

Financial Analysis of Bata India Ltd.



Introduction

In this report, we will analyze the financial performance of Bata India Ltd. for the years 2020, 2021, 2022, and 2023. The analysis will cover key financial ratios to assess profitability, liquidity, capitalization, asset utilization, and dividend policy.

Bata India Ltd.

Bata India Limited, established in 1931, is now the largest footwear retailer and manufacturer in India. With over 2,050 retail stores nationwide and four manufacturing units, the company boasts a turnover of ₹34,515 million in FY 2022-23, selling 48.46 million footwear pairs. Bata's

vision is to make great shoes accessible to everyone, focusing on customer satisfaction and innovation while maintaining its position as the most respected footwear company.

For Balance Sheets and Profit and Loss Statements, please click the link below:

LIQUIDITY

Liquidity ratios assess the company's ability to meet short-term obligations.

LIQUIDITY	2020	2021	2022	2023
Current ratio	2.50	2.61	2.44	1.95
Quick Ratio	1.41	1.75	1.38	0.85
Cash Ratio	0.02	0.08	0.02	0.09
Working Capital To Sales Ratio	0.38	0.64	0.48	0.22

- **Current Ratio:** It indicates the firm's ability to settle off short-term liabilities with its current assets. Although Bata India's current Ratio has decreased in 2023, it has been significantly above 1, indicating adequate liquidity in the hands of the firm.
- **Quick Ratio:** Liquidity is further evaluated by Quick Ratio, as it does not rely on Inventory. As noticeable, Quick Ratio is always less than current Ratio as Inventory is taken out of the picture. Quick Ratio measures a shorter-term liquidity than Current Ratio. In 2023, it was less than 1, i.e. 0.85 indicating that the short term loans were high in this period.
- **Cash Ratio:** Short-term Creditors are interested in Cash Ratio. It indicates the ability of the firm to use cash and cash equivalents to satisfy current/short-term liabilities. The Cash Ratio has fluctuated significantly from 2020 to 2023 from 0.02 to .08 and back to .02. Lately, the Cash Ratio has improved to 0.09.
- **Working Capital To Sales Ratio:** The Working Capital to Sales Ratio, which evaluates the efficiency of working capital management in relation to sales revenue, indicates how effectively the company utilizes its working capital to generate sales. A higher ratio implies efficient utilization, while a lower ratio may suggest potential inefficiencies or liquidity issues. The company utilized its working capital the best in 2021, but was inefficient lately.

PROFITABILITY

Profitability ratios measure the company's ability to generate profits relative to its revenue, assets, and equity.

PROFITABILITY	2020	2021	2022	2023
Gross Margin	58%	54%	56%	57%
Profit Margin	10.47%	-5.01%	4.13%	9.15%
R.O.A	0.09	-0.03	0.03	0.10
R.O.E	0.17	-0.05	0.06	0.22
Earnings per Share	25.44	(7.02)	7.85	24.83

- **Gross Margin:** This profitability ratio calculates percentage of revenue left from total sales after deducting Cost Of Goods Sold. Bata has been consistent in maintaining their Gross Margin in between 55% to 60%, meaning they have kept the margins more or less consistent, and have been able to manage consistent gross margin.
- **Net Profit Margin:** Percentage of revenue remaining after all the expenses. Bata made a **loss** in the financial year 2020-2021, which is pretty obvious, as the covid pandemic was at the peak around that period, besides other factors. Net burn was around 900 million INR.
- **Return On Assets:** Compares net income produced by total assets over a period. ROA measures how efficiently the company utilizes its assets to generate profits. Although the company made a loss in 2021, it has improved its ROA to 0.10 which is fairly good.
- **Return On Equity:** Measures the ability of a firm to generate profits from its shareholder investments and its efficiency while doing so. It is the true measure of performance. According to the DuPont Identity,

$$\text{ROE} = \text{Net Margin} * \text{Equity Multiplier} * \text{Total Asset Turnover}$$

$$= \text{ROA} * \text{Equity Multiplier}.$$

Comparing the year 2020 and 2023, even though the ROA has been very close, the ROE significantly higher in the case of 2023. The company was able to acquire and maintain assets for a lesser shareholders' equity in 2023. ROE of 0.22 is considered pretty strong.

- **Earnings Per Share(EPS):** this gives us the amount earned per share by the shareholders. Keeping the loss aside for 2021, the company has been able to generate earnings per share, and it did earn around 24.83 INR EPS in the last financial year for the face value of INR 5 each.

