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Date: 18 November 2017
Current Price (16 Nov'17) : TK. 1179.40 (USD 14.22)
Exchange Rate: TK. 82.95/ USD

Recommendation: **BUY**
Target Price: TK. 1439.16 (USD 17.35)
Capital Gain: 22.02%

Sector: Tannery Industries
DSE: BATASHOE
Bloomberg: BATASH:BD

Figure 1

Company Fundamentals	
Market Cap (Million TK.)	15,763.50
Market Weight	0.4%
No. of Share Outstanding (Million)	13.7
Free-float Shares	30.0%
Paid-up Capital (Million TK.)	136.80
3-Month Avg. Turnover (Million TK.)	6.1
3-Month Return	-1.1%
Current Price (TK.)	1,145.40
52-Week Price Range (TK.)	1,105.00-1,248.00
Sector's Forward P/E	19.4

Source: Bloomberg, Team Analysis

Figure 2

Valuation Summary		
Valuation Date	16 November 2017	
Methodology	Weight	Price
DCF	40%	TK. 1387.88
EV/EBIDTA	35%	TK. 1603.13
P/E Multiple	25%	TK. 1291.65
One Year Target Price (31 Dec'18)	TK. 1439.16	
Current Market Price (16 Nov'17)	TK. 1179.40	
Expected Capital Gain	22.02%	
Expected Dividend Yield	2.88%	
Holding Period Return	24.90%	

Source: Team Analysis

Figure 3

Key Financials	2017E	2018E	2019E	2020E	2021E
Revenue Growth	2.30%	3.22%	4.72%	6.42%	8.14%
EBITDA Margin	22.40%	22.88%	23.81%	25.58%	26.79%
EBITDA Growth	3.34%	5.46%	8.97%	14.31%	13.26%
Net Profit Margin	11.93%	12.19%	12.71%	13.73%	14.43%
ROA	14.76%	14.10%	13.96%	14.47%	14.79%
EPS	78.35	82.64	90.26	103.71	117.94

Source: Team Analysis

SUMMARY

Bata Bangladesh is the largest footwear manufacturer and retailer in Bangladesh with about 25% market share.

HIGHLIGHTS

We have issued a BUY recommendation with a 1-year target price of TK.1439.16; representing 22.02% capital gain from its November 16, 2017 closing price of TK. 1179.40. To get this price, 40% weight for DCF model, 35% weight for EV/EBITDA multiple and 25% weight for P/E multiple was used (Figure 2). Our recommendations are based on the following key catalysts:

HIGHER REVENUE GROWTH RESULTING HIGHER PROFITABILITY

Bata has performed exclusively over the years. Its 5 year CAGR of revenue was 5.73% in 2016 and it is projected to have an upward trend in upcoming years as well. Higher revenue of Bata is eventually generating higher profit and the reflection can be seen on its profitability ratios. An upward trend in Net Profit Margin and EBITDA Margin has been observed both in previous years and forecasted years. Net Profit Margin was 11.87% in 2016 which is projected to be 14.43% in 2021. On the contrary, EBITDA Margin was 22.17% in 2016 and it is estimated to be 26.79% in 2021 (Figure 3).

CAPABLE OF MEETING FUTURE MARKET DEMAND

Bangladesh is expected to become a middle income country by 2021. GNI per capita is increasing each year which is ultimately contributing to increase the purchasing power of people. These macroeconomic factors will eventually contribute to increase per capita footwear consumption in Bangladesh. The good news is that Bata is well capable of meeting the future market demand by increasing its production. In 2016, Bata increased their production capacity but currently utilizing only 64.10% of its installed capacity. This actually indicates Bata's long term plan to cope up with the future market demand.

BUSINESS STRATEGY ALIGNED WITH CONSUMER DEMAND

Bata's new strategy is to sell trendy fashionable products of premium quality which is well aligned with consumer demand. According to the survey (Appendix 22), that we conducted, design is the first priority of 48% of the respondents and quality is the second priority of 46.3% of the respondents. So we can say that Bata is well into its business. It has opportunity to further grow its business in upcoming years by generating more revenue. Likewise

Figure 4



Source: Stock Bangladesh & Team Analysis

Figure 5: Different Brands of Bata BD

Licensed (Global) Brands	Bata's Own Brands
Hush Puppies	Power
Nike	North Star
Scholl	Bata Comfit
Adidas	Weinbrenne
	Patapata
	Marie Clarie
	Bata Industrials
	Bata
	B. First
	Bubblegummers

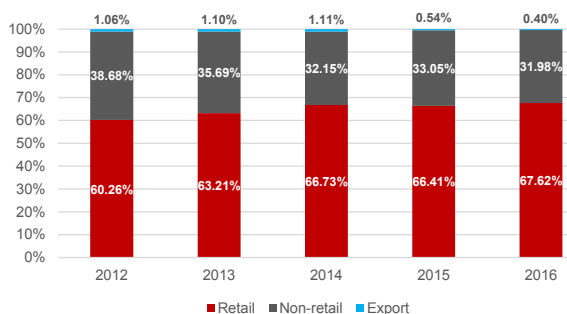
Source: Bata Website

Figure 6: Different Types of Stores

Types of Store	No. of Stores
City Store	48
Family Store	178
Hush Puppies Store	3
Total	229

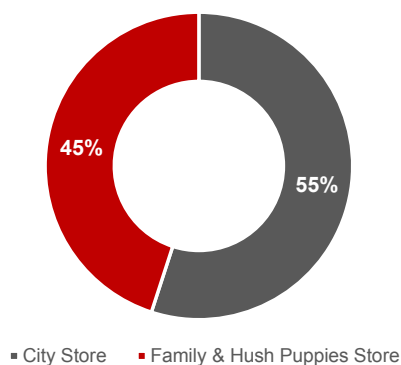
Source: Bata Management

Figure 7: Turnover Composition from Different Channels



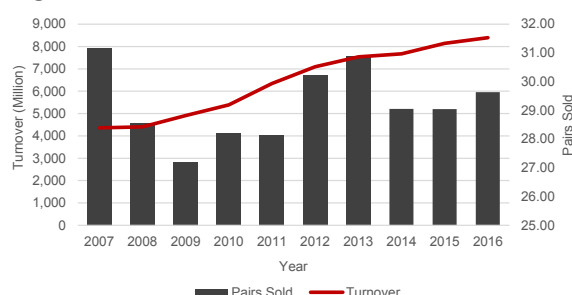
Source: Bata's Annual Report

Figure 8: Percentage of Turnover from Stores



Source: Bata Management

Figure 9: Pairs Sold vs Turnover



Source: Bata's Annual Report

RECENT NEWS

Recommending Interim Dividend for the Year 2017 (12 Nov'17)

On 16 November 2017, a meeting of the Board of Directors was held for recommending interim dividend for the year 2017 among other agenda. Interim dividend was declared on the basis of the third quarter 2017 results.

Un-audited Financial Statements for Third Quarter (24 Nov'17)

On 30 October 2017, a meeting of the Board of Directors was held to consider un-audited financial statements of the Company for the Third Quarter (Q3) period ended on 30 September 2017.

BUSINESS DESCRIPTION

Bata Shoe Company (Bangladesh) Limited (DSE: BATASHOE), the country's leading footwear company, is a subsidiary of worldwide Bata Shoe Organization (BSO). Bata Bangladesh was incorporated in Bangladesh in 1972 under the Companies Act 1913 and operated as a privately owned company until its IPO in 1985. They are mainly engaged in manufacturing and marketing of leather, rubber, plastic, canvas footwear, hosiery and accessories items. Currently the organization has two manufacturing plants in Tongi and Dhamrai. Bata Bangladesh was awarded as "The Best Brand" in the footwear category for last four years consecutively.

PRODUCT LINE: Bata Bangladesh is offering different categories of footwear, which are comfortable and stylish, at a reasonable price. They have introduced more than 900 lines of shoes of different categories for different consumer segments (Appendix 7). They have marketed some internationally renowned brands like Bata Comfit, Marie Claire, Hush Puppies, Scholl, Nike, Skechers, Power, North Star, Bubblegummers, Ben10, Sandak, Weinbrenner and B.first etc (Figure 5). Adidas is the latest addition in their product line.

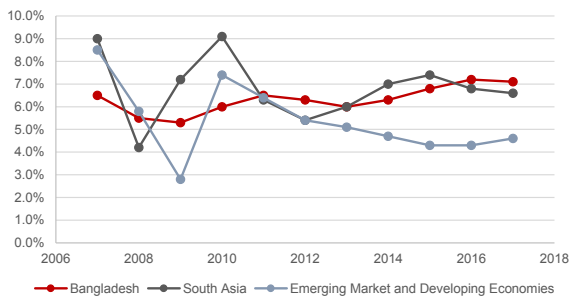
BRICK AND MORTAR STORES: Bata has 229 brick and mortar stores across Bangladesh which are the main sources of turnover (Figure 7). They have different types of outlets like- City Stores, Family Stores and Hush Puppies Stores (Figure 6). City stores generate more turnover than that of Family and Hush Puppies store collectively (Figure 8). Besides, Bata has strong presence in non-retail business as well through 690 Dealers Support Programs and 471 Registered Wholesale Dealers (Appendix 19).

BUSINESS STRATEGY

BRAND REPOSITIONING: In the past, Bata had a brand image for producing 'Cost-efficient', 'Durable' shoes. Those shoes were targeted for the mass population who were not that much fashion conscious. But the young generation is not satisfied just with durable shoes. Today's modern generation are looking for trendy shoes with premium quality. So, to meet the need of the age, Bata has transformed their brand image from being 'durable' to 'Premium'. As such they have introduced brands like Hushpuppies, Nike, Marie Claire and Adidas etc. This major shift has increased their turnover each year over last few years (Figure 9). It is assumed that this upward trend in turnover will continue in the coming years.

AGGRESSIVE MARKETING STRATEGY: To reposition their brand, Bata has taken aggressive marketing strategies which include TV commercials, Newspapers ads, in-store displays, joint promotions with renowned brands, stimulate sales during peak selling periods and provide opportunity to enhance existing and new branding sequencer. In 2016, Bata had advertising expenses of TK. 28.79 million which was 32.79% higher than the previous year (Source: Bata's Annual Report). The retail channel sold a whopping 9.50 million shoes during that period.

Figure 10: Comparison of GDP Growth

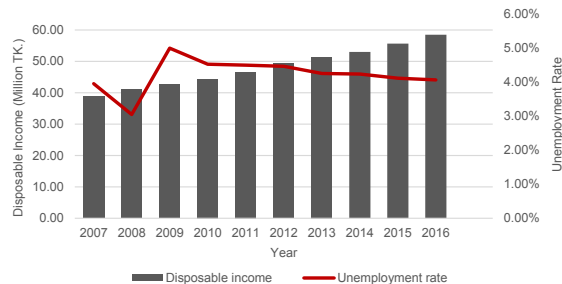


Source: IMF

360 DEGREE CONTROLLING: One of the major strategies of Product Development & Merchandising of Bata Shoe is to control all aspects of product. Bata monitors and controls their products from bottom to top. From the sources of raw materials to the stores in which they are kept, Bata maintains superior control over their channels for ensuring greater quality and maximum customer satisfaction. They also maintain safe working conditions across their supply chains. Generating ideas for new manufacturing methods, gaining efficiency and better working conditions are ensured at each level. Their supply chain is continually adapting to ever-changing markets and opportunities, balancing the traditions of local manufacturing and sourcing with the commercial benefits of large-scale global sourcing.

QUALITY SERVICE AND LOYALTY: Excellence in customer service gets top priority in Bata Bangladesh. Foreseeing the future demand, Bata launched 'E-commerce' online buying facility since last quarter of 2015 and was remarkably benefited from this channel. Besides, they have introduced brand loyalty program which is providing excellent opportunity to the valued customers to avail maximum discount and exciting prizes on future purchases.

Figure 11A: Disposable Income vs Unemployment Rate



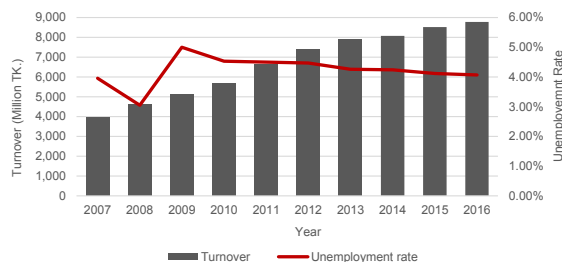
Source: Trading Economics

INDUSTRY OVERVIEW & COMPETITIVE POSITIONING

MACROECONOMICS

STRONG ECONOMIC GROWTH: According to IMF, the GDP growth in 2017 is 7.1% which is higher than that the average GDP growth of South Asian countries and, emerging market and developing economies (Figure 10). The Government's goal is to become middle income country by 2021 and the country is on the verge of achieving the goal as we can see that per capita income was USD 1,466.00 in 2016 (Source: Bangladesh Bureau of Statistics). In the process of meeting the goal, the Government is implementing numerous policies which is eventually causing potential rise in living standard and income level of the people. This will certainly help to propel the footwear industry by generating more revenue through increasing sales volume.

