

Your Company has an adequate system of internal financial controls commensurate with its size and scale of operations, procedures and policies, ensuring orderly and efficient conduct of its business, including adherence to the Company's policies, safeguarding of its assets, prevention and detection of frauds and errors, accuracy and completeness of accounting records, and timely preparation of reliable financial information.

Such practice provides reasonable assurance that transactions are recorded as necessary to permit preparation of Financial Statements in accordance with the applicable legislations and that the same are well within the COAs and SOPs, without exception. Your Company also monitors through its Internal Audit Team the requirements of processes in order to prevent or timely detect unauthorized acquisition, use or disposition of the Company's Assets which could have a material effect on the Financial Statements of the Company. The Internal Audit function is responsible to assist the Audit Committee and Risk Management Committee on an independent basis with a complete review of the risk assessments and associated management action plans.

Risk Management is embedded in the Company's operating framework. Your Company believes that risk resilience is key to achieving higher growth. To this effect, there is a robust process in place to identify key risks across the Company and prioritize relevant action plans to mitigate these risks. Risk Management framework is reviewed periodically by the Board and the Audit Committee and Risk Management Committee, which includes discussing the management submissions on risks, prioritising key risks and approving action plans to mitigate such risks.

The Internal Audit Report and Risk Inventory Report are reviewed periodically by the Audit Committee of the Board of Directors. The Chief Internal Auditor is a permanent invitee to the Audit Committee Meetings. The Audit Committee advises on various risk mitigation exercises on a regular basis. Your Company has been maintaining a separate Internal Audit Team headed by the Chief Internal Auditor appointed by the Audit Committee of your Board.

Your Board has also constituted a Risk Management Committee comprising of the Directors and Senior Executives of the Company under the Chairmanship of the Managing Director of the Company. The Terms of Reference of the Risk Management Committee and a Risk Management Policy of the Company have also been approved and adopted.

Your Board is of the opinion that the Internal Financial Controls, affecting the Financial Statements of your Company are adequate and are operating effectively.

## **COMPLIANCE WITH SECRETARIAL STANDARDS ON BOARD AND GENERAL MEETINGS**

During the year under review, the Company has duly complied with the applicable provisions of the Secretarial Standards on Meetings of the Board of Directors (SS-1) and General Meetings (SS-2) issued by The Institute of Company Secretaries of India (ICSI).

## **MANAGEMENT DISCUSSION AND ANALYSIS REPORT**

### **Industry structure and developments**

The financial year 2017-18 was an eventful year with the adoption of GST. While there were some initial hiccups that were to be expected, the implementation of the GST will act as a boon in the long term for the organized manufacturing industry across the country.

The Indian footwear industry is currently under transformation phase and moving from a traditionally labour-intensive industry to a more technological and innovation driven industry. The footwear industry in India employs over 1.1 million workers, making it one of the top employment generating industry in the country. The footwear production in India is over 22 billion pairs annually, which is approximately 9.6% of the total global annual footwear output. India is the second largest global producer of footwear after China and also the world's third-largest footwear consumer after China and the USA. Almost 90% of the footwear manufactured in India is sold in the domestic market. Today, India is already among the world's top 10 footwear exporters, and its share is growing. The organised footwear market in India is still dominated by men's footwear which contributes around 58% of the total retail footwear market and is expected to grow at a CAGR of around 10% by 2020. The women's footwear segment, however, is projected to grow at a much faster CAGR of around 20%. In terms of the product type, casual footwear is the largest product segment in the Indian footwear market and contributes to approximately 67% of the total retail footwear market. The footwear industry is dominated

by the unorganized domestic footwear manufacturers but with the fast changing consumer behaviour, growing Indian fashion and lifestyle market, increase in disposable income of middle class, awareness of fitness among youth, urbanization and demographic changes, the organised sector footwear brands are likely to witness higher growth in the near future.

The Indian footwear industry, is in a confident phase with growth in online shopping, fitness awareness, latest style, fashion trends and consciousness among consumers. With the growing health and fitness awareness amongst urban Indians, demand for fitness footwear has increased manifold and is expected to continue for several years to come. Rapid growth was also registered in Internet retailing in India, which recorded double-digit value share in overall footwear sales in 2017. It is expected that around 11% of total revenue in the Indian footwear market will be generated through online sales by 2021. Due to rapidly increasing urbanization, there is also an opportunity in Tier II and Tier III cities across India.

The Government of India recently approved special package of Rs 2600 crore for leather and footwear sector which also includes measures for simplification of labour laws. The package involves implementation of central scheme 'Indian Footwear, Leather & Accessories Development Programme' with an approved expenditure of Rs. 2600 crore over the three financial years from 2017-18 to 2019-20. The package would lead to development of infrastructure for the leather sector, address environmental concerns specific to the leather sector, facilitate additional investments, employment generation and increase in production.

