15% sales from stores and the balance is from the warehouse. It plans to invest in digital marketing, content generation, and analytic technologies; introduce complementary products; and expand its revenue-generating channels.

Exhibit 17: Improving share of online sales



Online sales, as a percentage of revenue. Source: MOFSL, Company

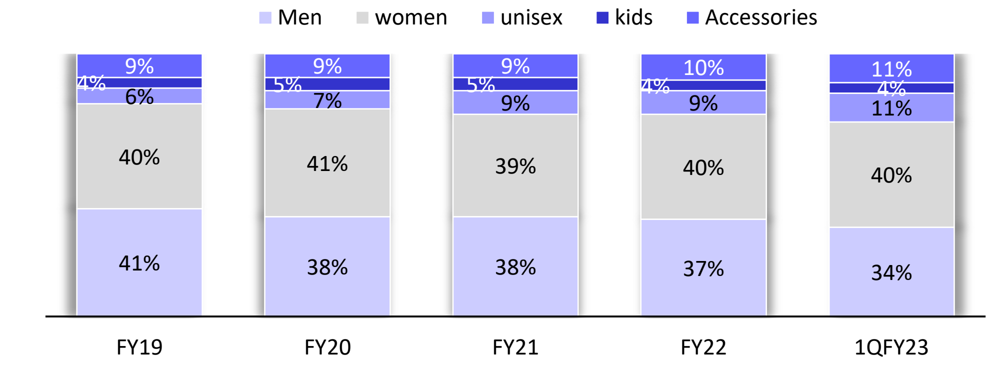
Exhibit 18: Share of online and omnichannel sales (1QFY23)



Source: MOFSL, Company

4. **Expands accessories portfolio and grows other allied businesses:** Accessories currently constitute 11% of revenue. The product segment is largely unorganized and provides sizable opportunities for existing retailers to gain additional market share. It has expanded its in-house range of belts, wallets, socks, and handbags. It plans to expand its offerings in existing product categories and also explore new categories.

Exhibit 19: Share of accessories stands at 11% as of Jun'22 (1QFY23)



Source: MOFSL, Company

5. **Leveraging new business opportunities:** In line with its tie-ups with Crocs and FitFlop, METRO plans to leverage its existing multi-channel platform to evaluate similar opportunities in the future with other national and international brands and seek new brands, which have a high growth potential and complement its existing in-house brands. It also plans to explore inorganic opportunities, provided that they fall into its bracket of targeted returns, operational scale, diversification criteria, and are available at a reasonable valuation. We see fast-growing segments such as A&S, where METRO has a low presence, driving growth and remaining key focus areas for new brand launches.

Strong product capabilities create a pull model

Targeting the Premium segment

Operating at a price point of ~INR1,400, METRO targets the Mid- to Premium segment of the Footwear market, which is ~50% of the total market. These segments have a higher share in the organized market and are predominantly led by an EBO model, given the need to provide the customer: a) a wide range of Premium products, and b) a good shopping experience. This is missing in a traditional MBO, which conventionally caters to the lower price point customer looking for value products and therefore limits inventory of Premium products.

1. **Brand positioning:** METRO's aspirational brand image, fashion-forward designs, and product range targets the Premium segment with over 35 brands across categories and occasions. Out of the four formats, both Mochi and Metro are premium and aspirational brands operating at similar price points (~INR1,600). Metro is more of a family format, whereas Mochi is youthful with a higher fashion quotient. Its price range is much wider (from INR1,000 to INR10,000). The focus is not to tilt significantly towards the Premium segment, but remain in the affordable yet aspirational space. The store merchandise is customized depending on different locations and regions like Mumbai or Tier II locations.

Exhibit 20: Format-wise price range and target audience

As of Jun'22	Metro	Mochi	Crocs	Walkway	Fitflop
Store formats	MBO	MBO	EBO	MBO	EBO
Target customers	Family	Youth	Premium	Value	Premium
Number of stores	238	168	181	56	1
Cities	130	88	85	41	1
Price range (INR)	1,000-10,000	1,000-10,000	1,500-6,000	350-3,500	5,000-10,000
Average realization (INR)	1,600	1,600	1,850	700	5,700
Size (sq. ft.)	1,600	1,500	600	1,350	450

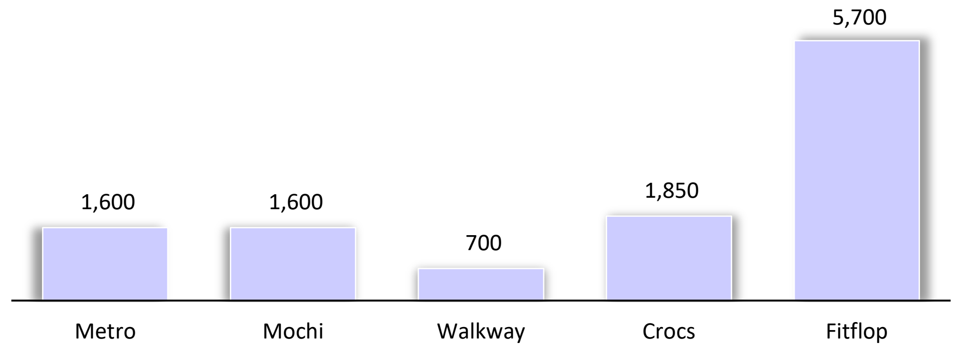
Source: MOFSL, Company

Exhibit 21: Format-wise sales calculations (FY20)

Format-wise revenue workings	Revenue per sq. ft.	No. of stores	Store size	Area '000	Total revenue	Share in revenue
Metro	18,750	218	1,550	338	6,336	49%
Mochi	18,750	145	1,400	203	3,806	30%
Walkway	9,404	70	1,300	91	856	7%
Crocs	29,403	118	534	63	1,854	14%
Total	**19,204**	**551**	**1,261**	**695**	**12,852**	**100%**

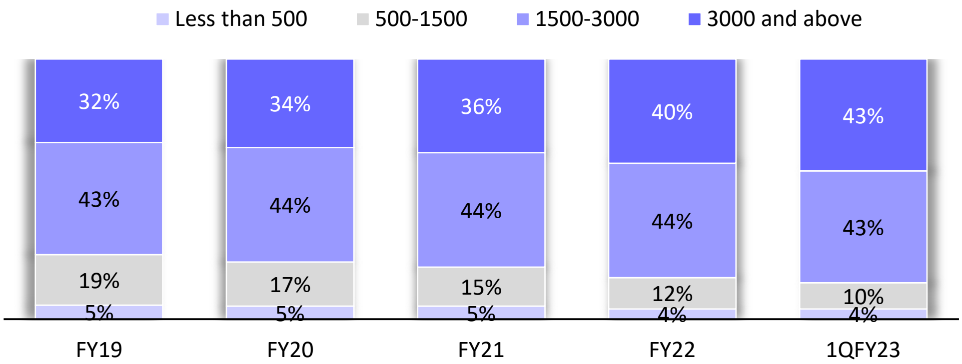
Source: MOFSL, Company

Exhibit 22: Format-wise average realization per unit (INR/unit)



Source: MOFSL, Company

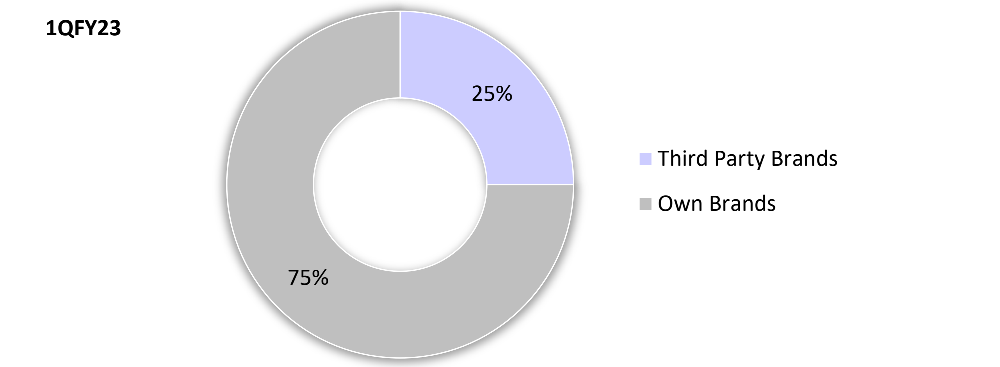
Exhibit 23: Improved share of INR3,000 and above category products



Source: MOFSL, Company

2. **Good design portfolio:** METRO's ability to churn out a good design mix comes from: a) a robust ecosystem of an in-house design team and vendors who are incentivized based on design acceptance; b) a pull model, which takes into account feedback from customers and retailers in deciding product shelf space; and c) Data Analytics to develop and launch margin-accretive in-house brands.
3. **Own v/s TPA MBO mix for third parties:** METRO optimizes its mix of in-house and third-party brands in MBOs to drive customer footfalls, improve sales density, and increase gross margin. Own products, which recently saw a decline in share during recent period is expected to move back to original range of 70:30 as per management. As the market seeks new designs, which are not available in-house, it initially offers the same through third-party products. Over time, it develops in-house products based on market opportunities and demand trends, keeping the ratio of its own v/s third party products constant over the long term. It doesn't compete with specialized Footwear players like Crocs, Skechers, and Adidas and tries to fulfill customer requirements through third-party brands.

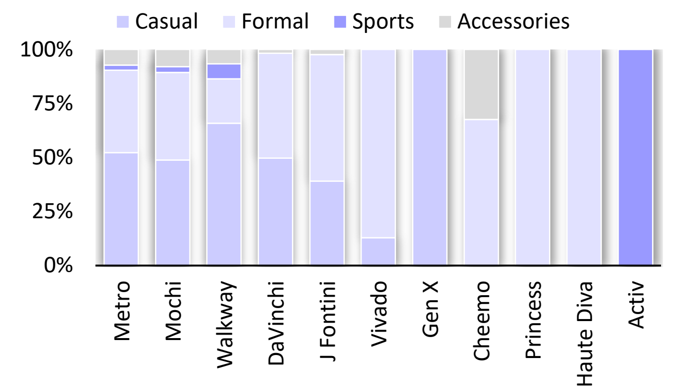
Exhibit 24: Product range mix as of Jun'22



Source: MOFSL, Company

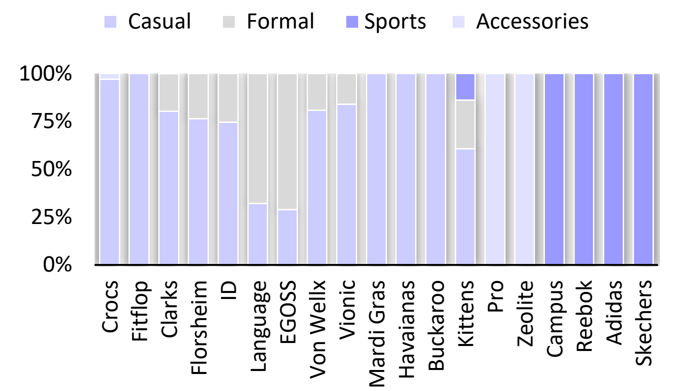
4. **Trends in Casual wear:** The market is shifting towards Casual wear and Active wear products as young consumers are increasingly moving towards branded and organized products. This got further accelerated due to the COVID-19 pandemic. The management is looking at expanding its Active wear portfolio. There have been improvements in its Casual wear portfolio over the last few years (pre-COVID) with the launch of new in-house SKUs.

Exhibit 25: Product segments (in-house brands)



Source: MOFSL, Company

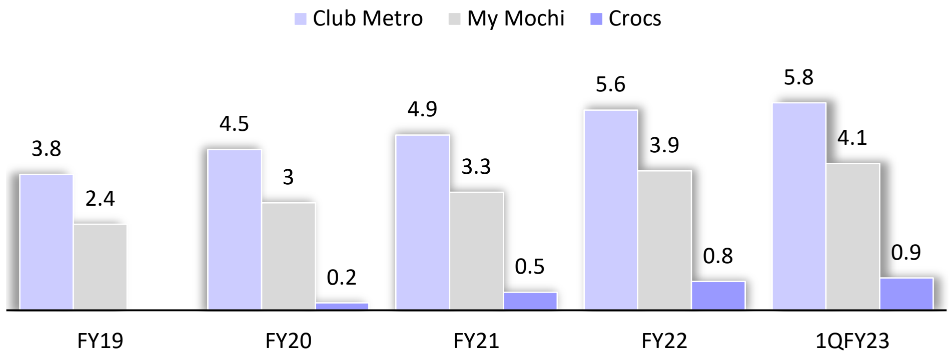
Exhibit 26: Product segments (third-party brands)



Source: MOFSL, Company

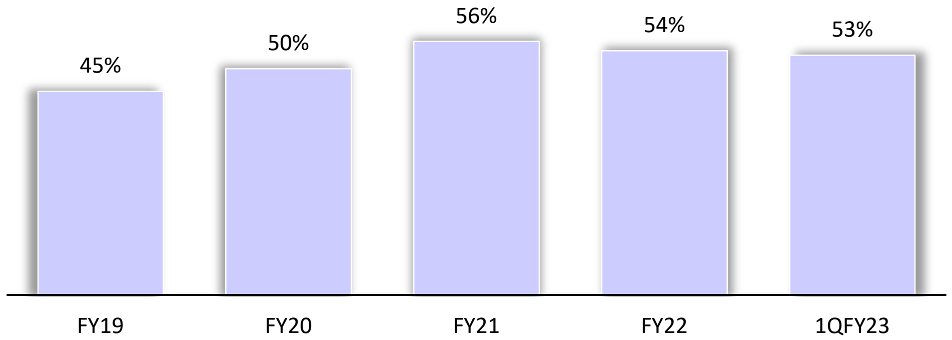
5. **Strong customer loyalty:** METRO's customer loyalty programs – Club Metro, My Mochi, and Crocs Club has more than 5.8m, 4.1m, and 0.9m members, respectively. In recent years, it has witnessed a high proportion of repeat sales from loyalty programs, with their share increasing to 54% from 45% of its total store product sales between FY19 and FY22.

Exhibit 27: Loyalty members trend over the years (figures in m)



Source: MOFSL, Company

Exhibit 28: Repeat sales to members of its loyalty program (%)



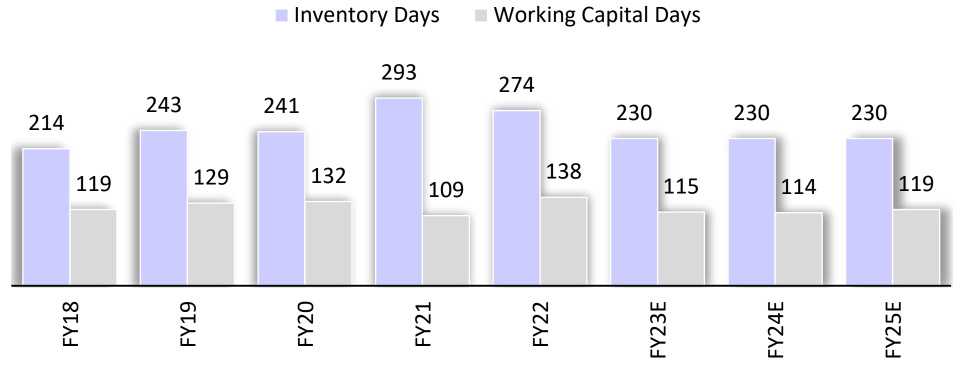
Source: MOFSL, Company

Lean balance sheet; cash generation remains robust

METRO's strong store economics and lease model have enabled it to create an asset-light approach. At the store level, it has a strong (2.8x) asset turn, including inventory and capex. The demand driven lean inventory level is well supported by low discounting/provisioning, a robust supply chain with predictive product demands, and automatic replenishments. This has resulted in efficient use of working capital, which stood at 138 days. This, coupled with its adoption of the lease model, has led to strong RoCE and cash generation. We expect RoIC (excluding cash) to improve to 27.7%/27.1% in FY23/FY24. Its strong cash generation is evident from cumulative OCF of INR9.9b over FY23-24E, which should suffice for 250 store additions annually, (including inventory), thus enabling it to internally fund growth.

- **High asset turn aids RoIC:** METRO's strong store economics, coupled with its adoption of the lease model, has enabled it to create an asset-light approach. This is due to its strong store productivity (revenue/sq. ft.), which allows it to monetize store capex/opex optimally. At the store level, it has a strong 2.8x asset turn, including inventory and capex. This translates into a 0.7x asset turn at the company level, evident from IN13.4b revenue generation (FY22) on a fixed asset and working capital of a mere INR8.5b/INR2.5b. This, coupled with its healthy 21.2% EBITDA margin (pre Ind AS 116), allows it to garner RoCE of 26.1% (pre Ind AS 116) at company level. The high cash level (including investments) of (INR8b) after the recent IPO has diluted RoE and RoCE. We expect the company's RoIC (excluding cash) to improve to 27.7%/27.1% in FY23/FY24. On Pre IND-AS 116, it stands at a strong 65% in FY22.
- **Healthy working capital cycle:** The company's working capital days moved back to 138 days (109 days in FY21) as company saw decrease in payable days, partly offset by release of inventory to normalized level on account of resumption in business. Store-level inventory turns stood at 3.2x, with INR6-7m of inventory and a revenue/store of over INR21.5m. Additional warehouse inventory is about one-third (or ~35 days). Third-party brands are mostly procured on consignment, while the same for Crocs and FitFlop are on an outright model.
  - **Theory of constraints:** The company adopts a disciplined Inventory replenishment system on a pull-based model to avoid excess inventory as per its store demands and requirements. The business is managed bottoms up, with the manager providing feedback on the merchandise to the buying team. Based on this feedback, it decides its products and merchandise.
  - **New designs** are first tested in select stores. If successful, it is then expanded to a wider number of stores. It launches 40 new designs every week and tests it for 60-120 days.
  - **Vendor management:** There are more than 150 vendors with product and category specialization. The vendors can track consumer behavior in their respective products and categories to proactively promote, improve, and streamline the design of SKUs.

Exhibit 29: Strong control on in inventory to aid working capital



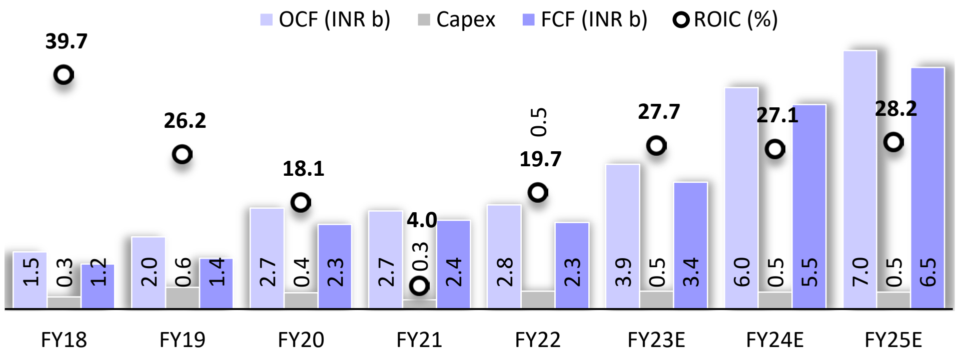
Source: Company, MOFSL

Steady FCF generation, growth fuelled via internal accruals

Strong earnings and efficient working capital should allow it to generate a FCF of INR3.4b/INR5.5b in FY23E/FY24E after factoring the healthy double digit footprint addition, thus enabling it to fund growth internally.

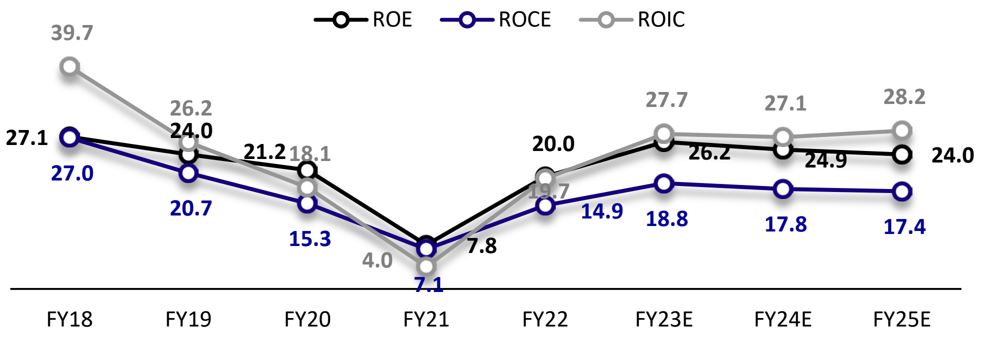
- **Utilization of its cash balance:** The strong FCF generation and high cash reserves can be utilized towards:
  - **Inorganic or other growth opportunities.** The management earlier indicated that the COVID-19 pandemic has resulted in a lot of stressed balance sheets. While it continues to explore opportunities, it remains margin/RoCE conscious. It sees good opportunities in the Orthopedic segment.
- The management plans to maintain its minimum dividend level and may distribute any excess liquidity.
- It is also looking at tie-ups (like Crocs and FitFlop which do not require an upfront capital and provide good growth opportunities.

Exhibit 30: Expect cash generation to stay robust



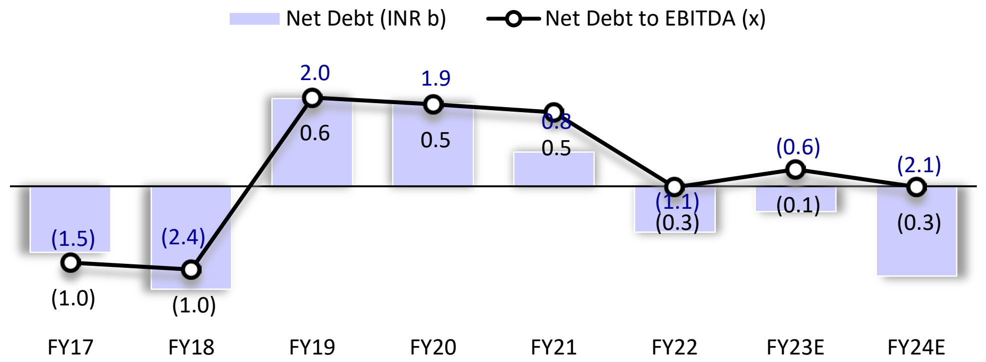
Source: Company, MOFSL

Exhibit 31: Return ratios to improve (%)



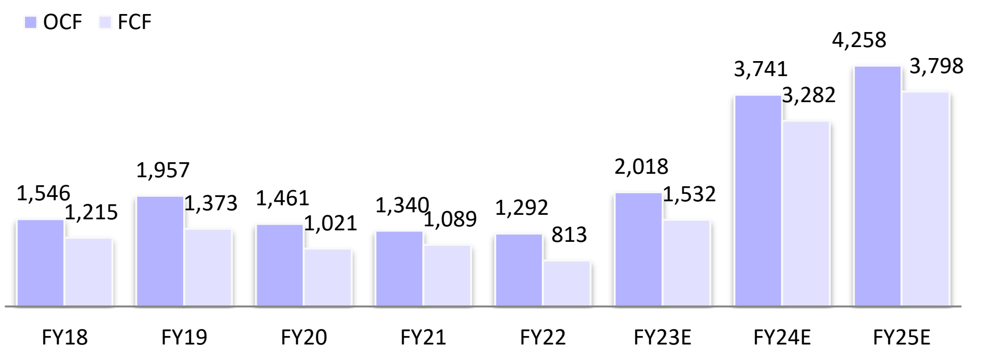
Source: Company, MOFSL

Exhibit 32: Expect an improvement in leverage



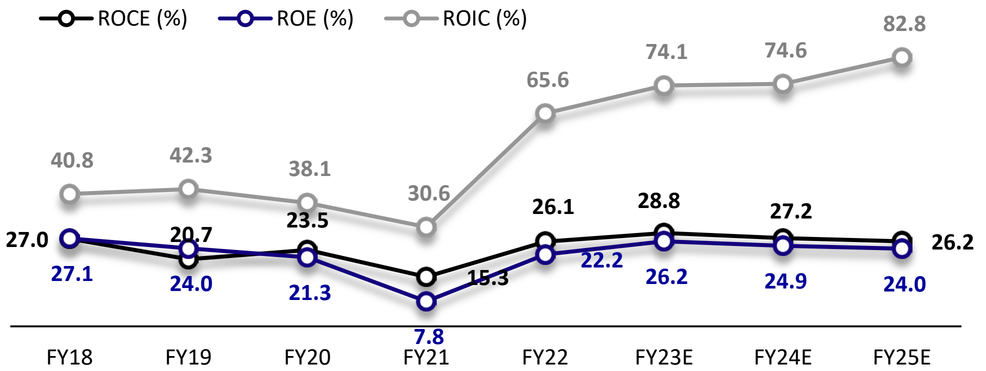
Source: Company, MOFSL

Exhibit 33: Pre-Ind AS 116 cash flow expected to improve (INR m)



Source: Company, MOFSL

Exhibit 34: Pre-Ind AS 116 return ratios to improve (%)



Source: Company, MOFSL

Valuation and view

- METRO's combination of superior store economics and strong runway of growth should allow it to garner rich valuations. In the last couple of quarters, it has seen strong double-digit LTL growth. We expect it to sustain healthy growth over the next few years aided by store additions through internal accruals and SSSG. It is currently trading at rich valuations with a P/E of 47.3x/39.3x on FY24/25E, against PAT CAGR of 37% over FY22-25E, given its: a) internally funded strong growth, b) balance sheet, which is par excellence, and a healthy RoIC of 20% for FY22 (65% for Pre IND-AS 116), and c), consistently strong OCF/EBITDA of more than 55% over the last five years.
- We value the stock at 50x P/E on FY25E EPS, i.e., at par with our footwear coverage universe, to arrive at our TP of INR1,000. **Initiate coverage with a BUY rating.**
- The company's combination of superior store economics and strong runway of growth should allow it to garner rich valuations going ahead.

Exhibit 35: Valuation based on FY25E

FY25E	(INR/share)
EPS (INR)	19.9
Target P/E (x)	50
Target Price (INR/share)	1,000
CMP	783
Upside (%)	28

Source: MOFSL, Company

Key risks

Key risks to our call comprise: a) rising input costs and GST, b) pace of store additions, c) Sportswear being a key gap, and d) competition from foreign brands.

- **Rising input cost and GST:** In the last few quarters, certain raw materials have seen a sharp price escalation, especially the soles. The GST rate has also increased to 12% from 5% for products below INR1,000. This can impact margin or consumer demand.
- **Modest store additions:** METRO has seen modest store additions in the last few years, particularly in Metro and Mochi formats, despite a lower number of stores v/s BATA. However, it has undertaken healthy store additions historically.
- **Sportswear – a key gap:** Unlike a fleet of different in-house brands in Formal and Casual categories, Metro has only one brand in the fast-growing Sportswear category and sales is skewed towards third-party brands. This poses a risk in the long term to customer retention.
- **Competition from foreign brands:** In the past few years, several foreign brands have grown significantly, particularly in the fast-growing Premium Sports category, thus offering stiff competition to Metro.

ESG, CSR, and diversity

Environment and sustainability initiatives

- It installed a 110KW solar power system at its Bhiwandi warehouse in Jun'20.
- The management is taking steps towards environmentally friendly products by introducing a sustainable Footwear collection made from 'Merino wool' and fabrics manufactured from recycled pet bottles.
- Sustainable packaging has been introduced for filler paper and boxes produced from recycled and bio-degradable products and eco-friendly materials.
- METRO does not disclose details with regard to women and differently-abled employees and its policy on adoption of diversity in the workforce in its Annual Report.

Governance pointers

- Ms. Farah Malik Bhanji (MD and CEO; promoter family) is a member of the audit committee. As a good practice, only independent, non-conflicted members should comprise the audit committee.
- The promoter representation on the board is moderate, with two out of nine directors (22%) being from the promoter family (Ms. Aziza R Malik retired with effect from 26th Nov'20).
- More than 50% of the board members (five out of nine members) are independent directors.

CSR initiatives

- The CSR policy of the company was amended on 25th Mar'21 by the board of directors.
- METRO's CSR activities focus on the following:
- Eradicating hunger, poverty, and malnutrition; promoting preventive health care and sanitation, including contribution to the *Swach Bharat Kosh* set-up by the Centre for the promotion of sanitation; and providing safe drinking water.
- Promoting education (including special education), employment (especially among children, women, elderly, and the differently-abled), and livelihood enhancement projects.
- In FY22, it undertook CSR initiatives revolving around the following activities:
- Good health and wellbeing;
- Climate action; and
- Eradication of poverty.
- The prescribed expenditure on CSR for FY22 was INR32.4m (as per 2% of its three-year average profit). Of this, the company spent INR26.8m in FY22. It spent INR2.1m in Apr'21. The unspent INR3.6m was transferred to Unspent CSR Account.

SWOT analysis

- ☑ An asset light business, with an efficient operating model, can aid sustained profitable growth
- ☑ Incentive-based remuneration at the store level to drive sales

- ☑ Strong dependence on third-party brands (~31% revenue from MBO)
- ☑ The presence of both warehouses in Maharashtra can adversely impact the logistics and supply chain for a pan India player like METRO

- ☑ Continued focus on collaboration with new brands, which have a high growth potential and complement its existing in-house brands, can aid growth
- ☑ Increased share of the online and omnichannel segment as a result of investments in digital marketing, content generation, and analytic technologies

- ☑ The impact of COVID-19 on the consumers' disposable income can pose a long-term threat to the business
- ☑ The absence of any long-term arrangements with vendors can adversely affect supplies in case of any disruption.
- ☑ Termination of its arrangement with Crocs on account of non-performance can affect its performance

Bull and Bear Case

Bull Case

- ☑ In our Bull Case scenario, we assume 21% CAGR in throughput (revenue/sq. ft.) over FY22-25E v/s 19% in our Base Case scenario. We assume 33%/36%/40% revenue/EBITDA/PAT CAGR (31%/33%/37% in our Base Case) over FY22-25.
- ☑ We expect revenue to be driven by higher volumes as a result of increased throughput and growth from the online channel.
- ☑ Assuming a target multiple of 50x in our Bull Case, we arrive at our Bull Case TP of INR1,080/share (upside: 38%) as against our Base Case TP of INR1,000/share (upside: 28%), based on FY25 EPS.

Bear Case

- ☑ In our Bear Case, we assume throughput (revenue/sq. ft.) to grow 15% CAGR over FY22-25E. We assume 26%/28%/28% revenue/ EBITDA/PAT CAGR each (31%/33%/37% in our Base Case) over FY22-25.
- ☑ We expect weaker revenue growth due to lower volumes, which can be attributed to a slower pick up in throughput and the online platform.
- ☑ Assuming a target multiple of 50x in our Bear Case scenario, we arrive at a Bear Case TP of INR837/share (upside of 7%) as against our Base Case TP of INR1,000/share (upside of 28%), based on FY25E EPS.

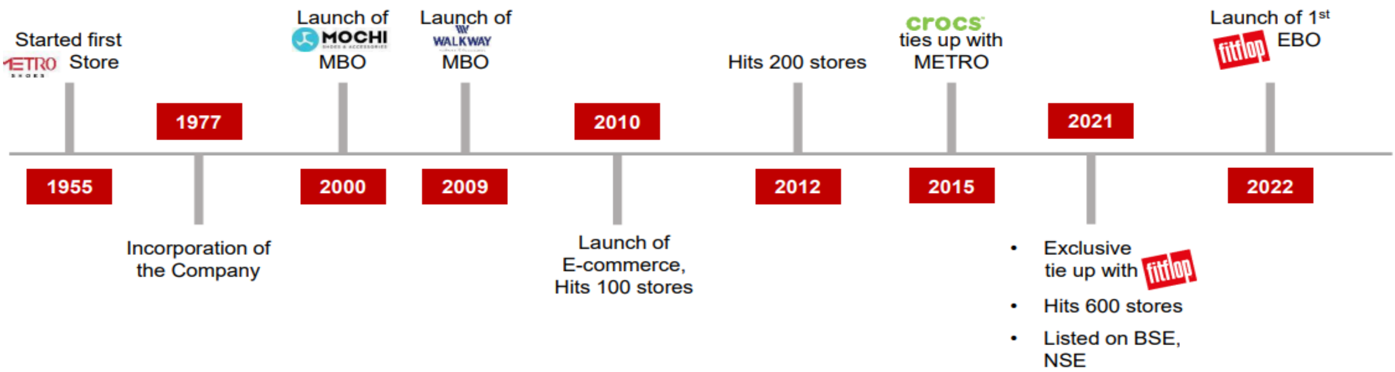
Exhibit 36: Scenario analysis – Bull and Bear Case

	Bull				Base				Bear			
INR m	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY24E
Revenue	13,429	22,107	26,473	31,341	13,429	21,054	25,212	29,848	13,429	18,949	22,691	26,863
YoY growth (%)	68	65	20	18	68	57	20	18	68	41	20	18
EBITDA	4,092	7,170	8,579	10,301	4,092	6,749	8,075	9,704	4,092	5,907	7,066	8,510
YoY growth (%)	139	75	20	20	139	65	20	20	139	44	20	20
Adjusted PAT	2,144	4,075	4,871	5,855	2,144	3,764	4,498	5,413	2,144	3,140	3,752	4,529
YoY growth (%)	232	90	20	20	232	76	20	20	232	46	19	21
Margin (%)	16	18	18	19	16	18	18	18	16	17	17	17
EPS (INR)	7.9	15.0	17.9	21.6	7.9	13.9	16.6	19.9	7.9	11.6	13.8	16.7
Multiple (x)				50				50				50
TP (INR/Share)				1,080				1,000				837
CMP (INR/Share)				783				783				783
Return (%)				38				28				7

Premium footwear player with strong store economics

- The premium Footwear business is characterized by quality-conscious customers and high price-point products. Brands in this space predominantly operate through the EBO model, given the need for higher customer engagement. METRO mainly operates via COCO stores to better manage the customer experience at its stores.