Figure 11B: Turnover of Bata vs Unemployment Rate

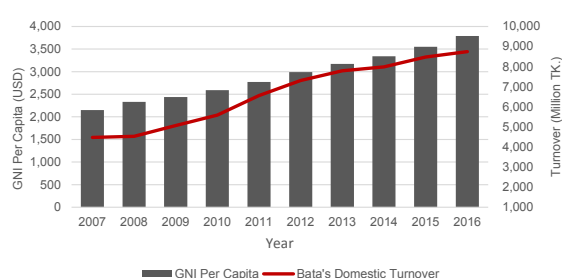


Source: Trading Economics & Bata's Annual Report

DECLINING UNEMPLOYMENT RATE: Employment level of a country has a huge impact on consumer spending and the spending depends on consumer's disposable income (Figure 11). Hence, a strong relationship prevails between the amount of disposable income and the unemployment rate (correlation of -0.94 based on yearly data from 2012-16). According to Bangladesh Bureau of Statistics, unemployment rate will go down in upcoming years. So, declining unemployment rate will certainly contribute to increase the disposable income of people.

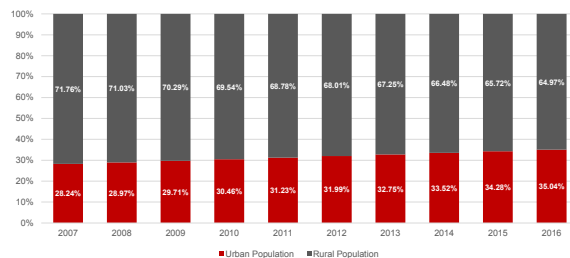
GROWTH IN DISPOSABLE INCOME: Disposable income is a crucial factor for assessing consumer spending as it reflects the amount of money available for customers to spend on goods and merchandise. Since 2007, the annual growth rate of disposable personal income in Bangladesh is increasing with an average growth rate of 4.67% (Figure 11A). To be more precise, in 2016, disposable personal income grew from TK. 55.63 million to TK. 58.44 million and the projected amount of 2017 is TK. 60.31 million. According to a recent World Bank report, the average income of the poorest 40% of households grew 0.5% faster, in between 2005 to 2010, than of the country as a whole. Whereas the poorest 40% of households in India did worse than the national average at the same period. So the poorest communities are also on the way to change their socio-economic status and they will experience further increase in their income. According to Bangladesh Bureau of Statistics, per capita income in 2016 was USD 1,466.00 which was increased by 11.39% from last fiscal year. So purchasing power of the overall population has increased over years and it is expected to increase further in upcoming years. Besides, Bata's local turnover has increased over years with the increase of GNI per capita (Figure 12). It is certainly a good indicator for the footwear industry as it will

Figure 12: GNI Per Capita vs Bata's Domestic Turnover



Source: World Bank & Bata's Annual Report

Figure 13: Percentage of Urban and Rural Population



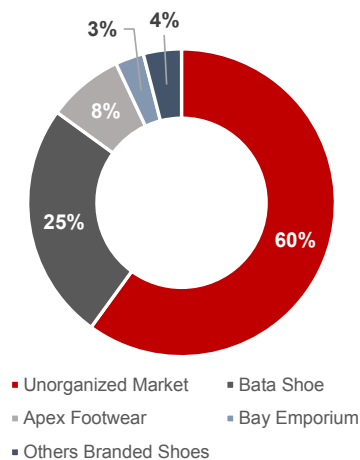
Source: World Bank

Figure 14: Basic Information of Tannery Industry

Sector PE	15.84
Sector Cap (Million TK.)	26171.74
Sector Earnings (Million TK.)	1652.11
Sector Beta	0.66

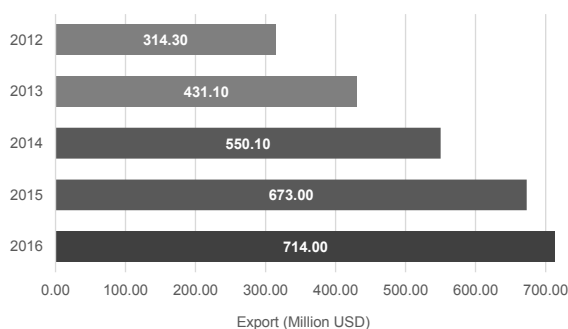
Source: Stock Bangladesh

Figure 15: Market Share of Footwear Industry



Source: Bata Management

Figure 16: Export



Source: Export Promotion Bureau (EPB) & Bangladesh Bank

contribute to increase per capita footwear consumption which is 3 pairs recently but was 1.7 pairs just five years ago.

DEMOGRAPHY: Bangladesh has growing population of young and vibrant people who will help to boost the country's economic growth engine and to rise consumer base for the upcoming years. 59.09% of the population belongs to age group of 15-54 years (Source: CIA Factbook, 2017). These young people are fashion conscious and they wear different types of shoes depending on the occasion which is contributing to increase per capita footwear consumption.

URBANIZATION: In addition to favorable demographics, rapid growth in urbanization will certainly contribute the footwear industry to grow further. Bangladesh has a market of over 157 million people with a population growth of 1.04% (Source: CIA Factbook, 2017). The country's urban population is growing faster than the growth of the total population which is favorable for the industry (Figure 13).

TANNERY INDUSTRY

The Tannery industry is playing a vital role in the emerging economy of Bangladesh. The market is very competitive because of low wage rate of labors, extensive availability of hides and leveraged business environment. The Industry has all the potentials to become the next big thing in Bangladesh like the apparel industry. The Footwear industry of Bangladesh consists of 200 tanneries, 3,500 MSMEs (Micro Small & Medium Enterprises) and 110 large firms (Source: The Independent). Some of the key players in this industry are Bata, Apex Footwear Limited, Jennys, Leatherex Footwear, Bays Footwear and Bay Emporium which are positioning themselves strongly among customers (Appendix 6).

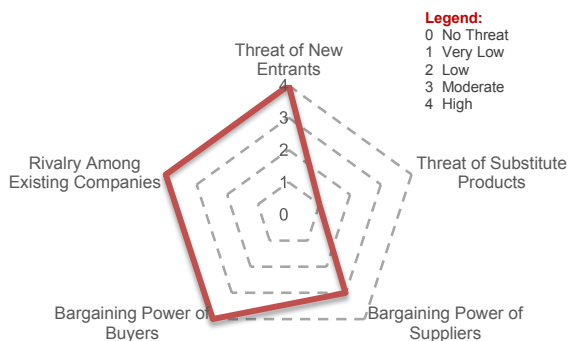
DOMESTIC MARKET: Ample opportunities in the domestic market making the industry very lucrative. As purchasing power of the people of Bangladesh is increasing, it is projected that the demand of footwear products will be increasing at the rate of 20% each year (Source: Daily Star). Nowadays the key manufacturers and retailers of footwear industry are more into producing high-end, comfortable and fashionable products.

MARKET SHARE: The industry is basically characterized for its fierce competition and a unique level of inter-firm collaboration. Currently the size of local footwear market is around USD 460.00 million and it is growing at a rate of 10-15% each year where around 300 million pairs of shoes are sold annually (Source: Daily Star). 60% market share of this huge sector is dominated by informal market (Figure 15). On the other hand, the organized sector, which occupies 40% of market share, is also rising their market share after some export oriented companies started operating in Bangladesh decades ago.

EXPORT: The foreign exchange earnings from exporting footwear was USD 673.00 million in 2015 which was once USD 68.00 million in 2004. According to Bangladesh Bank, export revenue from footwear was USD 714.00 million in 2015-16 which was USD 673.00 million in 2014-15 (Figure 16). Large companies like Apex Footwear, Jennys Shoes, Bay Emporium, Leatherex, Zeil Wears and Filanto are the major competitors in the foreign market. Producing around 25,000 leather products every day, Apex is a forerunner in manufacturing and exporting leather footwear from Bangladesh to major global footwear retailers whereas Jennys is in second position in terms of exporting footwear.

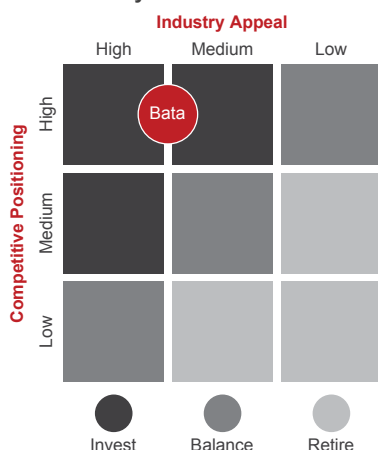
REGULATION: Bangladesh Government is taking initiatives to propel the footwear industry further and started a project, which is costing TK. 10.78 billion, on 200 acres of land with CETP facilities in order to relocate tanneries to Savar from Hazaribagh (Source: LFMEAB's Report'16). Previously many export orders were cancelled due to unhygienic manufacturing process. So this project will create a positive impression among foreign buyers. According to budget of 2017-18, SD of glues and acetates has decreased to 5% from 15% and 10% respectively which will

Figure 17: Porter's Five Forces Analysis



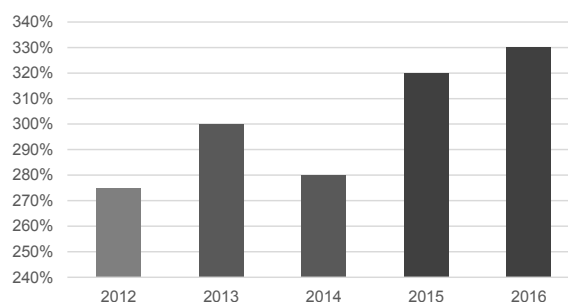
Source: Team Analysis

Figure 18: McKinsey Matrix



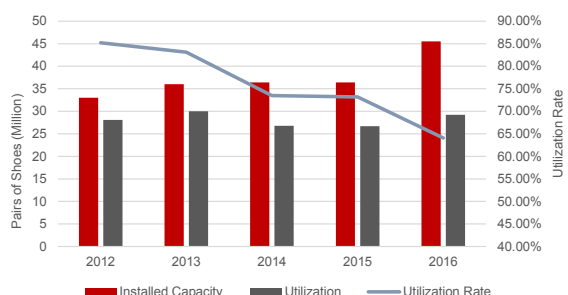
Source: Team Analysis

Figure 19: Dividend Distribution



Source: Stock Bangladesh

Figure 20: Installed Capacity vs Utilization



Source: Bata's Annual Report

help the local leather industry to some extent. On the contrary, SD of footwear with outer soles and uppers of rubber or plastics has increased to 50% from 45% which will increase the cost of production slightly. Besides, the new VAT law, that has been postponed, is expected to be implemented by 2020. This law will certainly eliminate the uneven competition prevailing in the footwear industry (Source: Bata Management).

LEATHER PRICE: Leather is the second largest exporting sector of Bangladesh after RMG sector. The global leather and leather goods market is worth about USD 215.00 billion where Bangladesh's contribution is only 0.5%. But the quality of leather in Bangladesh is one of the best and the price has always been stable over years.

COMPETITIVE POSITIONING

The footwear industry is distinguished for fierce rivalry among competitors, dominant buyers and suppliers. As a market leader, controlling 25% of the market, Bata has developed an aggressive marketing strategy along with their strong brand image. The strongest advantage for Bata is that it's a zero-debt company which means that they are not susceptible to interest rate risks. With strong distribution channel and premium brands like Adidas and Nike, they are admirably ahead of their competitors. But the surge of unorganized market, having 60% of the market share, along with high bargaining power of buyers and moderate bargaining power from suppliers have thrown a big challenge in front of the company. Moreover, newer brands like Apex, Bay are competing toe to toe with Bata with premium quality and premium stores. Also the entry of newcomers like Lotto is also threatening. But Bata's first mover advantage, greater brand image and strategy will provide it with enough resources to keep its number one brand position (Appendix 8 & 9).

INVESTMENT SUMMARY

We have issued a BUY recommendation with a 1-year target price of TK.1439.16; representing 22.02% capital gain from its 16 November 2017 closing price of TK. 1179.40.

STRONG FINANCIAL CONDITION: Bata is currently operating as a zero-debt company with a debt ratio of 0.00% in 2016 (Appendix 14) and the management doesn't plan to change this scenario in the near future. This ensures that Bata Shoe Company is less risky for an investor's point of view. Bata is also expected to generate consistent positive Free Cash Flow to the Firm for the upcoming years and go as high as 1661.62 million in 2021. The company has been the most profitable footwear company with the highest market share, generating EBITDA margin of 22.17% in 2016 (Appendix 14) and this is likely to grow in the near future.

CONSISTENT DIVIDEND DISTRIBUTION: For the past few years, Bata shoe has maintained an almost stable and lucrative cash dividend distribution policy (Figure 19). As Bata is an almost no-debt company and the company has nearly reached its maturity stage, we assume that they can sustain their high dividend payment strategy. This consistent flow of dividend will be able to create trust among investors. Also Bata doesn't have any plan to renovate and increase their capacity in the near future as their utilization rate was as low as 64.10% in 2016 (Figure 20). This implies to their long term and stable dividend policy which will further improve investor's trust and reduce uncertainty.