### **Opportunities and Threats**

Being aware of the changes in the external business environment coupled with growing competition both from domestic and foreign players in the industry your Company is making constant endeavours to manufacture better quality, comfortable and durable products. With an eye to improve customer shopping experience your Company is focusing on larger format stores combined with better visual merchandising with continuous focus on operational cost efficiency so that its able to retain its market share and grow further. The online marketing initiatives using digital influencers have already proved to be successful mainly among the younger consumers. With the infusion of new lines in men's and women's contemporary collection along with exciting and colorful range for teenage consumers and a range of offerings for the sports & fitness lovers the footfalls at stores are increasing. A range of products in the casual and lifestyle offering especially for working women are expected to create a sustained demand for the future.

The competition is expected to intensify in the coming years with more and more organized players entering the market with a range of offerings in formal and fashion segment. The brick and mortar retail industry is also expected to witness intense competition from the innovative digital platforms.

### **Segment wise or product wise performance**

Your Company operates in Footwear & Accessories Segment only and performances of major business categories and key brands of your Company during the financial year ended March 31, 2018 are highlighted below:

#### **Retail Business**

Your Company has followed a strategy of driving same store growth while adding new retail stores in Malls and High Street locations to enhance its Retail footprint. During the twelve month period ended March 31, 2018, your Company added over 100 new retail stores, 31 franchisee stores & renovated more than 90 stores across India. These spacious new stores are located in the growing markets of the country and are based on global design, making them look enticing with contemporary display of the products. Your Company shall continue to make investment on renovating existing stores hence creating a delightful shopping experience for the customers by improving store layouts on the lines of new 'Red Angela Store Concept' and creating an emphasis on key products within the retail stores. Your Company plans to focus on building the Bata Brand and attract more footfalls in the retail stores through breathtaking windows, in-stores activities and amplify various new launches of products and collections. Your Company is also focussed on improving customer service at stores through regular training of store staff.

With the relaunch of Power range - 'XO Rise' Genesis, Glide Vapor & Speedy your Company is confident of attracting teenagers and youth in a big way. As a step to building the brand "Power" your Company has opened its first stand-alone Power store in Noida and plan to open more exclusive stores next year.

Your Company also opened the first Bata Women Store in India in Bengaluru focussed on catering to footwear & accessories needs of woman consumers.

### **Digital Multi-Channel Business**

Your Company's online business has recorded a remarkable growth during the year under review. Your Company sold more than 8.9 lac pairs of footwear through online channels and achieved a turnover of Rs. 879 Million. Your Company's e-commerce presence has penetrated in 1000+ cities and towns across India.

During the financial year, your Company's e-commerce division worked on opportunities to diversify brand reach in the existing online business models. Your Company further continued to strengthen its online customer database by reaching out to the leading telecom, airline and banking players in association with affiliated partners. There were continuous efforts to retain the loyalty database by reaching out to them through SMS on a week-on-week basis. Your Company's online business with partners like Amazon, Flipkart etc. has grown across all portals - with a steep increase in secondary sales through competitive product offerings, creation of interactive brand stores and rigorous marketing campaigns which in turn resulted better secondary sales on these platforms. Various market expansion strategies were put in place like increase of brand presence through marketplace model by listing products on high-traffic generating websites including TataCliq, ShopClues, GoFynd and Limeroad.

Your Company's e-commerce website [www.bata.in](http://www.bata.in) migrated to a secure AWS server for enhanced performance that includes features like auto scaling and elastic load balancing. The website of your Company has been further enhanced to a better UX / UI which is simple, user friendly and high on fashion quotient. Your Company has further upgraded its Mobile Application with interactive user-interface leading to an increase in registered mobile users. With the launch of Bata Home Delivery your Company has also embarked on a journey towards being a truly omni-channel organization where consumers can view and buy our products from any platform and use our stores as a point of service. Going forward your Company will use digital devices in our stores to show a wider range of products to the consumers thereby improving the overall conversion of our stores.

### **Hush Puppies**

The financial year 2017-18 saw various new initiatives for Hush Puppies - your Company's international brand known for comfort, quality and style. Launching of new 'Signature Collection' across its exclusive stores, marking a new tradition of contemporary and fashionable shoes for the new younger generation, etc. were the major highlights for the brand. Apart from this, an increased focus on womens footwear as a premium comfort category has been introduced in the new and refreshing lines of 'The Body Shoe' for women and the new successful sporty casual collection. In addition to being available through the retail stores, wholesale network and e-commerce channel of the Company, the brand has now expanded its presence through 90 exclusive stores and 60 shop-in-shops in premium departmental stores. During the year under review, Hush Puppies continues to strongly reposition itself as a Premium Lifestyle Casual Footwear brand. Your Company shall continue to focus on offering new and unique products under this brand, with increased focus on comfort, contemporary fashion and style making 'Hush Puppies' the most desired lifestyle footwear brand in India.