Exhibit 37: METRO journey over the years



Source: Company

Key management personnel

Mr. Rafique A. Malik, Chairman

Mr. Malik holds a Bachelor of Commerce degree from Siddharth College of Commerce and Economics, University of Mumbai and attended the Owner/ President Management Program at the Harvard Graduate School of Business. He has been associated with METRO as director since 19th Jan'77 and has over 50 years of experience in the field of Footwear Retail.

Mrs. Farah Malik Bhanji, Managing Director

She holds a Bachelor of Arts and a Bachelor in Business Administration degree from the University of Texas at Austin. She is currently attending the Owner/President Management Program at the Harvard Graduate School of Business. She has been associated with METRO as director since 5th Dec'00 and has over 20 years of experience in the field of Footwear Retail.

Mr. Nissan Joseph, Chief Executive Officer

Mr. Joseph holds a Master in Business Administration degree from the University of Western Sydney. In the past, he has worked with Payless Shoes and Hickory Brands. He has also spent over five years in key roles at Crocs. Prior to joining the company, he was associated with MAP Active & Planet Sports, a lifestyle retailer in the Philippines, where he was the CEO from Mar'20. He joined the company as CEO from 1st Jul'21.

Mr. Kaushal Khodidas Parekh, Chief Financial Officer

Mr. Parekh holds a Bachelor of Commerce degree in Financial Accounting and Auditing (Special) from the University of Mumbai and is a Chartered Accountant. He has previously served as Associate Vice President, Ernst & Young Pvt. He has been associated with the company since 28th Mar'12.

Ms. Alisha Rafique Malik – President - E-commerce and CRM

Ms. Malik holds a Bachelor of Arts (Finance) degree from the University of Northumbria, conducted at the Welingkar Institute of Management Development and Research. She has been associated with the company since 1st Jul'09.

Financials and valuation

Consolidated - Income Statement (INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Income from Operations	**10,853**	**12,171**	**12,852**	**8,001**	**13,429**	**21,054**	**25,212**	**29,848**
Change (%)	19.2	12.1	5.6	-37.7	67.9	56.8	19.7	18.4
Raw Materials	4,759	5,487	5,707	3,605	5,659	9,053	10,841	12,835
Gross Profit	**6,094**	**6,683**	**7,145**	**4,396**	**7,770**	**12,001**	**14,371**	**17,013**
Margin (%)	56.2	54.9	55.6	54.9	57.9	57.0	57.0	57.0
Employees Cost	975	1,121	1,268	1,026	1,212	1,673	2,010	2,235
Other Expenses	2,860	2,204	2,351	1,655	2,466	3,579	4,286	5,074
Total Expenditure	**8,594**	**8,813**	**9,325**	**6,285**	**9,338**	**14,305**	**17,137**	**20,144**
% of Sales	79.2	72.4	72.6	78.6	69.5	67.9	68.0	67.5
EBITDA	**2,259**	**3,358**	**3,527**	**1,715**	**4,092**	**6,749**	**8,075**	**9,704**
Margin (%)	20.8	27.6	27.4	21.4	30.5	32.1	32.0	32.5
Depreciation	195	936	1,206	1,218	1,342	1,624	1,874	2,271
EBIT	**2,064**	**2,422**	**2,321**	**497**	**2,749**	**5,125**	**6,201**	**7,434**
Int. and Finance Charges	4	339	395	437	504	626	767	893
Other Income	89	198	259	785	586	586	645	774
PBT bef. EO Exp.	**2,149**	**2,281**	**2,184**	**845**	**2,831**	**5,086**	**6,079**	**7,315**
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	**2,149**	**2,281**	**2,184**	**845**	**2,831**	**5,086**	**6,079**	**7,315**
Total Tax	730	769	587	193	702	1,322	1,580	1,902
Tax Rate (%)	34.0	33.7	26.9	22.8	24.8	26.0	26.0	26.0
Minority Interest	0	15	8	-6	15	0	0	0
Reported PAT	**1,418**	**1,497**	**1,589**	**658**	**2,115**	**3,764**	**4,498**	**5,413**
Adjusted PAT	**1,418**	**1,497**	**1,589**	**658**	**2,115**	**3,764**	**4,498**	**5,413**
Change (%)	50.0	5.5	6.2	-58.6	221.3	78.0	19.5	20.3
Margin (%)	13.1	12.3	12.4	8.2	15.7	17.9	17.8	18.1

Consolidated - Income Statement (INR m)

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Margin (%)	56.2	54.9	55.6	54.9	57.9	57.0	57.0	57.0
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EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	**2,149**	**2,281**	**2,184**	**845**	**2,831**	**5,086**	**6,079**	**7,315**
Total Tax	730	769	587	193	702	1,322	1,580	1,902
Tax Rate (%)	34.0	33.7	26.9	22.8	24.8	26.0	26.0	26.0
Minority Interest	0	15	8	-6	15	0	0	0
Reported PAT	**1,418**	**1,497**	**1,589**	**658**	**2,115**	**3,764**	**4,498**	**5,413**
Adjusted PAT	**1,418**	**1,497**	**1,589**	**658**	**2,115**	**3,764**	**4,498**	**5,413**
Change (%)	50.0	5.5	6.2	-58.6	221.3	78.0	19.5	20.3
Margin (%)	13.1	12.3	12.4	8.2	15.7	17.9	17.8	18.1

Financials and valuation

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)								
EPS	**48.2**	**5.6**	**6.0**	**2.5**	**7.8**	**13.9**	**16.6**	**19.9**
Cash EPS	54.8	9.2	10.5	7.1	13.0	20.3	24.0	28.9
BV/Share	195.9	25.2	31.3	31.9	47.6	60.5	75.8	94.2
DPS	0.0	3.5	3.0	1.1	0.8	1.3	1.6	1.9
Payout (%)	0.0	31.0	25.1	45.4	9.6	9.5	9.5	9.5
Valuation (x)								
P/E	16.3	138.9	130.9	315.9	100.5	56.5	47.3	39.3
Cash P/E	14.3	85.4	74.4	110.8	60.1	38.6	32.6	27.1
P/BV	4.0	31.1	25.0	24.5	16.4	13.0	10.3	8.3
EV/Sales	2.1	8.9	8.5	26.6	16.0	10.2	8.5	7.1
EV/EBITDA	10.2	32.2	31.0	124.0	52.6	31.9	26.5	21.8
Dividend Yield (%)	0.0	0.4	0.4	0.1	0.1	0.2	0.2	0.2
FCF per share	41.2	10.3	17.3	9.0	8.6	12.6	20.4	24.1
Return Ratios (%)								
RoE	27.1	24.0	21.2	7.8	20.0	26.2	24.9	24.0
RoCE	27.0	20.7	15.3	7.1	14.9	18.8	17.8	17.4
RoIC	39.7	26.2	18.1	4.0	19.7	27.7	27.1	28.2
Working Capital Ratios								
Fixed Asset Turnover (x)	NA	1.6	1.3	0.8	1.0	1.3	1.2	1.2
Asset Turnover (x)	1.8	1.1	0.9	0.6	0.7	0.8	0.8	0.8
Inventory (Days)	214	243	241	293	274	230	230	230
Debtor (Days)	13	16	20	23	16	15	14	14
Creditor (Days)	108	129	129	207	151	130	130	125
Leverage Ratio (x)								
Current Ratio	2.1	2.0	2.1	1.9	3.0	3.8	4.2	4.9
Interest Cover Ratio	504.0	7.2	5.9	1.1	5.5	8.2	8.1	8.3
Net Debt/Equity	-0.4	0.3	0.2	0.1	-0.1	0.0	-0.1	-0.2

Consolidated - Cash Flow Statement (INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	2,149	2,281	2,184	845	2,831	5,086	6,079	7,315
Depreciation	195	936	1,206	1,218	1,342	1,624	1,874	2,271
Interest & Finance Charges	5	339	395	437	491	626	767	893
Direct Taxes Paid	-682	-803	-608	-204	-715	-1,322	-1,580	-1,902
(Inc)/Dec in WC	47	-570	-156	1,135	-638	-1,507	-496	-802
CF from Operations	**1,713**	**2,183**	**3,021**	**3,432**	**3,312**	**4,507**	**6,643**	**7,774**
Others	-167	-227	-291	-779	-491	-586	-645	-774
CF from Operating incl EO	**1,546**	**1,957**	**2,731**	**2,653**	**2,821**	**3,920**	**5,998**	**7,000**
(Inc)/Dec in FA	-331	-584	-440	-251	-479	-486	-460	-460
Free Cash Flow	**1,215**	**1,373**	**2,291**	**2,402**	**2,342**	**3,434**	**5,539**	**6,540**
(Pur)/Sale of Investments	-853	-140	-1,243	-329	538	0	0	0
Others	247	51	57	-644	68	586	645	774
CF from Investments	**-937**	**-673**	**-1,626**	**-1,224**	**127**	**100**	**185**	**314**
Issue of Shares	0	7	0	0	2,924	0	0	0
Inc/(Dec) in Debt	31	39	17	-101	-14	0	0	0
Interest Paid	-5	-6	-8	-6	-1	-626	-767	-893
Repayment of loan	-532	-446	0	-498	0	-357	-427	-514
Others	0	-913	-1,124	-665	-1,744	-1,150	-1,410	-1,641
CF from Fin. Activity	**-505**	**-1,320**	**-1,115**	**-1,271**	**1,164**	**-2,133**	**-2,604**	**-3,048**
Inc/Dec of Cash	**104**	**-37**	**-10**	**158**	**4,112**	**1,887**	**3,580**	**4,267**
Opening Balance	48	152	115	105	263	4,375	6,262	9,842
Closing Balance	**152**	**115**	**105**	**263**	**4,375**	**6,262**	**9,842**	**14,109**
Other Bank Balance/(OD)	**3**	**6**	**4**	**616**	**-26**	**-26**	**-26**	**-26**
Net Closing Balance	**155**	**121**	**109**	**879**	**4,350**	**6,237**	**9,816**	**14,083**

Campus Activewear

BSE SENSEX	S&P CNX
58,841	17,531

CMP: INR554 TP: INR640 (+16%) Buy

In the right place; Initiate with a BUY rating

Playing the premiumization card; Initiate coverage with a BUY rating

- **Campus Activewear (Campus) is an established mass sports footwear brand with 17% market share in the branded sports and athleisure market, a space ripe for growth considering its favorable cost and price equation. We expect 29% revenue CAGR over FY22-25E.**
- **Campus operates in a vertically integrated manufacturing ecosystem that provides an edge over competition propelled by better cost management, time to market and superior quality.**
- **Campus' recent shift towards premiumization across categories and channels, particularly the online segment, has seen faster inroads. This should drive 250bp EBITDA margin improvement over FY22-25E.**
- **We expect the company to generate an average RoE/RoCE of 29%/27% in FY23-25, respectively, led by a healthy 20%+ operating margin and 3x asset turn despite in-house production investments.**
- **Campus' tenable earnings growth, strong returns profile and self-sustainable growth model warrants rich valuation. We ascribe a P/E of 55x, on Mar'25E EPS, i.e. at marginal premium to our footwear coverage universe to arrive at our TP of INR640. Initiate coverage with a BUY rating.**
- **Key downside risks to our call: a) weak industry demand in tier 2-3 cities, b) rising input cost, and c) execution risk in new regions.**

A mass footwear retailer with a white space

Operating in the sports and athleisure footwear market, Campus – with a sizeable revenue scale of INR12b (FY22) – has created established mass sports footwear brands with 17% market share (FY21) in the branded sports and athleisure market. The market is dominated by international brands that operate at 3-4x higher price points, thus, largely catering to the premium segment (one-third of the market). While, 60% of the market is operating at sub-INR1,000 price point, there are hardly any sport footwear brands that cater to this segment, a space ripe for Campus. Intensifying consumer focus on health and fitness, and increasing usage of sports footwear are expanding its target audience.

Holding an edge in backend and front end operations

Sports footwear being a specialized and brand-conscious segment has an inherent entry barrier where only a few players have achieved scale. a.) Campus' in-house design and manufacturing base has enabled lower costing, and a sustained focus on product innovation & design with >2,100 active styles and >2,500 designs launched over the last three years. The vertically integrated manufacturing ecosystem also drives quick turnaround time, b.) Deep distribution network and market presence with 20k touch points across 650+ cities generating INR7.5b – 60% of sales (FY22), in an otherwise retail channel-dominated market.

Stock Info

Bloomberg	CAMPUS IN
Equity Shares (m)	306.0
M.Cap.(INRb)/(USDb)	167.7 / 2.1
52-Week Range (INR)	562 / 297
1, 6, 12 Rel. Per (%)	24/-/-
12M Avg Val (INR M)	910
Free float (%)	25.9

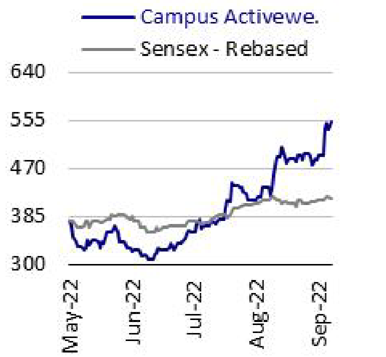
Financial Snapshot (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	11.9	16.1	20.3
EBITDA	2.4	3.4	4.4
Adj. PAT	1.2	2.0	2.6
EBITDA Margin (%)	20.2	21.0	21.7
Adj. EPS (INR)	4.1	6.4	8.5
EPS Gr. (%)	NM	57.7	32.8
BV/Sh. (INR)	14.6	20.9	29.5
Ratios			
Net D:E	0.6	0.3	0.0
RoE (%)	28.1	30.7	29.0
RoCE (%)	23.5	26.3	26.9
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	134.9	86.0	64.8
EV/EBITDA (x)	71.0	50.8	38.7
EV/Sales (X)	14.4	10.7	8.4
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	-0.1	1.0	1.1

Shareholding pattern (%)

As On	Jun-22
Promoter	74.1
DII	6.6
FII	5.3
Others	14.0

Stock Performance (1-year)



Foray into the premium segment witnessing strong traction

Campus is now premiumizing the portfolio by: a) increasing retailer's wallet share to 17-18% from 11-12% through product premiumization with notable changes in SKUs across categories); b) opening EBOs across markets to create customer pull and also push trade distributor to premiumize inventory; c) augmenting online-offline reach in new (emerging and frontier) markets viz., Metro and Tier 1 cities that are typically conceived as premium markets; and d) improving its share of Direct to Customer (D2C) segment to ensure direct reach and create a brand salience. We forecast Campus' revenue to report a 29% CAGR over FY22-25 fueled by 23%/5% volume/ price CAGR, respectively, aided by improving mix across categories and channels.

Asset-light model with healthy asset turn and working capital

Campus is likely to generate a superior 29% RoE and robust FCF of INR1.9b annually in FY23-25E backed by healthy earnings growth. Investment towards developing in-house manufacturing and assembling capabilities offers a healthy 5-6x fixed asset turn. Given its predominantly distribution-led growth, investment is limited in retail, thus far, unlike peers whose key focus is on retail expansion. Still Campus' ongoing premiumization growth target will need retail store expansion, albeit, at a much lower scale v/s the overall revenue growth. The sharp improvement in receivable days to 35 in FY22 from 108 in FY19 has further provided impetus to asset turns and ROCE.

Valuation and View

Clearly the valuation of Campus appears rich at a P/E of 65x on FY24E, but its tenable earnings growth, strong return profile and self-sustainable growth model warrants rich valuation. We ascribe a P/E of 55x, on Mar'25E EPS, i.e. at marginal premium to our footwear coverage universe to arrive at our TP of INR640. **Initiate coverage with a BUY rating.**

A mass sportswear retailer with a white space

- **Huge opportunity in the sports and athleisure footwear industry where Campus enjoys 17% market share (FY21). The company's penetration into the market across all ASP price points provides healthy growth opportunity.**
- **Campus operates in a vertically integrated manufacturing ecosystem with 28.8m installed shoe assembling capacity and manages the operations in-house to ensure effective cost management, time to market and superior quality. It has also built capability to produce uppers and soles partly to ensure faster turnaround and IP protection.**
- **The company has created a deep distribution network of 425 distributors and market presence with 20k touch points across 650+ cities (FY22) across India as well as D2C online support, which drives healthy growth for Campus.**

A mass sportswear retailer with a white space

Operating in the sports and athleisure footwear market, Campus – with a sizeable revenue scale of INR12b (FY22) – has created established mass sports footwear brands with 17% market share (FY21) in the branded sports and athleisure market. Its presence in the sports and athleisure footwear industry is a boon as:

- the market is highly under-penetrated, as evidenced by the low market size and extremely low footwear penetration per capita v/s developed economies; and
- there is a significantly untapped mass segment of sub-INR1,000 ASP (60% of the market) that is largely covered by small unorganized players having limited scalability proposition, while on the other hand, the marquee international brands mainly cater to the premium segments of ASPs >INR2-3k. The sports and athleisure industry grew 14% over FY15-20 v/s 9% for the overall market, and it is expected to surge at 15% by FY25 i.e. >2x of the overall footwear market.

A pure-play sports footwear company with ASPs attracting the masses

Branded penetration in the market is skewed towards the mid-to-premium price points and there are limited offerings in the value and mid-premium price points leading to pricing gaps in the market. These gaps have provided an opportunity for domestic retailers like Campus. Brands such as Bata, Campus, Khadim, Liberty Shoes, Relaxo, Asian Footwear and Lancer are trying to fill in this gap.

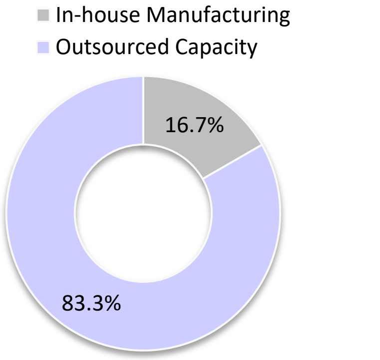
Campus' product portfolio is one of the widest in the Industry with 6,388 SKUs, matching large international sports footwear peers such as Adidas and Puma (having over 7k SKUs). Campus' portfolio is much above local peers such as Bata, Metro, Khadim, Relaxo, etc. which have an otherwise large portfolio of SKUs, but their focus on sports footwear is limited. Campus has >75% of the SKUs in sub-INR1,500 price point and nearly 55% in sub-INR1,000 price, which is similar for other domestic peers but with a much lesser scale.

Building in-house capabilities

- Campus has a 48-member design team curating products customized for Indian consumers. Campus operates in a vertically integrated manufacturing ecosystem with 28.8m installed shoe assembling capacity and manages the operations in-house to ensure effective cost management, time to market and superior quality. It has also built capability to produce uppers and soles partly to ensure faster turnaround and IP protection, with manufacturing lead times of 60-90 days (v/s industry average of 90-120 days).
- All this offers a distinct advantage in product creation / design and development while striking a balance between product quality and time to market. It offers one of the widest portfolios of footwear SKUs in the sports category in India having >2,100 active styles and >2,500 new launches during the last three years.

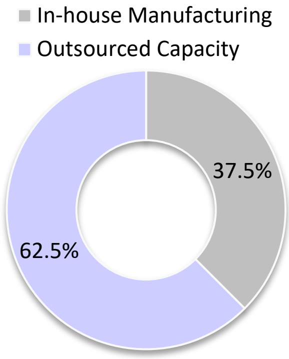
Vertically integrated, in-house manufacturing ecosystem

Exhibit 1: Shoe upper in-house facility in Haridwar



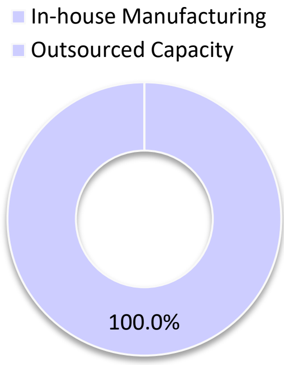
Source: MOFSL, Company

Exhibit 2: Shoe sole in-house facility in Ganaur



Source: MOFSL, Company

Exhibit 3: 100% in-house assembly in Dehradun and Baddi



Source: MOFSL, Company

Distribution-led business so far

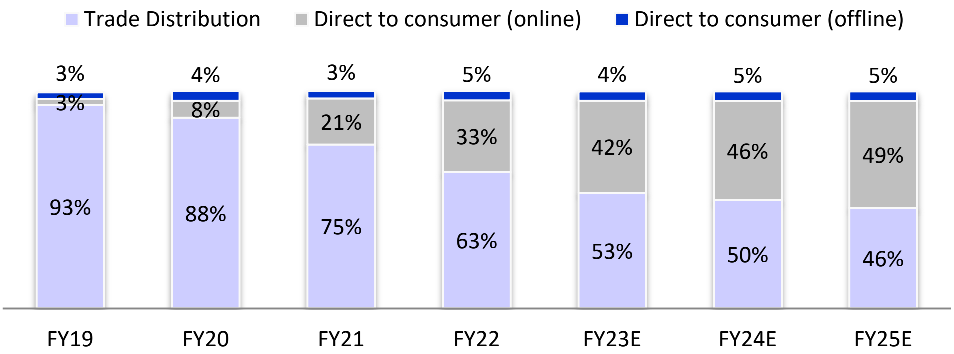
While there is a gradual expansion towards other channels, at present nearly 60% of the products are sold through trade distribution.

Creating sticky distribution network

- Campus has a pan-India trade distribution network with high channel partner stickiness led by an organized set up based on factors such as reach, engagement and financing.
- **Reach:** Campus has over 425 distributors (FY22) servicing 20,000 retailers on a pan-India level. It also has an internal sales team that directly gives field coverage to ~60% retailers.
- **Engagement:** Campus creates a stick distribution ecosystem with in-house retailers' engagement application, loyalty benefits & customized branding solutions, healthy insurance and other credit facilities that incentivize the distributors and retailers to maintain a long-term association.

- **Non-recourse financing:** The company has rolled out channel financing options with no recourse to manage receivables. It is now working to adopt it as a default option, resulting in receivables days being reduced to 41/35 in Dec'21/ FY22, respectively, from 110 days in FY19.

Exhibit 4: Distribution-led revenue mix



Source: MOFSL, Company

Expanding horizons

- **Sustaining the premiumization story through expansions in Metro/Tier 1 cities, Women and Kids footwear segment and new geographies.**
- **Retail D2C gaining traction by contributing 50% of the incremental revenue in FY22. Campus targets to reach at 50:50 mix for Trade distribution and D2C. D2C is helping it to reach new cities with low investment.**

Catering to the premium segment across regions and channels

Campus' revenue clocked 24% CAGR over FY18-22, which was primarily led by: a) premiumization, b) ongoing traction in retail channel, c) expanding reach in new geographies and d) extending focus on Women and Kids footwear segment. This along with industry tailwind contributed to its double-digit growth over the period.

Historically, Campus focused on the low ASP <INR1,000 category where it garnered 52%/38% volume/revenue share as of Dec'21, a growth of 7%/17% over the last three years, respectively. However, given the customer aspirations in the premium segments along with Campus' in-house capabilities, the company now endeavors to premiumize its product profile, which should help it cater to a wider target base. Interestingly, the international brands are operating at nearly 3-4x higher ASP, thus leaving a very big gap for Campus to cater to, particularly in the INR1,000 to INR3,000 price points.

In order to premiumize the business, the company has:

- Introduced a wider product portfolio across different segments that caters to the premium products
- Expanded its offline and online networks in new emerging and frontier markets in East, South, and Western regions (including Metro/Tier 1 cities that are typically premium markets) and is now targeting product premiumization.
- Expanded through the online D2C channel, particularly in new markets – it is a relatively quickly scalable channel in new regions where setting up a traditional distribution network or retail store network could be very difficult.

Market wise growth strategy

In core market (North and East):

1. It is targeting to increase counter share to 15-18% of the retailer's total annual business (of INR4m) from 11-12% of MBO (i.e.INR500k). Distributor sale on an average is at INR20m annually.
2. To play the premiumization card, the company is planning to expand its EBO reach especially in the existing core markets. EBO creates product awareness for the customer and induces the distributor to order similar inventory based on customer demand. Typically, retailers sell products at 15-20% discount, thus customers explore the products in the EBO and then orders it through the retailers.
3. Industry wide, nearly 80% of the products/businesses are between INR500 and INR1,500 ASP

In Emerging market (Guj/Mah/Chhattisgarh/Orissa/Telangana/WB):

4. It is increasing retail touch points.
5. The initial online business has supported customer demand geographically. Thus, Campus can now leverage customer intelligence to drive retail network expansion. It targets to increase the total retail counters to 28,000 from current 20,000, adding about 10% every year over the next 4-5 years. In Gujarat, Campus has already witnessed 2x retailer count in the last couple of years

In Frontier market (South - Kerala, Tamil Nadu, Karnataka)

6. South is largely a market for open footwear, whereas Campus has 90% products having closed footwear style. Thus, the company is targeting select cities such as Bangalore/Chennai where there is a high expat (outside) population and good demand for closed footwear. The target is to grow through the online channel, pushing premium products and expanding the distribution network gradually.

The Premiumization trend is not restricted to only Metro/T1. With increasing purchasing power and evolving fashion trends, Tier 2-3 demand is also picking up towards higher-end products.

Channel wise growth expectation:

7. **Trade distribution -** a) increase in distributors by ~20%, which could add ~10% retail counters every year reaching retail touch points to 28k from 20k currently and b) further focus to augment retailer's wallet share by increasing new products in higher segments viz., sneakers, women and kids categories etc.
8. **D2C Online (Ecommerce channel) -** The Industry footprints are reporting 20-25% CAGR. Campus with better competitive position and increasing footprints could grow at a higher rate.
9. **D2C offline -** Focus to expand EBOs' footprint with about 125 store additions every year. Of this, 80% i.e. 100 stores could be through FOFO model, whereas 20%, i.e. 25 stores could be through COCO model.

We are expecting revenue to record ~29% CAGR over the next three years to reach INR25.5b supported by ecommerce that is likely to post 47% CAGR over the same period. Trade distribution channel is likely to clock 16% CAGR and D2C offline (i.e. EBO) to report 29% CAGR during similar period.

Exhibit 5: Five-year revenue expectation from all channels

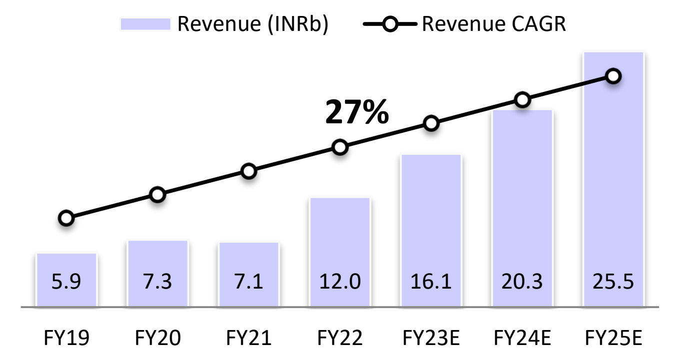
INR m	1QFY23 annualized	FY27E (in 5 years)	CAGR 5Y (%)
1) Traditional Revenue (a x b)	8,078	18200	18
No of Counters (a)	20,000	28,000	7
Revenue/counter '000 (b)	404	650	10
2) D2C Online Revenue	4,741	15,000	26
3) D2C Offline Revenue (a x b)	689	5,670	52
EBO Stores (a)	131	756	42
Revenue per Store (b)	5.3	7.5	7
Total Revenue (1+2+3)	**13,508**	**38,870**	**24%**

Source: MOFSL, Company

Notably, over the last three years the company has made serious inroads and witnessed 9% ASP CAGR and 26% overall revenue CAGR, propelled by improving mix of higher price products.

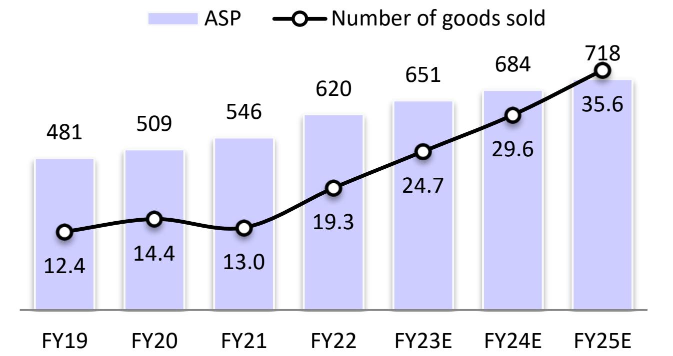
Revenue share of products >INR1,050 increased to more than 60%, registering 34% CAGR during the period, which was much above its overall growth.

Exhibit 6: Expecting revenue trend at 27% CAGR



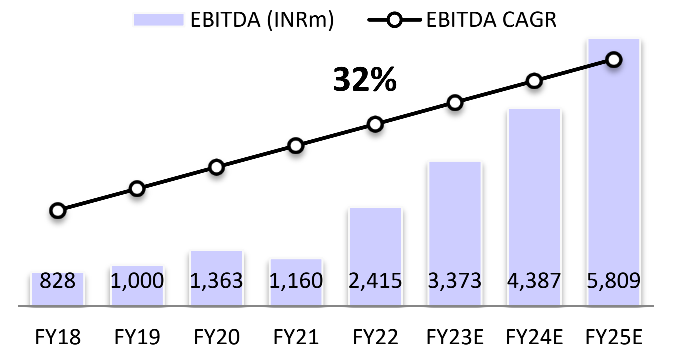
Source: MOFSL, Company

Exhibit 7: Increase in goods sold/ASP led revenue growth



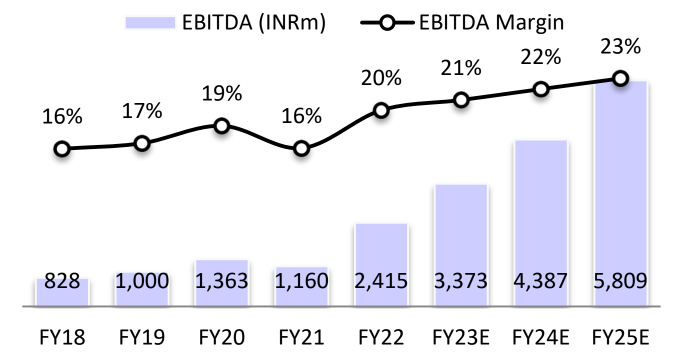
Source: MOFSL, Company

Exhibit 8: Expected EBITDA growth more than revenue



Source: MOFSL, Company

Exhibit 9: EBITDA margin keeps improving



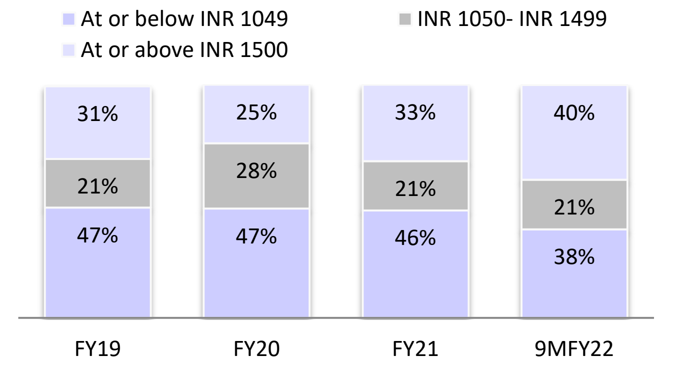
Source: MOFSL, Company

Campus has played the premiumization story by:

Widening product base towards higher ASP across categories

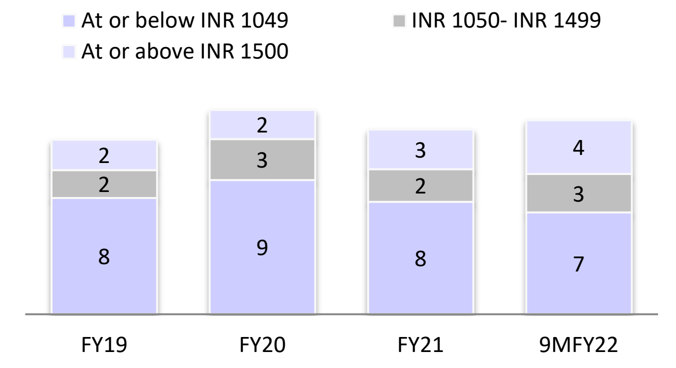
1. Its active styles in the >INR1,500 price point has gone up by 3x now, contributing 20% to the overall styles v/s 10% in FY19. This is also reflected in the overall revenue mix, where the segment has seen significantly higher share of 40% in 9MFY22 v/s 31% in FY19.

Exhibit 10: Revenue contribution for >INR1,500 increasing



Source: MOFSL, Company

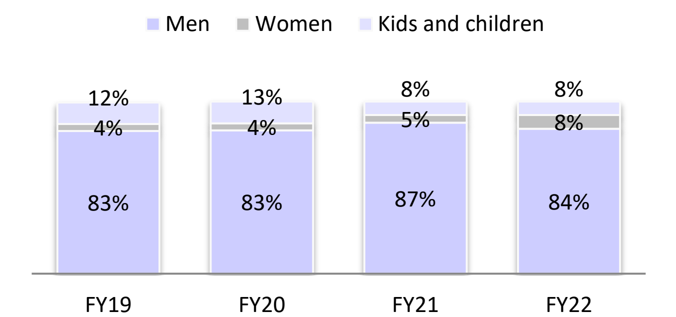
Exhibit 11: Quantity sold rose 2x in 9MFY22 v/s FY19 (m)



Source: MOFSL, Company

2. Historically, Campus has been a male dominated brand with Men's footwear contributing 83% to the total 9MFY22 revenue. As it endeavors to premiumize the overall portfolio, it has also widened the product portfolio to cater to the women and kids category increasing the no of SKUs/active styles. This has started reflecting in the revenue contribution too as the women's footwear contribution rose to 8% in FY22 from 4% in FY19 led by ASP/ quantity CAGR of 26%/29%, respectively.