STRONG DISTRIBUTION CHANNEL: Bata has a strong network of distribution channel consisting of both retail and non-retail sector. Bata has an astounding 229 retail stores among which 48 are city, 178 are family and 3 are Hush Puppies stores. The city stores are renovated with state-of-the-art technologies in order to meet Bata's new rebranding strategies. In spite of the fire incident in Basundhara City Mall which nearly damaged one city store and an entire Hush puppies store, their efficient distribution

Figure 21

FCFF	
Enterprise Value	17,220.52
(+) Cash and Cash Equivalent	1,765.67
(-) Interest Bearing Debt	0.00
Value of Equity	18,986.20
Number of Ordinary Shares	13.68
WACC	13.2%
Terminal Growth Rate	4.50%
Value Per Share	1,387.88
Price on 16 November 2017	TK. 1179.40
Comment	Undervalued

Source: Team Analysis

Figure 22

EV/EBITDA	
Industry EV/EBITDA	9.5
BATASH EBITDA	2,122.65
BATA EV	20,165.14
(-) Debt	0,000.00
(+) Cash	1,765.67
Total Equity Value	21,930.81
Value Per Share	1,603.13
Undervalued	36%

Source: Team Analysis

Figure 23

P/E	
Industry PE	15.63
BATASH EPS	TK. 82.64
Intrinsic Value	TK. 1,291.65
Price on 16 November 2017	TK. 1179.40
Undervalued	10%

Source: Team Analysis

Figure 24

Valuation		
Methodology	Weight	Price
DCF	40%	TK. 1387.88
EV/EBIDTA	35%	TK. 1603.13
P/E Multiple	25%	TK. 1291.65
One Year Target Price (31 Dec'18)		TK. 1439.16

Source: Team Analysis

channel didn't let their revenue growth fall. Besides, the introduction to their new E-commerce site will also contribute to a substantial amount of revenue in the near future. In the non-retail sector, there are 13 wholesale depots under which 471 RWD and 690 DSP stores are operating (Appendix 19).

REBRANDING TOWARDS THE NEW MARKET: Bangladesh has a GNI per capita of USD 3790.00 (Source: World Bank) and it is projected to increase over the years. This implies the greater purchasing power of the whole population which contributes to the new branding policy of Bata to capture the higher income population sector with higher margin products. which means that Bata will focus more on their high end shoes. This aligns with their strategy of bringing new brands like Adidas, Nike, Naturalizer etc to Bangladesh. These brands have higher margin than other domestically produced shoes. Also their domestically produced shoe brands (ex. Power) are focusing more on design and to the latest trends, and they have a higher margin as well. This will ensure greater profitability for the company (Appendix 14) which will create more value for Bata Shoe.

Valuation

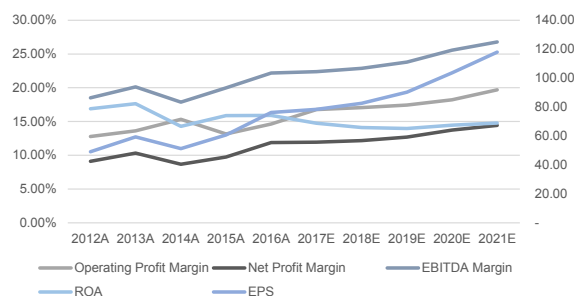
Our valuation for Bata Shoe Bangladesh reaches at a target price of TK. 1439.16, driven by 40% of FCFF model at a price of TK. 1387.88, 35% of EV/EBITDA multiple model at a price of TK. 1603.13 and 25% of P/E multiple model at a price of TK. 1291.65. FCFF model carries the highest percentage of weight, because in this model the probable future conditions and critical factors for Bata and overall footwear sector have been analyzed. But for EV/EBITDA and P/E multiples, we considered foreign companies as there are no comparable similar public limited company in our country. Therefore, market condition might be different in foreign companies. That's why we believe that FCFF model is more accurate than these two multiples. Again for EV/EBITDA multiple, the expected EBITDA and cash & cash equivalent asset from 2018 have been taken. So, it suits our assumptions and local macro-economic conditions more than P/E multiples. Hence, EV/EBITDA multiple carries more weight than that of P/E multiples.

FREE CASH FLOW TO FIRM (FCFF): FCFF model has been chosen for Bata's valuation because, in the past years, Bata maintained consistent growth in free cash flow. According to our analysis, free cash flow is expected to increase in the upcoming years as well. FCFF reflects the overall fundamentals of a company. Hence FCFF was found to be more relevant than any other models to determine the stock value of Bata. In this model, we have determined growth rates for two different phases. The first one is for our forecasted 5 years growths (2017 – 2021) for which different specific growth rates in different years were assumed. For the second phase, we have calculated constant terminal growth rate for the rest of years till liquidation of the company.

WEIGHTED AVERAGE COST OF CAPITAL: WACC consists of two elements including Cost of Equity and Cost of Debt. To determine the WACC of Bata Bangladesh, weighted average cost of equity has been calculated by using the buildup approach instead of CAPM which resulted in 13.24%. Since Bata has no debt, there is no cost of debt. So the WACC stands at 13.24%.

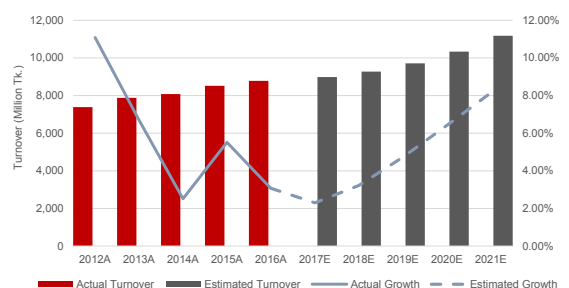
TERMINAL GROWTH RATE: Our expected terminal growth rate is 4.5%. To determine this rate, we analyzed the growth potential of the industry and Bata Shoe. During the last 3 years, it seems to be fluctuating between 2% to 5% whereas the average of the past 10 year's growth rate is 6.25% because of very high growth in the previous years. Currently, Bata generates a lion's share of its revenue from city stores and the number of cities is expected to be almost double within next 5 years according to Boston Consulting Forum. This may create more growth potential for Bata. Our country is moving towards becoming a middle income country and per capita disposable income is consistently growing. But the number of competitors is also increasing for Bata and they are applying similar strategies like Bata. Therefore, we assume that Bata's growth rate for the terminal period will increase but it may not be more than 4.5%.

Figure 25: Profitability Growth



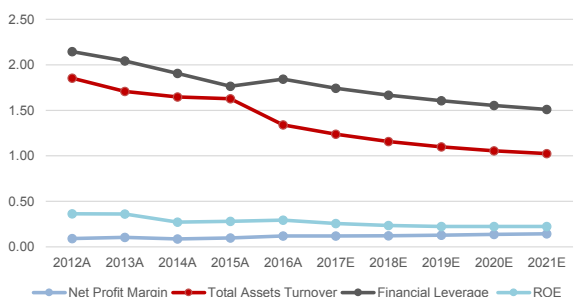
Source: Team Analysis

Figure 26: Turnover Growth



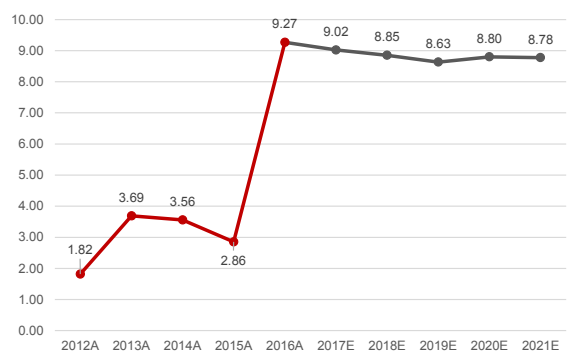
Source: Bata's Annual Report & Team Analysis

Figure 27: Du Pont Analysis



Source: Bata's Annual Report & Team Analysis

Figure 28: CapEx Ratio



Source: Bata's Annual Report & Team Analysis

RELATIVE VALUATION: We have Identified Enterprise Value (EV) to Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) and Price to Earnings per share (P/E) as the most appropriate multiples to compare Bata to its peers. As there is no comparable local public limited company in our country, we had to choose peer companies from other countries with similar macro-economic condition. These 13 companies (Appendix 13) offer similar products like Bata Shoe and serve target market of similar demography. Based on the median of the multiples of the 13 companies (Excluding the outliers), we have got 2 different prices for two different multiples. Then appropriate weights were assigned to the respective multiples to get the ultimate target price.

FINANCIAL ANALYSIS

FINANCIAL STABILITY: Bata has historically been a zero-debt company which makes it unique for the investors. This statement is backed by the consistent 0.00% debt ratio of the firm over the years. Although the company is not getting any tax benefit, it is subject to minimal interest rate risk and minimal liquidity risk. Also the company has a lesser probability to go bankrupt, which in term provides stability to the company.

PROFITABILITY GROWTH: Due to the new rebranding strategy of Bata to focus more on premium quality shoes to meet the demand of the new trendy generation, Bata is expected to increase its net profit margin to 13.73% by 2021. Also the gross profit margin and the operating margin are assumed to follow their growing trend. The ROA of the company is assumed to be reducing for a period and then rise again as we assume that the current low utilization rate will start to increase after some time when the increased capacity will be utilized properly. Although the ROE of the company seems to be decreasing gradually, it means that the companies leverage is low and it's due to the zero-debt policy of the company. On the other hand, EBITDA Margin and EPS of the company have shown upward trend historically and it is expected that this trend will continue in the forecasted years as well (Figure 25)

REVENUE DRIVERS:

- Price of Shoes:** It is expected that average price of shoes will grow by 1% in 2017. In the following years, the rate will increase slowly as it takes time to position a brand into a new target market. In 2018, the average price might grow by 1.5% because of potential politically unstable condition. In 2019, after the national election, the annual growth rate of average price will increase by 2%. Afterwards, this growth rate may consistently increase to 3.5% in 2020 and 2021 because of the effect of new VAT law. Newer companies might be coming up and Bata will need to adapt to competitive pricing strategy to sustain in the market. Hence, it may be limited to 3.5% even if Bata decides to increase the price.
- Growth Rate of Number of Pair Sold:** It is expected that, in the following years, growth rate of number of pair sold may increase by 1% in 2017 and due to simultaneous effects of national election, increased sales volume of imported brands, effects of sales person training program, this rate may increase to 2% in 2018. This rate will increase to 3.25% after national election in 2019. In 2020, this rate is assumed to be 3.75% because of the newly imposed VAT law. Although the competition may keep increasing with the passage of time. As the other companies will slowly recover from the effects of the VAT law in 2021, this rate may go down to 2.9% in this year.

DU PONT: Bata has increased its production capacity recently to cope up with the future market demand. But, at the moment the utilization rate of Bata is really low which is only 64.10%. Hence, huge amount of their assets are actually kept unutilized which results in declining Asset Turnover Ratio. Besides, Financial Leverage Ratio is also low as Bata

Figure 29

BUILD UP APPROACH			
10 Year T-bond Cut off Yield	7%	Liquidity Risk	2%
		Credit Risk	1%
Risk Premium	6%	Country Risk	3%
		Exchange Rate Risk	0.05%
Cost of Equity	13.24%		6.3%

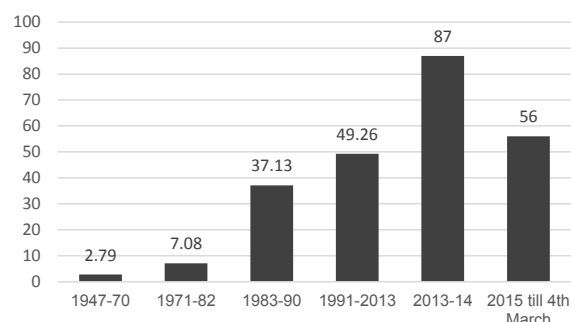
Source: Team Analysis

Figure 30: Sensitivity Analysis

Change in Growth Rate	Change in WACC					
	1387.88	11.24%	12.24%	13.24%	14.24%	15.24%
	2.50%	1431.93	1296.35	1186.06	1094.59	1017.51
	3.50%	1577.03	1409.61	1276.61	1168.41	1078.66
	4.50%	1765.19	1552.14	1387.88	1257.38	1151.20
	5.50%	2018.91	1736.96	1527.90	1366.71	1238.64
	6.50%	2379.68	1986.18	1709.47	1504.29	1346.08

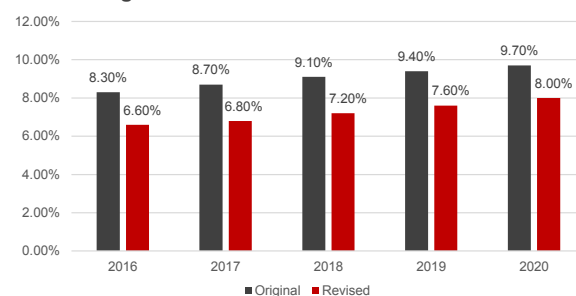
Source: Team Analysis

Figure 31: No. of Strikes Throughout Years



Source: Odhikar; ASK and CPD

Figure 32: Decline in Projected GDP Growth Due to Political Agitation



Source: The Financial Express

doesn't have any interest bearing debt. But the bright side is that it is actually making the company less risky. So, these two issues are mainly responsible for Bata's declining ROE. But this is not something to be worried about after looking at the reasons behind the decline of ROE. Moreover, Bata's Net Profit Margin and ROA will have an upward trend in the forecasted years. It is expected that ROE may start increasing when Bata will start producing more products to meet the increasing market demand (Figure 27).