### **Children's Footwear**

In order to cater to the children's ever changing footwear demand, your Company has been introducing many new designs and innovative footwear. Through 'Bubblegummers' brand of footwear, your Company has always been striving to make quality shoes with uncompromising comfort and features that safeguard their little feet. Bubblegummers is retailed through all Bata stores across the Country and has been the first point of contact to start our consumers' journey to establish long term association with Bata. With 18% of the Country's population below the age of 10 years, potential to grow in the children category of footwear is huge which makes this category as one of the key focus areas for your Company.

Your Company has opened its first Bubblegummers Store in Bengaluru which provide a unique shopping experience to shoppers with great collection of shoes and accessories.

Your Company has further established an association with The Walt Disney Company India Pvt. Ltd. and working with a set of designers from Disney, to create a complete collection covering all types of footwear ranging from casual shoes, canvas shoes and Ballerinas to everyday-wear sandals and chappals. Your

Company has created exclusive 'Disney Corners' in some of its key retail stores across major cities in India to highlight the collection and add value to the children category of footwear range.

### **Non-Retail Business**

Your Company's non-retail business division comprises of urban wholesale, industrial and institutional business divisions. The urban wholesale business of your Company has been endeavouring to penetrate the markets through a wide network of approximately 350 distributors across India. During the year under review, the wholesale trade across India witnessed a slowdown as the business has been impacted by some external factors like GST implementation. Your Company is strengthening its urban wholesale business, monitoring team and efforts are being made to increase its market share in the wholesale footwear business.

### **Customer Care Initiatives**

Your Company has a dedicated customer service team to ensure customers don't face any inconvenience and their queries and concerns get addressed in an amicable way. A toll free customer support number is there in place so that customer can reach directly to the Company along with other channels like e-mail, Facebook, Twitter etc. Your Company provides the best in class services to the customers, all the concerns are being resolved within minimum timelines ensuring complete transparency. Your Company's loyalty programme "Bata Club" has increased its reach by registering over 19 Million members. The programme ensures continuous engagement with members and rewards them special benefits upon purchase. These customer engagement programmes are conducted throughout the year to drive increased footfalls and improved conversion in both retail stores and on digital multi-channel platforms. Your Company has also started collecting customer feedback about their shopping experience and measuring it as per the global standard tool "NPS" (Net Promoter Score) since January 2018.

### **Outlook**

Your Company has an established leadership position in the industry and is the most trusted name in branded footwear and accessories. With the change in customer preferences, shoes have become a style statement especially among the teenagers, youth and the affluent working class. The domestic demand for footwear is projected to grow at a fast pace. The inclination towards purchase of products manufactured by established brands is increasing. The digital platform, presence in social media, blogs and advertisements are fast catching up with the brick and mortar sales model. Your Company is proactively engaged in taking appropriate steps to tap these opportunities in order to improve its market share and retain its leadership position in the organized footwear and accessories sector of the industry.

### **Risks and concerns and Contingent Liabilities**

Your Company acknowledges the fact that competition from both domestic and international players is increasing by every passing day. In addition to increasing competition the changing customer behavior and impact of online marketing initiatives have an effect on your Company's performance since your Company has a huge network of retail stores Pan India. With the opportunity for employment gradually increasing people/talent retention is considered as a challenge. Your Company also realizes that modernization of I.T. systems along with having suitable protection from risk of loss / theft of data is one of the major areas of concern globally. Your Company monitors its major risks and concerns at regular intervals. Appropriate steps are taken in consultation with all concerned including the Risk Management Committee and the Audit Committee of the Board to identify and mitigate such risks.

During the normal course of its business operations, your Company has been subjected to litigations in connection with or incidental thereto. These litigations include civil cases, excise and customs related cases, etc. filed by and against the Company. These cases are being pursued with due importance and in consultation with legal experts in respective areas. Your Board believes that the outcome of these cases are unlikely to cause a materially adverse effect on the Company's profitability or business performance. Your Company has a Contingent Liability of Rs. 460.54 Million as on March 31, 2018 as compared to Rs. 576.97 Million as on March 31, 2017. Attention is drawn to the explanations mentioned in Note No. 32 of the Notes to Financial Statements for the financial year ended March 31, 2018. In view of the present status and based on legal advice obtained from time to time, your Board is of the opinion that no provision is required to be made against these Contingent Liabilities.

**Internal control systems and their adequacy**

A separate paragraph on internal control systems and their adequacy has been provided elsewhere in the Board's Report.

**Discussion on financial performance**

Your Company has been able to achieve profitable growth and believes that this is sustainable, barring unforeseen circumstances.