Exhibit 12: Revenue contribution from Women's segment rose



Source: MOFSL, Company

Exhibit 13: Campus' contribution in the Women's segment is much lower than peers in S&A, implying room for upside (%)

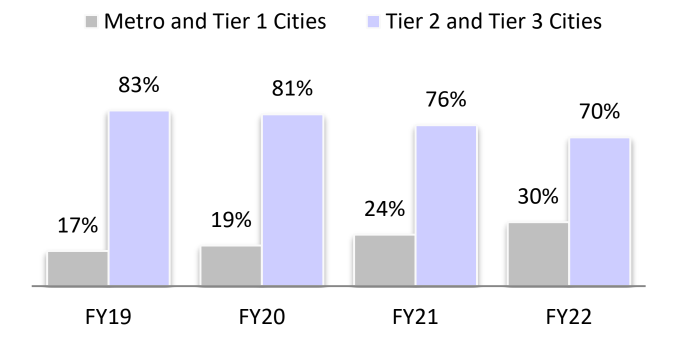
Brand	Men	Women	Kids
Campus	69	9	22
Adidas	57	23	20
Fila	50	50	0
Nike	56	25	19
Puma	44	34	22
Reebok	57	34	9
Skechers	39	48	13

Source: MOFSL, Campus RHP

Making inroads in the Metro and Tier 1 markets

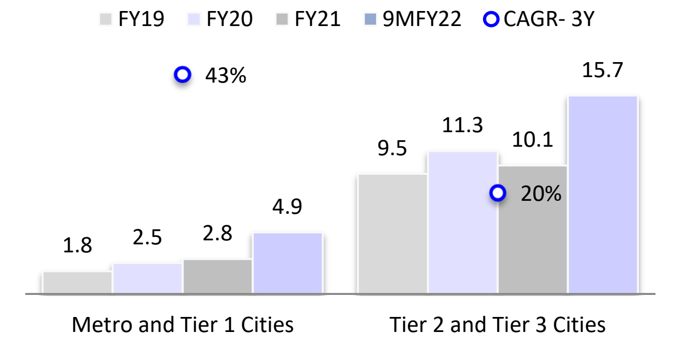
Being a mass market player, Campus has largely operated in the tier 2-3 markets that contributed 70% of its revenue (FY22). In the last three years, however, the share of metro and tier 1 cities – which typically caters to the premium segment – has increased to 30% in FY22 from 17% in FY19, reporting >50% CAGR. This has been much ahead of the growth in the tier 2-3 markets (at 20% CAGR) over the last three years. Given the company's low presence of traditional distributors in (Metro/Tier 1)markets, it has relied on D2C segment to ramp-up network and quickly improve its coverage and market penetration. Campus' D2C revenue share increased to 62% in Metro and Tier 1 cities as against 27% in Tier2-3 markets. It has also diversified its presence from the northern/eastern parts (contributing >70% of its revenue) to other regions lately, especially with the help of online business. This has given a competitive edge to Campus as most international sports footwear players, which have 3-4x higher pricing, focus largely on urban areas and cater to the premium segment through their own store network, thus leaving a wide white space for domestic players.

Exhibit 14: Revenue contribution increased from Metro/T1



Source: MOFSL, Company

Exhibit 15: Quantity sold in Metro/T1 was more than T2/3 (INR m)

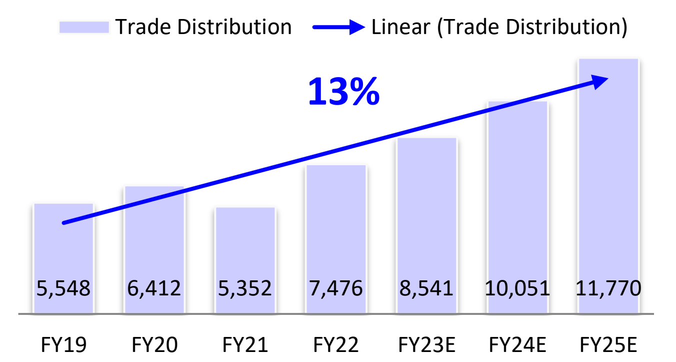


Source: MOFSL, Company

Expanding in newer/larger cities through D2C online

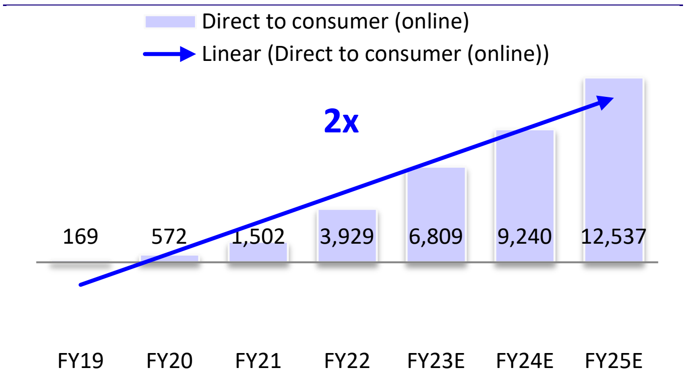
D2C channel scale-up is helping Campus unlock new consumer bases while accelerating portfolio premiumization. For instance, South India contributed 7% of revenue (FY22) but this was largely generated through the D2C online channel that garnered 85% of sales in South India. As a result, Campus was able to achieve significant brand awareness in South India even with a smaller footprint of trade distribution network. D2C is enabling it to expand and grow quickly in newer markets, improve brand presence and also push trade distribution network in those markets going forward.

Exhibit 16: Trade distribution revenue posting 13% CAGR (INR m)



Source: MOFSL, Company

Exhibit 17: D2C revenue growth is much higher than TD (INR m)



Source: MOFSL, Company

D2C ramp-up in existing market

Even in the overall business, including the existing markets, online channel has led to the big step-up in growth over the last few years across India. During the last four years, the company's revenue contribution from Direct to Customer (D2C) mix has increased to 37% in FY22 from 7% in FY19, with even traditional northern and eastern markets contributing over 60% of D2C revenue, particularly the D2C online channel that is now generating >35% of the business. Campus is selling products through Flipkart, Myntra, Amazon, etc. The company targets to achieve 50% of its revenue from D2C. The company has invested significantly towards digital advertisement (~2% of its 9MFY22 revenue) to increase its online brand value.

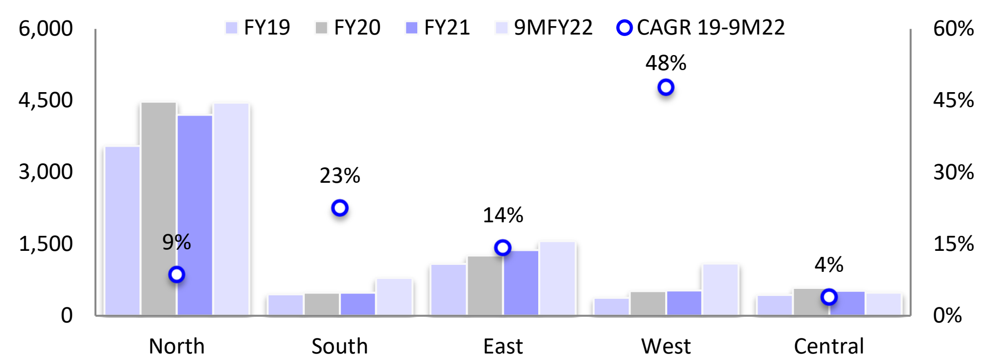
D2C segment garnering higher ASPs

The ASP of online channel is 23% more than offline (ASP for online was INR714 v/s INR582 for offline in FY22). Online has seen significant business growth and contributed handsomely to the overall ASPs.

D2C offline: This channel contributes a small revenue share of 5% (in FY22) led by 107 EBO stores and LFS (over 800 stores). As of 9MFY22, total EBO stores were 85 – COCO (57 stores), and Franchisees (28 stores). Campus is expected to open 125 EBO stores p.a. with a mix of 80:20 FOFO:COCO. It aims to increase the roll out of EBOs and franchisees in urban areas. Further, the company targets to sell premium products in the EBOs, which helps it aim the premium sports footwear market and create a brand salience. This also in turn leads to an enhanced off-take by distributors.

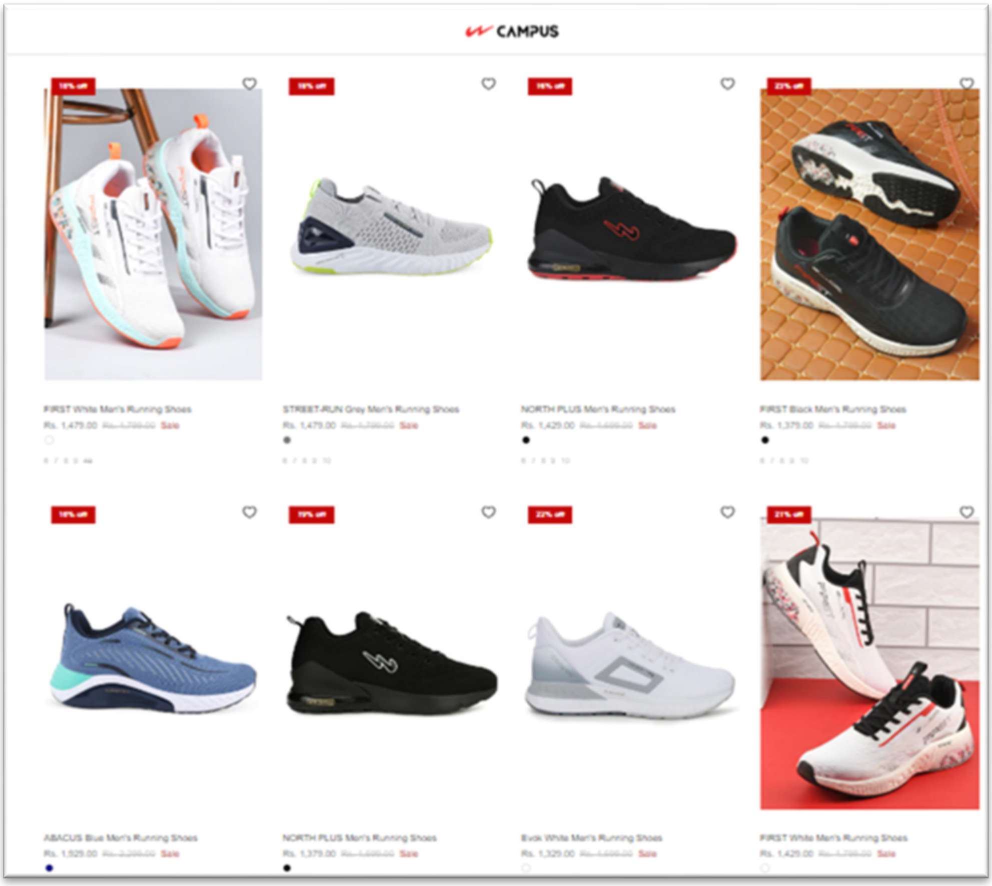
Target to deepen presence in western and southern regions of India: Campus has continuously increasing distribution coverage. It is presently servicing retail outlets in 664 cities adding 130 cities each in FY21 and FY22. The company aims to actively target and deepen further presence in western and southern regions where it has lower penetration.

Exhibit 18: Region wise revenue contribution (INR m)



Source: MOFSL, Company

Exhibit 19: Product category



Source: MOFSL, Company

Exhibit 20: Campus store

Source: MOFSL, Company

Margins expanding

- **Improving ASP, higher D2C share and backend integration benefits have lifted GM by 190bp in the last two years (FY20-22).**
- **We factor in 150bp GM improvement over FY22-25E, backed by continued shift towards higher ASP and D2C share.**
- **Campus has seen limited gains from operating leverage in the last few years as the A&P has risen from 4% to 6% at INR1b. With increasing scale it should improve further.**
- **Subsequently, we factor in 250bp EBITDA margin improvement over FY22-25E contributed by a mix of GM and operating leverage.**

Improving ASPs

Over the last three years, gross margin has improved by 190bp to 50.1% that could be due to:

- increase in in-house manufacturing facility,
- increasing share of higher price point products (INR >1500 ASP),
- larger share of revenue (> 33%) and incremental revenue share of 50% coming from D2C online sale, which is margin accretive given the net savings from traditional distribution margin v/s online commission and logistics cost. Subsequently, increasing share from all the three areas could increase the Gross/EBITDA margin overtime.

  Subsequently, gross margin has room to expand by 200bp. Thus, we are factoring in 150bp gross margin improvement over FY22-25E, implying average annual gross margin improvement of ~50bp.

1. **Backward integration benefit**

   Usually due to expansion of backward integration, the margin is higher by 2.5-3% (i.e. 15% job work on cost). So on MRP, the benefit is 2.5/3.0% (refer to Exhibit 21). Nearly ~1.0-1.5% benefit is derived from the sole, which is a critical manufacturing part and the remaining benefit is accrued from shoe assembly and others. Usually in-house manufacturing of upper is used for high-end products, where the RM also comes at a premium.
2. **Improving mix of premium products**

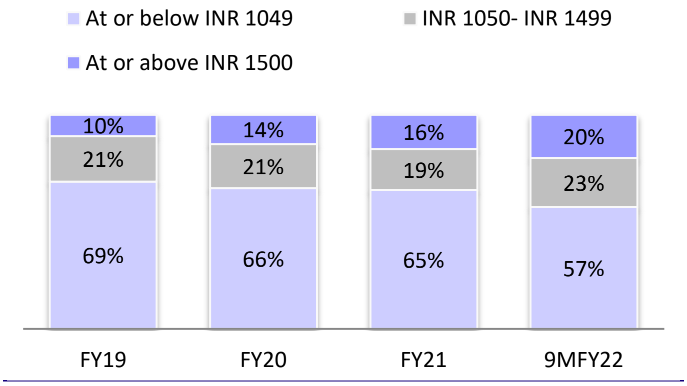
   ASP gap between MNC brands at INR3,000 v/s Campus at INR650 remains high despite the latter catering to the higher price point – INR1,500-3,000 price band – and its ASP rising 9% over the last three years. Presently, 40% share of Campus' revenue is derived from products sold above INR1,500 price point. As the mix improves, it could generate better gross margin profile as evident from the last three-year trend, when gross margin improved by a steep 400bp to 50%.

Exhibit 21: Calculation of cost saving from backward integration in Job work

	Particulars		INR
a)	Cost of goods		500
b)	Add: Job work	15%	75
c) a x b	Cost of goods incl Job work cost		575
d) a x 4	Cost to MRP	1:4	2000
e) b / d	Saving on Job work as a % of MRP		3.8%

Source: MOFSL, Company

Exhibit 22: Active styles increasing in higher ASP range



Source: MOFSL, Company

3. D2C, a key lever of margin improvement

- Campus makes 5-10% higher gross margin in ecommerce v/s TD (refer to Exhibit 23). Hence, as the share of ecommerce goes up, overall gross margin should continue to improve. Further higher ASP in ecommerce also aids in improving gross margin.
- ASP of online D2C at INR714 is 23% higher than the rest of the business. We see this as a key lever of gross margin improvement. Further, higher ASP coupled with lower logistics/commission cost against the traditional commission will aid EBITDA margin.
- Thus, as the share of online D2C rises further to 50% from 33% currently, the margin profile should continue to improve as well (refer to Exhibit 4).

Exhibit 23: Margin improvement as D2C share increases

Gross Margin	Trade distribution	Direct to customer (4 method)				
	Total	1 (refer note)	2 (refer note)	3 (refer note)	4 (refer note)	Total
Mix	**100%**	**40%**	**40%**	**10%**	**10%**	**100%**
Customer Price	100	100	100	100	100	100
Inventory risk	Outright	Company	Outright	Outright	Outright	-
Revenue share for Campus	47	70	52	57	52	60
COGS	26	26	26	26	26	26
GP	22	45	27	32	27	34
GM%	46%	64%	51%	55%	51%	57%
Revenue	**FY22**	**FY23**	**FY24**	**FY25**	**GM%**	
TD	7,476	8,840	10,662	12,798	46%	
D2C	4,466	7,805	10,834	14,965	57%	
Total	11,942	16,645	21,497	27,763	50.0%	
GM%	50.1%	51.2%	51.6%	52.0%		
3 year change				190		
YoY change		110	41	40		

Source: MOFSL, Company

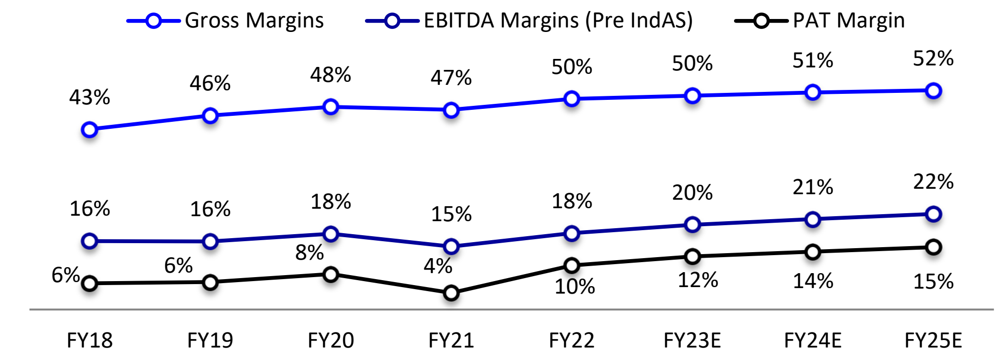
Note 1 - Market place model (such as Flipkart/Amazon/etc.): Campus owns and manages inventory warehousing, digital marketing, etc. Only logistics is handled by ecommerce players.
Note 2 - Managed market place: Inventory owned and managed by online players.
Note 3 - Regional distributors own inventory and services online orders. Offered in areas where Campus has lower reach.
Note 4- B2B model (Udaan): Online retailer owns the inventory and sells to other retailers.

Gross margin not fully translated into operating margin

Expect operating leverage benefit over the next three years: In the last four years (FY18-22), gross profit margin improved 7.2% but it was not fully translated into operating margin, which improved only 4%. This was led by an increase in SG&A expenses including the ~5% ad and sales promotion spends. Presently it has INR1b A&P budget at current revenue. Campus is likely to maintain 6% trajectory on revenue for a few years until it reaches INR2b. And then overtime, the A&P spends should come down as a % of revenue and provide operating leverage. Campus has 40% budget for digital marketing i.e. INR400m and planning to tie up with a brand ambassador.

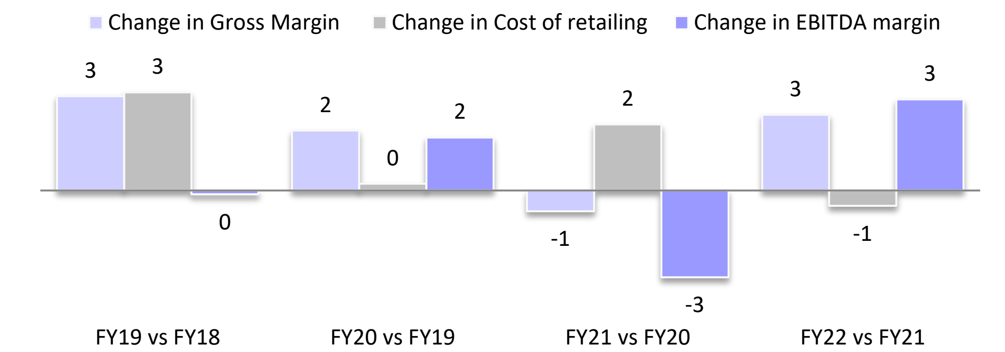
Subsequently, there is room for ~200bp margin expansion over the next 3-4 years with 100bp gross margin improvement and additional 100bp from cost of retailing that is so far used in A&P. With increasing scale, we believe Campus should start seeing the benefit of operating leverage. We factor in 250bp EBITDA margin improvement over FY22-25E to 22.8% in FY25 from 20.2% in FY22.

Exhibit 24: Expect operating leverage to improve from FY22 onwards



Source: MOFSL, Company

Exhibit 25: Gross margin benefit passed on to Cost of retailing (in %)



Note- EBITDA margin has been taken on a Pre-INDAS basis

Source: MOFSL, Company

Cost advantage v/s Global sportswear peers

- Gross Margin for global peers is less despite high ASP due to ~25-35% custom duty on central procurement. Even if they would manufacture in India, given their outsourcing nature, the companies would have to bear the manufacturing cost.
- Domestic franchisees also pay brand loyalty to the global brand owners.

- Global brands operate through retail formats in high rental metros and premium locations thereby increasing the cost of retailing.
- To earn at least 20% EBITDA on a shoe, a global brand has to keep 7-8x cost-to-MRP multiplier.
- Campus, conversely, keeps a cost-to- MRP multiplier of 5x (on a higher price point). Hence, if global brand sells at a discount it will hurt Campus' margin.

Exhibit 26: Campus v/s MNC brand

Brand	SKU	ASP range	SKU in <INR1500	SKU in >INR1500
Campus	6,388	~600-700	78%	21%
Adidas	7,673	~1,800-2,400	5%	95%
Fila	1,000	~2,800-3,200	0%	100%
Nike	2,570	~2,900-3,200	0%	100%
Puma	7,234	~2,800-3,400	0%	100%
Reebok	1,644	~3,000-3,300	4%	96%
Skechers	1,117	~3,600-4,000	0%	100%

Source: MOFSL, Company

Exhibit 27: Shoe economics for MNC brand

	Markup	INR (total cost)
Raw material		500
+ Job work	15%	575
+ royalty	15-20%	675
+ higher cost of retailing	10-15%	750
+ other expense		800-850
+ mark up to MRP	7-8x	5000

Source: MOFSL, Company

As compared with listed peers…

…Campus' EBITDA and PAT have grown more than revenue over the last four years. Revenue CAGR for the last four years was 24% v/s GM/EBITDA CAGR of 29/31%, respectively.

Exhibit 28: Coverage comparison

			Revenue CAGR (%)		EBITDA CAGR (%)		PAT CAGR (%)		ROE CAGR (%)	
	SKU's	ASP	FY18-22	FY22-25E	FY18-22	FY22-25E	FY18-22	FY22-25E	FY18-22	FY22-25E
Campus	**6,388**	**600-700**	**24**	**29**	**31**	**34**	**41**	**42**	**29**	**42**
Relaxo	5,175	150-250	8	16	8	22	10	22	23	13
Bata	5,176	900	-2	23	4	40	-17	81	5	23
Metro	1,419	1200-1400	5	31	16	33	11	37	22	26

Backward integration reducing supply chain disruption risk and improving efficiency

In FY21, Campus commissioned a sole manufacturing plant that manufactured 37.5% of the soles required. In FY20, it commissioned an uppers manufacturing facility, which manufactured 16.7% of the shoe uppers required. The entire assembling work has been done in-house.

Exhibit 29: COCO store economics

COCO	per sqft	per day	per month (in '000)	per year (in m)
Area (sqft)	762			
Revenue	10,000	22,000	660	7.9
GP	5,000	11,000	330	4.0
Margin %	50	50	50	50
Rent	827	1,750	53	0.6
Employee	787	1,667	50	0.6
SG&A	831	1,760	53	0.6
Total opex	2,446	5,177	155	1.9
Store EBITDA	2,554	5,823	175	2.1
Margin %	26	26	26	26
Depreciation	197	417	13	0.2
rate%	10	10	10	10
EBIT	2,357	5,407	162	1.9
Margin %	24	25	25	25
Tax	589	1,352	41	0.5
PAT	1,768	4,055	122	1.5
OCF	1,965	4,472	134	1.6
Initial investment	3,937			3.0
-- Inventory	1,969			1.5
-- Store capex	1,969			1.5
RoCE (%)	50			54
Payback period (yrs)	2.0			1.9

Source: MOFSL, Company

Balance sheet improvement gaining pace

Campus' cash conversion cycle has seen a marked improvement over the last few years and it now stands at 93 v/s 120 days in FY19 (refer to Exhibit 30). This is particularly led by the improvement in receivables, which has seen sharp controls and channel financing option. Its inventory days, which shot up during Covid-19, have partly recovered and should see benefits of process digitization and improvement in demand forecasting. Its vertically integrated manufacturing and in-house assembly reduce the manufacturing time, having lower inventory and overall working capital cycle. However, the reduction in inventory may be partly offset by reducing payables as it fully reverts to the pre-Covid levels.

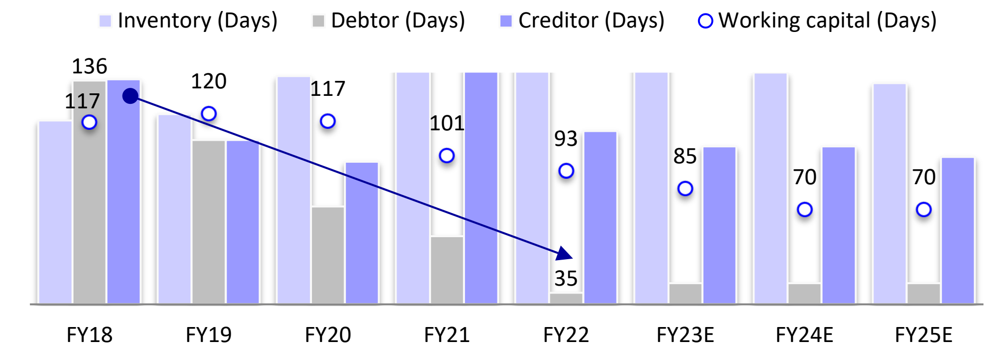
Optimizing working capital days

- **Campus' receivable** days reduced to 35 in FY22 from 136 days in FY18, due to: a) stepped up credit controls and cash discounts that encouraged the distributors to pay on time; and b) non-recourse channel finance roll out for both trade distributors and D2C channel. This limits direct exposure to the distributors while the distributors receive working capital financing from the banks. Presently, 51 distributors representing 18% of revenue have signed up for channel financing and Campus is now in the process of moving the remaining distributors to adopt channel financing as a default option. Further, we expect days to be on the lower side since D2C online is gaining traction.
- **Inventory** days reduced in FY22, but was yet to reach pre-Covid levels. Given the rising RM cost environment, the company has started building inventory at a higher level, to mitigate any supply chain disruption. Inventory days increased to 170 in FY22 from 120 in FY19, but has been on a downward trend since FY21 peak of 182 days.
    1. Campus has manufacturing days of 60-90 (lesser than industry average of 90-120), and typically the time from product conceptualization to launch period stands at 120-180 days. It has a vertically integrated manufacturing ecosystem with 100% assembling of shoes done in-house, while uppers and shoe sole manufacturing in-house of 17%/38%, respectively, while the rest is outsourced.
    2. However, given that it manages a large part of the process in-house, inventory is on a higher side that is offset by higher gross margin.
    3. It has overall 30 days of raw material, 30 days of semi-finished goods and 60 days of finished goods as inventories. The first two are fungible in nature, can mix with any other product and hence, there is limited risk of raw material obsolescence.
    4. Usually fixed goods (FG) inventory days are ~30-45 days in TD but due to rising share of online and EBO particularly in new geographies, the FG inventory days increased to 90 on inventory funneling. Similarly, the stocks of Semi-Finished Goods (SFG) and RM were increased to 90 days from ~70-75 days due to supply chain issues. Now, with the increasing share, inventory days should gradually reverse to the 120-140 days level. We have factored in a reduction to 140 days in FY24 and 135 days in FY25.

5. Campus has also managed to reduce its slow moving stock due to digitization efforts, which has enabled the company to improve its forecast of consumer demand.

- **Payables**: The company was in cash conversion mode in FY21, and this took its day payables up at 88 days on sales v/s normal year, when it maintains days payables at 60-65 on sales.
  1. Campus purchases raw materials from suppliers on an open-credit basis usually with a payment term of 90 days.

Exhibit 30: Working capital improving mainly because of reduction in debtors days

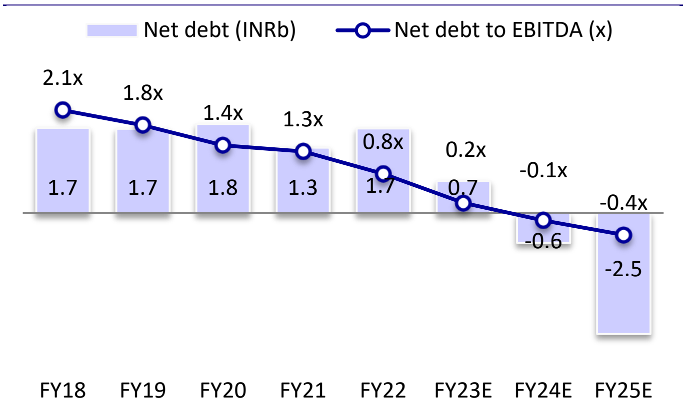


Source: MOFSL, Company

Leverage position comfortable

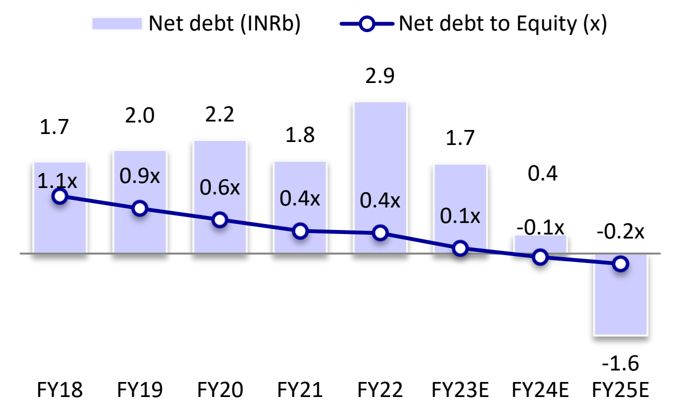
- Campus' revenue growth was at 24% over the last four years with less dependency on leverage.
- Overall, gross and net debts stood at a minimal INR2.9b (FY22). Net Debt to Equity of the company has reduced to 0.4x in FY22 (Pre Ind-AS 116) from 0.9x in FY19. Net Debt to EBITDA (Pre-Ind AS 116) has also improved to 0.8x in FY22 from 1.8x in FY19. We expect it to improve further since the company is likely to generate sufficient cash to fund internally.

Exhibit 31: Net debt/EBITDA (Pre IND-AS) keep reducing led by EBITDA growth



Source: MOFSL, Company

Exhibit 32: Net debt/Equity (Post IND-AS) keep reducing led by EBITDA growth



Source: MOFSL, Company

Healthy return ratio profile – on an improving trend

Campus enjoys a healthy return ratio profile with ROCE/ROE at 24%/28% in FY22, respectively. On Pre IND-AS basis, its ROCE/ROE stood at 26%/28%, respectively. This was aided by a healthy 11% PAT margin and 3.0x asset turnover ratio. Typically, Campus requires INR150m to produce 1m pairs. At current ASP of ~INR650 and 20% EBITDA margin, the company would derive a revenue/EBITDA of INR650m/ INR130m, respectively. Thus, adjusting for depreciation and tax, Campus could record over 40% ROIC. We expect the company to report 29% ROE and 27% ROCE over FY23-25.

Exhibit 33: DUPONT analysis

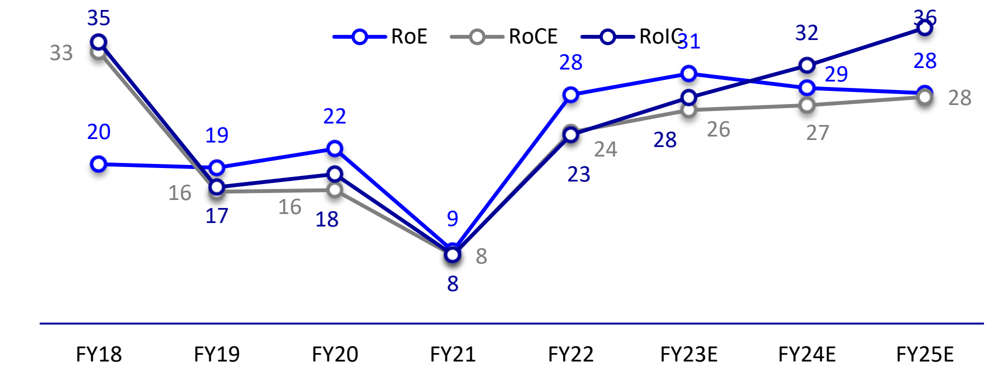
Du Pont	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Profit	314	386	612	279	1,250	1,971	2,617	3,570
Revenue	5,096	5,949	7,320	7,113	11,942	16,082	20,264	25,532
Net Profit Ratio (%)	6.2	6.5	8.4	3.9	10.5	12.3	12.9	14.0
Total Asset	2,427	2,781	3,452	3,253	4,646	6,292	8,421	11,454
Average Asset	2,786	2,604	3,117	3,352	3,950	5,469	7,357	9,938
Asset turnover ratio	1.8x	2.3x	2.3x	2.1x	3.0x	2.9x	2.8x	2.6x
Equity	1,603	2,018	2,847	3,126	4,442	6,413	9,030	12,600
Average Equity	1,561	1,811	2,433	2,987	3,784	5,427	7,722	10,815
Leverage	1.8x	1.4x	1.3x	1.1x	1.0x	1.0x	1.0x	0.9x
ROE% (as calculated)	20.1	21.3	25.2	9.3	33.0	36.3	33.9	33.0
ROE%	19.6	19.2	21.5	8.9	28.1	30.7	29.0	28.3

Source: MOFSL, Company

Higher margin profile lifting ROCE/ROEs:

Over the last few years, the company's strategy to premiumize the product portfolio has led to higher gross margin. Further expansion of D2C model also supported operating leverage, which improved gross and operating margins by 400bp/ 340bp, respectively. This further translated into a robust PAT margin improvement of 400bp over FY19-22.