CAPITAL EXPENDITURE: CapEx for Bata includes investment in production facility and its retail stores. Due to investment in factory, Bata's production capacity has increased but asset utilization rate has reduced from 85.20% to 64.10% in last 5 years (Figure 20). Besides, Bata is focusing more on renovating existing stores and opening new stores in prime locations. These elements are the main drivers of CapEx for Bata. Bata is consistently generating more cash flow than incurring capital expenditure for last four years. It is expected that per capita shoe consumption will increase with the rising purchasing power of consumers. Hence, Bata may increase their shoe production and further expand the number of retail stores to generate more revenue. As number of stores and revenue growth for Bata is positively correlated, it can be assumed that CapEx for the forecasted period may increase similarly as forecasted growth of turnover (Figure 28).

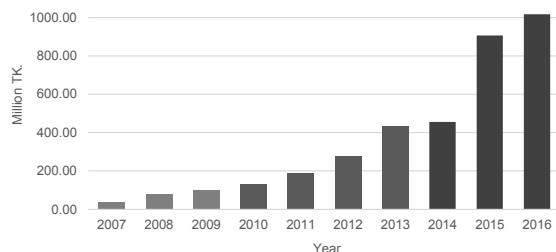
COST OF EQUITY: To determine the cost of equity, build up approach has been considered rather than CAPM (Figure 29) since assumptions of CAPM are assumed to be flawed and unrealistic considering Bangladeshi market. Based on the risk associated with equity premiums some assumptions have been estimated which are:

- **Liquidity Risk:** Bata has a thin market and buying a large volume sometimes requires additional premiums. So 2% has been assigned to liquidity risk premium.
- **Credit Risk:** Bata has gained confidence on its ability to meet credit claims since it achieved CRAB RATING AAA short term in TK. 600.00 million limit and TK. 394.00 million limit funded and non-funded. So 1% has been assigned to credit risk premium.
- **Country Risk:** Bangladesh is an emerging economy and its growth has been stable for the last 10 years according to the World Bank. Moreover, MOODY's rating for Bangladesh of a stable BA3 has been the basis for estimating 3% premium.
- **Exchange Rate Risk:** Bata holds dollar denominated assets and account receivable and dividends in USD, GBP, SGD (Appendix 17). Much of these are exposed to currency fluctuation risks but as it's a small portion, .05% risk premium has been assigned to exchange rate risk.

10 years' government bond has been considered for the risk free rate since investors expect to earn more in the long run. So it is expected to cover for long term opportunity cost and better matches with long term cash flow valuation duration.

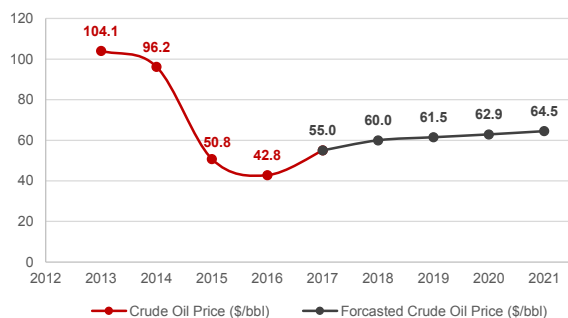
SENSITIVITY ANALYSIS: Sensitivity analysis has been conducted to determine the sensitivity of our FCFF model to terminal growth rate and WACC (Figure 31). Here, terminal growth rate defines the growth of cash for the period beyond our forecasted five years whereas we used WACC to discount our cash flows. If WACC increases by 15%, our recommendation will change into a SELL call. On other hand, 44% reduction in terminal growth rate will change our recommendation to a SELL call. However, we expect future growth potential in the footwear sector more particularly for Bata Shoe which won't let the price to fall

Figure 33: Accounts Receivable



Source: Bata's Annual Report

Figure 34: Crude Oil Price



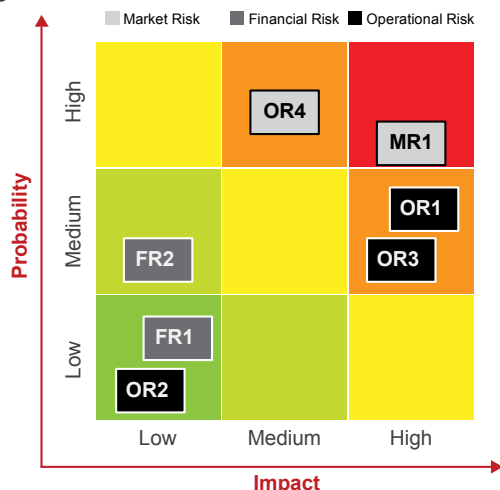
Source: World Bank

Figure 35: Asking Prices of Commercial Spaces

Area	Rent (TK./ sq ft)
Uttara	26,000
Mohammadpur	20,500
Banani	33,000
Khilgaon	16,000
Jigatola	22,000
Chittagong: Bondortila	20,000

Source: Bikroy.com

Figure 36: Risk Matrix



Source: Team Analysis

below our recommended price.

INVESTMENT RISKS

MARKET RISK

MR1- RISK OF FREQUENT POLITICAL TURMOIL (IMPACT: HIGH; PROBABILITY: MODERATELY HIGH)

Political agitation, especially before and after almost every national election, is a common scenario in Bangladesh. This chaotic situation, including strike and blockade, adversely affect the overall economy of the country. Businesses incur huge amount of losses as they can't meet their daily sales goals and eventually fail to achieve expected annual growth in turnover in most cases. According to FBCCI, strike and blockade for a day causes loss of Tk. 5,000.00 million in economy and the alarming thing is the number of strikes has increased substantially over years (Figure 31) which ultimately has affected each sector and GDP growth of Bangladesh (Figure 32).

FINANCIAL RISK

FR1- INTEREST RATE RISK (IMPACT: LOW; PROBABILITY: LOW)

Since Bata Shoe Company is not subject to any debt payments, their impacts and probability of getting affected by interest rate risk is low. The company only maintains some interest bearing financial instruments, like Short Term Deposit (STD), with its commercial banks. As these are highly liquid and very short term deposits with nominal interest rate, interest rate fluctuation for such investment have little impact on financial statements. Therefore, interest rate risk for the company is insignificant.

FR2- EXCHANGE RATE RISK (IMPACT: LOW; PROBABILITY: MEDIUM)

Bata Shoe is exposed to exchange rate risk on sales and purchases with foreign suppliers and customers. Also the payment of their royalty fees for Nike, Adidas, Naturalizer etc. are also affected by this risk. The portion of profit sent to the parent company is also subject to the volatility of the exchange rate market. Majority of the company's foreign currency transactions are denominated in USD (Appendix 17). The company maintains USD bank account where all receipts are deposited and all corresponding payments are made.

OPERATIONAL RISK

OR1- RISK OF FLEXIBLE CREDIT SALES POLICY (IMPACT: HIGH; PROBABILITY: MEDIUM)

Accounts receivable is increasing each year (Figure 33) which indicates that Bata has a flexible credit sales policy. According to Bata management, the wholesalers fail to make payments on time, most of the times, which is the main reason behind the increase of accounts receivable. This is actually increasing the risk of 'uncollected accounts receivable' to go up. In 2016, accounts receivable was TK. 1017.81 million (Figure 33) which is a huge amount of money. So, even if a small percentage of wholesalers defaults, it will have an enormous impact on the overall cash flow of the company. On the other hand, though the wholesalers delay to make payments but eventually most of them clear it anyway. Hence the probability of the wholesalers to become a defaulter is not that high. At the moment, Bata management is really concerned about this situation. Hence, the frequent delayed payment by the wholesalers is provoking Bata to curtail its operation in the non-retail distribution channel. If Bata do so in future, then this might have an adverse effect on its turnover as non-retail distribution channel contributes significantly in the overall turnover of the company (Figure 7).

Figure 37: List of Board of Directors

Name	Designation
Rajeev Gopalkrishnan	Chairman
Mr. Chitpan Kanhasiri	Vice Chairman & Managing Director
Shaibal Sinha	Director
Rashidul Hasan	Independent Director
K M Rezaul Hasanat	Independent Director

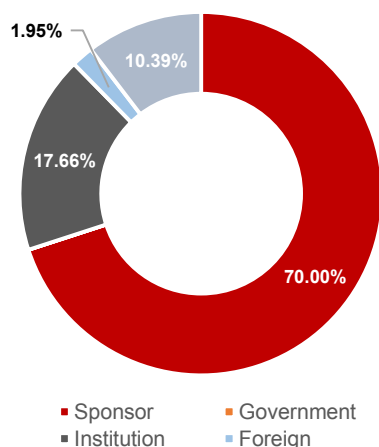
Source: Bata's Annual Report

Figure 38: List of Executive Management Board

Name	Designation
Mr. Chitpan Kanhasiri	Managing Director
Mr. Muhammad Sohail Aslam	Finance Director
Mr. Lee Sin Kee	Retail Manager
Mr. Subrata Dutta	Head of Human Resources
Mr. Carlos Arturo Zuluaga Sanchez	Product Development Manager
Mr. Omar Faisal Choowdhury	General Manager Non Retail
Mr. Jalil Ahmed Chowdhury	General Manager Supply Chain
Mr. A. A. Md. Arfanul Hoque	Asst. General Manager, Merchandising
Mr. Md. Hashim Reza	Company Secretary
Mr. Tapan Bala	Head of Internal Audit

Source: Bata's Annual Report

Figure 39: Ownership Structure



Source: Bata's Annual Report

Figure 40: Top Stockholders

Name	Percentage
Bafin Nederland BV	70.00%
LR Global Bangladesh Asset Management	2.79%
VIPB Asset Management	1.45%
Race Management PCL	1.35%
ICB Asset Management Co. Ltd.	1.15%
Vanguard Asset Management Ltd	0.88%
Commonwealth Bank of Australia	0.87%

Source: Bloomberg Analysis

OR2- EXECUTION RISK OF BATA'S BRAND REPOSITIONING STRATEGY (IMPACT: LOW; PROBABILITY: LOW)

Recently Bata is concentrating more on premium products targeting the upper middle class segment which wasn't the case few years ago. They are focusing more selling each pair on higher margin rather than selling pairs on greater volume. Hence they are introducing high end products of Hush Puppies, Nike, Adidas and Marie Claire etc. These products are certainly more expensive. This might not be well accepted by few consumer segment which might cause a downward pressure on their sales. But the probability is really low as people are more fashion conscious nowadays and prefer high end products. Besides, per capita income is also increasing which is a good sign for Bata. Bata will not be affected to a great extent for this particular risk as they tend to incur profit of 50-75% (Source: Bata Management) from each of these premium segment products.

OR3- RISK OF CRUDE OIL PRICE HIKE (IMPACT: HIGH; PROBABILITY: MEDIUM)

Bata uses huge amount petrochemical related raw materials for producing the shoes (Source: Bata Management). Hence the raw material cost is dependent on the crude oil price. Any fluctuation in crude oil price affects raw material cost directly and ultimately may have an impact on the price of shoes as well. As the amount of petrochemical related raw material is huge, the impact of increase in crude oil price will be high as well. On the other hand, the probability of price hike is not that high as oil price seems to be somewhat stable in near future (Figure 34).

OR4- INCREASED RENT AND UTILITY COST (IMPACT: MEDIUM; PROBABILITY: HIGH)

Rent cost is one of the major concerns for the market at the moment. The price of per square feet (sq ft) of commercial space is almost double the price of residential space in Dhaka (Figure 35). High renting cost serves as a major factor of cost for the companies of this industry as all of the brands are now competing with a large number of stores within Bangladesh. Bata has 229 stores nationwide among which many are lucratively decorated. But the regular increase of rent payment and the bargaining power of landlords are making it difficult to sustain in the market. Utility costs are increasing every year as well (Appendix 17). This scenario is increasing the cost in retail as well as in manufacturing.

CORPORATE GOVERNANCE

SHAREHOLDER STRUCTURE: Bata has an outstanding 13.68 million shares of which the parent company Bafin (Nederland) B.V. holds 70.00% and they are the sole party to hold more than 1 million shares (Figure 40). The foreign investors hold 1.95% of the total shares. From the local shareholder, institutional shareholders hold 17.66% and 10.39% are held by the general public. From the trend, it can be seen that the institutional investors are heavily investing in Bata (Figure 39) and it is expected to increase to 20% in the future. Also it can be seen from that almost 93% of the shareholders hold less than 501 shares which might signify lesser stability but their contribution to the total is less significant (Appendix 16B).