The Earnings per Share (EPS) (Basic and Diluted) of your Company for the financial year ended March 31, 2018 was at Rs. 17.40. The EPS for the previous financial year ended March 31, 2017 was Rs. 12.35, which was lower primarily due to one-time exceptional expenses. Excluding such exceptional items, the EPS of your Company for the financial year ended March 31, 2017 was Rs.14.04. Your Company recorded EBITDA margin of 13.40% during the financial year under review as compared to 11.10% during the financial year 2016-17.

Your Company does not have any Bank Borrowings and the entire capital expenditure has been funded through internal sources.

The Capital Expenditure incurred during the year under review amounted to Rs. 930.77 Million as compared to Rs. 386.79 Million in the previous year.

**Material developments in human resource / industrial relations front, including number of people employed**

Your Company has been continuously working to improve human resources skills, competencies and capabilities in the Company, which is critical to achieve desired results in lines with its strategic business ambitions. Some key initiatives have been taken during the financial year 2017-18 in this direction are summarized below:

- Execution of Long Term Agreement (LTA) for settlement of dues with the Worker's Union at the manufacturing units of the Company at Batanagar, Kolkata.
- Industrial relations at all the manufacturing units of your Company have been harmonious and peaceful with active involvement of the employees in the collective bargaining process. Your Company has also encouraged wholehearted participation of the employees and union in improving productivity as well as quality of its products.
- The Retail Training Academy of your Company imparted training to 412 District Managers and Store Managers for 10 - 12 weeks duration. During the year, 2091 Sales Promoters were trained on product as well as customer service in our stores.
- As part of continuous learning initiative, your Company implemented online learning modules accessible on mobile as well as tabs for its store staff. Each of the modules is supported by video content, presentations as well as assessments. The completion of these modules leads to certification which is in turn mapped to the career map for different roles.
- In order to retain good talent within the organization, your Company has strengthened the goal setting and measurement process during the year supported with structured development plans for high potential people to move into different roles. This has resulted in higher retention levels across the organization.

As on March 31, 2018, there were 4,698 permanent employees on the rolls of your Company.

**CAUTIONARY STATEMENT**

There are certain Statements which have been made in the Management Discussion and Analysis Report describing the estimates, expectations or predictions, may be read as 'forward-looking statements' within the meaning of applicable laws and regulations. The actual results may differ materially from those expressed or implied. The important factors that would make a difference to the Company's operations include demand-supply conditions, raw material prices, changes in Government Policies, Governing Laws, Tax regimes, global economic developments and other factors such as litigation and labour negotiations.

## CORPORATE GOVERNANCE

In compliance with the provisions of Regulation 34 of the Listing Regulations read with Schedule V to the said Regulations, the Corporate Governance Report of your Company for the financial year ended March 31, 2018 and a Certificate from M/s. B S R & Co., LLP, Chartered Accountants, the Auditors, on compliance with the provisions of Corporate Governance requirements as prescribed under the Listing Regulations, are annexed and forms part of this Annual Report.

## BUSINESS RESPONSIBILITY REPORT (BRR)

In compliance with the provisions of Regulation 34(2)(f) of the Listing Regulations read with the SEBI Circular No. CIR/CFD/CMD/10/2015 dated November 4, 2015, your Company has prepared a BRR in the prescribed format for the financial year ended March 31, 2018 describing initiatives undertaken by it from an environment, social and governance perspective in the format as specified by the SEBI which is annexed to the Board's Report and marked as Annexure VII. The BRR has been uploaded on the website of the Company at [www.bata.in](http://www.bata.in) and is available at the link [https://bata.in/bataindia/a-29\\_s-181\\_c-42/investor-relations.html](https://bata.in/bataindia/a-29_s-181_c-42/investor-relations.html).

## ACKNOWLEDGEMENTS

Your Board is grateful for the continuous patronage of the valued customers of the Company and remains committed to delivering more style and comfort at every step. Your Board acknowledges and appreciates the relentless efforts of the employees, workmen and staff including the management team headed by the Executive Directors who always lead from the front in achieving a commendable business performance year on year despite a challenging business environment.

Your Board is indebted for the unstinted support and trust reposed by you, the Members and also remains thankful to Bata Shoe Organization (BSO) for their ongoing support and guidance.

Your Board wishes to place on record its deep appreciation of the Independent Directors and the Non-Executive Directors of the Company for their immense contribution by way of strategic guidance, sharing of knowledge, experience and wisdom, which helps your Company to take right decisions in achieving its business goals.

Your Board acknowledges the support and co-operation received from all regulatory authorities of the Central Government and all State Governments in India. Your Board takes this opportunity to thank all its vendors, suppliers, dealers, banks and other stakeholders as it considers them essential partners in progress.

**For and on behalf of the Board of Directors**

Place : Gurugram  
Date : May 22, 2018

**UDAY KHANNA**  
Chairman  
DIN: 00079129