Exhibit 34: Return charts



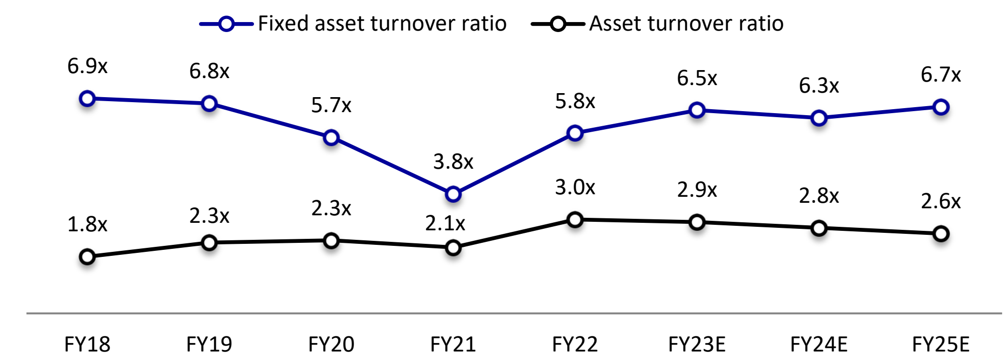
Source: MOFSL, Company

Improving asset turns driving ROCE/ROE

The company has invested in its manufacturing centers in the last two years (in Ganaur and Haryana plants). These investments have led to a reduction in the fixed asset turnover ratio (refer to Exhibit 35). However, we expect the capacity addition benefit to accrue in future. Hence expected to reach Fixed asset turnover ratio to FY18 level of ~6.7x by FY25. The company may add capacity in FY23/24 with a total capex of INR1b p.a. The new investment towards building in-house manufacturing and assembly capabilities will generate a healthy asset turn of 5x. Post-capacity addition in FY23-25E, the FCF generation capability will be robust at INR1.9b annually, which will offer superior RoE/ROCE of 29%/27% over FY23-25E, respectively.

Since the company runs an asset light model, the overall asset turn has improved to 3.0x in FY22 from 1.8x in FY18. Campus largely operates through the trade distribution and D2C online channel and hence it limits the capex investment in stores. Despite the investments in the new stores, we expect the asset turn to have limited impact. On the other hand, this should also support the company to premiumize the overall portfolio with a ripple effect on even the margin profile, thus helping the overall ROE/ROCE of the company.

Exhibit 35: FATR expected to improve



Source: MOFSL, Company

Growth funded from internal cash flows

Healthy operating cash flows translating into OCF

The beauty of Campus is that over the last five years, a majority of its growth has come from internal capital, which is evident from no equity dilution or increase in leverage over the last five years. It has generated INR3b OCF over the last four years, against which it had a capex of INR2.7b.

Strong OCF generation on earnings growth and WC unwind behind

Campus generated an annual OCF of INR500m-INR1.2b during FY19-21. FY22 OCF was partly impacted by higher inventory buildup despite healthy EBITDA CAGR of 31% over FY18-22, driven by solid revenue growth and improvement in margin. The OCF growth over the next three years should significantly accelerate as the strong EBITDA/PAT CAGR of 33%/43% over FY20-22 is not fully reflected. Further, the working capital should also unwind as the COVID-period inventory issues are behind. Subsequently, we expect an OCF of INR2.8b in FY23, which should further increase to INR3.6b in FY25.

Capex requirements:

Production facility: Campus, over the last few years, has invested in Haridwar and Ganaur plants to build an in-house production facility with an outlay of INR260m and INR1b in FY20 and FY21, respectively.

Presently, Campus is operating at a capacity utilization of 67%. It would require capex of INR1b annually to expand its capacity. This could be towards increasing sole manufacturing with improving premiumization trend.

Typically a new plant capex of INR1b (10m capacity) along with INR1b working capital investment can generate revenue of INR6b at current ASP of INR600 and at 75% capacity utilization. As 20% EBITDA margin, it can post a tax ROCE of 40%.

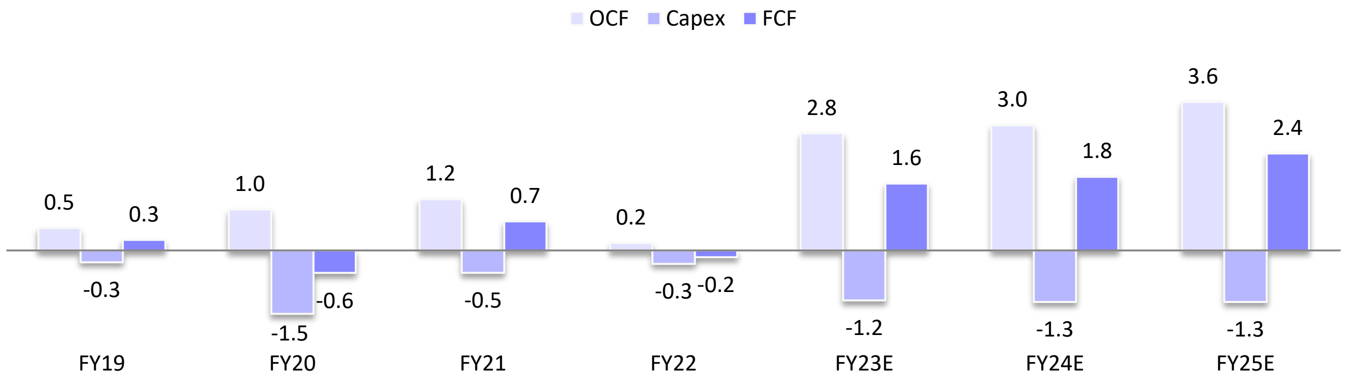
Store addition capex: With focus in trade distribution and D2C online, Campus does not require material investment for store additions. It plans to add 80% stores through franchisee route and only 20% on COCO model.

Growth investment largely restricted to working capital: A majority of growth is through the trade distribution model which largely requires working capital investments. Campus' ability to drive steady growth from its internal accruals should provide an impetus to its growth trajectory.

FCF generation

- With cumulative OCF of INR9.5b over FY23-25E and capex of INR3.7b, the company should generate a healthy FCF of INR5.8b cumulatively over FY23-25E. We expect Campus to expand its capacity in FY23-25 that would lead to a regular outflow of INR1.2b during the period including store additions. It should generate an FCF of INR1.6b in FY23E, which should further improve to INR2.4b in FY25E.

Exhibit 36: FCF remained lower due to slower growth in operating profit and capex investments; we expect them to improve over FY23-25E (INR b)



Source: MOFSL, Company

Strong financial profile warrants premium valuation

Initiating coverage with a BUY rating

There are three key things about Campus that warrant a premium valuation

- **Tenable earnings growth:** There is a huge white space as Campus is operating in a market, which has a massive growth opportunity as the footwear market is increasingly shifting towards sports and casual wear. Further, with a revenue of INR12b, the company has a proven execution capability, especially in a market that is largely underpenetrated and there is a dearth of branded players in the mass segment.
- **Strong return profile:** Campus has an asset-light model. Unlike most peers in the retail market, Campus has low own retail network. While this will grow, Campus may not add materially as it plans to set up stores through franchisee route and there will still be a high proportion of growth through traditional distribution network and online.
- **Self-sustainable growth:** Given its asset-light model, Campus should generate huge FCF consistently and should therefore remain a self-sustainable model without any material capital requirement dilution.

Supernormal growth potential in the near term

- Clearly the valuation of Campus appears rich at a P/E of 65x on FY24. However, Campus' tenable earnings growth (supernormal growth over the next 3-5 years), strong return profile and self-sustainable growth model warrants rich valuation
- We ascribe a P/E of 55x, on Mar'25E EPS, i.e. at marginal premium to our footwear coverage universe to arrive at our TP of INR640.
- **Initiate coverage with a BUY rating.**

Exhibit 37: Relative valuation – P/E on Mar'25E

Mar-25E	(INR/share)
EPS (INR)	11.7
Target P/E (x)	55
Target Price (INR/share)	**640**
CMP (INR)	554
Upside (%)	16

Source: MOFSL, Company

DCF-based valuation indicates Campus is operating at fair value

Given the strong cash flows in Campus, we projected long 10 years cash flows (FY25-35) to plot the supernormal growth period followed by normalized periods.
During the supernormal growth period of FY26-29E, we have modeled 25% revenue CAGR with same EBITDA margin of FY25 along with 2% capex and 3% working capital requirements; and after that the growth is staggered to 20% CAGR over FY30-35E. Assuming terminal growth of 5% and WACC of 11%, we arrive at our TP of INR640, offering 15% upside.

Exhibit 38: DCF valuation

DCF valuation	INR b
Enterprise Value	198.6
Net Debt	2.9
Equity Value	195.7
No. of Shares	306
Target Price	**640**
CMP (INR)	554
Upside	16%

Source: MOFSL, Company

Key Risks

- **Weak industry demand in tier 2-3 cities:** Campus generates 70% of its total revenue from Tier 2 and 3 cities. Continued softness in those cities may lead to weak revenue growth for the company as well.
- **Rising input cost:** In the last few quarters, certain raw material prices have seen sharp escalation, especially the prices of footwear sole. Further, GST rate has increased to 12% from 5% for products below INR1,000. This could put margins at risk or hurt consumer demand.
- **Execution risk in new regions and retail networks:** The company is expanding in new geographies such as South India. The taste and preference in South India are different from that in the North, where the company has excelled. North India contributes more than 55% of total revenue of Campus whereas South India contributes only 2%. Campus has seen modest store additions in the last few years v/s Bata, Metro, and Relaxo. It targets to add through the franchise route. This could be a challenge as the new store might or might not be profitable.

SWOT analysis

- ☑ Campus's focus on premiumization of products
- ☑ Widest retail network with 20,000 touch points, 425 distributors across 650+ cities
- ☑ Low manufacturing lead- time of 60-90 days v/s Industry avg of 90-120 days
- ☑ Caters to all product categories and sells at all price ranges

- ☑ Growth lags industry with stagnant volumes over FY17-20
- ☑ Dependency on trade distribution network
- ☑ Premiumization usually play with increase in store count

- ☑ Huge growth opportunity in Sports and Athleisure in India
- ☑ Revenue through retail online would lead to improvement in margin due to asset light model
- ☑ Could leverage the position in the ASP range company is offering goods
- ☑ New product categories could drive long-term growth

- ☑ COVID-19 impact on consumers' disposable income could pose long-term threat to business
- ☑ Counterfeiters pose great threat to the organized segment
- ☑ Entry of more foreign brands could increase competition in the market
- ☑ Unavailability of suitable real estate could pose challenge to long-term expansion initiatives

Bull and Bear Case

Bull Case

- ☑ In our Bull Case scenario, we assume volumes to report 30% CAGR over FY22-25E v/s 23% in Base Case over the same period.
- ☑ We expect revenue to be driven by higher volumes from online business than offline business.
- ☑ Assuming a target multiple of 65x in the Bull Case, we arrive at a Bull Case target price of INR970 (upside of 75%) as against a Base Case target price of INR640 (upside of 16%), based on FY25E EPS.

Bear Case

- ☑ In the Bear Case, we assume volume CAGR of 17% over FY22-25E v/s 23% in the Base Case.
- ☑ We expect slower revenue growth due to competition/slower economic recovery.
- ☑ Assuming a target multiple of 50x in the Bear Case v/s 55x in the Base Case, we arrive at a Bear Case target price of INR435 (downside of 21%) as against a Base Case target price of INR640 (upside of 16%), based on FY25E EPS.

Exhibit 39: Scenario analysis – Bull and Bear Case

	Bull				Base				Bear			
Amount (INR m)	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
Revenue	11,942	16,871	22,620	30,576	11,942	16,082	20,264	25,532	11,942	15,036	17,817	21,208
YoY Growth (%)	68	41	34	35	68	35	26	26	68	26	18	19
EBITDA (%)	2,415	3,639	5,033	7,139	2,415	3,373	4,387	5,809	2,415	3,003	3,679	4,613
EBITDA margin (%)	20	22	22	23	20	21	22	23	20	20	21	22
Adjusted PAT	1,244	2,172	3,105	4,576	1,244	1,971	2,617	3,570	1,244	1,692	2,083	2,666
PAT growth (%)	349	75	43	47	349	58	33	36	349	36	23	28
EPS	4.09	7.09	10.14	14.94	4.09	6.44	8.55	11.66	4.09	5.53	6.80	8.71
Multiple (x)				65x				55x				50x
TP (INR)				970				640				435
CMP (INR)				554				554				554
Return (%)				75				16				-21

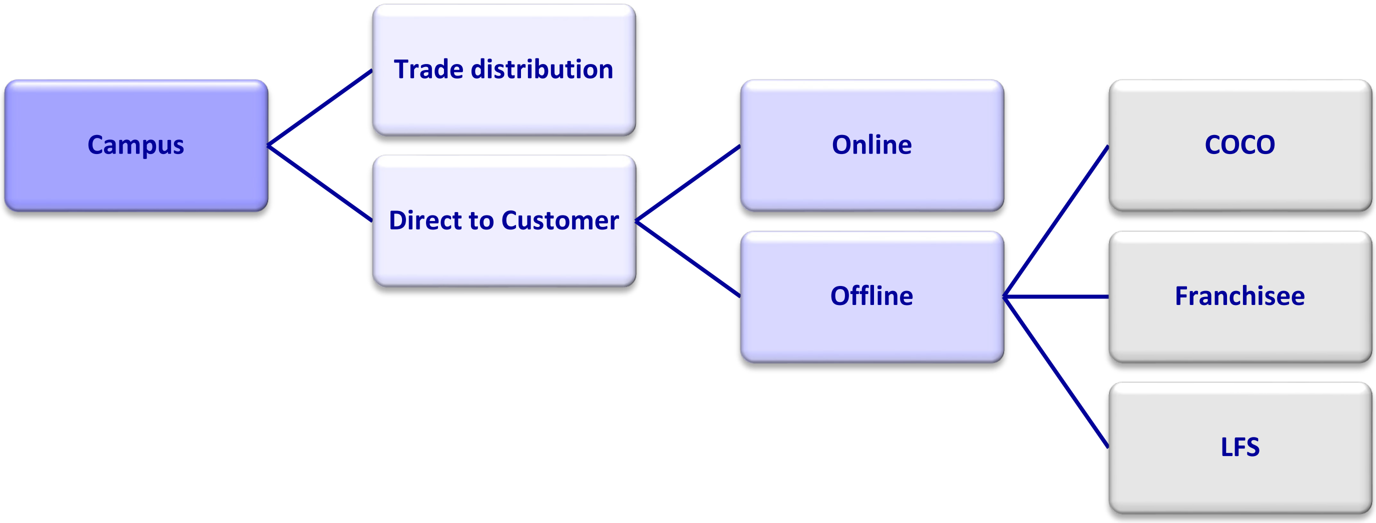
Source: MOFSL

Company overview

Campus is the largest sports and athleisure footwear brand in India in terms of value and volume in FY21. It is primarily engaged in the manufacturing, distribution and sales of sports and athleisure footwear products. The brand 'CAMPUS' was introduced in 2005 and it is a lifestyle-oriented sports and athleisure footwear company that offers a diverse product portfolio for the entire family. It offers multiple choices across styles, color palettes, price points and an attractive product value proposition.

Historically, the group had three entities named Nikhil International, Ankit International and Kabeer Textiles. The entire business of Nikhil International and Kabeer Textiles was transferred to Campus Limited in Mar'17. Post that there has been a conversion of Ankit International into Campus AI in FY20. Currently, Campus AI is a wholly owned subsidiary of Campus.

Exhibit 40: Campus distribution formats



Source: Company, MOFSL

Management overview

Mr. Hari Krishan Agarwal, Chairman and Managing Director

Mr. Agarwal has over 37 years of experience in the footwear industry in India. He has other directorship in Campus AI Private Limited, HKV Services Private Limited and HNA Services Private Limited. His current term in Campus is until 1st Dec'24 and he is not liable to retire by rotation.

Mr. Nikhil Aggarwal - Whole-time Director and Chief Executive Officer

Mr. Agarwal has over 14 years of experience in the footwear manufacturing and trading sector. He has other directorship in Campus AI Private Limited and Action Drilling Private Limited. His current term in Campus is till 1st Dec'24 and he is liable to retire by rotation. He holds a bachelor of science degree in industrial engineering from Purdue University. Further, he attended the Summer School Program at the London School of Economics in 2007. He has completed the TPG-INSEAD C-Suite Workshop and Leading The Effective Sales Force, and INSEAD Executive Education programs held at INSEAD, Singapore.

Mr. Raman Chawla - Chief Financial Officer

Mr. Chawla has approximately 26 years of experience in accounting and finance, including 14 years as head of Finance. He has associated with Campus Activewear from last 4 years. He holds a bachelor of commerce from Punjabi University and a postgraduate diploma in management from the International Management Institute. He is an associate member of the Institute of Chartered Accountants of India.

Mr. Piyush Singh – Chief Strategy Officer

Mr. Singh has approximately 13 years of experience in the investment banking and consultancy sectors. He has associated with Campus Activewear from last 5 years. He handles growth strategy, investor relations and direct to consumer channels, including e-commerce, large format stores and retail functions. He holds a bachelor of technology in electrical engineering from National Institute of Technology Kurukshetra and a master of business administration from the School of Business Management, Narsee Monjee Institute of Management Studies. He has also passed level I and level II of the CFA program from the CFA Institute.

Financials and valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue from Operations	**5,096**	**5,949**	**7,320**	**7,113**	**11,942**	**16,082**	**20,264**	**25,532**
Change (%)		**17**	**23**	**-3**	**68**	**35**	**26**	**26**
Raw Materials	2,917	3,212	3,801	3,744	5,974	7,973	9,929	12,383
GROSS PROFIT	2,179	2,737	3,519	3,369	5,968	8,109	10,334	13,149
Margin (%)	42.8	46	48	47	50	50	51	52
Employees Cost	317	431	570	552	679	917	1,135	1,404
Other Expenses	1,034	1,305	1,586	1,657	2,874	3,820	4,813	5,936
Total Expenditure	**1,351**	**1,736**	**2,157**	**2,209**	**3,553**	**4,736**	**5,947**	**7,341**
% of Sales	26.5	29.2	29.5	31.1	29.8	29.5	29.4	28.8
EBITDA	**828**	**1,000**	**1,363**	**1,160**	**2,415**	**3,373**	**4,387**	**5,809**
Margin (%)	16.2	16.8	18.6	16.3	20.2	21.0	21.7	22.8
Depreciation	102	144	231	327	532	577	743	908
EBIT	**726**	**857**	**1,132**	**833**	**1,883**	**2,796**	**3,644**	**4,900**
Margin (%)	**14.2**	**14**	**15**	**12**	**16**	**17**	**18**	**19**
Finance costs	249	212	165	172	195	200	195	192
Other Income	11	18	21	38	24	32	41	51
PBT bef. EO Exp.	**488**	**663**	**988**	**699**	**1,713**	**2,628**	**3,490**	**4,760**
Total Tax	173	277	364	431	469	657	872	1,190
Tax Rate (%)	35.5	41.8	36.8	61.6	27.4	25.0	25.0	25.0
Reported PAT	**314**	**386**	**624**	**269**	**1,244**	**1,971**	**2,617**	**3,570**
Adjusted PAT	**314**	**386**	**612**	**279**	**1,250**	**1,971**	**2,617**	**3,570**
Change (%)		23.0	58.4	-54.5	348.5	57.7	32.8	36.4
Margin (%)	6.2	6.5	8.4	3.9	10.5	12.3	12.9	14.0

Consolidated - Balance Sheet

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	1	1	1,519	1,519	1,522	1,522	1,522	1,522
Total Reserves	1,602	2,017	1,329	1,608	2,920	4,891	7,509	11,078
Net Worth	**1,603**	**2,018**	**2,847**	**3,126**	**4,442**	**6,413**	**9,030**	**12,600**
Minority Interest	-28	-26	1	4	0	0	0	0
Total Loans	1,764	1,986	2,756	1,772	2,890	2,787	2,715	2,664
Lease Liability		239	323	416	1,147	1,044	972	921
Capital Employed	**3,340**	**3,978**	**5,604**	**4,902**	**7,332**	**9,200**	**11,745**	**15,264**
Gross Block	910	1,480	2,474	3,318	4,495	5,999	7,504	9,008
Less: Accum. Deprn.	103	229	429	753	1,285	1,862	2,605	3,513
Net Fixed Assets	**806**	**1,251**	**2,044**	**2,564**	**3,246**	**4,137**	**4,899**	**5,495**
Right to use assets	0	298	416	491	1,208	1,264	1,337	1,389
Capital WIP	133	246	352	3	25	25	25	25
Total Investments	**0**	**0**	**450**	**0**	**0**	**0**	**0**	**0**
Curr. Assets, Loans&Adv.	**2,923**	**2,874**	**3,348**	**3,067**	**4,975**	**6,099**	**8,195**	**11,338**
Inventory	937	1,182	1,699	2,025	3,543	3,386	3,808	4,580
Account Receivables	1,901	1,620	1,443	982	1,337	1,542	1,943	2,448
Cash and Bank Balance	16	18	153	12	3	1,079	2,351	4,217
Loans and Advances	68	54	53	48	92	92	92	92
Curr. Liability & Prov.	**1,302**	**1,045**	**1,524**	**1,888**	**2,367**	**2,680**	**3,336**	**3,989**
Account Payables	1,094	806	1,228	1,709	1,966	2,294	2,856	3,393
Other Current Liabilities	206	237	279	175	395	380	474	591
Provisions	2	2	17	5	6	6	6	6
Net Current Assets	**1,621**	**1,829**	**1,824**	**1,179**	**2,608**	**3,419**	**4,859**	**7,348**
Deferred Tax assets	728	634	621	401	366	366	366	366
Other Assets	185	265	665	758	1,112	1,278	1,622	2,055
Appl. of Funds	**3,340**	**3,978**	**5,604**	**4,902**	**7,332**	**9,200**	**11,745**	**15,264**

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)								
EPS	**NA**	**NA**	**2.0**	**0.9**	**4.1**	**6.4**	**8.5**	**11.7**
Cash EPS	NA	NA	2.8	2.0	5.9	8.3	11.0	14.6
BV/Share	NA	NA	9.4	10.3	14.6	20.9	29.5	41.1
Valuation (x)								
P/E	NA	NA	274.7	603.7	134.9	86.0	64.8	47.5
Cash P/E	NA	NA	199.6	277.7	94.6	66.6	50.5	37.9
P/BV	NA	NA	59.1	53.8	37.9	26.4	18.8	13.5
EV/Sales	0.3	0.3	23.3	23.9	14.4	10.7	8.4	6.6
EV/EBITDA	2.1	2.0	125.4	146.5	71.0	50.8	38.7	28.9
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	NA	NA	-1.8	2.3	-0.5	5.3	5.8	7.7
Return Ratios (%)								
RoE	19.6	19.2	21.5	8.9	28.1	30.7	29.0	28.3
RoCE	33.4	16.2	16.4	8.4	23.5	26.3	26.9	27.9
RoIC	34.6	16.8	18.4	8.4	23.2	27.8	31.7	36.4
Working Capital Ratios								
Fixed Asset Turnover (x)	5.6	4.0	3.0	2.1	2.7	2.7	2.7	2.8
Asset Turnover (x)	1.5	1.5	1.3	1.5	1.6	1.7	1.7	1.7
Inventory (Days)	117	120	138	182	170	155	140	135
Debtor (Days)	136	108	76	62	35	35	35	35
Creditor (Days)	137	108	98	143	112	105	105	100
WC (Days)	117	120	117	101	93	85	70	70
Leverage Ratio (x)								
Current Ratio	2.2	2.8	2.2	1.6	2.1	2.3	2.5	2.8
Interest Cover Ratio	2.9	4.0	6.9	4.9	9.7	14.0	18.7	25.5
Net Debt/Equity	1.1	1.0	0.8	0.6	0.6	0.3	0.0	-0.1

Consolidated - Cash Flow Statement **(INR m)**

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	488	663	988	699	1,713	2,628	3,490	4,760
Depreciation	102	144	231	327	532	577	743	908
Interest & Finance Charges	249	212	165	172	195	200	195	192
Others	0	100	187	87	65	0	0	0
Direct Taxes Paid	-173	-92	-397	-252	-436	-657	-872	-1,190
(Inc)/Dec in WC	-1,847	-483	-179	210	-1,890	98	-511	-1,057
CF from Operations	**-1,182**	**544**	**995**	**1,243**	**178**	**2,847**	**3,044**	**3,613**
Others	0	0	0	0	0	0	0	0
CF from Operating incl EO	**-1,182**	**544**	**995**	**1,243**	**178**	**2,847**	**3,044**	**3,613**
(Inc)/Dec in FA	1,978	-288	-1,545	-539	-341	-1,218	-1,254	-1,254
Free Cash Flow	**796**	**257**	**-550**	**704**	**-163**	**1,629**	**1,789**	**2,359**
(Pur)/Sale of Investments	0	0	0	449	0	0	0	0
Others	0	0	0	0	0	0	0	0
CF from Investments	**1,978**	**-288**	**-1,545**	**-90**	**-341**	**-1,218**	**-1,254**	**-1,254**
Issue of Shares	-230	0	179	0	32	0	0	0
Inc/(Dec) in Debt	-128	-54	654	-1,077	387	0	0	0
Interest Paid	-249	-201	-148	-140	-121	-159	-159	-159
Lease instalment	0	0	0	-77	-143	-394	-359	-334
Minority	-197	0	0	0	0	0	0	0
CF from Fin. Activity	**-803**	**-255**	**686**	**-1,294**	**155**	**-553**	**-517**	**-493**
Inc/Dec of Cash	**-7**	**1**	**135**	**-141**	**-9**	**1,076**	**1,272**	**1,866**
Opening Balance	23	16	18	153	12	3	1,079	2,351
Closing Balance	**16**	**18**	**153**	**12**	**3**	**1,079**	**2,351**	**4,217**

Relaxo Footwear

BSE SENSEX	S&P CNX
58,841	17,531

Stock Info

Bloomberg	RLXF IN
Equity Shares (m)	249.0
M.Cap.(INRb)/(USDb)	268.4 / 3.4
52-Week Range (INR)	1447 / 928
1, 6, 12 Rel. Per (%)	9/-10/-9
12M Avg Val (INR M)	257
Free float (%)	29.2

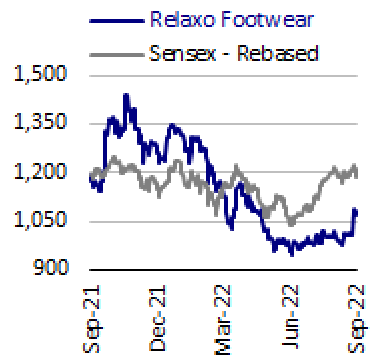
Financial Snapshot (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	26.5	28.7	34.6
EBITDA	4.2	4.8	6.1
NP	2.3	2.6	3.4
EPS (INR)	9.3	10.4	13.8
EPS Growth (%)	-20.4	11.7	32.4
BV/Share (INR)	70.7	78.5	88.9
Valuations			
P/E (x)	115.3	103.3	78.0
P/BV (x)	15.2	13.7	12.1
EV/EBITDA (x)	64.5	55.1	43.6
EV/Sales (x)	10.1	9.3	7.7
Ratios			
RoE (%)	14.0	14.0	16.5
RoCE (%)	13.2	13.2	15.5
RoIC (%)	15.8	15.9	20.8

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	70.8	70.8	70.9
DII	7.1	6.9	7.3
FII	3.2	3.2	3.5
Others	19.0	19.1	18.3

Stock Performance (1-year)



CMP: INR1,078 **TP: INR1,020 (-5%)** **Neutral**

Riding on India's organized footwear shift

Major player in open footwear; Initiate coverage with a NEUTRAL rating

- **We initiate coverage on Relaxo Footwear (Relaxo) with a Neutral rating and a TP of INR1,020. Relaxo's: a) wide distribution reach, b) competitive pricing, and c) strong brand recall, give it an edge over others in the unorganized footwear market. We expect 16% revenue CAGR over FY22-25.**
- **Improvement in ASP and increasing demand for closed footwear in sports and athleisure may be the key levers of growth. Recent raw material (RM)-led inflation woes should taper down in the next couple of quarters. We expect 22% EBITDA/PAT CAGR over FY22-25.**
- **We expect the company to generate an average RoE/RoCE of 16%/15% in FY23-25, respectively, led by a healthy 18% operating margin and 1.9x average asset turn.**
- **A large part of the revival is factored into the current valuation with limited margin of safety. We ascribe a P/E 60x on FY25E EPS, to arrive at our TP of INR1,020.**
- **Key downside risks to our call are: a) weak industry demand in the value retail segment, and b) rising input costs.**

A dominant player in the open footwear market

Operating at an ASP of ~INR150, Relaxo has carved out its niche dominant position in the open footwear space (80% of revenue), steering through the large-scale unorganized market. Its wide network of ~650 distributors, covering 50k-60k retail touch-points, 394 EBOs, selling 10,000+ SKUs across India, with annual volumes of 175m, holds ~15-20% market share at the retail level. Relaxo's competitive edge is due to a) its wide distribution reach, allowing it to penetrate the market quickly, especially during any new product launches, b) stronger brand recall in the Mom and Pop stores, given its better product capability, wide variety of SKUs, and high A&P spends, c) competitive pricing being a low cost producer with in-house manufacturing, and d) better sourcing capability, supported by large scale procurement.

Growth trajectory to revive

The recent high volatility in RM prices coupled with GST rate hike has pushed up the footwear prices. Further, competition from unorganized players has increased due to the widening price arbitrage – their products are now 20-30% cheaper than Relaxo from 10% earlier. However, with the recent cooling off in RM prices and the company's superior product capability v/s the unorganized players, the trend is expected to ebb in the next couple of quarters with demand revival and market share gains for Relaxo.

New engine of growth

The company has improved its product mix by introducing ~200+ new articles annually and has restyled its entire product portfolio. Relaxo has now shifted its focus on the economy/mid-segment, pushing products with higher price points (e.g., 'Sparx' and 'Schoolmate'). This is reflected in its growing share, which reached 38% in FY22 from 7% in FY10. The S&A wear segment is merely a INR2.5b (10% of total revenues) market, with a potential to reach INR10b over the next few years. Further expansion of retail touch points in new geographies such as South, WB, MP should further aid in its growth plans. Over FY22-25E, we expect the company's ASP to report 4% CAGR to INR169, driving its revenue CAGR of 16%.

Limited margin lever in the near term; long term could see improvement

Relaxo has improved its EBITDA margin by 480bps over the last 10 years (FY12-22) to 15.7%, aided by premiumization and scale-related efficiency. EBITDA margin could improve further in the long term with increased focus on S&A and product premiumization. But in the near term, it would focus on demand revival, especially in the backdrop of weak demand, led by high inflation, coupled with recent price hikes to pass on the rising RM cost and GST rate hike. Also, the unorganized market has **become competitive with 20-30% cheaper products than Relaxo v/s 10% historically. We expect an EBITDA margin of 17-18% in line with FY20 levels, factoring 22% EBITDA/PAT CAGR over FY22-25E.**

Healthy FCF and ROCE

Relaxo has reported positive cash flow for the last many years on the back of robust volume growth coupled with lower fixed overheads. Higher cash generation has led to faster debt repayment and decline in net debt (Pre IND-AS) from INR1.3b in FY17 to net cash of INR1.6b in FY22. The company has maintained a healthy average RoCE/RoE of ~18%/21% over FY17-21. This sets the company on a firm footing, as revival of demand is expected to drive the growth momentum. We expect Relaxo to deliver volume/sales CAGR of 12%/16% over FY22-25E.

Valuation and View

The stock is trading at a rich P/E of ~78x on FY24E. We factor in revenue/PAT CAGR of 16%/22% over FY22-25E, respectively, driven by: a) recovery in the open footwear category, b) product mix-led ASP improvement, and c) increasing mix of closed footwear category, particularly in the S&A wear. However, given the soft growth trajectory, Relaxo's premium to our footwear coverage of 32% should shrink. We ascribe a P/E of 60x on FY25E EPS to arrive at our TP of INR1,020. **Initiate coverage with a Neutral rating.**

A dominant player in the open footwear market

Relaxo has an edge over the unorganized market with overall volume market share of 5-6% (175m pairs sold with 90% volume in open footwear), while holding its leadership position in lower price point products (e.g., Bahamas, slippers, and flip-flops).

- **Wide distribution reach** with 50-60k retailers, which allows it to penetrate/reach the market.
- **Stronger brand recall** given its better product capability, wide variety of SKUs along with increased A&P spends.
- **High efficiency:** Being a low cost producer with in-house manufacturing and high scale of production v/s the unorganized players, allows it to remain competitive in the market.
- **Better sourcing capability** allows it to procure raw material at a lower price, thus create customer value.

Distribution model bodes well for Relaxo

Relaxo has diversified its presence across the country through its vast network of distributors, unlike peers in the high ASP segments, which typically have a wide EBO (exclusive Brand Outlet) led network. The low ASP segment, where Relaxo operates is best suited for the distribution-led MBO network; this is due to two factors-

- The low ASP customer typically shops through the small MBO retailer and often opts for the unorganized local products, thus, to win in the market place and to gain the attention of customers toward the branded product segment, it is important to operate through the MBO model,
- Further, the low ASP products operate at a lower GM of ~40%, and therefore, it becomes unviable to operate through the retail EBO model, which incurs high cost of retailing viz., rent, employee and other store costs. Relaxo has the lowest fixed cost in the industry due to its greater dependence on its distribution channel.