MANAGEMENT BOARD: The team of executives is diverse regarding experience. Mr. Chitpan Kanhasiri (Thai national), the Managing Director and Vice Chairman, has been holding the post from 2014 with great success. He boasts of a fabulous 15 years' experience in shoe innovation and footwear marketing of which, 10 years he dedicated to Bata. 70% of executives have relevant experience in the shoe industry, mainly with different country operations of Bata. The team has welcomed the new GM of the newly opened Supply Chain division, Mr. Jalil Ahamed who possesses 21 years of job experience in

Appendix 1: Glossary

- **BCP:** Bata Children's Program is an initiative of Bata employees' volunteer-led community to work for unprivileged children to make their lives better. The program is dedicated to provide opportunities to each child so that they can reach their true potential.
- **LFMEAB:** Leather goods and Footwear Manufacturers & Exporters Association of Bangladesh works to establish a healthy business relationship between the local manufacturers and exporters of leather footwear & leather goods and foreign buyers.
- **DSP:** Dealer Support Program is basically developed in order to ensure that the dealers have all the information needed to perform an informed sale. Marketing materials, campaign and opportunities are provided for co-op advertising.
- **CETP:** Common Effluent Treatment Plant is a facility in which effluent treatment plants are brought to a centralized place for all tanneries for treatment. Land for construction, capital cost, power and specialized manpower are needed to set up Effluent treatment plants but small tanneries don't have the financial ability to have their own effluent treatment facilities and therefore, they have formed a co-operative society for the operation and maintenance of CETP. Participating tanneries share the costs for operating and maintaining CETP.
- **FBCCI:** Federation of Bangladesh Chambers of Commerce & Industry is a trade organization of Bangladesh which is playing a crucial role in counselling and advisory capacity to safeguard the interest of the private sector.
- **RWD:** Registered Wholesale Dealers

Organizations and Training Programs

- **ILET:** Technical Educational Institutions is the one and only technical educational institution in Bangladesh that is dedicated to leather technology, footwear technology, and leather goods technology. It offers undergraduate courses of 4 years. It is situated in the tannery center of Hazaribag.
- **COEL:** Centre of Excellence for Leather Skill Bangladesh Ltd works to increase and improve the overall skill level of the workforce of the leather sector. The training center of COEL is located at Pallibiddut, Chandra, Gazipur which serves as the center of COEL's Leather Skill Training Programs.
- **LSBPC:** Leather Sector Business Promotion Council was created based on the Export Policy 2003-06. It is an umbrella organization for the leather sector in Bangladesh which is meant to act as a bridge between industry, institutions and the Government. LSBPC emphasizes on promoting the local and international market capacity of the leather sector by focusing on compliance issues, skills development, and export market diversification.
- **Sub-sector of BIOs:** BIOs have three sub-sector (BTA, BFLFEA, and LFMEAB) with about 550 members. In spite of having overlap in membership, the objectives of BIOs are upholding memberships, promoting export in terms of providing certificate for GSP, tariff benefits on capital machineries and raw materials, ensuring advocacy and lobbying for common benefits.

Source: Organization's Webpage & Leather Bulletin

Appendix 2: Income Statement

Amount in Million (TK.)	2012A	2013A	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Revenue	7,384.51	7,878.98	8,077.00	8,522.80	8,784.55	8,986.24	9,275.53	9,713.25	10,336.38	11,178.06
Cost of Sales	-4,718.51	-4,857.76	-4,945.49	-5,094.40	-4,967.24	-4,979.66	-5,104.15	-5,270.03	-5,454.48	-5,781.75
Gross Profit	<u>2,666.00</u>	<u>3,021.21</u>	<u>3,131.51</u>	<u>3,428.40</u>	<u>3,817.32</u>	<u>4,006.58</u>	<u>4,171.38</u>	<u>4,443.22</u>	<u>4,881.90</u>	<u>5,396.31</u>
Exchange Gain/(Loss)	-04.13	04.35	06.89	05.24	01.50	-04.68	-04.68	-04.68	-04.68	-04.68
Other Income	26.78	18.42	20.22	08.26	01.79	01.83	01.89	01.98	02.11	02.28
Administration, Selling and Distribution Expenses	-1,683.03	-1,837.32	-2,096.02	-2,195.83	-2,347.52	-2,471.21	-2,550.77	-2,671.14	-2,842.50	-3,073.97
Operating Profit	<u>1,005.62</u>	<u>1,206.67</u>	<u>1,062.60</u>	<u>1,246.07</u>	<u>1,473.09</u>	<u>1,532.52</u>	<u>1,617.82</u>	<u>1,769.38</u>	<u>2,036.82</u>	<u>2,319.94</u>
Finance Income	21.34	13.36	13.85	28.84	27.86	27.86	27.86	27.86	27.86	27.86
Finance Expenses	-04.44	-06.05	-04.95	-04.31	-03.49	-03.57	-03.68	-03.86	-04.10	-04.44
Net Finance Income/(Expenses)	16.90	07.31	08.90	24.53	24.38	24.30	24.18	24.01	23.76	23.43
Profit Before Contribution to WPPF	<u>1,022.52</u>	<u>1,213.98</u>	<u>1,071.49</u>	<u>1,270.60</u>	<u>1,497.47</u>	<u>1,556.81</u>	<u>1,642.00</u>	<u>1,793.38</u>	<u>2,060.58</u>	<u>2,343.37</u>
Contribution to Workers' Profit Participation Fund	-0,051.13	-0,060.70	-0,053.57	-0,063.53	-0,074.87	1,556.81	1,642.00	1,793.38	2,060.58	2,343.37
Profit Before Income Tax	<u>971.39</u>	<u>1,153.28</u>	<u>1,017.92</u>	<u>1,207.07</u>	<u>1,422.59</u>	<u>3,113.63</u>	<u>3,284.01</u>	<u>3,586.77</u>	<u>4,121.16</u>	<u>4,686.74</u>
Income Tax Expense	299.47	340.20	317.25	375.32	379.57	407.12	429.40	468.98	538.86	612.81
Profit for the Year	<u>671.92</u>	<u>813.08</u>	<u>700.67</u>	<u>831.74</u>	<u>1,043.02</u>	<u>2,706.51</u>	<u>2,854.61</u>	<u>3,117.78</u>	<u>3,582.30</u>	<u>4,073.93</u>

Other Accounts with Respect to Revenue (In Percentage)	2012A	2013A	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Cost of Sales	-63.90%	-61.65%	-61.23%	-59.77%	-56.55%	-55.41%	-55.03%	-54.26%	-52.77%	-51.72%
Gross Profit	36.10%	38.35%	38.77%	40.23%	43.45%	44.59%	44.97%	45.74%	47.23%	48.28%
Exchange Gain/(Loss)	-0.06%	0.06%	0.09%	0.06%	0.02%	-0.05%	-0.05%	-0.05%	-0.05%	-0.04%
Other Income	0.36%	0.23%	0.25%	0.10%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%
Administration, Selling and Distribution Expenses	-22.79%	-23.32%	-25.95%	-25.76%	-26.72%	-27.50%	-27.50%	-27.50%	-27.50%	-27.50%
Operating Profit	13.62%	15.32%	13.16%	14.62%	16.77%	17.05%	17.44%	18.22%	19.71%	20.75%
Finance Income	0.29%	0.17%	0.17%	0.34%	0.32%	0.31%	0.30%	0.29%	0.27%	0.25%
Finance Expenses	-0.06%	-0.08%	-0.06%	-0.05%	-0.04%	-0.04%	-0.04%	-0.04%	-0.04%	-0.04%
Net Finance Income/(Expenses)	0.23%	0.09%	0.11%	0.29%	0.28%	0.27%	0.26%	0.25%	0.23%	0.21%
Profit Before Contribution to WPPF	13.85%	15.41%	13.27%	14.91%	17.05%	17.32%	17.70%	18.46%	19.94%	20.96%
Contribution to Workers' Profit Participation Fund	-0.69%	-0.77%	-0.66%	-0.75%	-0.85%	17.32%	17.70%	18.46%	19.94%	20.96%
Profit Before Income Tax	13.15%	14.64%	12.60%	14.16%	16.19%	34.65%	35.41%	36.93%	39.87%	41.93%
Income Tax Expense	4.06%	4.32%	3.93%	4.40%	4.32%	4.53%	4.63%	4.83%	5.21%	5.48%
Profit for the Year	9.10%	10.32%	8.67%	9.76%	11.87%	30.12%	30.78%	32.10%	34.66%	36.45%

Source: Bata's Annual Report & Team Analysis

Appendix 3: Balance Sheet

Amount in Million (TK.)	2012A	2013A	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Assets										
Property, Plant and Equipment	880.33	932.54	998.10	1,049.38	985.24	973.85	959.46	943.69	928.54	916.28
Capital Work in Progress	2.06	0.00	59.37	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Prepayments of Rent	132.10	113.97	136.91	106.37	141.60	188.50	250.93	334.04	444.68	591.96
Investment in Subsidiaries	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred Tax Assets	0.00	0.00	0.00	1.60	47.00	47.00	47.00	47.00	47.00	47.00
Total Non-current Assets	1,014.49	1,046.51	1,194.38	1,157.35	1,173.84	1,209.35	1,257.39	1,324.73	1,420.22	1,555.24
Inventories	1,888.78	2,167.84	2,159.10	2,266.35	2,778.67	2,842.46	2,933.97	3,072.43	3,269.53	3,535.77
Accounts Receivable	276.56	435.66	455.47	906.91	1,017.81	1,041.18	1,074.70	1,125.42	1,197.61	1,295.13
Advances, Deposits and Prepayments	566.73	702.99	798.87	554.61	671.65	813.38	985.03	1,192.90	1,444.64	1,749.50
Cash and Cash Equivalents	233.46	257.44	292.40	351.38	912.26	1,354.67	1,765.67	2,128.52	2,470.04	2,773.53
Total Current Assets	2,965.54	3,563.93	3,705.84	4,079.25	5,380.38	6,051.69	6,759.37	7,519.26	8,381.83	9,353.93
Total Assets	3,980.02	4,610.44	4,900.22	5,236.59	6,554.22	7,261.05	8,016.76	8,843.99	9,802.04	10,909.17
Equity										
Share Capital	136.80	136.80	136.80	136.80	136.80	136.80	136.80	136.80	136.80	136.80
Reserves and Surplus	1,717.20	2,119.88	2,434.22	2,828.21	3,419.79	4,027.72	4,668.92	5,369.23	6,173.88	7,088.96
Total Equity	1,854.00	2,256.68	2,571.02	2,965.01	3,556.59	4,164.52	4,805.72	5,506.03	6,310.68	7,225.76
Liabilities										
Deferred Liability	123.82	134.51	162.34	177.59	280.58	280.58	280.58	280.58	280.58	280.58
Deferred Tax Liability	12.30	14.50	0.75	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Non-current Liabilities	136.12	149.01	163.09	177.59	280.58	280.58	280.58	280.58	280.58	280.58
Creditors for Goods	353.75	460.95	526.08	430.75	892.82	913.31	942.72	987.20	1050.54	1136.08
Creditors for Expenses	420.19	443.62	346.80	467.14	544.21	590.70	641.18	695.96	755.42	819.97
Creditors for Other Finance	241.39	273.34	262.19	312.24	373.45	382.03	394.33	412.93	439.42	475.21
Accrued Expenses	385.28	375.92	382.77	410.87	351.21	374.53	396.88	405.91	410.03	416.20
Provision for Tax	530.96	586.56	579.56	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unclaimed Dividend	58.33	64.35	68.72	75.88	80.84	80.84	80.84	80.84	80.84	80.84
Current Tax Liabilities	0.00	0.00	0.00	397.12	474.53	474.53	474.53	474.53	474.53	474.53
Total Current Liabilities	1,989.91	2,204.75	2,166.10	2,094.00	2,717.05	2,815.94	2,930.46	3,057.38	3,210.78	3,402.82
Total Liabilities	2,126.02	2,353.75	2,329.20	2,271.59	2,997.64	3,096.53	3,211.04	3,337.96	3,491.36	3,683.41
Total Equity and Liabilities	3,980.02	4,610.44	4,900.22	5,236.59	6,554.22	7,261.05	8,016.76	8,843.99	9,802.04	10,909.17