ASSET UTILIZATION

Asset utilization ratios measure how efficiently the company utilizes its assets to generate sales.

Asset Utilization		2020	2021	2022	2023
Asset Turnover	➡	0.84 ↓	0.54 ↘	0.69 ↑	1.07
Fixed Asset Turnover	➡	1.80 ↓	1.22 ➡	1.60 ↑	2.10
Capital intensity		1.20	1.85	1.44	0.94
Days' receivables		7.16 📄	16.08	10.71	8.64
Receivable Turnover		50.99	22.70	34.07	42.26
Days' inventory		246.00	385.61	236.83	212.98
Inventory Turnover		1.48	0.95	1.54	1.71

- **Total asset Turnover:** Intended to describe how efficiently, or intensively, a firm uses its assets to generate sales. Although after having a bad turnover in 2021, Bata came back strong and crossed asset turnover ratio of 1 in 2023.
- **Fixed Asset Turnover:** Focused more on the utilization of fixed assets, the Company was severely inefficient in managing fixed assets in 2021, but were doing good by 2023.
- **Capital Intensity:** Reciprocal of Total Asset turnover. Higher Capital Intensity means business has more fixed assets and/or lower utilization. Clearly evident in the year 2021.

- **Days' receivables:** Days required for collection of our outstanding credit account. Bata received credits almost on a weekly basis in 2020, while it went up to 16 days in 2021, and by the end it rounded up around 8.6 days
- **Receivables Turnover:** Number of times receivable received in a year.
- **Days' Inventory:** how long it took to turn over the inventory on average. The number touched to 385.61 days in 2021, which meant, BATA was not able to turnover its full inventory in this year!
- **Inventory Turnover:** Number of times inventory was turned over in the year. The higher the number, the more sales generated, as long as bata does not run out of stock. The Inventory Turnover was highest in 2023.

CAPITALIZATION

Capitalization ratios assess the company's capital structure and financial leverage.

Capitalization	2020	2021	2022	2023
Debt-Equity Ratio	0.66	0.59	0.6	0.87
Financial leverage ratio	1.97	1.89	1.94	2.28
Debt/capitalization	0.35	0.33	0.33	0.41

- **debt-to-equity ratio:** Bata India's debt-to-equity-ratio has remained stable, until 2023 when it increased to 0.87. Largely, they have a balanced capital structure with reasonable leverage.
- **Financial Leverage Ratio:** It depicts the ratio of the company's total assets to the amount for which equity holders have a claim. A ratio greater than 2 indicates that the corporation funds more assets through debt than equity, which may be a riskier investment. This Ratio jumps above 2 in the year 2023, owing to the funds from debts.
- **Debt/Capitalization Ratio-** High ratios indicate riskier investments, as debt is a primary source of financing, posing a higher chance of insolvency. It calculates the proportion of long-term debt a company uses to finance its assets, relative to the amount of equity used for the same purpose. This ratio peaks in 2023 at 0.41, while stable before.

Dividend Policy

Dividend Policy	2020	2021	2022	2023
Total shares	12,85,27,540	12,85,27,540	12,85,27,540	12,85,27,540
Dividends Paid	514.11	514.11	514.11	7004.75
Dividend Cover	6.36	-1.76	1.96	0.46
Dividend Payout	0.16	-0.57	0.51	2.20
Dividend yield	0.3%	0.3%	0.3%	3.8%

- **Dividend Coverage:** a financial metric that measures the number of times that a company can pay dividends to its shareholders. The company was in the loss in 2021, but it still paid out dividends in 2021, also in 2023, the ratio drops below 1, suggesting that they had to borrow funds in order to pay dividends. The balance sheet shows that they paid it from the previous years, retained earnings.
- **Dividend Payout:** Reciprocal of Dividend coverage. Proportion of earnings paid out as dividends. There were no earnings in 2021, and the 2023 story is clear as discussed above.
- **Dividend Yield:** Yields from 2% to 6% are generally considered to be a good dividend yield. The dividend yield is a financial ratio that shows how much a company pays out in dividends each year relative to its stock price. The firm raised its dividend yield to a good 3.8% in 2023, although before it had a very low dividend yield.

APPENDIX

The cumulative Balance sheet and the P&L table is embedded in the sheet below