The company has consolidated its distributor portfolio over the last two years by ~20% to 650-680 (FY22), with an aim to carve out low (<INR1m monthly) revenue generating distributors, thus improving efficiency. Nearly 125 distributors (20% of total distributors) are exclusively for Relaxo products. A distributor generates an average of INR40m revenue p.a. and has almost 30-35 retailers, thus generating an average revenue/retailer of INR 1-1.5m.

Relaxo’s distribution model has been quite successful as it has managed to record the highest volumes and register healthy return ratios compared to its peers. It has maintained an average return profile of 17-19% over the last five years (FY18-22). The distribution model also allows Relaxo to venture into newer geographies by expanding and leveraging its existing network.

Good design capabilities and new product launches

- Relaxo has an in-house design team, enabling continuous product innovations as per consumer needs.
- The company carries out thorough market research to identify product demand, and based on this, products are either continued or discontinued. ~20% of the portfolio is restyled every year.
- Relaxo's in-house design team focuses on new product launches.
- Every year, the company introduces ~200 articles. Currently, Relaxo has 400 articles (low performers are taken out of production). At any point in time, the company deals with around 400 articles and 6,000 SKUs.

Complete in-house manufacturing

- Unlike its major competitors, almost 90% of Relaxo's products are manufactured in-house across eight manufacturing facilities with a capacity to produce ~7.5lac pairs per day.
- The recent increase in import duty (from 25% to 35%) on finished footwear and 5% increase on parts to make footwear (from 15% to 20%) would affect the margins of players importing from China.
- Further, the footwear industry is labor intensive. Hence, outsourcing to smaller vendors is difficult and costlier. Also, delivering consistent product quality across multiple brands is challenging.
- Thus, Relaxo's in-house manufacturing strategy allows it to maintain delivery precision across its portfolios. The labor intensive nature of the business acts as a great entry barrier.
- Relaxo is also focusing on improving its manufacturing operations; some recent initiatives to improve productivity include adoption of lean manufacturing and Maynard Operation Sequence Technique (MOST).

Exhibit 1: Eight manufacturing facilities located across Rajasthan, Haryana, and Uttarakhand

Sources: MOFSL, Company

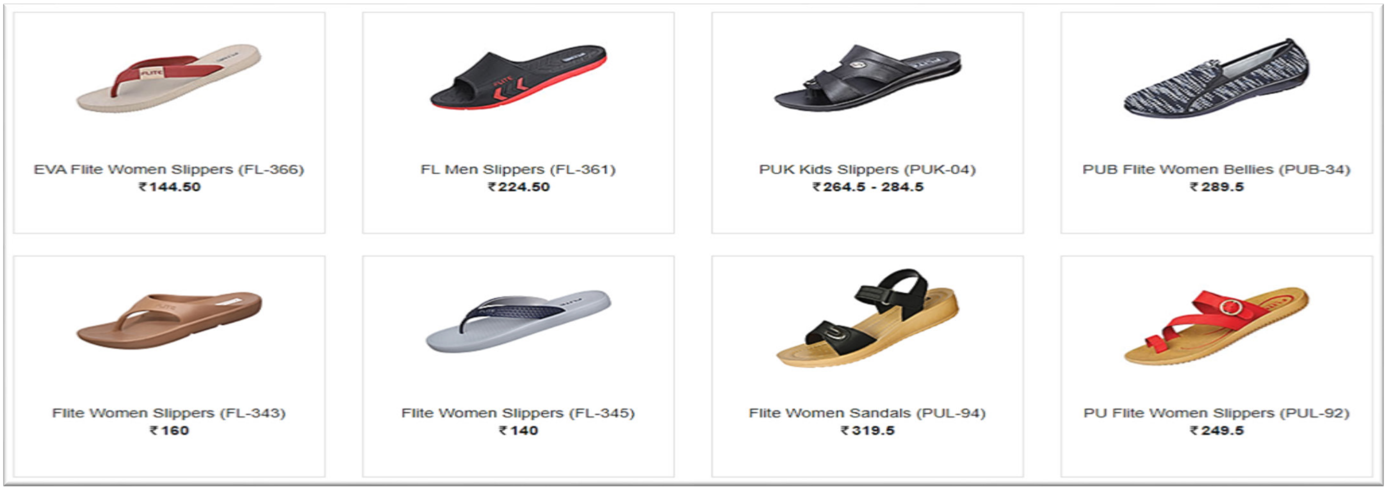
Exhibit 2: Portfolio of brands with strong identities

sparx GO FOR IT | BOSTON | Bahamas | Casualz

FLITE | Mary Jane | SCHOOLMATE A STEP AHEAD | KIDS FUN

Source: Company, MOFSL

Exhibit 3: Flite product portfolio

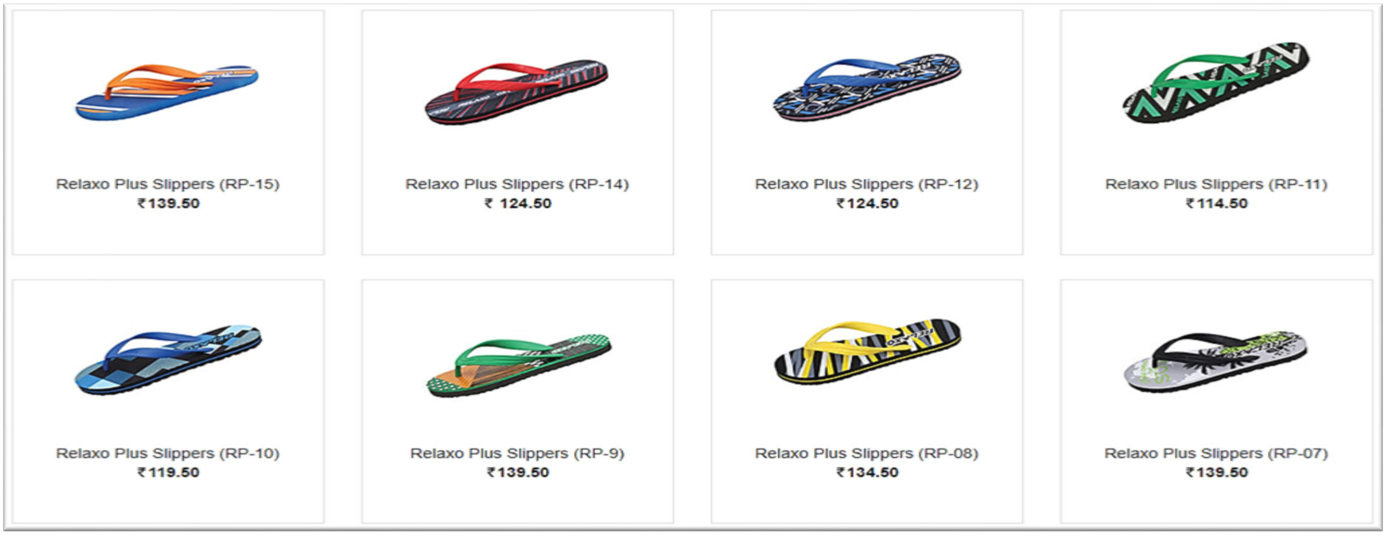


Source: Company, MOFSL

Exhibit 4: Sparx product portfolio

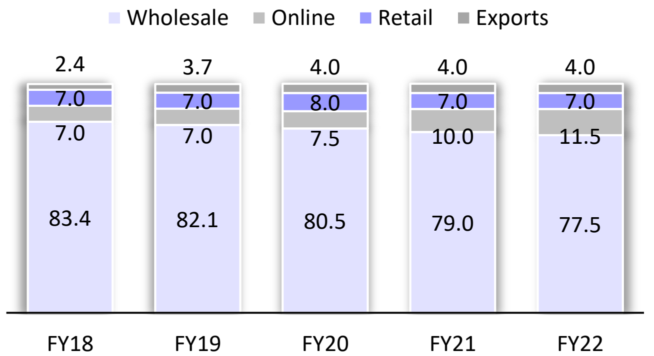
Sources: MOFSL, Company

Exhibit 5: Bahamas product portfolio



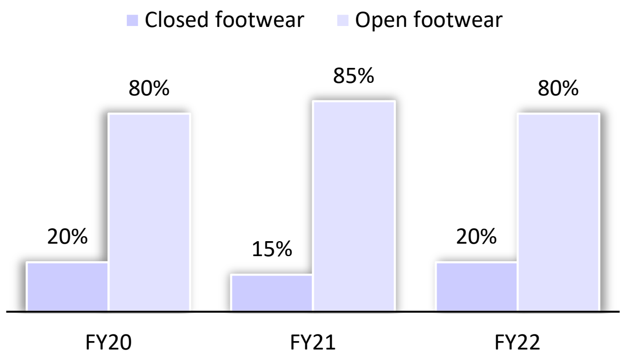
Sources: MOFSL, Company

Exhibit 6: Wholesale contribution to revenue dominates



Sources: MOFSL, Company

Exhibit 7: Product mix remains stable (in terms of value)



Sources: MOFSL, Company

Exhibit 8: Various products offered under multiple brands

Major brands	Product offering
Sparx	Sports shoes
Flite	PU and EVA collection - Slippers, belle, sandals for men, women and kids
Bahamas	Flip flops - For men, women and kids
Schoolmate	School shoes for boys and girls

Sources: MOFSL, Company

Facing the heat from unorganized players

Facing the heat from unorganized players, but expect growth trajectory to revive in the next couple of quarters

During the last year, high volatility in RM price increased inventory carrying cost for Relaxo compared to the unorganized player, which have low inventory and supply chain cycle and take advantage of the price gap in the market.

- This gave opportunity to many unorganized players to participate in the low ASP open footwear market.
- The ASP spread between Relaxo and the unorganized players increased to 20-25% which was earlier around 10%.
- But this is now expected revert to 10%, providing for a positive outlook on revenue growth.

1. RM prices cooling off

- The cost of EVA has increased in the last year, impacting the GP margin. However, the cost of EVA has been reduced by 40% from its earlier peak (the cost was INR 120/kg, which had increased to INR300/kg, but now the cost has reversed to INR200/kg)
- However, with the raw material costs cooling off and better product capability v/s the unorganized players, the GP margin impacted from high raw material cost should reverse in the next couple quarters.

2. Growth trajectory to revive

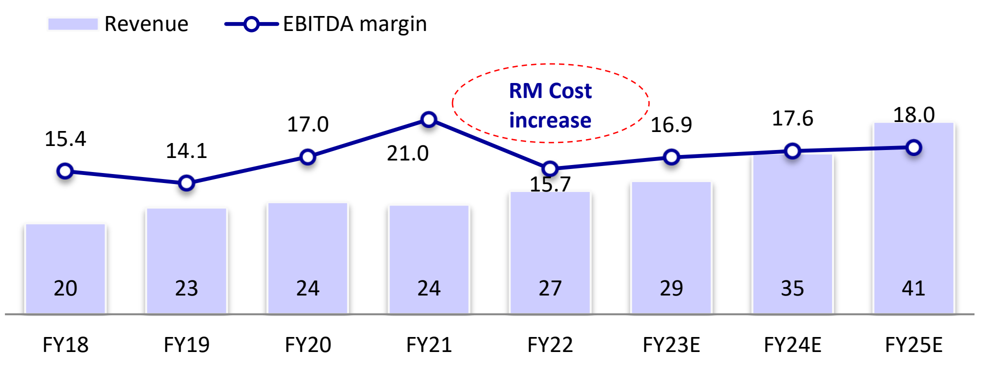
- With the RM prices cooling off, Relaxo would be better placed to regain its market share from the unorganized players, which have mushroomed over the last couple of years.
- **Recovery expected from 3QFY23:** Expect recovery to set pace from 3QFY23.

Earnings volatility in the recent past

1. Footwear retailers catering the high-end ASP segment have seen a strong recovery since the second wave of COVID, however, Relaxo saw sluggish performance in FY22, which was impacted by
   a. A high base of open footwear revenue, owing to the robust growth in FY21 during the lockdown.
   b. Increase in RM prices coupled with GST rate hike led to sharp price increases that hurt the overall demand.
   c. Impact of inflation in the overall economy has pinched consumers at the lower income bracket as is evident in the value product categories
   d. **The entry of unorganized players have impacted the market share of Relaxo** due to the RM price volatility and supply chain issues in the market.
2. This continued in 1QFY23 and also so far into 2QFY23, but given the easing RM prices and ensuing festive season, things are expected to improve in the next few months.

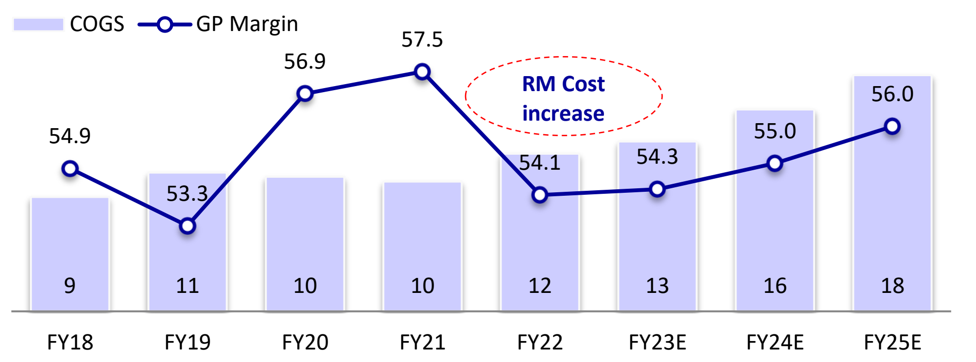
3. **In FY21, despite the impact of the 1st phase of COVID, as the market reopened, Relaxo benefitted from** a.) Increased demand for open footwear and b.) Reduced A&P spends, given the macro environment, thereby, improving margins. Further, in spite of a challenging year, expenses were under control when demand increased, both top and bottom-line saw healthy traction.
4. During FY21, the mix of open footwear also increased to 85% from 80% in FY20 even as the company continues to focus on premiumization and increasing share of closed footwear.

Exhibit 9: Revenue and EBITDA margin improving



Source: MOFSL, Company

Exhibit 10: GP margin reduces due to cost effect



Source: MOFSL, Company

New growth engine

Premiumization play

More than 90% of Relaxo's revenue comes from footwear priced lower than INR1000. Thus, Relaxo is in a sweet spot to benefit from the shift towards organized retail with higher consumer spending. Over the last 15 years, Relaxo has delivered revenue/volume at CAGR of 18%/8%, implying steady improvement in realization CAGR at 8%. Relaxo is improving its product mix and subsequently its ASP by increasing the share of higher value products such as Sparx, Flite, and Schoolmate and pushing them through its vast retail and distribution channel networks.

Closed footwear/Sports and Athleisure wear size and opportunity

- Relaxo is a leader in the open footwear market with 80% (INR21b) revenue contribution while its closed footwear contributes 20% of total footwear (INR 5b).
- Out of Closed footwear, 50%, i.e., INR 2.5b belongs to sports and athleisure footwear much below peers catering the mass market such as Campus INR12b revenue in FY22)
- The Sports and Athleisure category is outpacing the overall footwear market growth, thus increasing share, v/s the leather shoe category, which is seeing a decline.
- Relaxo has the strength of a.) wide distribution reach, b.) in-house capability, and c.) management bandwidth to drive growth in the sports wear segment.
- The company's Sport and Athleisure footwear segment can target to reach INR10b over the next few years.
- The online segment should play a key role in the growth in Sports and Athleisure wear.

Widening presence in new regions – the next leg of growth

Wide network

India's North/East regions contribute~50%/20% to Relaxo's revenues and are a stronghold for Relaxo, the remaining 30% is contributed by the South/West. Currently, Relaxo sells through its ~700 distributors, 394 EBOs, and 60k+ retail touch points, and Multi Brand Outlets. About 78% of Relaxo's revenue comes from the distribution channels, followed by Online (12%), then EBOs (close to 7%); the rest is through other retail channels, online sales and exports. Further, Relaxo exports to 40 countries with increased focus on Africa and the Middle-East. Relaxo has also set up an overseas office in Dubai.

Expansion in new geography

- Relaxo is improving its presence in the South/West regions through its distribution and retail network. The company is gaining traction in the South/West regions; especially its brand 'Sparx' is showing robust growth in these areas.
- It is presently catering to 50-60k retailers and is now targeting to increase its reach to 75-80k retailers by adding 10% retailers every year particularly in South, WB, MP.
- South is an open footwear market, where the company has just about 13% presence in FY22 (in the North, it has 50% presence), and hence, Relaxo is pushing in that region.

Online medium – new mode of revenue generation

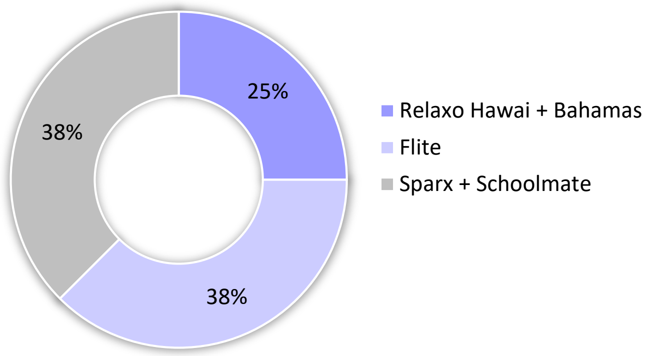
Relaxo's online sales contribution to total revenue has increased from 6-7% in FY19 to nearly 12% in FY22. With the number of online shoppers increasing due to multiple offerings, and ease of shopping RFL's online revenue share is expected to increase in the medium-to-near term. *Sparx*' is Relaxo's largest online selling brand, contributing 85-90% of total online sales.

The company is increasing its online presence to sell higher price point products, as consumers prefer buying high-value products online vis-à-vis lower price point products (price < INR500), which consumers prefer buying from small retail outlets. With improving mix towards sports and athleisure and increased focus towards online, management expects e-commerce sales to be the key lever of growth.

Strong brand equity

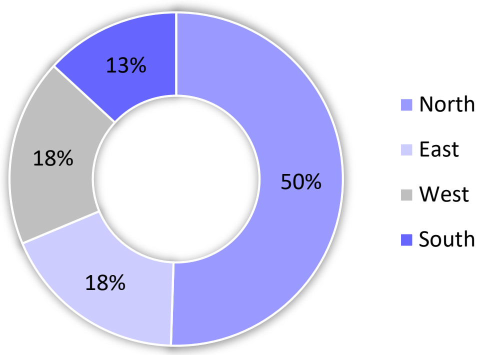
- To improve brand recall for its products, historically, Relaxo has spent ~6-8% of its total revenue on advertisements and sales promotion. This has now reduced to 3-4% due to the scale but the company continues to maintain a healthy ad spends.
- Its consistent ad spends is expected to increase its brand visibility in existing as well as new territories of the South/West region.
- Relaxo has appointed celebrity brand ambassadors and is associated with actors *Salman Khan, Akshay Kumar, Ranveer Singh,* to endorse its brands
- To connect with the younger generation, it is focusing on digital marketing along with improving its presence on online selling platforms.
- Strong brand equity clubbed with an in-house design team provides the company with a robust growth platform and momentum for new product launches.

Exhibit 11: Brand-wise revenue mix



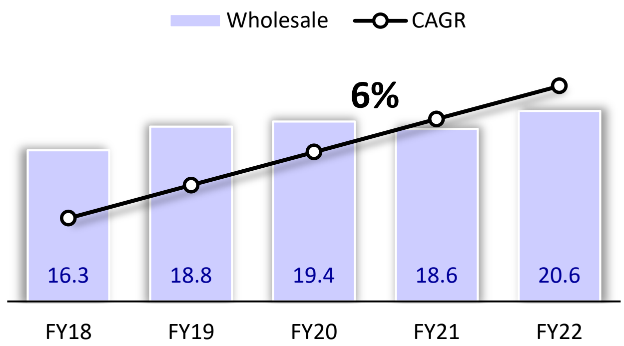
Source: MOFSL, Company

Exhibit 12: Geography-wise revenue mix



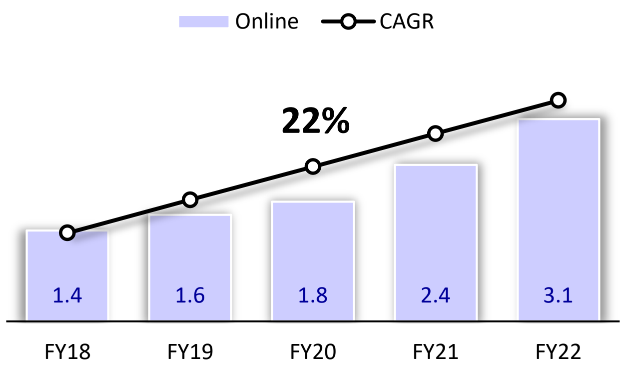
Source: MOFSL, Company

Exhibit 13: Wholesale business grew 6% CAGR



Source: MOFSL, Company

Exhibit 14: Online business grew 22% CAGR



Source: MOFSL, Company

EBITDA margin to sustain at current level

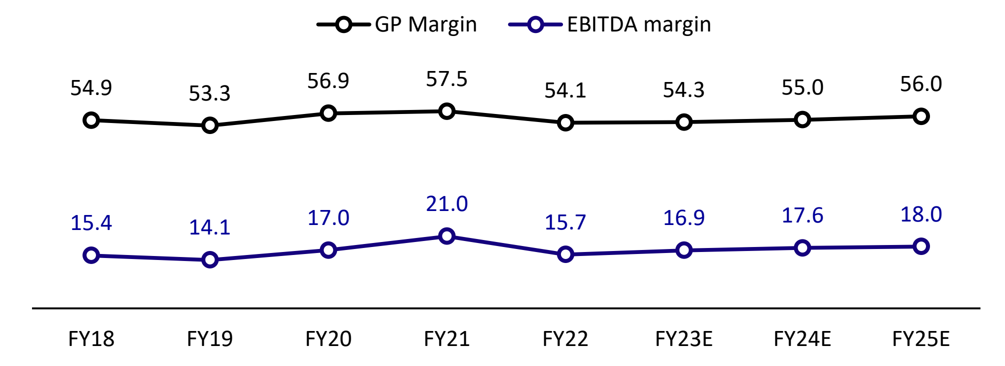
- The company has guided for 17% EBITDA margin in the near term. In FY22, it garnered 16% margin, but this was much better in FY21 at 21%. Over time, EBITDA margin can improve, however, management is keen to maintain a stable trajectory of 17% to improve its competitive position in the market, especially due to the recent high volatility in RM prices.
- There is an opportunity to improve GM with higher share of premium sports/closed footwear products. But we don't expect overall EBITDA margin to improve in the near term, as we would like to pass on the value to the customers. In the long term, both scale and premiumization mix can improve margins in line with historical trends.
- Being conscious of its low ASP segment, it tries to offer competitive pricing (good quality at low price) v/s the unorganized players, which offer low price but low quality products. Therefore, the company offers lower 30% retailer margin v/s 40% offered by Campus. Usually retailers also pass on the 10% discount to customers and keep the balance, whereas, distributors keep the 10% margin.

Exhibit 15: MRP Breakdown

Revenue to	Margin (%)	Revenue
RM Cost		INR27
Relaxo	55	INR 60
Distributor	10	INR 70
Retailer	30	INR 100
Cost to MRP ratio		3 - 3.5 times

Source: MOFSL, Company

Exhibit 16: Expected margin trend to improve FY23 onwards



Source: MOFSL, Company

Balance sheet and cashflow

Positive FCF to support expansion plans without infusion of fresh debt

- Relaxo has reported positive free cash flow over FY12-21. The company increased FCF by 20%, compounding over the last five years until FY21 with cumulative FCF of INR7.6b for the same period. FCF for FY22 were negative at INR830m due to the ongoing macro headwinds and high inflation impacting business.
- Higher FCF is due to robust volume growth over the years coupled with lower fixed cost overheads, which generated OCF of INR18b over FY12-21. Improved FCF has led to faster repayment of long-term loans as Relaxo reported zero long-term borrowings in FY22.
- We expect Relaxo to generate cumulative FCF of INR7.3b over FY23-25E, at an average annual run-rate of INR2.4b for the same period after factoring in INR2.3b capex.

Superior return ratio profile

- Relaxo recorded an average five-year RoCE of 17%. This is mainly due to the distribution model adopted by the company. Relaxo has a lower number of EBOs as compared to its peers, which reduces its fixed cost obligation.
- Relaxo's average RoE stood at ~19% (last five years), slightly reducing in the last few years due to deleveraging. Higher cash generation and lower fixed cost overheads have also boosted return-ratios of Relaxo.
- RoE/RoCE for FY22 reduced from the historical average of 21%/18% respectively to 14%/13%, led by a) deleveraging balance sheet b) reduction in asset turn, led by higher investment in capex (increase to INR 2b in FY22 from its average INR 1b over FY18-21) and working capital (increase to INR6b in FY22 from average INR 3.3b over FY18-21) This is possibly due to increased focus on closed footwear with capacity addition and higher working capital, which has not been fully captured in the revenue generation.
- We expect Relaxo's RoCE/RoE to improve 350bp/400bp over FY22-25E on the back of lower fixed cost liabilities, zero long-term borrowings, and higher cash generation.

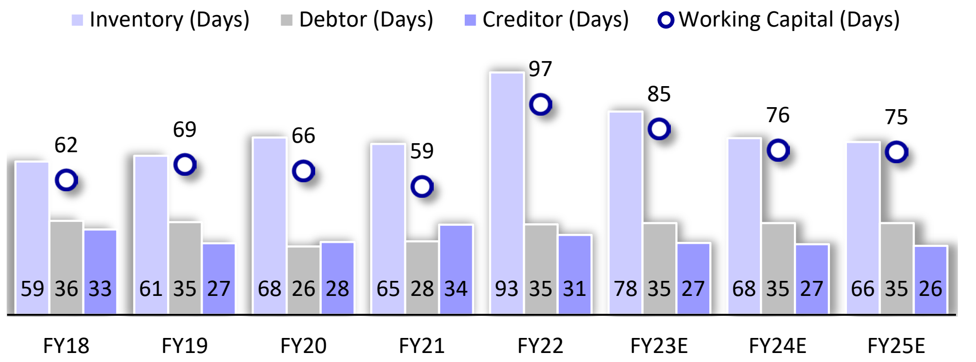
Capex requirement of INR1.0-1.5b

- Generally, the company has guided for INR 1-1.5b capex, which comprises INR250-300m for molds, INR400-500m in building, INR100m in IT and digital related, and the rest in machinery. This trend is likely to continue going forward.
- On INR1b capex, the company is likely to generate INR3-4b of revenue with an optimum asset turnover ratio of 3-4x.
- In the last fiscal, the company increased its production capacity to 1m pair day (33% increase from FY21) on the contrary, the volumes sold have reduced to 175m pairs (8% decrease from FY21). It is therefore operating at about 50% utilization(operating at 75% in FY21), thus requiring lower capacity addition. However, shift in focus towards closed footwear/sports and athleisure may require capex.
- Operating cashflow will be required for either capex (on closed footwear or non-leather footwear) or increased dividend payout.

Inventory and payable days to reduce

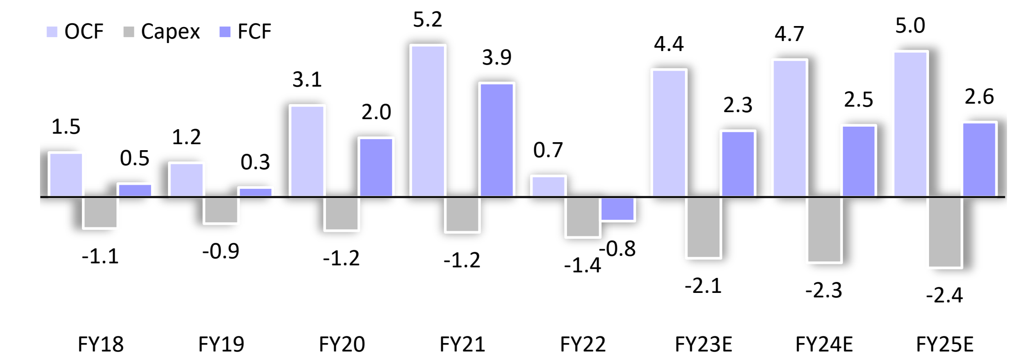
- Inventory days increased to 93 days in FY22 from 65 days in FY21, led by a 30% increase in cost and low sales.
- In total inventory of INR6.8 in FY22, INR 1.3b is towards RM, INR1-1.3b towards WIP and INR4.5b of Finished Goods.
  - Out of finished goods, INR 700m is in stores (each COCO store holds INR2m inventory) and rest INR 3.8b kept in warehouse i.e. nearly 3x turns.
  - In the recent times, the inventory pool has also increased (from INR 4.2b in FY21 to INR 6.8b in FY22) to derisk from availability of RM in the current highly volatile pricing period.
- Inventory days should come down by 20-25%. (Expecting inventory days to reduce to 65-80 days in FY23-25 from 93 days in FY22)
- Import constitutes 40-50% of raw material and usually the payables in domestic supply is ~45days, while for imports it is ~90 days, therefore, the average works out to be about 70-75 days.

Exhibit 17: Increase in Inventory days in FY22 led high WC days to 97days



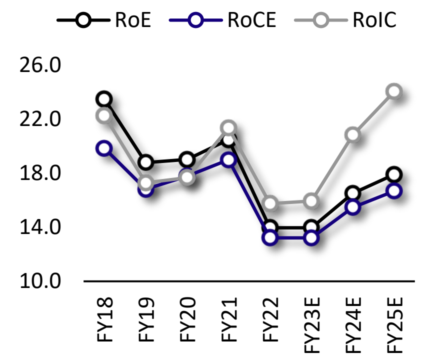
Source: MOFSL, Company

Exhibit 18: OCF sufficient to meet capex requirement (in INR b)



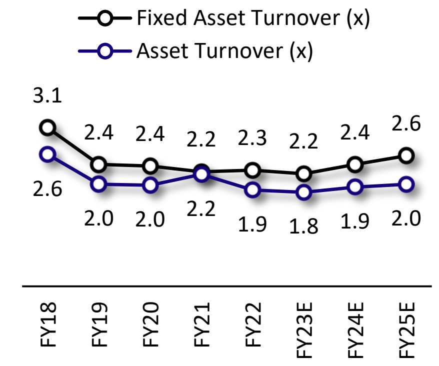
Source: MOFSL, Company

Exhibit 19: Deleverage & low turnover ratio led to decline in return ratio



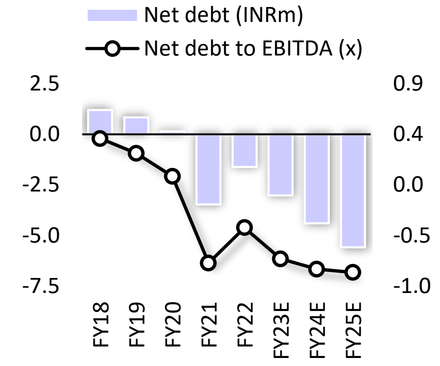
Source: MOFSL, Company

Exhibit 20: Turnover ratios decreasing led by high investment in Capex/WC



Source: MOFSL, Company

Exhibit 21: Net debt turns negative (Pre-IND AS)



Source: MOFSL, Company

Exhibit 22: Du Pont (in INR m)

Du-Pont	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	19,569	22,966	24,105	23,592	26,533	28,687	34,640	41,429
Net Profit	1,608	1,754	2,263	2,916	2,327	2,598	3,441	4,250
NP ratio	**8.2**	**7.6**	**9.4**	**12.4**	**8.8**	**9.1**	**9.9**	**10.3**
Asset	12,687	15,606	16,511	19,921	21,933	24,277	28,089	32,688
Average Asset	10,703	14,147	16,059	18,216	20,927	23,105	26,183	30,389
Asset turnover ratio	**1.8x**	**1.6x**	**1.5x**	**1.3x**	**1.3x**	**1.2x**	**1.3x**	**1.4x**
Equity	7,612	11,051	12,724	15,724	17,601	19,550	22,131	25,318
Average Equity	6,838	9,331	11,887	14,224	16,663	18,576	20,840	23,724
Leverage	**1.6x**	**1.5x**	**1.4x**	**1.3x**	**1.3x**	**1.2x**	**1.3x**	**1.3x**
RoE calculated	**23.5**	**18.8**	**19.0**	**20.5**	**14.0**	**14.0**	**16.5**	**17.9**
RoE reported	23.5	18.8	19.0	20.5	14.0	14.0	16.5	17.9

Source: MOFSL, Company

Valuation and view

Initiating coverage with a Neutral rating

Market leader in the lower price point segment

Currently, Relaxo enjoys a healthy volume/value market share of ~5-6%/4%, respectively. The double-digit volume CAGR momentum has seen a pause in the recent past, but it is expected to revive. Its wide distribution reach and further improvement bodes well in maintaining the growth momentum.

Improving brand mix remains prime focus of the company

With improved focus on product innovation and pushing higher price point products through its distribution channel along with focus on closed footwear particularly the high growth Sports/athleisure space, overall ASP and earnings growth should continue in the medium term, with better ROCE profile.

Strong FCF coupled with best-in-class return ratios strengthening business

Relaxo has reported positive FCF over FY12-21, which has led to regular debt repayments, resulting in net cash in FY21. High FCF generation would also benefit the company on its capex plans without the need for issuance of fresh capital. Also, Relaxo is expected to maintain its strong return ratios due to lower fixed overhead liabilities and strong operating margins.