Source: Bata's Annual Report & Team Analysis

Appendix 4: Cash Flow Statement

Amount in Million (TK)	2012A	2013A	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Net Income	0,671.92	0,813.08	0,700.67	0,831.74	1,043.02	1,071.85	1,130.51	1,234.73	1,418.69	1,613.39
Adjustments	-852.92	-1070.88	-279.68	-445.14	-1346.34	-327.61	-456.32	-649.90	-890.27	-1177.19
Current Asset and Current Liabilities	659.06	821.28	216.18	205.28	1379.81	327.79	411.19	523.96	674.44	860.66
Net Cash Flow from Operating Activities	478.06	563.48	637.17	591.89	1076.49	1072.04	1085.38	1108.79	1202.86	1296.86
Net Cash Investment	-92.71	67.86	-79.85	76.78	53.91	-73.32	-303.87	-334.16	-375.71	-431.72
Acquisition of PPE	-73.95	-207.32	-150.58	-179.08	-123.04	-92.39	118.80	122.63	128.42	136.65
Net Cash Flow from Investment Activities	-166.66	-139.47	-230.43	-102.31	-69.13	-165.70	-185.06	-211.53	-247.29	-295.07
Dividend Payment	-380.71	-404.39	-378.67	-430.60	-446.48	463.92	489.31	534.42	614.04	698.31
Repayment of Finance Lease	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Cash Flow from Financing Activities	-381	-404	-379	-431	-446	-464	-489	-534	-614	-698
Net Cash Increase/(Decrease) in Cash and Cash Equivalents	-69.31	19.63	28.07	58.98	560.88	442.41	411.01	362.84	341.53	303.49
Cash and Cash Equivalents as at 1 January	302.77	233.46	257.44	292.40	351.38	912.26	1354.67	1765.67	2128.52	2470.04
Effect of Exchange Rate Fluctuations on Cash Held	0.00	4.35	6.89	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash and Cash Equivalents as at 31 December	233.46	257.44	292.40	351.38	912.26	1354.67	1765.67	2128.52	2470.04	2773.53

Source: Bata's Annual Report & Team Analysis

Appendix 5: Valuation Assumptions

1. As Bata is emphasizing more on imported brands or high priced products with high profit margin, Bata Shoe is assumed to generate more revenue from the same sales volume. With increased sales volume, revenue will grow faster.
2. In the next 5 years, number of cities might be 63 in Bangladesh, according to Boston Consulting Group whereas the number is 36 right now. So, both middle class and upper class customer groups may become larger and they are the potential customers of Bata. So, we are expecting upward trend in sales volume.
3. We also expect that, sales volume will go down in 2018 due to election and unstable political condition. After the election in 2019, revenue will continue to go up.
4. New VAT law is supposed to be implemented in 2020. The unbranded portion holds 60% of local footwear sector and the existing VAT law creates an uneven competition between the organized and unorganized market. So after the implementation of new VAT law, the unorganized market might not be able to take advantage of uneven competition in the market. This will give Bata a level playing field and it may observe upward trend in revenue.
5. Bata recently launched a new program called "Passion to serve". It is a sales person development program. We expect that, this training program will also contribute to increased sales volume. Along with that, Bata is emphasizing on customer loyalty programs.
6. Bata may find new un-penetrated market for imported brands. Bata has decided to approach with aggressive strategy to penetrate this premium market. So, Bata has the potential to increase its market share.
7. As Bata is promoting its imported brands to high end customers, we can expect that gross margin will keep increasing in futures.
8. According to Business Insider, oil price experienced a sharp fall in global market in 2016 but according to World Bank Commodity Forecast, oil price will increase in 2017-18. We are also expecting that after 2019, oil price will moderately increase to some extent. Petrochemical raw materials form a significant portion of COGS for Bata. So, COGS may go aligned with increasing oil price.
9. As 'Other income' from financial statement includes items like discount on early payment and general trading, growing this item according to sales revenue growth seemed to be more logical.
10. As administrative, distribution and selling expense is directly related to sales revenue, total administrative, distribution and selling expense for the forecasted years will grow at a percentage of revenue growth rate.
11. Finance income covers interest on personal account, interest on fixed deposit, interest on short term deposit etc. but proper information is not found to forecast these items separately. Therefore we kept it constant for the next five years. Interest rate is decreasing every year in our country but the amount of cash and cash equivalent assets of Bata shoe is increasing every year. As interest rate is decreasing and cash is increasing, it is reasonable to keep finance income constant.
12. Bata has finance expense but it has no interest bearing debt in its balance sheet. Here, finance expense addresses interest on overdraft, interest on personal account. Hence, we decided to increase finance expense according to forecasted sales revenue growth.
13. From the previous year's numbers, we got to know that, contribution to worker's profit participation fund is constantly 5% of profit before WPPF. That's why we maintained the same trend in the following years.
14. To forecast income tax rate, we took the average effective tax rate.
15. As Bata has low utilization rate (64.10%), we are assuming that Bata Shoe will reinvest to renovate existing stores or to open new stores. Therefore, CapEx is assumed to grow at sales revenue growth during the forecasted years.
16. Prepayment of rent and advances, deposits & prepayments are growing every year because of inflation, increasing demand and low supply of stores in proper place. Therefore, we decided to grow both of these items with 2016's growth rate for this item. We also believe that, recent growth rate reflects better on current as well as on the upcoming years than average growth rate.
17. Reserves and surplus consists of four different items. Among those items, first three items were constant in last 10 years and others item increased with the retained amount of net profit. So, we followed the same trend to forecast reserve and surplus.
18. Inventories, account receivables, creditor for goods and creditor for expense are directly associated with sales. Hence, these items will grow as the sales revenue growth rate in next five years.
19. We are also assuming that, amount for unclaimed dividend will remain constant in the future years and shareholders will collect their money on time.

Appendix 6: Competitors Analysis

Company Name	Product Offerings	Distribution Channel	Key Focus
Apex Adelchi	Wide range of products	Own transportation system for distribution. Also backed by Apex tannery for better quality of raw material	Opts for larger margin than volume
Jennys	Shoes, sandals, leather bags, wallet ,belts etc.	Supplier to retail outlets	Competitive pricing strategy
Leatherex Footwear	Shoes, pumps, boots, wallet ,purse, bags, men and women sandals	Looking for new agents and marketing companies outside of country to utilize capacity	Better utilization of state-of-art capacity of production and automation.
Bay Footwear & Bay Emporium	Shoes, sandals and accessories for men, women, children	Vertical integration and better coordinate demand and supply	The “3 Wins” management conception and dedicated customer services

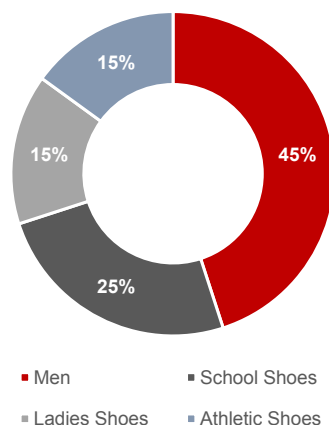
Source: Team Analysis

Appendix 7: Different Segments of Bata

Segments	Age	Class	Region	Products	Brands
Men	Young Generation	MAC	Mainly Urban	Footwear & Hosiery	<ul style="list-style-type: none"> B.First Bata Comfit Hush Puppies North Star Patapata Power Scholl Weinbreinner
Women	Young Generation	MAC	Mainly Urban	Footwear & Hosiery	<ul style="list-style-type: none"> Bata Comfit Marie Claire NorthStar Patapata Power Sandak
Children	Under 15	MAC	Mainly Urban	Footwear	<ul style="list-style-type: none"> B.First Baby Bubbles Bata Bubblegummers Patapata

Source: Team Analysis

Pie Chart: Percentage of Turnover from Different Segments



Source: Bata Management

Appendix 8: SWOT Analysis

SWOT Analysis was done for further evaluation of internal and external factors that have impacts on Bata's current situation. Strengths that give Bata a competitive edge or the probable impediments to their success are provided below:

Strengths	Weaknesses
<ul style="list-style-type: none"> • Market leader procuring 25% of the market share • Attractively renovated city and family stores • Aggressive marketing strategy • No interest bearing debt • Extensive product lines with world class brands like Nike, Adidas, Naturalizer etc • Strong Brand image • Introduction of E-commerce site to facilitate online shopping • Strong Distribution network with 229 retail outlets and 13 wholesale depots under which 471 RWD and 690 DSP stores are operating • Loyal customer base • Brand extension with belts, bags and other accessories 	<ul style="list-style-type: none"> • High administrative and labor cost • Higher price due to higher quality • Lesser export earnings than competitors • Dependence on imported raw materials (PVC Raisin, EVA Raisin) leading to exposure to exchange rate risk and price fluctuation. • Lenient working capital management with high collection float (40 days instead of given 30 days)
Opportunities	Threats
<ul style="list-style-type: none"> • New VAT law in 2020 will sustain a balance between organized and unorganized footwear market • Planning to extend product line with more sophisticated brands • More emphasize on product quality and design • Stronger retail network with more attractive shops • Shifting tanneries to Savar will create opportunities to export as it will satisfy foreign buyers about the hygienic manufacturing process • Auspicious demographics, e.g. disposable income is increasing at an annual rate of 4.67% each year 	<ul style="list-style-type: none"> • Highly unorganized footwear market (60% of market) • Continuous pressure from competitors like Apex • Losing rural customers to unorganized market • Rise in distribution cost due to political instability • Absurd rent expense; increasing on an average of 10% every year • Prices of raw materials are instable due to their strong correlation to oil prices • Relocation of tanneries from Hazaribagh to Savar might increase cost of supplies

Source: Team Analysis

Appendix 9: Porter's Five Forces Analysis

THREAT OF NEW ENTRANTS: HIGH

The threat of new entrants in the footwear industry is high due to the small amount of capital needed to operate and the tax advantage of unorganized markets. The access to inputs is easy but the access to distribution is limited due to the presence of established brands. Government policies are not strict for permitting licenses. Switching costs are also low. But the new entrants won't be able to import premium brands like Bata.

THREAT OF SUBSTITUTE PRODUCTS: VERY LOW

The threat of substitute products for footwear industry is very unlikely. As it is a part of the basic needs of people, there are literally no substitutes for shoes. Although, the invention of tech gadgets like hoverboards foster some threat but that's not imaginable in the foreseeable future.

BARGAINING POWER OF SUPPLIERS: MODERATE

Bargaining power of suppliers is moderate. Bata diversifies its suppliers by importing raw materials from foreign suppliers (PVC Raisin, EVA Raisin) and also some from local suppliers (Finished leather, raw rubber and packaging raw materials). But on the other side there are threats of forward integration from the suppliers. Also the lack of backward integration capability like its competitors (Apex Tannery) also results in higher bargaining power of suppliers. The relocation of tanneries might cut out some suppliers, creating an upper hand for the survivors.

BARGAINING POWER OF BUYERS: HIGH

Bargaining power of buyers is high as customer switching cost is low. Also seasonal sales are offered by newer companies to penetrate the market. The current uneven VAT law is also shifting the customers to the unorganized market. Lower costly and lower quality substitute brands are also available for the buyers. Product differentiation is low. But the brand identity of serving quality products and loyal customers are an asset to the company. Also the upcoming new VAT law will create a balance in the retail industry which will affect the bargaining power of buyers.

RIVALRY AMONG THE EXISTING COMPANIES: HIGH

Fierce rivalry exists in the footwear market because of numerous factors such as emerging brands like Apex, Bay etc. Currently Bata holds 25% of the market but rival companies are getting bigger as they are grabbing larger portions of the market. Apex currently boasts of 9% of the whole industry. Other emerging brands like Bay, Jennys, Zeil's, Leatherex, Lotto etc. hold 6% of the lot. On the other hand, unorganized markets are experiencing a boom in the low income demographic segment as they are selling cheap brands at a cheaper price. As a result, Bata is losing their grip on the low-end customers due to the imbalance in tax structure. Although Bata is profiting from its first mover advantage and greater brand image, the company is facing high pressure from competitors.

Source: Team Analysis

Appendix 10: CapEx

Amount in Million (TK.)	2012A	2013A	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Total PPE (At Cost)	1,703.88	1,839.68	2,071.57	2,154.90	2,216.47	2,335.27	2,457.90	2,586.32	2,722.97	2,870.75
Total Depreciable Asset	1,617.82	1,753.62	1,926.14	2,053.76	2,126.27	2,249.22	2,371.84	2,500.26	2,636.91	2,784.70
CAPEX (Addition)	262.75	152.64	179.08	207.30	116.14	118.80	122.63	128.42	136.65	147.78
Depreciation for the Year										
Total Depreciation for the Year	100.55	99.69	113.22	124.23	148.99	130.19	137.03	144.19	151.80	160.04
Accumulated Depreciation										
Total Accumulated Depreciation	0,823.55	0,907.14	1,014.10	1,105.52	1,231.23	1,361.42	1,498.45	1,642.63	1,794.43	1,954.48
Ratios										
Total PPE/ Revenue	23%	23%	26%	25%	25%	25%	25%	25%	25%	25%
Capex/ Revenue	3.56%	1.94%	2.22%	2.43%	1.32%	1.32%	1.32%	1.32%	1.32%	1.32%
Capex/ OCF	54.96%	27.09%	28.11%	35.02%	10.79%	11.08%	11.30%	11.58%	11.36%	11.40%
Capex/ Depex	261.31%	153.11%	158.18%	166.87%	77.95%	91.25%	89.49%	89.06%	90.02%	92.34%
Depreciation/ Depreciable Assets	6.42%	5.91%	6.15%	6.24%	7.13%	7.13%	7.13%	7.13%	7.13%	7.13%

Source: Bata's Annual Report & Team Analysis

Appendix 11: Free Cash Flow to Firm (FCFF) Model

Amount in Million (TK.)	2017E	2018E	2019E	2020E	2021E
EBIT	1,882.53	1,985.62	2,168.85	2,492.31	2,834.57
EBIT (1-Tax)	1,411.89	1,489.21	1,626.63	1,869.23	2,125.93
(+) Depreciation	130.19	137.03	144.19	151.80	160.04
(-) Change in NWC (Without Cash)	-130.01	-182.16	-270.13	-367.64	-476.57
(-) CAPEX	-118.80	-122.63	-128.42	-136.65	-147.78
FCFF	1,293.27	1,321.46	1,372.27	1,516.74	1,661.62
Terminal Value					19,867.21
	1,293.27	1,321.46	1,372.27	1,516.74	21,528.83
Discounting Factor			1.13	1.28	1.45
Present Value of Cash Flow			1,211.83	1,182.80	14,825.89
Enterprise Value	17,220.52				
(+) Cash and Cash Equivalent	1,765.67				
(-) Interest Bearing Debt	0.00				
Value of Equity	18,986.20				
Number of Ordinary Shares	13.68				
WACC	13.2%				
Terminal Growth Rate	4.50%				
Value Per Share	1,387.88				
Price on 16 November 2017	TK. 1179.40				
Comment	Undervalued				
EV/EBITDA	8.56				
Sales/ EBITDA	4.46				

Amount in Million (TK.)	2016A	2017E	2018E	2019E	2020E	2021E
Current Asset (Without Cash)	4468.13	4697.03	4993.70	5390.74	5911.78	6580.40
Current Liabilities	2717.05	2815.94	2930.46	3057.38	3210.78	3402.82
Working Capital (Without Cash)	1751.07	1881.08	2063.24	2333.37	2701.00	3177.58
Working Capital Investment (Without Cash)		130.01	182.16	270.13	367.64	476.57
FCF Growth Rate			2.18%	3.85%	10.53%	9.55%
	102.18%	103.85%	110.53%	109.55%	106.47%	6.47%

Source: Team Analysis

Appendix 12: Relative Valuation

Name (BICS Best Fit)	Market Cap (Billion TK.)	P/E	ROE	EV/EBITDA
BATA SHOE CO (BANGLADESH)	15.92	15.22	34.51%	9.5
STELLA INTERNATIONAL	105.66	15.85	8.60%	9.5
WEYCO GROUP INC	23.22	19.43	7.47%	10.6
FULGENT SUN INTERNATI	30.42	12.39	15.05%	7.6
VULCABRAS AZALEIA SA	58.60	15.63	151.63%	10.4
RELAXO FOOTWEARS LTD	92.78	58.4	22.73%	--
BATA INDIA LTD	134.97	65.73	14.02%	17.3
GRENDENE SA	210.99	12.58	22.79%	10.9
WOLVERINE WORLD WIDE	220.09	17.15	15.34%	9.5
FENG TAY ENTERPRISE C	252.12	21.87	34.54%	9.2
POU CHEN	307.33	9.13	15.26%	8.2
BATA PAKISTAN LTD	20.03	14.34	21.17%	--
DEPATU BATA TBK PT	734.50	15.2	--	15.4

P/E	
Industry PE	15.63
BATASH EPS	82.64
Intrinsic Value	1,291.65
Price on 16 November 2017	TK. 1179.40
Undervalued	10%

EV/EBITDA	
Industry EV/EBITDA	9.5
BATASH EBITDA	2,122.65
BATA EV	20,165.14
(-) Debt	0,000.00
(+) Cash	1,765.67
Total Equity Value	21,930.81
Value Per Share	1,603.13
Undervalued	36%

Source: Team Analysis

Appendix 13: Peer Company Analysis

STELLA INTERNATIONAL: Stella is a leading retailer & manufacturer of quality footwear products and leather goods, listed on The Stock Exchange of Hong Kong Limited in 2007. They offer premium casual and fashion footwear for customers and corporates with a combination of design, creativity and luxury. Their global retail brands include Stella Luna, What For, JKJY by Stella and joint-venture brand, Pierre Balmain

WEYCO GROUP INC.: WEYCO Group, Inc. (NASDAQ: WEYS), designs quality and innovative footwear for men, women and children under a series of well-recognized brand names including; Florsheim, Nunn Bush, Stacy Adams, BOGS, Rafters and Umi. The company's products can be found in leading footwear, department, and specialty stores worldwide.

FULGENT SUN GROUP: Fulgent Sun International (Holding) Co., Ltd. was formally listed in Taiwan stock market in October of 2012. Fulgent Sun Group makes strategic alliance with the world's major brand companies to develop and produce branded products. Now, it develops and produces all kinds of professional sports shoes, and high-tech professional waterproof breathable outdoor shoes.

VULCABRAS AZALEIA SA: Vulcabras Azaleia SA is a Brazilian company which designs, develops and markets athletic footwear, casual footwear and sport spikes. The Company offers a wide range of branded products.

GRENDENE SA: Grendene SA is a Brazilian manufactures footwear. The Company is involved in the adult, teen, child and baby shoes market, and exports to several foreign countries. Grendene's brands include Grendha, Melissa, Ipanema, Grendene Kids, and Rider.

WOLVERINE WORLD WIDE, INC.: Wolverine World Wide, Inc. is a US brand that manufactures and markets branded footwear and performance leathers. The Company's products include shoes, slippers, occupational and safety footwear, and performance outdoor footwear, among others.

FENG TAY ENTERPRISE CO. LTD.: Feng Tay Enterprise Co. Ltd. manufactures and markets athletic footwear products. The Company's products include sneakers and roller blades. Its headquarters, primarily for product development and human resources functions, is located in Taiwan, while its factories are spread throughout China, Vietnam, Indonesia and India.

BATA PAKISTAN LIMITED: Bata Pakistan Limited is engaged in the manufacturing and sale of footwear of all kinds along with sale of accessories and hosiery items. The Company operates through four segments: Retail, Wholesale, Export and Others. Its brands include Baby Bubbles, Bata Shoes, Leena, Marie Clarie, Naturalizer, North Star, Power, Tomy Takkies, Ambassador, Bata Premium, Bubblegummers, Moccasin, Weinbrenner and B-First.

PT SEPATU BATA TBK.: This company manufactures and sells footwear products for kids, ladies and men in Indonesia. It offers leather footwear, canvas built-up, casual and sports shoes, injection moulded sandals/slippers, and industrial safety footwear, as well as belts, bags, and backpacks. The Company sells its products under the Bata, B-First, Bata Ambassador, Bata Comfit, Bata Industrials, Bubblegummers, Marie Claire, Mocassino, Naturalizer, Nike, North Star, Patapata, Power, Sandak, and Weinbrenner brand names through retail dealers and wholesalers.

Source: Company Websites

Appendix 14: Financial Ratios

Amount in Million (TK.)	2012A	2013A	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Liquidity Ratio										
Current Ratio	1.49	1.62	1.71	1.95	1.98	2.15	2.31	2.46	2.61	2.75
Quick Ratio	0.54	0.63	0.71	0.87	0.96	1.14	1.31	1.45	1.59	1.71
Cash Ratio	0.12	0.12	0.13	0.17	0.34	0.48	0.60	0.70	0.77	0.82
Receivable Turnover Ratio	31.61	22.13	18.13	12.51	9.13	8.73	8.77	8.83	8.90	8.97
Profitability Ratio										
Gross Profit Margin	36.10%	38.35%	38.77%	40.23%	43.45%	44.59%	44.97%	45.74%	47.23%	48.28%
Operating Margin	12.79%	13.62%	15.32%	13.16%	14.62%	16.77%	17.05%	17.44%	18.22%	19.71%
Net Profit Margin	9.10%	10.32%	8.67%	9.76%	11.87%	11.93%	12.19%	12.71%	13.73%	14.43%
EBITDA Margin	18.51%	20.14%	17.87%	19.97%	22.17%	22.40%	22.88%	23.81%	25.58%	26.79%
EBITDA Growth	26.06%	16.11%	-9.05%	17.93%	14.41%	3.34%	5.46%	8.97%	14.31%	13.26%
ROE	36.24%	36.03%	27.25%	28.05%	29.33%	25.74%	23.52%	22.43%	22.48%	22.33%
ROA	16.88%	17.64%	14.30%	15.88%	15.91%	14.76%	14.10%	13.96%	14.47%	14.79%
Debt Ratios										
Debt to Asset Ratio	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Equity Multiplier	2.15	2.04	1.91	1.77	1.84	1.74	1.67	1.61	1.55	1.51
Debt to Equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Time Interest Earned	285.20	245.95	268.68	366.18	515.90	527.83	539.38	562.60	607.53	638.93
Payable Turnover Ratio	6.36	5.79	5.56	5.75	4.25	3.39	3.31	3.23	3.13	3.07
Financial Leverage	2.15	2.04	1.91	1.77	1.84	1.74	1.67	1.61	1.55	1.51
Assets Management Ratio										
Inventory Turnover	2.73	2.67	2.44	2.35	2.24	1.97	1.82	1.82	1.82	1.82
Average Collection Period in Days	11.39	16.27	19.86	28.77	39.44	41.24	41.06	40.77	40.45	40.14
Average Payment Period in Days	56.61	62.20	64.69	62.57	84.61	106.31	108.90	111.59	115.14	117.12
Fixed Assets Turnover	38.68	56.53	44.80	164.44	153.07	59.09	38.48	30.55	27.62	28.00
Total Assets Turnover	1.86	1.71	1.65	1.63	1.34	1.24	1.16	1.10	1.05	1.02
Cash Coverage	0.60	0.63	0.57	0.69	0.60	0.61	0.62	0.65	0.71	0.77
CapEx Ratio	1.82	3.69	3.56	2.86	9.27	9.02	8.85	8.63	8.80	8.78
Market Value Ratio										
EPS	49.12	59.44	51.22	60.80	76.24	78.35	82.64	90.26	103.71	117.94
Book Value	135.53	164.96	187.94	216.74	259.98	304.42	351.30	402.49	461.31	528.20
DPS	27.5	30	28	32	33	33.91	35.77	39.07	44.89	51.05
Dividend Payout Ratio	0.56	0.50	0.55	0.53	0.43	0.43	0.43	0.43	0.43	0.43
Retention Ratio	0.44	0.50	0.45	0.47	0.57	0.57	0.57	0.57	0.57	0.57
Sustainable Growth Rate	16%	18%	12%	13%	17%	15%	13%	13%	13%	13%
CAGR	10.17%	11.25%	9.46%	8.52%	5.73%	4.00%	3.32%	3.76%	3.93%	4.94%
P/E RATIO	10.91	11.61	22.88	21.67	14.98					
Market to Book Value	3.95	4.18	6.24	6.08	4.39					

Source: Team Analysis

Appendix 15: Altman Z-Score

The Altman Z-Score Analysis gives indication about company's financial condition and, consequently, the probability of being bankrupt. According to Z-score formula, any score below 1.80 indicates that a firm is likely to be bankrupt and a score of around 3.00 indicates the firm is far from being bankrupt.

Formula: $(1.2 \times X_1) + (1.4 \times X_2) + (3.3 \times X_3) + (0.6 \times X_4) + (1.0 \times X_5)$.

RESULT: Considering the Z-score of Bata for the period form 2007 to 2016, it can be concluded that Bata has **VERY LOW** probability of being bankrupt.