Valuation: trading at a P/E of ~78x on FY24E

Clearly the stock is trading at a rich valuation of ~78x P/E on FY24E. We factor in revenue/PAT CAGR of 16%/22% over FY22-25E, respectively, driven by: a) recovery in the open footwear category, b) product mix-led ASP improvement, and c) increasing mix of closed footwear category, particularly in the S&A wear. However, given the soft growth trajectory, Relaxo's premium to our footwear coverage of 32% should shrink. We ascribe a P/E of 60x on FY25E EPS to arrive at our TP of INR1,020. **Initiate coverage with a Neutral rating.**

Exhibit 23: Valuation on Mar'25E

Mar'25E P/E valuation	(INR/share)
EPS (INR)	17.1
Target P/E (x)	60
Target Price (INR/share)	**1,020**
CMP	1,078
Upside (%)	-5

Source: MOFSL, Company

Key Risks

Weak industry demand in value retail segment: Relaxo customer base mostly comprises value retail customers. About 90% of the total revenue contributed is from products with an ASP of less than INR999. Continued softness in the segment may lead to softness in revenue as well.

Rising input costs: In the last few quarters, certain raw material prices have seen sharp escalation, especially the EVA price. Also, GST rate has increased from 5% to 12% for products below INR1,000. This could risk margin or impact consumer demand.

ESG, CSR, and diversity

Environment and sustainability initiatives

- **Various energy conservation initiatives at plants** have led to a reduction in energy costs, thereby reducing the cost of production.
  - Achieved better steam-to-fuel ratio of boilers by adopting various measures including but not limited to segregation of high & low pressure lines, insulation of steam headers etc. These resulted in a reduction in steam cost per pair.
  - There was a shift to Piped Natural Gas (PNG) from LPG for Boiler operations.
  - Replaced some of the conventional lights with LEDs, conventional motors with servo motors and installed VFDs for compressors across plants.
- **Initiatives at its retail outlets** for energy conservation have led to a substantial saving of its annual energy and maintenance costs.
  - Conducted a regular energy audit, for identifying power losses and exploring appropriate steps to lower power consumption.
  - Reduced energy consumption by using Inverter air conditioner in new retail outlets and replacing old units at existing outlets.
  - Replaced conventional light fittings by efficient lighting fixtures as a part of its renovation and repair initiatives.
  - Trained retail outlet staff on the awareness of energy savings.
- **Alternate sources of energy:** Traditionally, Relaxo has been using Pet Coke, followed by agro-based biofuel for all boilers across plants, requiring steam for processing. As a strategic measure, it has replaced all its agro / solid fuel-based boilers with gas fired boilers (PNG & LPG), thereby changing over to green fuel and also helping environment through much cleaner stack emission and clean environment at boiler floor level.

Governance pointers

- The Board of Director composition includes one Managing Director, three Whole Time Directors and four Non-Executive Independent Directors including one Woman Independent Director.
- Four out of eight Board members are Independent Directors.
- The Audit Committee comprised four members namely Mr. Pankaj Shrimali Chairman, Mr. Vivek Kumar, Mr. Nikhil Dua and Mr. Rajeev Rupendra Bhadauria.

CSR initiatives

- The Board approved **Parivartan Model School Project Phase-III**, on 29th Jan'22 with an outlay of INR64.5m. However, the project could not be initiated as the schools remained closed under the Covid-19 restrictions and hence the entire amount of INR 64.5m has been transferred to the Unspent CSR account of the Company on 26th April'22.

SWOT analysis

- ☑ Strong geographical presence due to its vast network of distributors- 700 distributors, 60000 touch points
- ☑ Market leader with 5-6% volume share.
- ☑ In-house production
- ☑ Strong brand equity clubbed with an in-house design team provides robust growth platform and momentum for new product launches.

- ☑ Growth lags industry in value retail segment
- ☑ Dependency on trade distribution network (78% sale contributed from TD)
- ☑ Lower online contribution

- ☑ Huge growth opportunity in Sports and Athleisure in India
- ☑ Increasing discretionary spending to increase number of pairs consumed per person.
- ☑ Well placed to benefit from the shift to organized segment from the unorganized segment.

- ☑ COVID-19 impact on consumers' disposable income could pose long-term threat to business
- ☑ Counterfeiters pose great threat to the organized segment
- ☑ Entry of MNCs could increase competition in the market

Bull and Bear Case

Bull Case

- ☑ In our Bull Case scenario, we assume volumes to report 16% CAGR over FY22-25E v/s 12% in Base Case over the same period.
- ☑ We expect revenue to be driven by higher volumes in all the three brands.
- ☑ Assuming a target multiple of 70x in the Bull Case, we arrive at a Bull Case target price of INR1,466 (upside of 36%) as against a Base Case target price of INR1,020 (downside of 5%), based on FY25E EPS.

Bear Case

- ☑ In the Bear Case, we assume volume CAGR of 7% over FY22-25E v/s 12% in the Base Case.
- ☑ We expect slower revenue growth due to competition/slower economic recovery.
- ☑ Assuming a target multiple of 50x in the Bear Case v/s 60x in the Base Case, we arrive at a Bear Case target price of INR634 (downside of 41%) as against a Base Case target price of INR1,020 (downside of 5%), based on FY25E EPS.

Exhibit 24: Scenario analysis – Bull and Bear Case

	Bull				Base				Bear			
Amount (INR m)	**FY22**	**FY23E**	**FY24E**	**FY25E**	**FY22**	**FY23E**	**FY24E**	**FY25E**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Revenue	26,533	31,123	37,581	46,450	26,533	28,687	34,640	41,429	26,533	28,417	31,329	36,217
YoY Growth (%)	12	17	21	24	12	8	21	20	12	7	10	16
EBITDA	4,158	5,571	6,990	8,825	4,158	4,848	6,097	7,457	4,158	4,376	5,044	5,976
EBITDA margin (%)	16	18	19	19	16	17	18	18	16	15	16	17
Adjusted PAT	2,327	3,130	4,109	5,230	2,327	2,598	3,441	4,250	2,327	2,148	2,642	3,172
PAT margin (%)	9	10	11	11	9	9	10	10	9	8	8	9
EPS (INR)	9.3	12.6	16.5	21.0	9.3	10.4	13.8	17.1	9.3	8.6	10.6	12.7
Multiple (x)				70x				60x				50x
TP (INR)				1,466				1020				634
CMP (INR)				1,078				1,078				1,078
Return (%)				36				-5				-41

Source: MOFSL

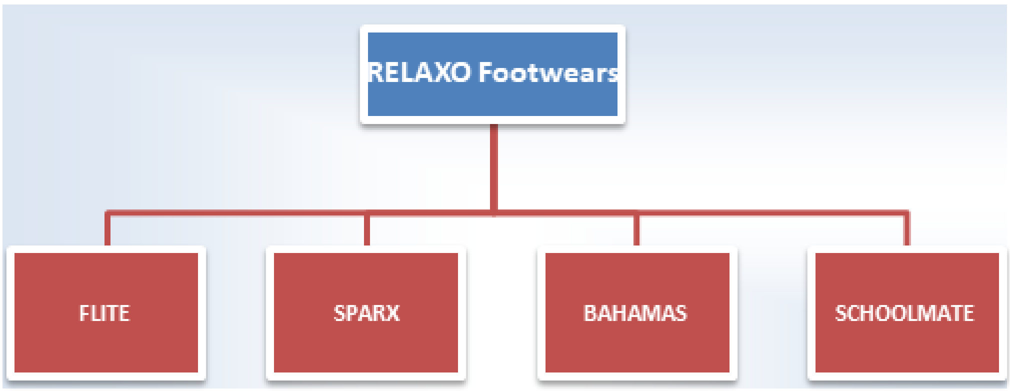
Company overview

- Relaxo is one of the major players in the footwear industry with products such as rubber/EVA slippers, sport shoes, sandals, canvas shoes, and school shoes.
- Relaxo enjoys a healthy volume share of ~5-6% operating 8 manufacturing plants across India, serving 50,000+ retailers and multi-brand outlets (MBOs) through its robust network of 700+ distributors and 10,000+ SKUs.
- The company has strong presence in India's northern/eastern regions; it has also expanded and is gradually gaining traction in the southern/western regions. Relaxo has increased its presence in rural areas and is gaining momentum in urban areas as well, especially in home-wear and leisure segment.
- The company is focused on (a) streamlining its distribution network, (b) enhancing presence and reach of its retail network, (c) boosting exports, and (d) new launches and product innovation to improve growth

Relaxo expected to grow under the tutelage of promoters

- Under the stewardship of Mr. Ramesh Dua and Mr. Mukand Dua, Relaxo's top line has grown from INR0.5m in FY74 to ~INR23b in FY19. Post liberalization, Relaxo was one of the first companies to set up a large footwear manufacturing plant in India, capable of producing 50k pairs/day.
- Relaxo has consistently outperformed over the years on the back of strong management. A clear testimony to this is the increase in manufacturing capacity from 50,000 pairs per day in FY99 to 7.5lac pairs per day in FY19.
- Relaxo has grown considerably from a single plant company to 10 manufacturing plants, multiple brands, ~390 outlets, 10,000+ SKUs and 50,000+ retail touch points.
- Further, almost all members of the Dua family are engaged with the company at different operational and managerial levels, thereby laying the foundation for the next phase of the journey

Exhibit 25: Relaxo brands



Source: MOFSL, Company

Management overview

Mr. Ramesh Dua, Managing Director

Mr. Ramesh Kumar Dua has over 45 years of experience in sales, marketing, production and new product development in the footwear industry. He is also a director in Relaxo Rubber Private Limited and Marvel Polymers Private Limited. He holds a graduate degree in Commerce and is a Rubber Technologist (LPRI, London).

Mr. Mukund Lal Dua, Whole-time Director

Mr. Mukund Lal Dua has over 48 years of experience in new product development and quality control in the footwear industry. He is also a Director in RELAXO Rubber Private Limited and Marvel Polymers Private Limited. He holds a graduate degree in Science.

Mr. Nikhil Dua, Whole-time Director

Mr. Nikhil Dua has over 25 years of experience in production and new product development. He also has rich knowledge of different products in the footwear industry. He holds a bachelor's degree in Commerce and has studied from the International School of Modern Shoemaking, Czech Republic.

Mr. Deval Ganguly, Whole-time Director

Mr. Deval Ganguly has over 40 years of experience in areas of manufacturing, project and plant management in various organizations. Mr. Ganguly joined Relaxo in 2011 as President of Manufacturing and has since been elevated to the board in 2012. He holds a B. Tech degree from IIT, Kanpur.

Mr. Sushil Batra, Chief Financial Officer

Mr. Sushil Batra has more than 30 years of experience in different verticals of Finance such as Banking, Accounts, Taxation, Costing, Secretarial & Legal, CSR. He has been serving as CFO (since 2007) of RLXF based out of Delhi, India. He has been instrumental in bringing procedural, structural, and technological changes in RLXF. Before RLXF, he has worked in organizations such as Golden, Indo American Chemicals & Ginni Group.

Financials and valuations

Consolidated - Income Statement (INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue from Operations	**19,569**	**22,966**	**24,105**	**23,592**	**26,533**	**28,687**	**34,640**	**41,429**
Change (%)	20.0	17.4	5.0	-2.1	12.5	8.1	20.8	19.6
Raw Materials	8,833	10,723	10,393	10,032	12,167	13,110	15,588	18,229
GROSS PROFIT	**10,736**	**12,243**	**13,712**	**13,559**	**14,366**	**15,577**	**19,052**	**23,200**
Margin (%)	55%	53%	57%	57%	54%	54%	55%	56%
Employees Cost	2,141	2,587	2,940	3,014	3,347	3,557	4,295	5,386
Other Expenses	5,577	6,413	6,682	5,590	6,861	7,172	8,660	10,357
Total Expenditure	**16,551**	**19,723**	**20,015**	**18,636**	**22,375**	**23,839**	**28,543**	**33,972**
% of Sales	84.6	85.9	83.0	79.0	84.3	83.1	82.4	82.0
EBITDA	**3,018**	**3,243**	**4,090**	**4,956**	**4,158**	**4,848**	**6,097**	**7,457**
Margin (%)	15.4	14.1	17.0	21.0	15.7	16.9	17.6	18.0
Depreciation	543	624	1,094	1,100	1,135	1,462	1,579	1,832
EBIT	**2,475**	**2,619**	**2,995**	**3,855**	**3,022**	**3,386**	**4,518**	**5,626**
Margin (%)	12.6	11.4	12.4	16.3	11.4	11.8	13.0	13.6
Finance costs	86	69	169	171	153	159	167	196
Other Income	45	130	91	228	237	237	237	237
PBT bef. EO Exp.	**2,433**	**2,680**	**2,917**	**3,912**	**3,106**	**3,465**	**4,588**	**5,667**
Total Tax	826	925	655	996	779	866	1,147	1,417
Tax Rate (%)	33.9	34.5	22.4	25.5	25.1	25.0	25.0	25.0
Reported PAT	**1,608**	**1,754**	**2,263**	**2,916**	**2,327**	**2,598**	**3,441**	**4,250**
Adjusted PAT	**1,608**	**1,754**	**2,263**	**2,916**	**2,327**	**2,598**	**3,441**	**4,250**
Change (%)	34.0	9.1	29.0	28.9	-20.2	11.7	32.4	23.5
Margin (%)	8.2	7.6	9.4	12.4	8.8	9.1	9.9	10.3

Consolidated - Balance Sheet (INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	120	124	248	248	249	249	249	249
Total Reserves	7,492	10,927	12,476	15,476	17,352	19,301	21,882	25,069
Net Worth	**7,612**	**11,051**	**12,724**	**15,724**	**17,601**	**19,550**	**22,131**	**25,318**
Minority Interest	0	0	0	0	0	0	0	0
Total Loans	1,254	869	192	0	200	200	200	200
Lease Liability	0	0	1,474	1,442	1,540	1,634	1,955	2,501
Capital Employed	**9,129**	**12,264**	**14,637**	**17,394**	**19,540**	**21,583**	**24,484**	**28,218**
Provisions	**85**	**90**	**109**	**163**	**188**	**202**	**244**	**292**
Gross Block	6,300	9,627	10,235	10,524	11,673	13,017	14,517	16,193
Less: Accum. Deprn.	1,052	1,654	2,324	2,980	3,694	4,517	5,387	6,354
Net Fixed Assets	**5,249**	**7,973**	**7,911**	**7,544**	**7,980**	**8,500**	**9,131**	**9,839**
Capital WIP	1,376	114	456	1,180	1,490	2,250	3,010	3,770
Right to use assets	0	509	1,899	1,837	1,893	1,672	1,626	1,718
Total Investments	**7**	**2**	**2**	**3,382**	**1,943**	**1,943**	**1,943**	**1,943**
Curr. Assets, Loans&Adv.	**5,801**	**7,270**	**7,912**	**7,419**	**10,177**	**11,241**	**13,663**	**16,793**
Inventory	3,139	3,824	4,477	4,221	6,733	6,106	6,406	7,491
Account Receivables	1,924	2,226	1,721	1,815	2,508	2,751	3,322	3,973
Cash and Bank Balance	40	22	41	77	125	1,523	2,896	4,086
Loans and Advances	699	1,198	1,673	1,306	812	861	1,039	1,243
Curr. Liability & Prov.	**3,474**	**3,760**	**3,665**	**4,202**	**4,098**	**4,163**	**4,987**	**5,897**
Account Payables	1,749	1,718	1,838	2,228	2,217	2,155	2,562	2,997
Other Current Liabilities	1,050	1,535	1,531	1,702	1,589	1,721	2,078	2,486
Provisions	675	507	297	272	292	287	346	414
Net Current Assets	**2,328**	**3,510**	**4,247**	**3,218**	**6,079**	**7,077**	**8,675**	**10,896**
Appl. of Funds	**9,213**	**12,354**	**14,746**	**17,556**	**19,728**	**21,785**	**24,728**	**28,510**

Financials and valuations

Ratios								
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Basic (INR)								
EPS	**6.7**	**7.1**	**9.1**	**11.7**	**9.3**	**10.4**	**13.8**	**17.1**
Cash EPS	8.9	9.6	13.5	16.2	13.9	16.3	20.2	24.4
BV/Share	31.6	44.6	51.3	63.3	70.7	78.5	88.9	101.7
Valuation (x)								
P/E	161.3	152.4	118.3	91.8	115.3	103.3	78.0	63.1
Cash P/E	120.6	112.4	79.7	66.7	77.5	66.1	53.5	44.1
P/BV	34.1	24.2	21.0	17.0	15.2	13.7	12.1	10.6
EV/Sales	13.8	11.7	11.2	11.3	10.1	9.3	7.7	6.4
EV/EBITDA	89.3	83.0	66.0	53.7	64.5	55.1	43.6	35.6
Dividend yield%	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.4
FCF per share	1.9	1.3	8.2	15.7	-3.3	9.2	9.9	10.3
Return Ratios (%)								
RoE	23.5	18.8	19.0	20.5	14.0	14.0	16.5	17.9
RoCE	19.9	16.8	17.8	19.0	13.2	13.2	15.5	16.7
RoIC	22.3	17.3	17.7	21.4	15.8	15.9	20.8	24.1
Working Capital Ratios								
Fixed Asset Turnover (x)	3.1	2.4	2.4	2.2	2.3	2.2	2.4	2.6
Asset Turnover (x)	2.6	2.0	2.0	2.2	1.9	1.8	1.9	2.0
Inventory (Days)	59	61	68	65	93	78	68	66
Debtor (Days)	36	35	26	28	35	35	35	35
Creditor (Days)	33	27	28	34	31	27	27	26
WC (Days)	62	69	66	59	97	85	76	75
Leverage Ratio (x)								
Current Ratio	1.7	1.9	2.2	1.8	2.5	2.7	2.7	2.8
Interest Cover Ratio	28.8	38.0	17.8	22.6	19.7	21.3	27.0	28.7
Net Debt/Equity	0.2	0.1	0.1	-0.1	0.0	-0.1	-0.1	-0.1

Consolidated - Cash Flow Statement								(INR m)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
OP/(Loss) before Tax	2,436	2,680	2,917	3,912	3,106	3,465	4,588	5,667
Depreciation	543	624	1,094	1,100	1,135	1,462	1,579	1,832
Interest & Finance Charges	80	69	169	171	153	159	167	196
Direct Taxes Paid	-801	-863	-831	-891	-839	-866	-1,147	-1,417
(Inc)/Dec in WC	-732	-1,319	-198	930	-2,816	400	-225	-1,031
CF from Operations	**1,527**	**1,174**	**3,146**	**5,214**	**728**	**4,382**	**4,724**	**5,010**
Others	16	61	43	-83	-168	0	0	0
CF from Operating incl EO	**1,543**	**1,235**	**3,189**	**5,131**	**560**	**4,382**	**4,724**	**5,010**
(Inc)/Dec in FA	-1,087	-914	-1,159	-1,219	-1,389	-2,104	-2,260	-2,435
Free Cash Flow	**456**	**321**	**2,030**	**3,912**	**-829**	**2,278**	**2,464**	**2,575**
(Pur)/Sale of Investments	5	321	11	-3,306	1,519	0	0	0
CF from Investments	**-1,084**	**-569**	**-1,157**	**-4,532**	**146**	**-1,867**	**-2,023**	**-2,198**
Issue of Shares	0	32	32	49	139	0	0	0
Inc/(Dec) in Debt	-217	-416	-914	-192	200	0	0	0
Payment of lease liability	0	0	-326	-248	-263	-323	-343	-411
Interest Paid	-146	-81	-174	-171	-153	-159	-167	-196
Dividend paid	-145	-218	-643	0	-621	-650	-860	-1,063
CF from Fin. Activity	**-455**	**-682**	**-2,026**	**-562**	**-698**	**-1,118**	**-1,329**	**-1,621**
Inc/Dec of Cash	**3**	**-17**	**7**	**38**	**8**	**1,398**	**1,373**	**1,190**
Opening Balance	37	40	23	30	68	76	1,473	2,846
Closing Balance	**40**	**23**	**30**	**68**	**76**	**1,473**	**2,846**	**4,036**
Add: Bank Balance	0	0	11	9	49	50	50	50
Net Closing Balance	**40**	**23**	**41**	**77**	**125**	**1,523**	**2,896**	**4,086**

Bata India

BSE SENSEX	S&P CNX
58,841	17,531

Stock Info

Bloomberg	BATA IN
Equity Shares (m)	129.0
M.Cap.(INRb)/(USDb)	236.5 / 3
52-Week Range (INR)	2204 / 1567
1, 6, 12 Rel. Per (%)	-5/-7/2
12M Avg Val (INR M)	946
Free float (%)	49.8

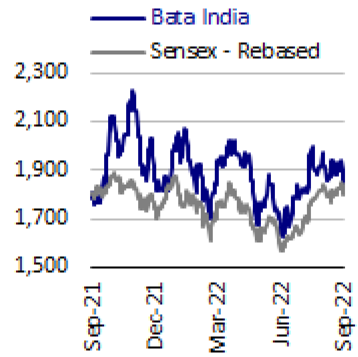
Financial Snapshot (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	23.9	34.8	39.1
EBITDA	4.2	9.1	10.3
Adj. PAT	1.0	4.1	5.1
EBITDA Margin (%)	17.5	26.1	26.4
Adj. EPS (INR)	8.0	32.0	39.5
EPS Gr. (%)	LP	NM	23.5
BV/Sh. (INR)	141.2	173.2	212.6
Ratios			
Net D:E	0.0	-0.2	-0.3
RoE (%)	5.8	20.3	20.5
RoCE (%)	6.0	15.8	16.4
Payout (%)	0	0	0
Valuations			
P/E (x)	229.4	57.5	46.6
EV/EBITDA (x)	56.7	25.8	22.3
EV/Sales (X)	9.9	6.7	5.9
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	0.9	0.0	0.0

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	50.2	53.0	53.0
DII	30.1	27.4	27.3
FII	6.8	6.7	5.2
Others	12.9	13.0	14.5

Stock Performance (1-year)



CMP: INR1,838 TP: INR1,925 (+4%) Neutral

Footwear trailblazer – awaiting rejuvenation in growth!

Taking the right steps

- **Bata India (Bata) is the largest Footwear retailer in India having over 1,800 stores. It also has a large distribution network catering to smaller tier cities.**
- **Over the last few years, the company has taken the right steps to shed its old school image through store revamps, new product launches (including sneaker portfolio), and advertising campaigns along with a marquee brand ambassador. This has gradually paid off in the form of reducing age of its target customers and improving ASP.**
- **Bata is also enhancing reach through: a) 500 franchise targets and b) ramping up sales through its online and MBO networks. Consequently, we expect revenue/EBITDA CAGR of 23%/40% over FY22-25E, respectively.**
- **However, growth is yet to revive notably. Sluggish recovery from Covid and impact from GST rate hike have so far resulted in below pre-Covid level revenue (far below peers).**
- **Strong balance sheet with healthy RoIC (>25% pre-Covid), net cash position of INR644m (FY22) and steady FCF have enabled it to wither Covid woes without the need for external capital.**
- **We ascribe a P/E of 40x, on FY25E EPS i.e. at 20% discount to our footwear coverage universe to arrive at our TP of INR1,925. Initiate coverage with a Neutral rating. Recovery of growth will be the key monitorable.**
- **Key downside risks to our call would be: a) revival of growth, b) rising input costs and GST, and c) competition from foreign brands.**

Rejuvenation continues!

Over the last four to five years, Bata has endeavored to create a shift in its perception, consequently reviving its growth and profitability. The conventional retailer has run a host of campaigns – Unlimited Sneakers, Surprisingly Bata, New Style Every Friday, 9to9, and Power Challenge – to transform its old-school image to a young brand, thus reducing average customer age to mid-thirties. This along with revamped product portfolio (including launch of Sneakers) and store revamp, has reflected in 26% rise in ASP over FY16-20, but remained flat over the last two years. Bata's pricing-led margin improvement, which was impacted by COVID, GST rate hike and inventory correction during FY21 and FY22 should possibly reverse and help revive earnings growth.

New categories, franchises, and online platform to drive growth

Bata's growth (6% CAGR) over pre-Covid period of FY16-20 lagged the industry growth and was also much lower than its peers, even as its premiumization focus resulted in an ASP-driven revenue/EBITDA growth of 7%/21% over FY17-20, respectively. Recovery from COVID too remained tepid as company's reported revenue for FY22 were 22% lower v/s FY20 levels. Management has taken the right steps led by: a) a series of new product launches; b) target of adding 500 franchise stores (323 stores currently) i.e. ~24% store adds; and c) its focus on ramping up sales from asset-light and high-growth channels such as online (up from a meagre 4% in FY20 to 22% in FY21) and MBO (up from 11% to 20%) that have increased to over 25k outlets in 800 towns. Ex-CEO, Mr. Sandeep Kataria's elevation to the role of Global CEO should also usher in export opportunities. We expect revenue/EBITDA CAGR of 23%/40% over FY22-25E, respectively led by potential recovery from COVID and GST impact.

A true retailer, but compromising on growth

Bata's achievements are reflected in its ability to achieve scale (largest Footwear retailer) even as it has managed to garner industry-leading ASPs (3x higher than the distributor-driven players). On a store-level basis, Bata delivers over 55% gross margin, 20% store-level margin, and a return profile of ~20%. However, in the process, the company has lost the growth race (6% CAGR over FY16-20) to its smaller Footwear peers. Recent focus on asset-light franchise model, and the MBO channel should allow it to maintain the brand equity and high ASP. Bata has adapted to the changing consumer preferences (post-COVID) towards casualization with new campaigns, despite historically having a formal footwear-centric portfolio. However, it needs to do better in store experience and branding along with sales push to resonate with the young customer.

Valuation and view - Growth accompanied by quality

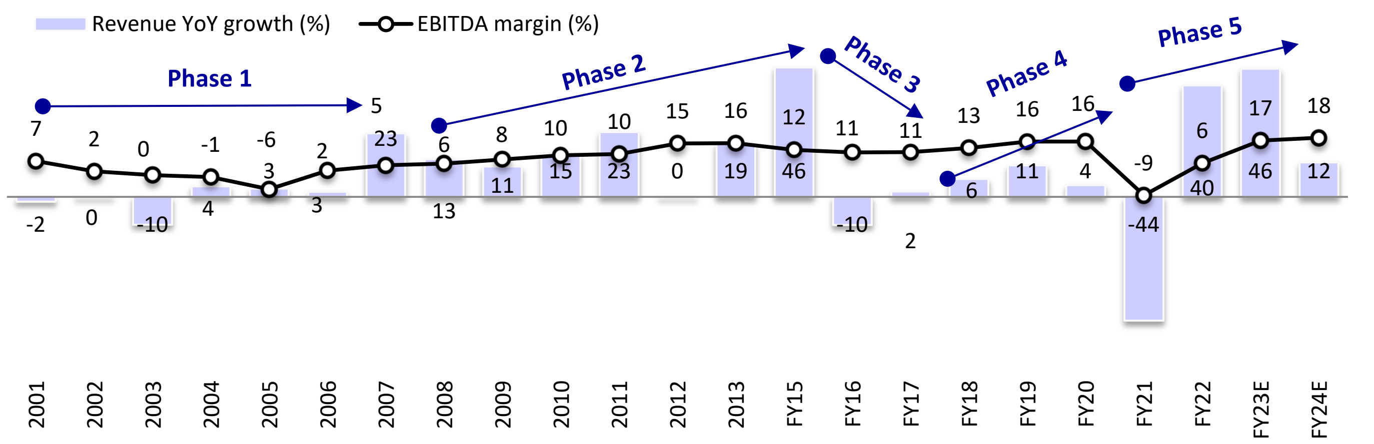
Bata's strong balance sheet along with a healthy RoIC (of over 25%) position and robust OCF/FCF of INR5.8b/INR4.9b in FY20, respectively – despite the investment-heavy retail business model – reflect its superior execution ability. This is also evident in its healthy store economics, asset turns, and margin profile. While the recovery from COVID remained tepid, Bata's strong net cash position, healthy FCF generation and returns profile coupled with huge runway for industry growth should aid future growth. The company's slower revenue recovery than its peers and acceptance of newly launched sneaker segment would remain the key monitorables going ahead. We ascribe a P/E of 40x, on FY25E i.e. at 20% discount to our footwear coverage universe to arrive at our TP of INR1,925. Initiate coverage with a **Neutral** rating.

Premiumization trend to continue

Story of the last two decades – Rejuvenating growth

- **A roller-coaster ride:** Over the last two decades, Bata has gone through several ups and downs in terms of growth. During CY00-06, its revenue languished due to frequent churn in the senior management team as well as labour issues, leading to incessant factory shutdowns.
- **Focus on retail model:** Since CY07, Bata started growing in double-digits and registered a 17% CAGR until CY13 to reach INR20.7b. This was largely due to the company's efforts towards store re-modelling and renovation, increase in working hours, and higher emphasis on employee training to improve productivity, all of which improved its ASP.
- **New age business era:** In the third phase, which coincided with the growth of e-commerce, customers preferred to shop online due to the deep discounts offered by players. Offline players such as Bata were late to capitalize on the e-commerce wave due to their old systems and aging brand profile. This reduced the company's footfalls and conversion rate, thus impacting its business. Over FY15-17, the company's business declined at 4% CAGR to INR25b.
- The fourth phase began with the appointment of Mr. Sandeep Kataria as Bata India's CEO in CY17, during which the company completely focused on transforming its image from a brand that offers school shoes and Footwear for middle-aged/elderly people to a brand that offers cool, trendy, innovative and the latest fashionable products for the young millennial (25-35 age group). In order to transform its image, Bata undertook large-scale promotional activities, expanded its product portfolio, launched premium brands, and rejuvenated its old fashioned stores. This enabled Bata to charge premium prices for its products, which improved its ASP and resulted in a healthy earnings growth.
- Mr. Kataria's elevation as the CEO of its global operations and the subsequent appointment of a new CEO – Mr. Gunjan Shah – marked the beginning of the fifth phase for the company.
- Mr. Shah, the new CEO and ex-Britannia CMO, had played a crucial role in growing Britannia's business for more than a decade across multiple categories viz. biscuits, bakery and dairy products. His areas of focus have been: a) portfolio evolution with consumer trends; b) casualization and sneakerization of portfolio with COVID-led work from home trends; c) young customers, targeting whom has improved the average realization by 30% in four years at INR900.
- Bata should benefit given: a) its strong balance sheet, b) management's focus on changing its brand positioning, c) a shift towards the premium product portfolio, d) its increasing scale by deepening its retail, franchisee, MBO network along with Online. But so far growth has lagged peers with limited push at the store level.

Exhibit 1: Bata's journey over the last two decades



Source: Company, MOFSL

Image transformation complements strong household name

One of the key concerns for Bata has been its fading appeal among the younger population, which has shifted to international brands. It is now working to change its brand appeal, along with its strong household name, to influence all family members, including younger age groups. The average age of Bata's customers has reduced to 36 years in FY20 from 39 in FY18, backed by its improving product profile, store revamp, and high promotional activity. According to transaction data from the popular e-commerce platform Amazon, 42% of Bata's consumers were in the age group of 15-24 in 2019 v/s 25-34 years in 2018.

Launch of new premium products/brands

Product innovation and premiumization are the key strategic focus areas for Bata. To improve its ASP, the company revamped its product portfolio by: a) launching the "Unlimited Sneakers" Campaign and introducing 300 styles across nine brands, b) incorporating better designs, and c) improving the comfort levels offered by its premium brands such as Hush Puppies, Naturalizer, and Bata Comfit. It has repositioned Hush Puppies as an international premium lifestyle brand to transform its image to a casual lifestyle Footwear brand. It launched technologies such as Bounce Plus in Hush Puppies that offers three times more comfort.

It is now looking to expand the retail base of Hush Puppies in Metro/tier I cities. In addition to concept stores, the brand is also present in 102 stores. Bata launched its first premium Naturalizer store in FY20. The Naturalizer brand focuses on premium customers (female) and utilizes the patented N5 technology to add to the comfort. On the other hand, Bata Comfit focuses on comfort-driven products for working women with campaigns such as 9to9. The higher share of revenue from these new premium products has improved the ASP.

Naturalizer store

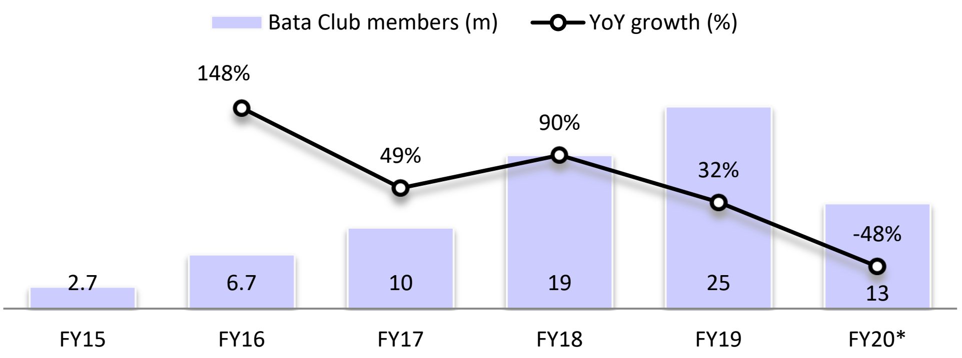
Hush Puppies store

Enhanced focus on the membership program

Bata Club members increased 4x over FY16-20 to 25m as it focused on driving repeat purchase, product upsell, and an increase in bill size. In FY20, it relaunched the membership program with an active member base of 13m (active in the last one year) to reward loyal shoppers. The aim was to make it more customer-centric, and utilize digital technology and new communication channels such as Whatsapp for business, along with a digital micro site for members to check their reward benefits. This has increased the company's engagement with club members, with its average monthly repeat rate rising 5% and campaign walk-ins doubling in FY20.

In an effort to keep its club members active and increase their spending during the pandemic, Bata offered them special bonus points and communicated the method to order the products through Whatsapp. The company also accelerated the adoption of own e-shop (bata.in) among its club members through targeted campaigns such as "Kick Out 2020" and "Ready Again."

Exhibit 2: Bata Club members' trend



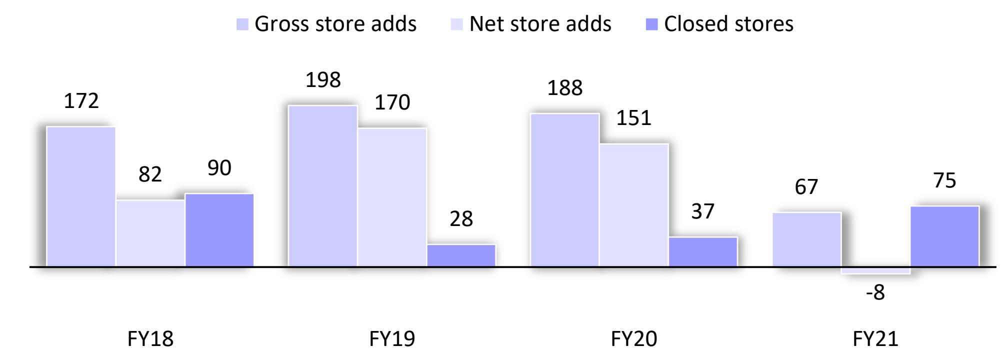
*One-year active members; Source: Company, MOFSL

Store revamp and closure of non-performing stores

Bata initiated a 'Store Excellence Program' before Covid-19 to enhance the shopping experience of its customers. Under this program, it renovated 49 stores in FY20. The company remodelled over 400 stores and is on track to achieve the target to revamp 1,000 stores by using vibrant colours/lighting, stocking a wider variety of products, and keeping appealing products on its shelves. Bata has now made conscious efforts to ensure that its display/design comprising a red and white combination is consistent across all its stores. It has changed the imagery of Bata, which is now known as Bata Red 2.0. Changes are carried out in lighting, lux level, signage, the way brands are shown and the way shelves are arranged. Bata has also opened full experience service stores that offer services such as medicated pedicure, 3D foot scanning, customized insole, and shoe spa. It has also closed 230 non-performing stores over FY18-21 (75 stores in FY21) to improve profitability. The company now stated that rationalizing of unprofitable stores during Covid period is largely completed as a result of which, 1QFY23 saw net addition of COCO stores. Bata continues to track its portfolio closely. All these measures are focused on improving Bata's brand recall.

Newly-remodelled store

Exhibit 3: 230 non-performing stores closed in FY18-21



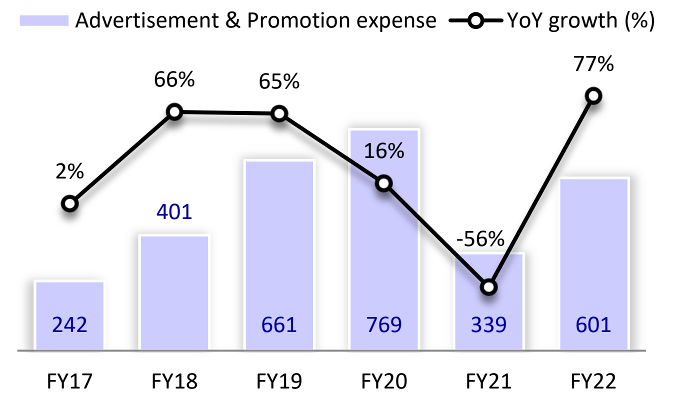
Source: Company, MOFSL

Promotional and advertising activities

Bata has leveraged its marketing campaigns to change its brand positioning over the last three to four years. The company has been working with different celebrities (from Sports to Bollywood industry) and aims to connect better with the young population. Bata launched *Unlimited Sneakers and* created a Sneaker studio with a range of products across 300 styles and nine brands. It undertook various campaigns such as *24X7 casual collection, Surprisingly Bata* et al. that targeted the young, fashion-centric customers. The *9to9* campaign, on the other hand, focused on young working women. Further, to tap the young, fitness-centric customers, it initiated a *Power Fitness* challenge. These efforts reflect Bata's appetite to utilize various platforms and change its brand perception.

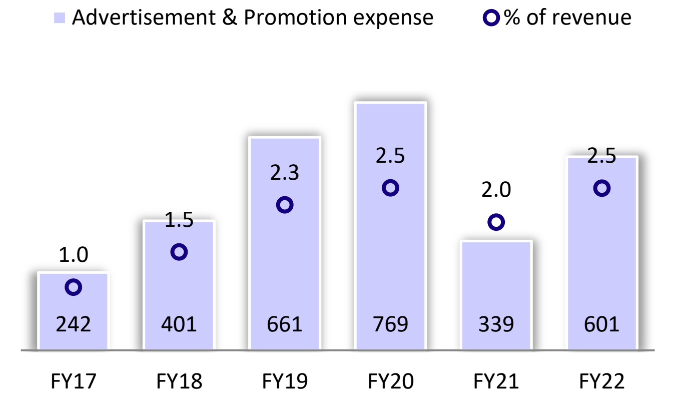
Subsequently, Bata's advertisement spends and promotional expenses have seen a strong up move in FY22 (up 77% YoY) reaching 2.5% of total revenue (in-line with pre-Covid levels). Bata has intended to expand footfalls across its stores over the last three years.

Exhibit 4: A&P expenses picking up in FY22 (INR m)



Sources: Company, MOFSL

Exhibit 5: A&P expenses as percentage of revenue reached pre-Covid levels in FY22 (INR m)



Sources: Company, MOFSL

Exhibit 6: Bata's '9to9' campaign

Source: Company

Exhibit 7: Bata's 'New Arrivals Every Friday' campaign

Source: Company

Exhibit 8: Kartik Aryan roped in for Bata's 'Relaxed Workwear' campaign

Source: Company

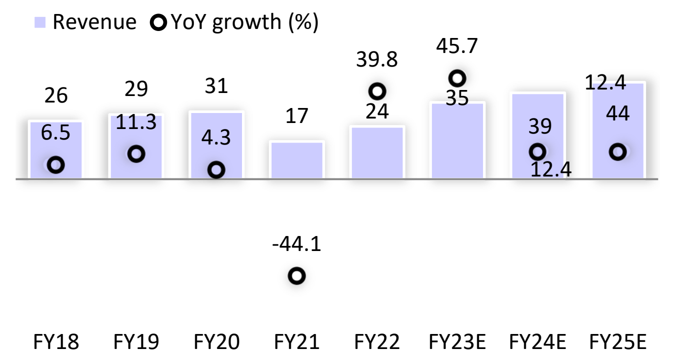
Best-in-class ASP

Bata's improved brand image, along with the introduction of innovative products has helped to improve its ASP by 6% CAGR in its ASP over FY16-20 to INR618 and further improved to INR627 in FY22, also benefiting revenue/sq. ft. This, in turn, translated into a 7%/21%/24% CAGR in its revenue/EBITDA/PAT (pre Ind AS 116) over the same period to INR30.6b/INR5b/INR3.4b, respectively, indicating that its revenue growth was largely driven by price improvement (75%/82% of revenue/gross profit).

This further resulted in an improvement in gross/EBITDA margin profile (pre Ind AS 116) by 440bp/510bp to 57.6%/16.3%, respectively, over FY17-20. Our calculations indicate that the incremental gross margin benefit from ASP was ~400bp over FY17-

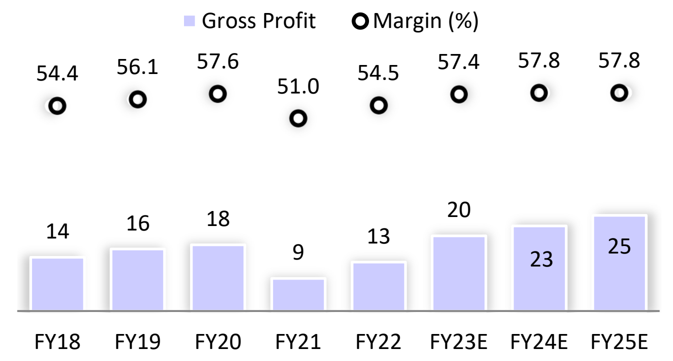
20, with an incremental gross margin improvement on ASP of ~70%. Recent launched of sneakers, which is 1.5x the price of overall ASP should further aid.

Exhibit 9: Expect revenue CAGR of 23% over FY22-25 (INR b)



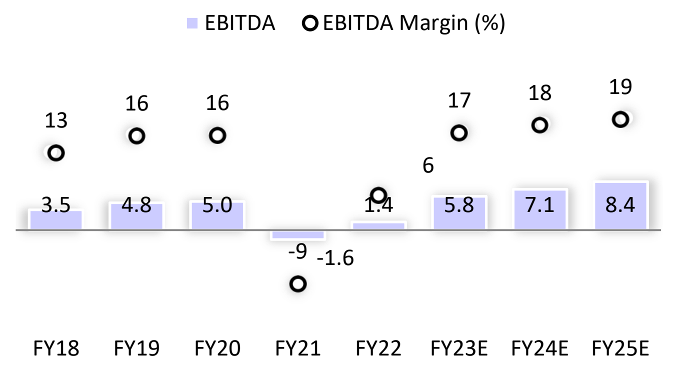
Sources: Company, MOFSL

Exhibit 10: Gross margin expansion of 330bp over FY22-25 (INR b)



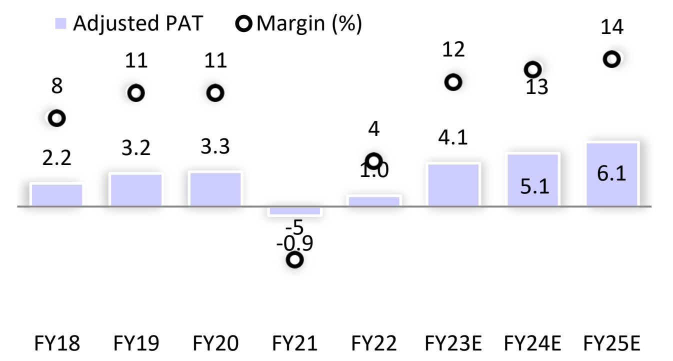
Source: Company, MOFSL

Exhibit 11: EBITDA margin expansion to continue (INR b)



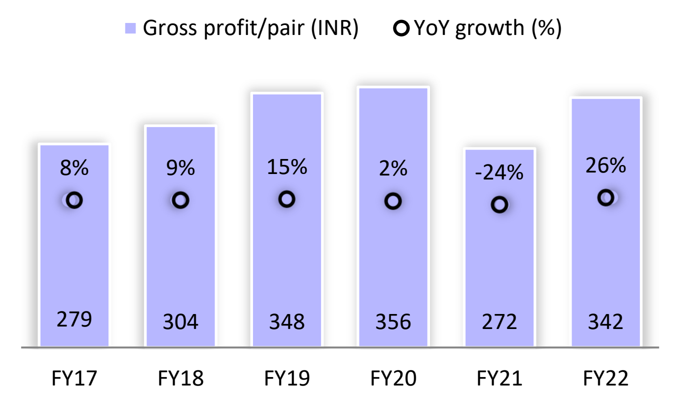
EBITDA as per pre Ind-AS. Source: Company, MOFSL

Exhibit 12: Net margin set to improve from FY23E (INR b)



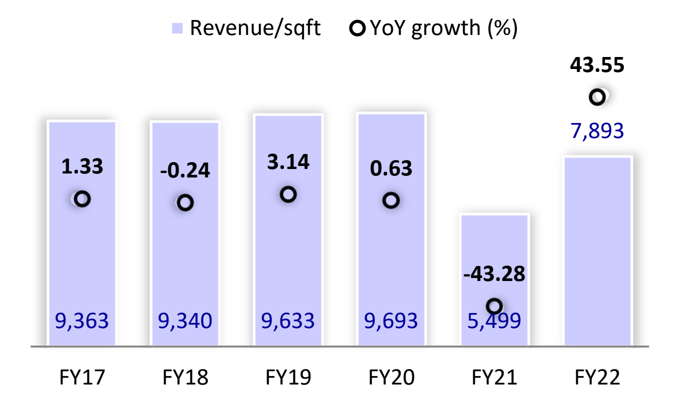
Source: Company, MOFSL

Exhibit 13: Gross profit per pair sees improvement in FY22 (INR)



Source: Company, MOFSL

Exhibit 14: Revenue per sq. ft. yet to fully recover (INR)



Source: Company, MOFSL

Exhibit 15: Incremental benefit of ASP on gross margin up to FY22

	FY19	FY20	FY21	FY22
Increase in revenue (INR m)	2,992	1,250	-13,462	6,804
Volume benefit	134	1,333	-10,770	3,258
Contribution to revenue growth (%)	4	107	80	48
ASP benefits (INR)	2,857	-83	-2,692	3,547
Contribution to revenue growth (%)	96	-7	20	52
Increase in Gross profits (INR m)	2,171	1,155	-8,885	4,311
Gross Profit from Volume growth (%)	73	748	-6,206	1,662
ASP benefit on gross profit (INR m)	2,098	407	-2,680	2,649
Incremental benefit of ASP to gross margins (%)	73	-492	100	75
Incremental Gross Margin (bps)	1.9	1.5	-6.6	3.5

Source: Company, MOFSL

Cost optimization aids margin expansion

In FY21, Bata closed down nearly 75 unviable stores thus improving cost efficiency. It has also been focusing on Franchisee, MBO and online which has reduced fixed retail operating cost. Bata's expenditure on rent, as a proportion of its revenue, has been declining continuously since the last four years – it stood at 12.5% in FY20 v/s 14.4% in FY17. After seeing sharp escalation in FY21, impacted by Covid, this ratio further saw an improvement to reach 13.9% in FY22.

Exhibit 16: Rent, as a percentage of revenue, declined 190bp over FY17-20 (INR m)

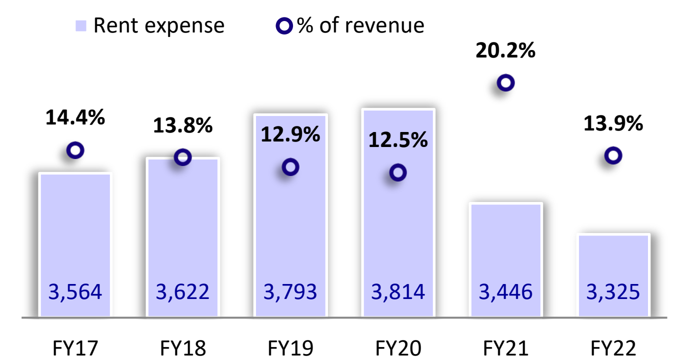


Exhibit 17: Rent per sq. ft. registered -4% CAGR over FY17-20 (INR)

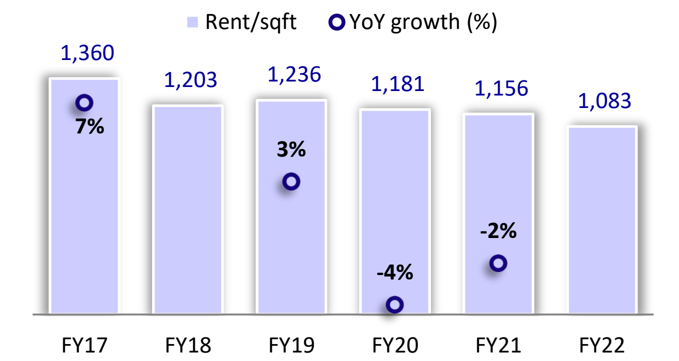
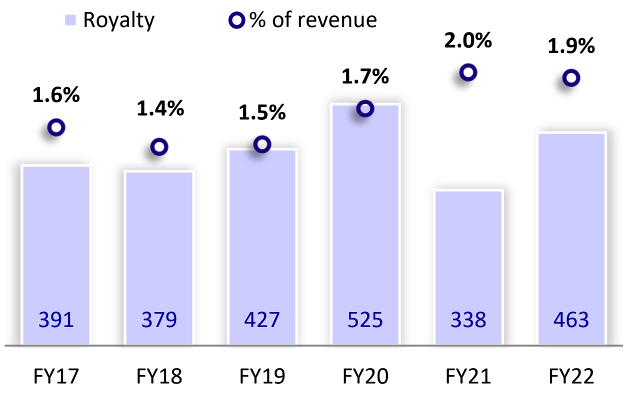
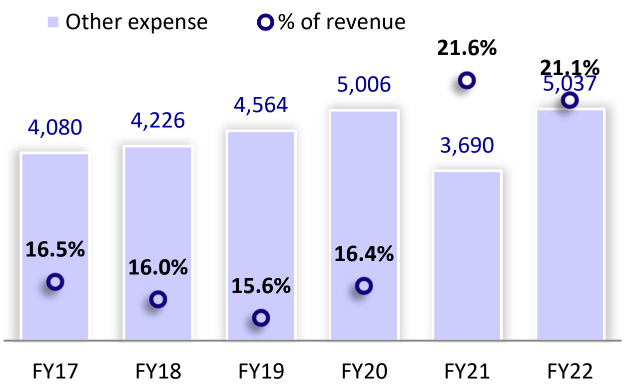


Exhibit 18: Royalty, as percentage of revenue sees gradual rise (INR m)



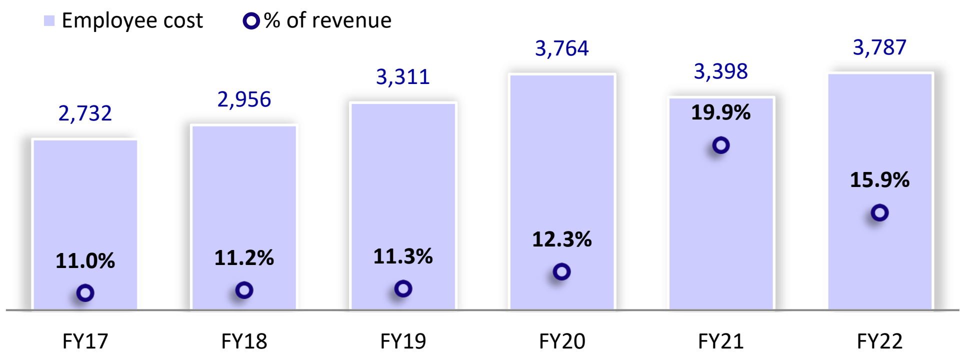
Source: Company, MOFSL

Exhibit 19: Other expenses, as percentage of revenue (INR m)



Source: Company, MOFSL

Exhibit 20: Employee costs as a percentage of revenue increase post FY20 (INR m)



Source: Company, MOFSL

Newer categories, franchise model and online sales to drive growth

Bata lags industry on growth front

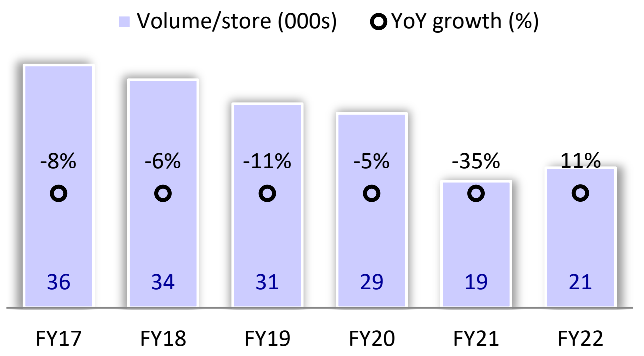
Bata has been lagging the industry on the growth front. The company clocked 3% revenue CAGR over FY15-20, whereas the overall industry reported a 9% CAGR over FY15-20. Bata has garnered far superior ASP than its peers due to its wider and more premium product profile, but has lagged them in terms of volume growth. The company clocked 2% volume CAGR over FY17-20 at 49.39m v/s 14%/10% CAGR by Khadim/Relaxo at 39.7m/179.2m, respectively.

To sustain its earnings growth momentum, Bata needs to drive its volumes along with its ASP. It is expanding its retail footprint with a target to reach 2,000 stores by FY25 and 500 franchise stores. During the next few years, the company targets its digital, MBO and franchises to have around mid-teen contribution each. Online and MBO have already reached combined 30% contribution. It also revamped many store, introduced newer product categories, and implementation of more promotional activities to improve brand recall, but it is yet to reflect in material revenue growth.

Bata's slower growth v/s industry over last few years has been due to:

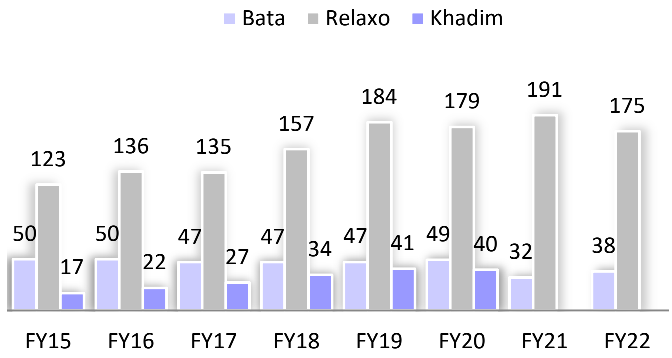
1. **Legacy dependence on Men's Formal and Kids School wear as** against high growth categories in the industry such as Women, Kids, Casualwear and Athleisure that have grown twice as fast as the Men's segment. Non-leather products now constitute 59% of the total Footwear retail market as against ~55% in CY14. Globally as well, non-leather products constituted 86% of Footwear consumption by volume and are expected to grow at a faster pace than Leather Footwear. Bata's recent portfolio revamp with more products in the high-growth categories – Women and Kids wear as well as Athleisure and Casual wear (Sneakers) – and introduction of new designs every week should aid in driving volume growth.
2. **Bata's higher reliance on the EBO retail network, and low MBO share (distribution network) have also hampered its growth**: Over the last two-three years, the management has made strong efforts to expand reach through other channels. Expansion of retail footprint through franchise route is a key focus, in addition to increasing focus on the online channel.

Exhibit 21: Volume per store declining since FY17



Source: Company, MOFSL

Exhibit 22: Volume growth lags peers



Source: Company, MOFSL

Increasing focus on Women and Kids wear segments

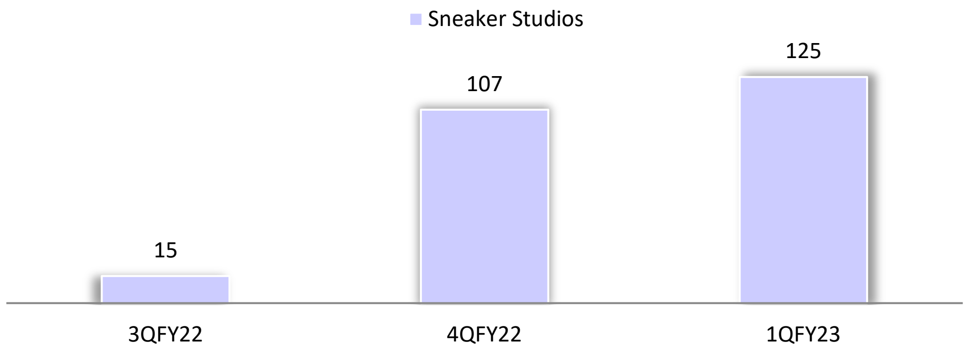
The Women/Kids wear segments have recorded a higher growth over the last five years with their share increasing to 42%/11% of the overall market. Taking note of this trend, the management has expanded Bata's product portfolio – new product launches for young working women under the 9to9 category. The company also showcased its trendy, smart casual, high and mid-block heels under its Red Label collection at LFW. Additionally, it is focusing on Bata Comfit, which offers footwear with non-stop comfort for working women. In the premium segment for women, Bata launched Naturalizer stores that retail exclusively in India at 50 Bata stores across four cities. It has also introduced > 35 standalone women stores. As a result, Bata's gender gap ratio has declined to 9%.

To enhance its presence in Kids Footwear, Bata is leveraging the Bubble Gummers brand through all of its retail stores. It has launched three exclusive Power and BubbleGummers stores to improve its brand recall and showcase its product portfolio in the Kids wear segment. To gain a competitive edge through innovation and technology, Bata launched its 'Back to School' collection campaign highlighting its school shoes with anti-bacterial protection.

Focus on Casual wear and Athleisure

To change its image from a formal Footwear brand to the one that offers products for a variety of occasions, Bata launched its 'Unlimited' Casual collection offering over 500 styles across categories such as Sneakers, Boots, Athleisure, and Loafers. It has also opened Sneaker Studio in nearly 125 stores. It has also added the Casual Footwear – Neo Casuals to its Hush Puppies brand that earlier had only formal wear. In the Athleisure/Sportswear category, the company has expanded its product portfolio through its fitness brand Power.

Exhibit 23: Improved presence of sneaker studios



Source: Company

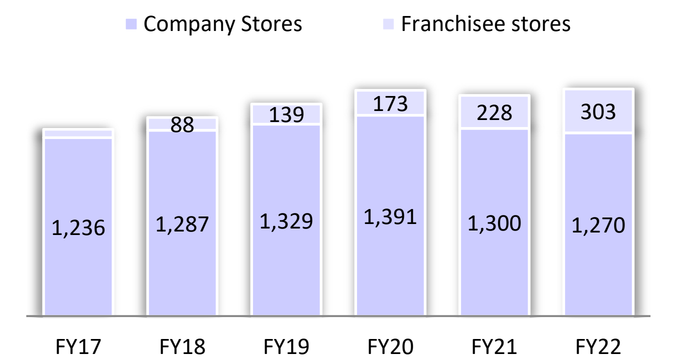
Exploring franchise stores in tier III/IV towns

Bata's management is focusing on metro cities and tier I and II towns through company-owned retail stores in new malls and high streets. The company's 1,800+ Bata stores have a greater presence in tier I/II towns. It is also looking to tap the huge opportunities in tier III/IV towns through its franchise stores. Against a target of 500 franchise store it has already reached 303 stores, adding 130 stores over the COVID period of FY20-22.

Our channel checks indicate Bata's franchises garner attractive store profitability metrics and a strong focus at the ground level for executing growth plans with specific geography-wise selection of the locations already carried out. In view of the lower throughputs and ASPs in smaller towns, the company's planned store size is smaller by~1,000-1200 sq. ft. as against its current average store size of 2,000 sq. ft. Our back of the envelope calculations indicate that 500 franchise stores on an asset-light Franchise Owned Franchise Operated (FOFO) model could garner revenue of INR4.9b.

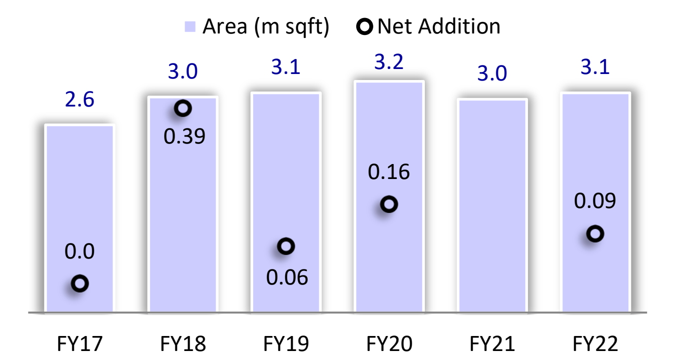
It is also expanding its reach to smaller towns through the distribution-led MBOs network. It is now present in 1,079 towns, adding ~200 since FY20 and ~400 new towns since CY19.

Exhibit 24: Bata's increasing focus on franchise stores



Source: Company, MOFSL

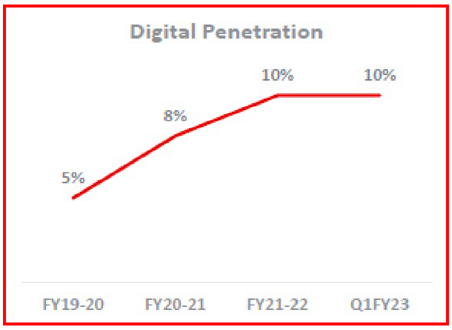
Exhibit 25: Area addition over FY16-21 (on COCO model)

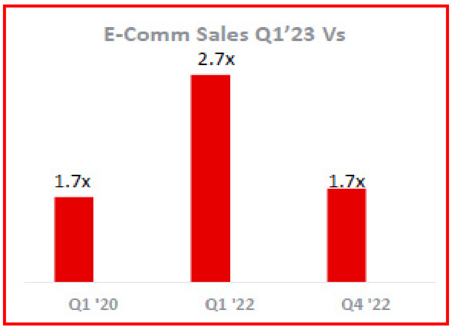


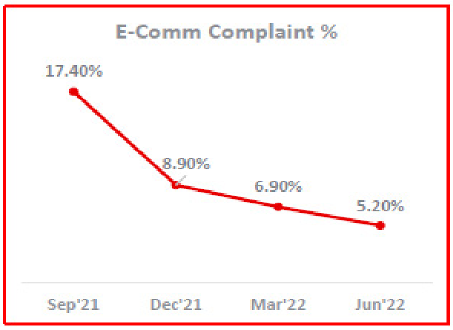
Source: Company, MOFSL

Online channel could be the next growth driver

Bata has significantly ramped up its online sales (that lagged its peers) to 4% of sales in FY20 and increased it to ~10% presently. It is now 70% higher than pre-Covid (1QFY20). Foreign players such as Adidas/Puma garner 25%/20% of their sales via this platform, respectively, while Campus presently garners ~33% share of revenue. For local peers such as Relaxo/Metro the online platform contributed ~7.5% of sales. Campus garner nearly 30% share. Taking a cue from the market trends, Bata is expanding its online footprint and leveraging both its internal website (Bata.in) as well as third-party platforms for product delivery by partnering with Amazon, Myntra, Flipkart, Paytm, Tata Cliq and Ajio, et al. As a result, the company has ramped up its online deliveries to 1,100 cities and towns.

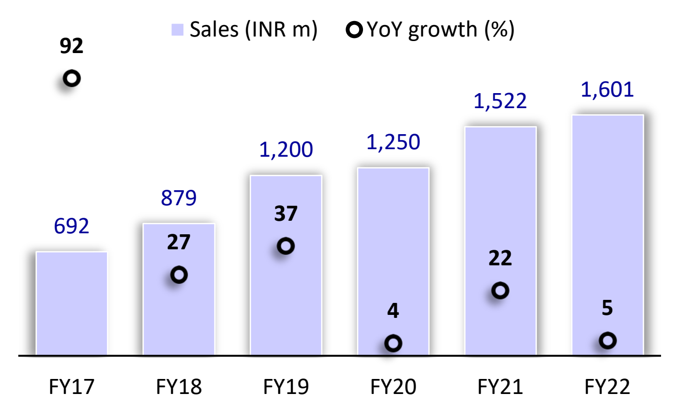






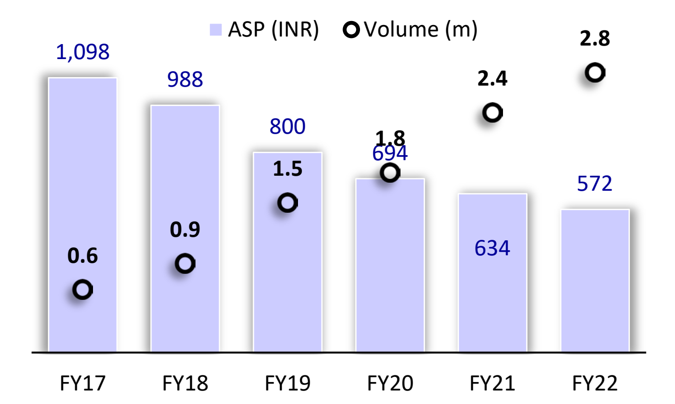
Bata has launched Endless Aisle to connect its retail store inventory to online websites, which has increased the online business potential multi-fold. This enabled the company to service 96% of the orders received via its internal portal through its stores. It has also rolled out home delivery from over 1,200 stores, thereby increasing its pan-India footprint with 32% share of omnichannel `sales. This has allowed the company to deliver 60% of its market place orders via its own stores. To increase its brand visibility on third-party e-commerce platforms and encourage more participation in brand/category specific events, Bata has launched 'cost per click' and 'cost per million impressions' campaigns.

Exhibit 26: Online sales register 37% CAGR over FY16-20



Source: Company, MOFSL

Exhibit 27: Online volume growth and ASP



Source: Company, MOFSL

Strong balance sheet and cash flow position

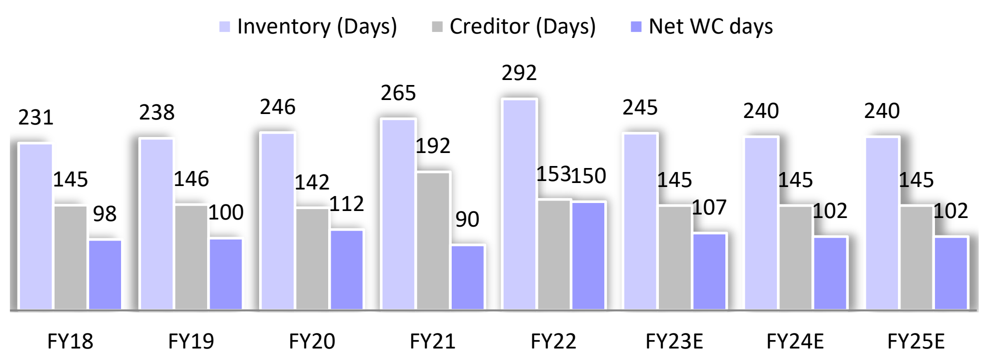
Surprisingly asset light

Bata's retail network predominantly operates on the Company Owned Company Operated (COCO) model, with ~45% of its Footwear units sold being manufactured in-house. However, the company's fixed asset turn stood at 1.6x and total asset turn (including working capital) was at 1x in FY20. The FY22 numbers look bloated as it has not fully recovered from COVID woes and GST price increase.