Amount in Million (TK.)	2007A	2008A	2009A	2010A	2011A	2012A	2013A	2014A	2015A	2016A
Input Variables										
Working Capital	543.18	628.85	655.56	718.27	859.35	975.63	1359.18	1539.73	1985.25	2663.33
Market Capitalization	3058.85	4387.18	7227.14	8931.67	8187.48	7328.38	9439.20	16034.33	18026.14	15622.56
Derived Variables										
Working Capital / Total Asset	0.24	0.25	0.24	0.23	0.24	0.25	0.29	0.31	0.38	0.41
Retained Earnings / Total Asset	0.26	0.29	0.32	0.35	0.37	0.40	0.44	0.47	0.52	0.50
Earnings Before Interest and Tax / Total Assets	0.48	0.26	0.24	0.25	0.24	0.25	0.26	0.22	0.24	0.22
Market Value of Equity / Total Liabilities	2.14	2.87	4.51	5.15	4.12	3.45	4.01	6.88	7.94	5.21
Sales / Total Assets	2.02	1.85	1.89	1.85	1.87	1.86	1.71	1.65	1.63	1.34
Outcome										
Altman Z-Score	5.54	5.14	6.13	6.55	5.95	5.62	5.94	7.54	8.36	6.40

Source: Bata's Annual Report & Team Analysis

Appendix 16A: Experience of Management Board

Name	Title	Nationality	Background	Experience
Mr. Chitpan Kanhasiri	Managing Director	Thai	More than two decades of experience in shoe innovation and footwear marketing. He has been appointed by the company to rebrand Bata shoe among the new target market. Previously, he held Marketing Manager position with M/s ADDA in Thailand. After joining Bata in 2007, he was posted as Acting Company Manager of Bata Malaysia and Retail & Non Retail Sales Manager of Bata Thailand.	15 years
Mr. Muhammad Sohail Aslam	Finance Director	Pakistani	Started his career with Bata Pakistan in Internal Audit dept. He served in several Bata companies including Bata Zimbabwe as the Finance Director.	28 years
Mr. Lee Sin Kee	Retail Manager	Malaysian	Appointed on August 2014 to assist Bata in materializing their strategy of renovating retail stores and rebranding using his vast experience in retailing, branding and store development. Prior to Bata Bangladesh, he was the Marketing Manager of Bata Malaysia.	29 years
Mr. Carlos Arturo Zuluaga Sanchez	Product Development Manager	Colombian	Having invaluable experience in shoe-line innovation, he joined Bata Bangladesh in 2011. Earlier to Joining Bata, he was the Technical Developer of Bata Colombia.	41 years
Mr. Subrata Dutta	Head of HR	Indian	Remarkable HR management experience in Bata and other MNCs. Prior to this, He was the AVP of HR in Bata India.	23 years
Mr. Md. Hashim Reza	Company Secretary	Bangladeshi	He is and FCMA and FCS charter, working in Bata Bangladesh long since 2005. He is also playing a dual role as GM-Finance.	25 years

Source: Bata's Annual Report

Appendix 16B: Corporate Governance

Figure 41: Historical Shareholding Status

As on	Sponsor	Government	Institution	Foreign	Public
30 Sep'17	70.00%	0.00%	17.66%	1.95%	10.39%
30 Dec'17	70.00%	0.00%	15.01%	5.30%	9.69%
30 June'17	70.00%	0.00%	13.53%	7.18%	9.29%
31 Dec'15	70.00%	0.00%	10.74%	9.84%	9.42%

Source: Bata's Annual Report

Figure 42: Classification of Shareholders by Range

	Number of Shareholders	Number of Shares
Less than 500 shares	5,737	598,653
501 to 5,000 shares	361	534,144
5,001 to 100,000 shares	83	1,601,808
100,001 to 1,000,000 shares	8	1,369,395
Over 1,000,000 shares	1	9,576,000

Source: Bata's Annual Report

Figure 43: Board Highlights

Board Highlights		
Independent Director	Bata has one independent director in its board which is one fifth of the total number of directors.	✓
Efficient Audit Committee	The independent director is the chairman of the audit committee who attended each AGM. All the members of the audit committee are highly educated and respected individuals with related financial management experience.	✓
Different Chairman and MD	Complying with the conditions of BSEC, the positions of the Chairman of the board and the Chief Executive Officer is different individuals with defined roles.	✓
Annual General Meeting (AGM)	AGM should take place in a convenient location for shareholders so that they can attend the AGM. In case of Bata, AGM took place at Registered Office and Factory Premises in Gazipur which is an inconvenient location for many shareholders in Dhaka.	X

Source: Team Analysis

Appendix 17: Investment Risks

Figure 44: Power Price Hike at a Glance

Date	Wholesale	Subscriber
1.Mar.10		5.00%
1.Feb.11	11.00%	5.00%
1.Aug.11	6.66%	
1.Dec.11	16.79%	13.25%
1.Feb.12	14.37%	7.09%
1.Sep.12	16.92%	15.00%
Feb.14		6.96%
1.Sep.15		2.90%

Source: Prothom Alo

Figure 45: Foreign Currency Denominated Assets

Foreign Currency Denominated Assets	2016 (USD)	2015 (USD)	2014 (USD)	2013 (USD)	2012 (USD)
Accounts Receivable	37,465	55,287	123,592	274,750	261,187
Cash at Bank					
Eastern Bank	188,477	88,994	22,225	162,660	206,283
HSBC	23,344	32,030	15,129	33,920	46,707
Islami Bank Bangladesh	-	-	-	54,706	-
Total	249,286	176,311	160,946	526,036	514,177

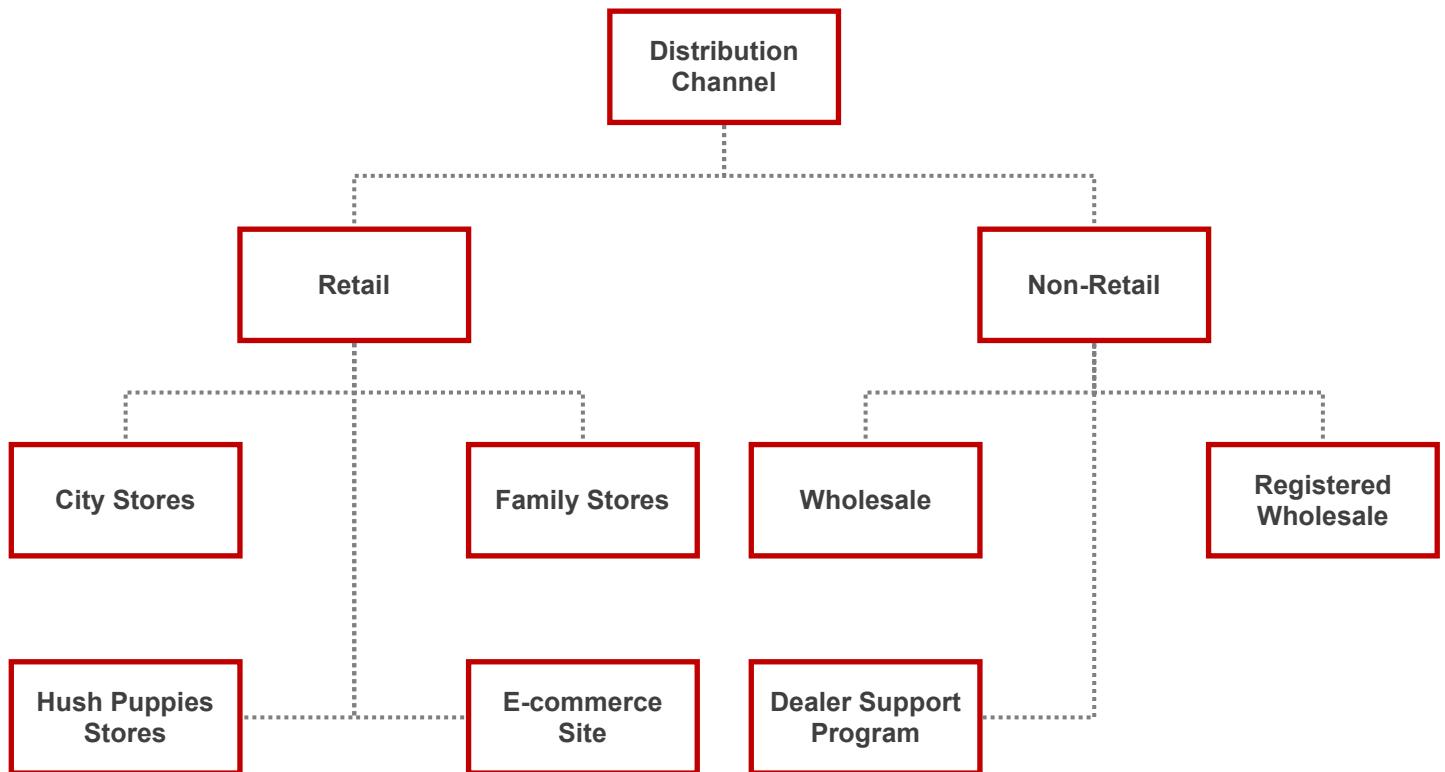
Source: Bata's Annual Report

Appendix 18: Business Canvas Model

<u>Key Partner</u> <ul style="list-style-type: none">• Hush Puppies• Nike• Adidas• Sketchen• HBN Shoes LLC• Wolverine	<u>Key Activities</u> <ul style="list-style-type: none">• Marketing program• Product innovation• HR development• Operational efficiency• Web site maintenance	<u>Value Proposition</u> <ul style="list-style-type: none">• High quality products• Improved design• Comfort an style• Exceed customer expectation	<u>Customer Relationships</u> <p>Customer Loyalty Program</p>	<u>Customer Segments</u> <ul style="list-style-type: none">• Men, women and kids• Middle and Affluent class• Formal, casual, sports, school
	<u>Key Resources</u> <ul style="list-style-type: none">• Physical resources (Office space, equipment, furniture, decoration)• Financial resources (Vendor Financing, Line of credit)• Intellectual resources (website, Facebook page, customer database)• Human resources (executives, stores staffs)		<u>Channels</u> <ul style="list-style-type: none">• Retail stores• Website• Wholesale	
<u>Cost Structure</u> <ul style="list-style-type: none">• Web site maintenance cost• Operational cost• Staff salary			<u>Revenue Streams</u> <ul style="list-style-type: none">• Sales of shoes and hoserries• Export	

Source: Team Analysis

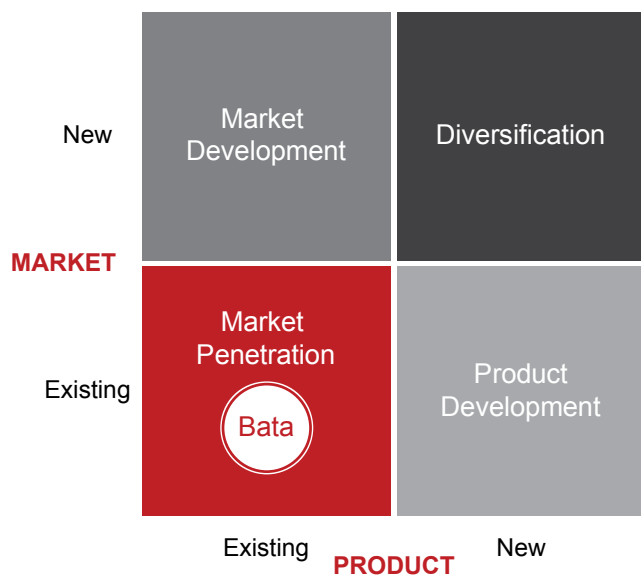
Appendix 19: Distribution Channel



Source: Bata's Annual Report

Appendix 20: Ansoff Matrix

Figure 46: Ansoff Matrix



Bata is introducing new brands but not adding anything new in its product line which consists of shoes, hosiery and accessories items. Besides, Bata has developed new marketing strategy to attract customers and to increase turnover. They are increasing the number of city stores gradually in this regard. They have introduced a loyalty scheme as well, along with special offer promotions.

Bata is focusing on increasing turnover of the company by using existing products in the same market. They are well aware of how the product and market works. Hence, Bata falls in **Market Penetration** grid which suggests that the business is in least uncertainty.

Source: Team Analysis

Appendix 21: VRIN Model

Resources	Valuable?	Rare?	Costly & Difficult To Imitate?	Non-Substitutable?	Core Competency
Physical					
Manufacturing Plant	Yes	Yes	Yes	Yes	Sustainable Competitive Advantage
Equipment	Yes	Yes	Yes	No	Temporary Competitive Advantage
Technological					
Proprietary Technology (Patents, Copyrights etc.)	Yes	Yes	Yes	No	Temporary Competitive Advantage
Human					
Commitment and Loyalty of Employees	Yes	Yes	Yes	Yes	Sustainable Competitive Advantage
Reputation					
Relationship with Customers	Yes	Yes	Yes	No	Temporary Competitive Disadvantage
With Suppliers	Yes	Yes	Yes	Yes	Sustainable Competitive Advantage
Management Capabilities					
Strategic Control	Yes	Yes	Yes	Yes	Sustainable Competitive Advantage
Raw Materials Management	Yes	No	No	No	Competitive Parity
Sales					
Quality of Customer Service	Yes	Yes	Yes	Yes	Sustainable Competitive Advantage
Information Management					
Information System Which is Comprehensive and Effective	Yes	No	Yes	No	Temporary Competitive Advantage

Source: Team Analysis

Appendix 22: Survey

As part of our analysis, we conducted the survey to get to know about the consumer behavior of different consumer segments. These are the comparatively important insights, extracted from the survey:



43.4%

43.4% of the consumers prefer Bata over other brands.

19.6% of the consumers responded that, they like Bata because of the design of the shoes. Whereas **48%** of the respondents responded that their first priority while buying shoe is its design. Bata is emphasizing more on product design nowadays. So they still have the opportunity to capture a large portion of this market segment of design conscious people.



19.6%



46.3%

46.3% of the respondents responded that quality is their second priority and Bata is also importing high-end premium products. Hence we can say that Bata's business strategy is well aligned with consumer demand.

74.1% of the respondents responded that, they buy at least one pair of Bata shoe each year.



74.1%



77.4%

77.4% of the respondents responded that, they buy both branded and non-branded shoes. So if the VAT law is implemented in 2020, then Bata can observe an increase in sales as they will have a level playing field to compete with the unorganized market then.

Per capita footwear consumption is 3.72 pairs, according to the survey result.



**3.72
Pairs**

Sample of Survey : 54 respondents; 50.9% male, 49.1% female

Age Group : 20-50 Years

Geographical Location : Dhaka

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