There are three factors driving Bata's healthy asset turnover: a) very healthy store economics, with a store level asset turn of 2.5x, led by a healthy revenue throughput; b) a majority of the stores are on an average over a decade old, operate at optimum level, and have a highly depreciated asset base; and c) its net working capital, despite operating on a COCO model, was 112 days (FY20), which did not bloat the balance sheet. This is despite its significantly lower revenue/sqft of ~INR8,000 (FY22) v/s peers like Metro.

Going forward, Bata's asset turn may remain light due to its increased focus on the franchisee (FOFO) and distribution models, with both operating on an outright inventory sale. This will help the company garner 1.4x RoCE, assuming 2-2.5 months of working capital investment and a 23% margin for the FOFO model, with annual store revenue of INR8.8m on 1,000 sq. ft. area.

Exhibit 28: Net working capital days to improve



Source: Company, MOFSL

Exhibit 29: Du Pont analysis

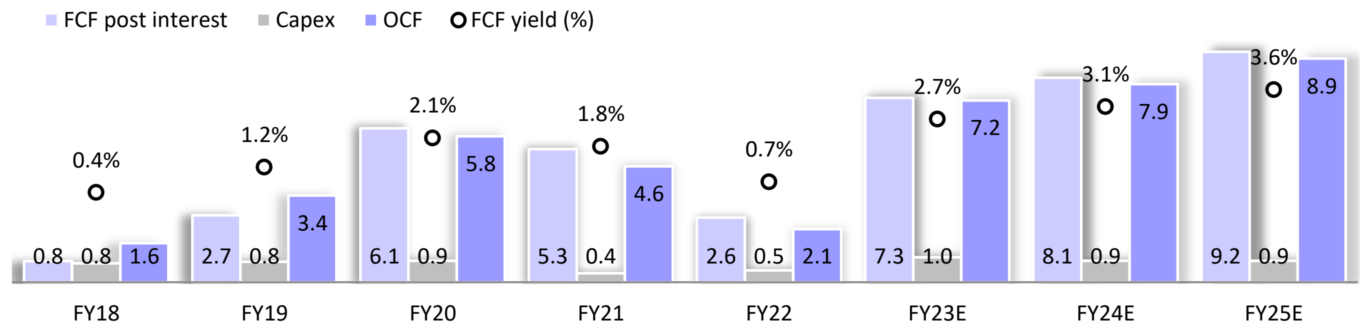
Du Pont Analysis (INR m)	FY17	FY18	FY19	FY20	FY21	FY22
Sales	24,743	26,342	29,311	30,561	17,085	23,877
Adjusted PAT	1,737	2,205	3,159	3,290	-858	1,030
PAT margin (%)	7.0	8.4	10.8	10.8	-5.0	4.3
Total Assets	14,283	15,846	18,491	31,482	27,924	29,109
Asset turnover (x)	1.7	1.7	1.6	1.0	0.6	0.8
Total Equity	13,243	14,787	17,465	18,966	17,581	18,147
Leverage (x)	1.1	1.1	1.1	1.7	1.6	1.6
ROE (%)	13.1	14.9	18.1	17.3	-4.9	5.7

Sources: Company, MOFSL

Healthy OCF/FCF generation

Bata has recorded a healthy EBITDA/PAT CAGR of 33%/14% over FY18-FY20, driven by ASP-led margin growth and generated an annual OCF of INR5.8b in FY20. With merely 82 net company-owned store additions and a cumulative capex of just INR2.9b (over FY17-20), Bata can generate a steady FCF of INR8.4b (annualized INR2.1b). It has recently started franchise-based store additions and MBO-driven growth, which may require limited working capital investments.

Exhibit 30: Bata generating healthy FCF (INR b)

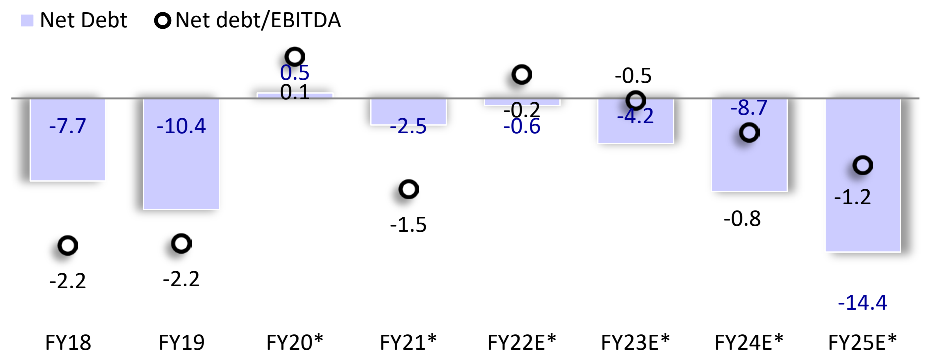


Sources: Company, MOFSL

Strong net cash position

Presently, Bata holds a strong leverage position, with net cash of INR644m (FY22). With an annual FCF generation of INR4.9b (in FY20), the company should be able to grow its cash levels sustainably. This is one of the key factors that have allowed Bata to weather the challenging market conditions during COVID without the need for any external capital requirement, when several retailers with high cash burn needed external capital support.

Exhibit 31: Net cash position (INR b)



*excluding lease liabilities; Source: Company, MOFSL

Valuation and view

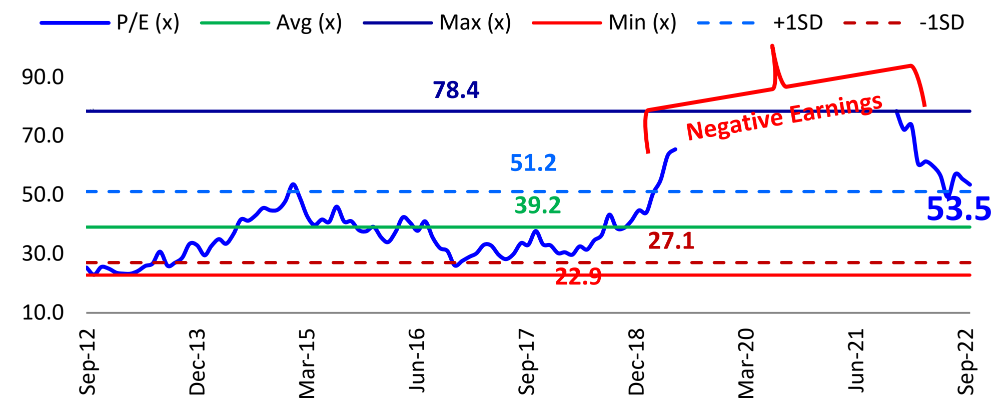
Initiating coverage with a Neutral rating

Superior growth quality

There are two key underlying requirements for a good business: a) the quality of growth, which can be attributed to a healthy returns profile and FCF position, and b) quantity of growth (upwards of 20-25% PAT growth).

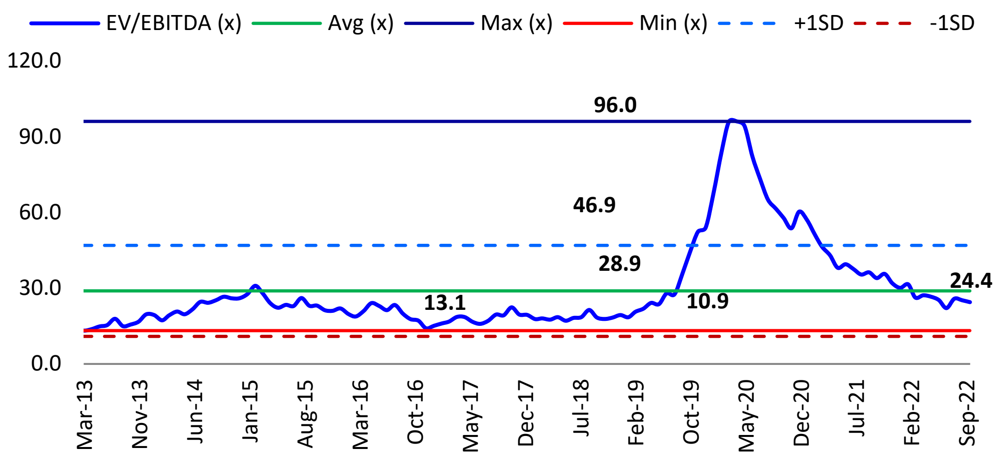
Bata historically has a high return profile led by healthy working capital and asset turns coupled with strong cash-flow. During the last three years before COVID-19, the earnings growth has been largely due to its ASP-driven margin improvement instead of volume growth, where it has lagged its peers. It is taking all the right steps by launching new age categories such as Athleisure, Casual wear, and Women's wear and expanding reach through Franchise, MBO and Online. Yet, post COVID-19, it has barely reached pre-COVID level in 1QFY23 even as other large footwear players are seeing strong LTL growth.

Exhibit 32: One-year forward P/E (x)



Source: Company, MOFSL

Exhibit 33: One-year forward EV/EBITDA (x)



Source: Company, MOFSL

Improving volume growth key to sustain premium valuations

Over the last couple of years, Bata's renewed focus has certainly begun paying off.

The company targets a better volume-driven earnings growth going forward, led by store additions, expansion of distribution channels along with deepening online ecosystem. We have factored in an improvement in earnings and modeled revenue/PAT to surpass pre-COVID levels and reach INR43.9b/INR6.1b in FY25 (44%/86% higher than FY20), respectively. These will be driven by a potential volume revival coming from new franchises and MBO stores and a recovery in the ASP as well as lower tax rate.

However, revival will be the key to stock rerating, which already remains at rich valuation. We ascribe a P/E of 40x, on FY25E EPS i.e. at 20% discount to our footwear coverage universe to arrive at our TP of INR1,925. **Initiate coverage with a Neutral rating.**

Exhibit 34: P/E valuation on FY25

FY25	(INR/share)
EPS (INR)	48
Target P/E (x)	40
Target Price (INR/share)	1925
CMP	1,838
Upside (%)	5

Source: MOFSL

SWOT analysis

Bull and Bear Case

Bull Case

- ☑ In our Bull Case scenario, we assume volumes growth of 19% over FY22-25E v/s -17% CAGR in Base Case. We assume 25%/43% revenue/EBITDA CAGR (23%/40% in Base Case) over FY22-25E.
- ☑ We expect revenue to be driven by higher volumes as a result of increased sales in smaller cities and via the online channel.
- ☑ Assuming a target multiple of 40x in the Bull Case, we arrive at a Bull Case target price of INR2,030 (upside of 10%) as against a Base Case target price of INR1,925 (upside of 5%), based on FY25E EPS.

Bear Case

- ☑ In the Bear Case, we assume 13% volume CAGR over FY22-25E v/s 17% in the Base Case. We assume 18%/33% revenue/EBITDA CAGR (23%/40% in Base Case) over FY22-25E.
- ☑ We expect weaker revenue growth due to lower volumes, which could be attributed to slower pick up in smaller cities and through the online platform.
- ☑ Assuming a target multiple of 40x in the Bear Case v/s 40x in the Base Case, we arrive at a Bear Case target price of INR1,490 (downside of 19%) as against a Base Case target price of INR1,925 (upside of 5%), based on FY25E EPS.

Exhibit 35: Scenario analysis – Bull and Bear Case

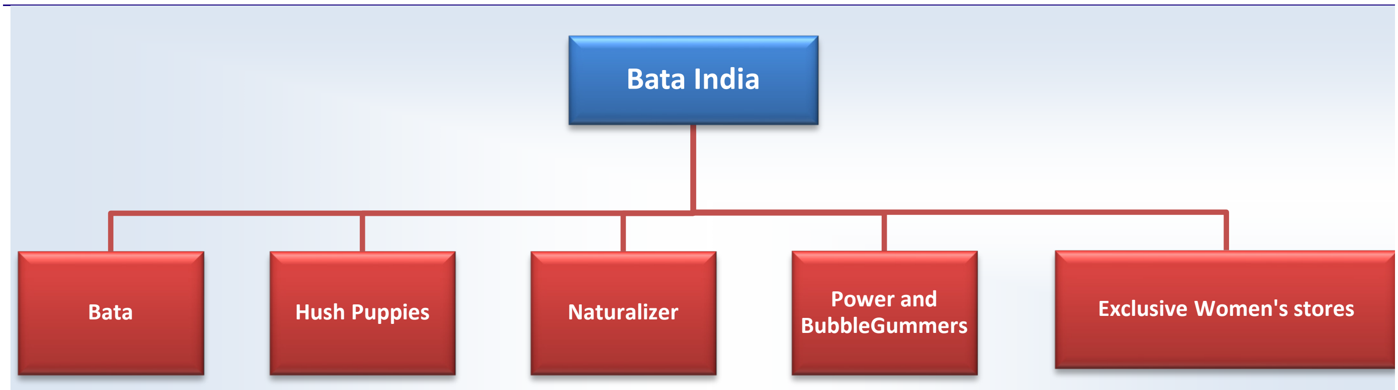
	Bull				Base				Bear			
Amount (INR m)	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
Revenue	23,877	40,012	42,999	46,114	23,877	34,793	39,090	43,918	23,877	31,314	35,181	39,526
YoY growth (%)	40	68	7	7	40	14	12	12	40	31	12	12
EBITDA	4,185	10,984	11,330	12,174	4,185	9,077	10,300	11,594	4,185	7,741	8,791	9,899
YoY growth (%)	158	162	3	7	158	117	13	13	158	85	14	13
Adjusted PAT	1,030	5,443	5,749	6,444	1,030	4,108	5,072	6,118	1,030	3,075	3,895	4,783
YoY growth (%)	-220	428	6	12	-220	299	23	21	-220	199	27	23
Margin (%)	4	14	13	14	4	12	13	14	4	10	11	12
Volume (m)	38.07	61.34	62.78	64.12	38.07	53.34	57.08	61.07	38.07	48.01	51.37	54.96
EPS (INR)	8	42	45	50	8	32	39	48	8	24	30	37
Multiple (x)				40				40				40
TP (INR/share)				2,030				1,925				1,490
CMP (INR/share)				1,838				1,838				1,838
Return (%)				10				5				-19

Source: MOFSL

Company overview

- Established in 1931, Bata India is the largest Footwear retailer in the country with 2.98m sq. ft. area under 1,526 stores, including franchises and partnered brands. The company is part of the Bata Shoe Organization, headquartered in Switzerland. In addition to its own brand, Bata has partnered with foreign brands – Hush Puppies and Naturalizer – to cater to the premium segment. Within its overall retail network, the company has 97/2 exclusive Hush Puppies/Naturalizer stores. It has started two new store formats – Power and BubbleGummers – for Sports and Kids Wear as well as exclusive stores for women.
- In addition to being the largest retailer, the company has a large distribution network (of 25,000 dealers) to cater to the tier II/III/IV cities.
- Bata is also one of the leading Footwear manufacturers in the country and has four production facilities that produce all kinds of footwear. The company's annual production capacity stood at 21m pair of footwear v/s 38.07m sold in FY22. Bata sources ~40% of its footwear from its in-house production facilities.

Exhibit 36: Bata's store formats in India



Source: Company, MOFSL

Management overview

Mr. Ashwani Windlass, Chairman and Independent Director

Mr. Windlass has spent over four decades in top management roles, with experience in both traditional and new age technology companies. He sits on the Board of several companies, including Hitachi, Vodafone Idea, Hindustan Media Ventures and Jubilant Food Works, and has been serving on the Board of Max India for over 25 years. He has obtained his MBA from FMS, Delhi University and holds a post-graduation degree in Journalism and Bachelor of Commerce degree from Punjab University, Chandigarh.

Mr. Gunjan Shah – Managing Director and Chief Executive Officer

Mr. Gunjan Shah has rich experience in multiple consumer sectors spanning Durables, Telecom and FMCG, having worked earlier in Asian Paints and Motorola in addition to Britannia where he had led several of its business divisions for more than a decade. Mr. Shah, the new CEO and ex-Britannia CMO, played a crucial role in growing Britannia's business across multiple categories viz., biscuits, bakery & dairy products. During his tenure, Britannia undertook significant distribution expansion strategies which we expect him to possibly replicate in the days ahead at Bata, given the aggressive growth strategy that the company is likely to adopt. Mr. Shah headed a cross-functional transformation platform, driving efficiency/cost reduction/ changes, which is another area that Bata has been successful in driving profitability

Ms. Vidhya Srinivasan – Director Finance and Chief Financial Officer

Bata appointed Ms. Vidhya Srinivasan as the CFO with effect from 28th Jan'21. Ms. Vidhya Srinivasan is a qualified Chartered Accountant and also holds a PGBDM degree from IIM - Ahmedabad. She joined Bata from Puma Sports India Pvt. Ltd. where she was working as Executive Director - Finance, Legal and IT and CFO.

Ms. Vidhya Srinivasan has over 23 years of experience in Finance, Strategy, Business Planning, Legal and Commercial Functions. She has worked with reputed organizations such as Aditya Birla Retail Limited, Glenmark Pharmaceuticals Limited, Kearney, etc. at various positions including CFO.

Financials and valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Income from Operations	**26,342**	**29,311**	**30,561**	**17,085**	**23,877**	**34,793**	**39,090**	**43,918**
Change (%)	6.5	11.3	4.3	-44.1	39.8	45.7	12.4	12.4
Raw Materials	12,024	12,871	12,966	8,375	10,868	14,808	16,496	18,533
Gross Profit	**14,318**	**16,440**	**17,595**	**8,710**	**13,009**	**19,985**	**22,594**	**25,385**
Margin (%)	54.4	56.1	57.6	51.0	54.5	57.4	57.8	57.8
Employees Cost	2,956	3,311	3,764	3,398	3,787	4,286	4,789	5,358
Other Expenses	7,848	8,357	5,510	3,690	5,037	6,622	7,505	8,432
Total Expenditure	**22,828**	**24,539**	**22,240**	**15,463**	**19,692**	**25,716**	**28,790**	**32,324**
% of Sales	86.7	83.7	72.8	90.5	82.5	73.9	73.7	73.6
EBITDA	**3,514**	**4,772**	**8,321**	**1,622**	**4,185**	**9,077**	**10,300**	**11,594**
Margin (%)	13.3	16.3	27.2	9.5	17.5	26.1	26.4	26.4
Depreciation	605	640	2,958	2,648	2,420	2,948	3,009	3,075
EBIT	**2,909**	**4,132**	**5,363**	**-1,026**	**1,765**	**6,129**	**7,291**	**8,519**
Int. and Finance Charges	42	35	1,177	1,035	928	1,100	1,111	1,120
Other Income	503	685	687	941	560	448	582	757
PBT bef. EO Exp.	**3,370**	**4,782**	**4,872**	**-1,120**	**1,397**	**5,477**	**6,763**	**8,157**
EO Items	0	-199	0	46	0	0	0	0
PBT after EO Exp.	**3,370**	**4,981**	**4,872**	**-1,166**	**1,397**	**5,477**	**6,763**	**8,157**
Total Tax	1,165	1,691	1,583	-273	367	1,369	1,691	2,039
Tax Rate (%)	34.6	33.9	32.5	23.4	26.3	25.0	25.0	25.0
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	**2,205**	**3,290**	**3,290**	**-893**	**1,030**	**4,108**	**5,072**	**6,118**
Adjusted PAT	**2,205**	**3,159**	**3,290**	**-858**	**1,030**	**4,108**	**5,072**	**6,118**
Change (%)	27.0	43.2	4.1	-126.1	-220.1	298.9	23.5	20.6
Margin (%)	8.4	10.8	10.8	-5.0	4.3	11.8	13.0	13.9

Consolidated - Balance Sheet

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	643	643	643	643	643	643	643	643
Total Reserves	14,145	16,823	18,323	16,938	17,504	21,612	26,685	32,802
Net Worth	**14,787**	**17,465**	**18,966**	**17,581**	**18,147**	**22,255**	**27,327**	**33,445**
Total Loans	0	0	12,491	10,323	10,942	11,065	11,171	11,261
Lease Liabilities			12,491	10,323	10,942	11,065	11,171	11,261
Deferred Tax Liabilities	0	0	0	0	0	0	0	0
Other Liabilities	1,059	1,025	25	21	20	20	20	20
Capital Employed	**15,846**	**18,491**	**31,482**	**27,924**	**29,109**	**33,341**	**38,518**	**44,726**
Gross Block	8,890	9,731	19,125	17,670	18,661	19,264	19,985	20,730
Less: Accum. Deprn.	5,926	6,566	5,431	6,475	6,402	6,953	7,833	8,803
Net Fixed Assets	**2,945**	**3,146**	**13,675**	**11,195**	**12,259**	**12,311**	**12,152**	**11,927**
Capital WIP	121	173	199	336	52	52	52	52
Total Investments	**1,853**	**1,996**	**2,370**	**1,832**	**1,899**	**1,899**	**1,899**	**1,899**
Curr. Assets, Loans&Adv.	**15,476**	**18,375**	**19,996**	**18,578**	**20,000**	**25,034**	**30,749**	**38,092**
Inventory	7,621	8,391	8,737	6,083	8,709	9,940	10,847	12,186
Account Receivables	886	653	612	794	717	667	750	842
Cash and Bank Balance	5,885	8,390	9,624	10,968	9,688	13,383	17,980	23,746
Loans and Advances	1,083	941	1,023	733	886	1,044	1,173	1,318
Curr. Liability & Prov.	**5,602**	**6,296**	**5,867**	**5,400**	**6,143**	**6,996**	**7,374**	**8,285**
Account Payables	4,792	5,156	5,032	4,397	4,562	5,883	6,553	7,363
Other Current Liabilities	707	983	752	917	1,491	1,044	782	878
Provisions	103	157	83	86	90	70	39	44
Net Current Assets	**9,874**	**12,079**	**14,129**	**13,178**	**13,858**	**18,038**	**23,375**	**29,808**
Deferred Tax assets	1,054	1,098	1,110	1,384	1,042	1,042	1,042	1,042
Appl. of Funds	**15,846**	**18,491**	**31,482**	**27,924**	**29,109**	**33,341**	**38,519**	**44,726**

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)								
EPS (diluted from FY17)	**17.2**	**24.6**	**25.6**	**-6.7**	**8.0**	**32.0**	**39.5**	**47.6**
Cash EPS (diluted from FY17)	21.9	29.6	48.6	13.9	26.8	54.9	62.9	71.5
BV/Share (diluted from FY17)	115.0	135.9	147.6	136.8	141.2	173.2	212.6	260.2
DPS	4.0	6.3	4.0	4.0	0.0	0.0	0.0	0.0
Payout (%)	23.3	24.4	15.6	-57.6	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	107.1	74.8	71.8	-275.4	229.4	57.5	46.6	38.6
Cash P/E	84.1	62.2	37.8	132.0	68.5	33.5	29.2	25.7
P/BV	16.0	13.5	12.5	13.4	13.0	10.6	8.6	7.1
EV/Sales	8.7	7.8	7.8	13.8	9.9	6.7	5.9	5.1
EV/EBITDA	65.6	47.7	28.7	145.3	56.7	25.8	22.3	19.3
Dividend Yield (%)	0.2	0.3	0.2	0.2	0.0	0.0	0.0	0.0
FCF per share	6.2	20.4	38.4	33.1	12.7	48.4	54.6	62.5
Return Ratios (%)								
RoE	15.7	19.6	18.1	-4.7	5.8	20.3	20.5	20.1
RoCE	15.9	19.7	16.7	-0.2	6.0	15.8	16.4	16.7
RoIC	25.1	34.3	26.6	-4.6	8.1	25.9	29.9	34.0
Working Capital Ratios								
Fixed Asset Turnover (x)	3.0	3.0	1.6	1.0	1.3	1.8	2.0	2.1
Asset Turnover (x)	1.7	1.6	1.0	0.6	0.8	1.0	1.0	1.0
Inventory (Days)	231	238	246	265	292	245	240	240
Debtor (Days)	12	8	7	17	11	7	7	7
Creditor (Days)	145	146	142	192	153	145	145	145
Leverage Ratio (x)								
Current Ratio	2.8	2.9	3.4	3.4	3.3	3.6	4.2	4.6
Interest Cover Ratio	69.3	118.1	4.6	-1.0	1.9	5.6	6.6	7.6
Net Debt/Equity	-0.5	-0.6	0.0	-0.1	0.0	-0.2	-0.3	-0.4

Consolidated - Cash Flow Statement (INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	3,400	4,783	4,851	-1,167	1,397	5,477	6,763	8,157
Depreciation	604	640	2,958	2,627	2,420	2,948	3,009	3,075
Interest & Finance Charges	42	35	1,177	1,035	928	1,100	1,111	1,120
Direct Taxes Paid	-1,152	-1,409	-1,869	468	-68	-1,369	-1,691	-2,039
(Inc)/Dec in WC	-991	122	-719	2,066	-1,982	-485	-740	-666
CF from Operations	**1,903**	**4,171**	**6,398**	**5,030**	**2,694**	**7,672**	**8,452**	**9,646**
Others	-347	-727	-600	-420	-579	-448	-582	-757
CF from Operating incl EO	**1,557**	**3,444**	**5,798**	**4,611**	**2,115**	**7,224**	**7,869**	**8,889**
(Inc)/Dec in FA	-754	-822	-857	-357	-477	-1,000	-850	-850
Free Cash Flow	**803**	**2,622**	**4,941**	**4,254**	**1,638**	**6,224**	**7,019**	**8,039**
(Pur)/Sale of Investments	-748	-2,461	-1,669	-920	940	0	0	0
Others	428	512	653	750	466	448	582	757
CF from Investments	**-1,074**	**-2,770**	**-1,873**	**-527**	**928**	**-552**	**-268**	**-93**
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	0	0	0	-515	-514	0	0	0
Interest Paid	-15	-14	-13	-11	-9	-1,100	-1,111	-1,120
Dividend Paid	-541	-618	-969	0	0	0	0	0
Others	0	0	-3,379	-3,165	-2,886	-1,877	-1,894	-1,910
CF from Fin. Activity	**-556**	**-631**	**-4,361**	**-3,691**	**-3,410**	**-2,977**	**-3,005**	**-3,029**
Inc/Dec of Cash	**-73**	**42**	**-435**	**393**	**-367**	**3,695**	**4,597**	**5,767**
Opening Balance	631	559	586	150	543	176	3,871	8,468
Closing Balance	**559**	**600**	**150**	**543**	**176**	**3,871**	**8,468**	**14,234**
Other Bank Balance	**5,326**	**7,790**	**9,473**	**10,425**	**9,512**	**9,512**	**9,512**	**9,512**
Net Closing Balance	**5,885**	**8,390**	**9,624**	**10,968**	**9,688**	**13,383**	**17,980**	**23,746**

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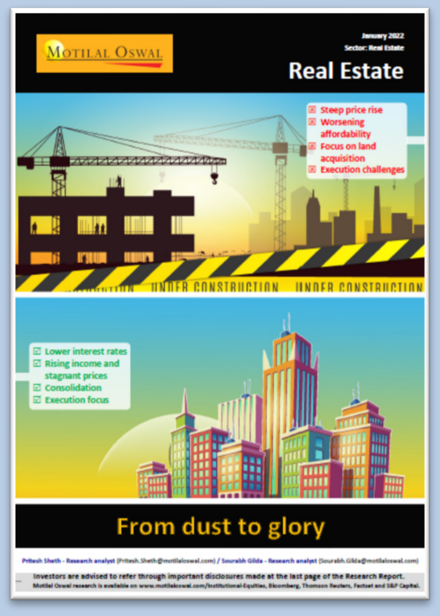

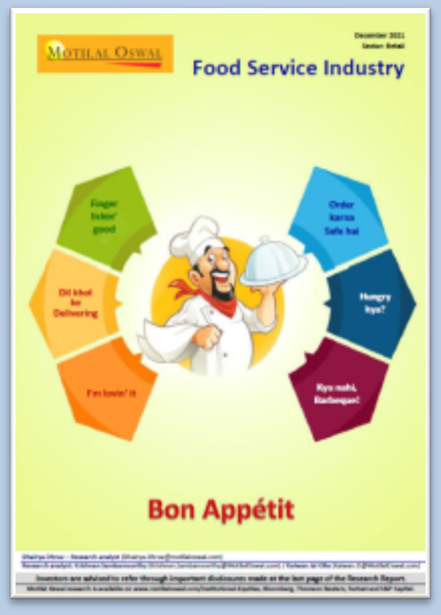

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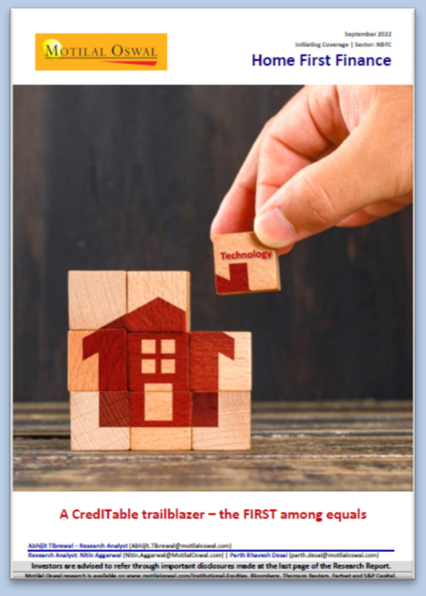
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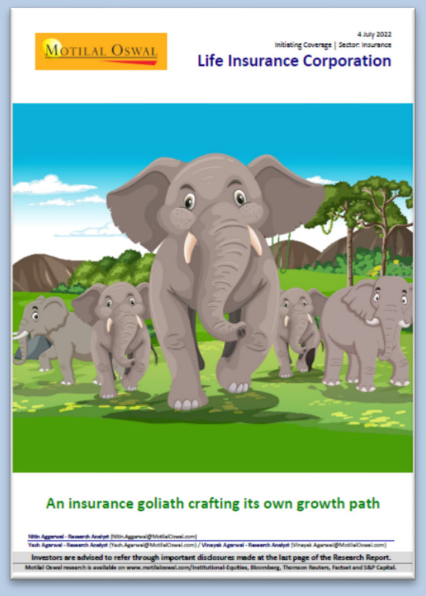
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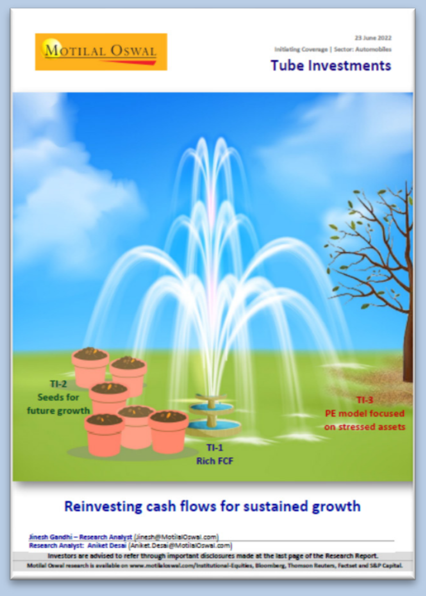
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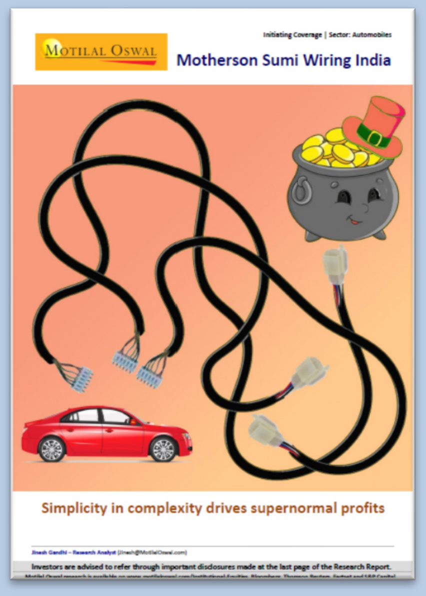
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Motherson Sumi Wiring India
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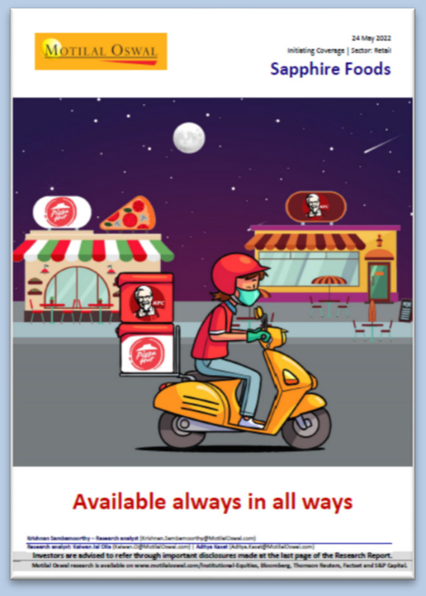
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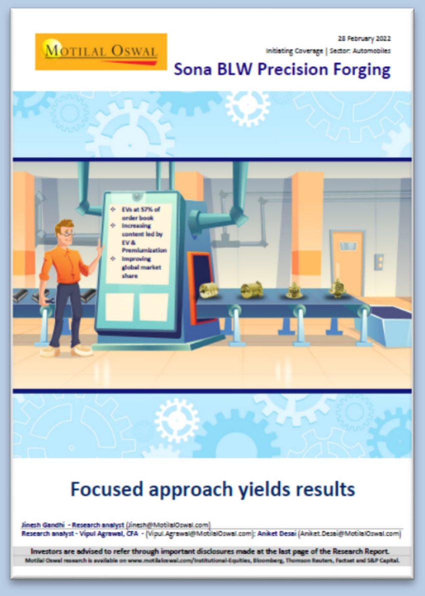
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BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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