

Mirza International

Performance Highlights

Quarterly Data

(₹ cr)	2QFY17	2QFY16	% yoy	1QFY17	% qoq
Revenue	250	255	(2.0)	252	(0.8)
EBITDA	38	41	(7.3)	44	(13.7)
Margin (%)	15.1	16.0	(87bp)	17.4	(227bp)
Adj. PAT	16	16	2.1	20	(18.5)

Source: Company, Angel Research

For 2QFY2017, Mirza International (MIL)'s results have come below our estimates on both the top-line and the bottom-line front. Revenues de-grew by ~2% yoy, which is lower than our estimate. On the operating front, the company reported contraction in margin, primarily on account of employee & other expenses. Further, on the bottom-line front, the company reported flattish growth on account of lower sales and poor operating performance.

Top line de-grew by 2%: The company's top-line de-grew by ~2% yoy to ₹250cr (which is below our estimate) on back of lower growth in domestic as well as international market.

Lower sales impacted the overall profitability: On the operating front, the company's margin contracted by 87bp yoy to 15.1%, primarily on account of employee & other expenses. The company reported ~2% yoy rise in its net profit to ₹16cr on back of poor sales and operating performance.

Outlook and Valuation: We expect MIL to report a net revenue CAGR of ~9% to ~₹1,106cr over FY2016-18E on back of strong growth in domestic branded sales (owing to aggressive ad spend and addition in the number of EBOs & multi-brand outlets [MBOs]) and healthy export revenues. On the bottom-line front, we expect a CAGR of ~9% to ₹92cr over the same period on the back of margin improvement. **Thus, we maintain our Buy rating with the target price of ₹107.**

Key financials

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net sales	919	927	987	1,106
% chg	29.9	0.9	6.5	12.1
Net profit	51	78	79	92
% chg	51.2	78.1	78.6	91.6
EBITDA margin (%)	15.5	18.5	18.0	18.0
EPS (₹)	4.3	6.5	6.5	7.6
P/E (x)	22.3	14.6	14.5	12.5
P/BV (x)	3.8	2.8	2.3	2.0
RoE (%)	16.4	18.5	15.9	15.7
RoCE (%)	22.3	22.6	20.7	20.9
EV/Sales (x)	1.5	1.5	1.4	1.2
EV/EBITDA (x)	9.5	7.9	7.6	6.7

Source: Company, Angel Research, Note: CMP as of November 15, 2016

BUY

CMP	₹80
Target Price	₹107

Investment Period	12 Months
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Stock Info

Sector	Footwear
Market Cap (₹ cr)	960
Net Debt (₹ cr)	213
Beta	1.6
52 Week High / Low	145/77
Avg. Daily Volume	87,445
Face Value (₹)	2
BSE Sensex	26,305
Nifty	8,108
Reuters Code	MIRZ.BO
Bloomberg Code	MRZI.IN

Shareholding Pattern (%)

Promoters	73.8
MF / Banks / Indian Fls	0.3
FII / NRIs / OCBs	0.5
Indian Public / Others	25.4

Abs. (%)	3m	1yr	3yr
Sensex	(3.7)	4.5	30.9
MIL	0.9	(29.9)	251.7

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly performance

Y/E March (₹ cr)	2QFY17	2QFY16	% yoy	1QFY17	% qoq	1HFY17	1HFY16	% chg
Net Sales	250	255	(2.0)	252	(0.8)	503	471	6.6
Consumption of RM	146	153	(4.9)	147	(0.5)	293	294	(0.6)
(% of Sales)	58.3	60.1		58.1		58.2	62.4	
Staff Costs	16	15	5.7	15	4.8	31	21	50.1
(% of Sales)	6.4	6.0		6.1		6.3	4.4	
Other Expenses	50	46	9.8	46	8.6	96.91	89.04	8.8
(% of Sales)	20.2	18.0		18.4		19.3	18.9	
Total Expenditure	212	215	(1.0)	208	1.9	421	404	4.1
Operating Profit	38	41	(7.3)	44	(13.7)	82	67	21.6
OPM	15.1	16.0	(87bp)	17.4	(227bp)	16.3	14.3	
Interest	6.5	10	(31.9)	7	(3.8)	13	18	(27.3)
Depreciation	7.1	7	8.5	7	7.1	14	13	4.5
Other Income	-	-	-	-	-	-	-	-
PBT (excl. Ext Items)	24	25	(2.1)	30	(20.5)	55	36	52.9
Ext (Income)/Expense								
PBT (incl. Ext Items)	24	25	(2.1)	30	(20.5)	55	36	52.9
(% of Sales)	9.7	9.7		12.1		10.9	7.6	
Provision for Taxation	8	9		10		18	12	46.8
(% of PBT)	32.4	35.2		34.1		33	35	
Reported PAT	16	16	2.1	20	(18.5)	36	23	56.1
PATM	6.5	6.3		8.0		7.2	4.9	
Equity shares (cr)	12	12		12		12	12	
FDEPS (₹)	1.4	1.3	2.1	1.7	(18.5)	3.0	1.9	56.1

Source: Company, Angel Research

Key investment arguments

Strong growth in domestic branded segment to drive overall growth

In the branded domestic segment, we expect the company to report a ~24% CAGR over FY2016-18E to ₹346cr. We anticipate strong growth for the company on the back of (a) the company's wide distribution reach through its 1,000+ outlets including 120 exclusive brand outlets (EBOs) in 35+ cities and the same are expected to reach 200 over the next 2-3 years and (b) strong branding (Red Tape) in the shoes segment. Further, MIL is enhancing its brand visibility owing to higher ad spend in FY2017. MIL has doubled its ad spend over the last five years; ad spends as a proportion of branded product sales now stand at 9-10%.

Strong global footprint

MIL's major export revenue comes from the UK (73%), followed by the US (14%) and the balance from ROW. Export constitutes ~75% of the company's total revenue. The company is reasonably insulated in terms of client concentration. Its clients include ASDA, River Island, Matalan, ASOS, Elan Polo, and Steve Madden among others. In the UK, the company has a market share of ~25% in the men's leather footwear mid-segment category. We expect the company to report healthy growth over the next 2-3 years on back of recovery in the UK market, strong growth in the US market and with it tapping newer international geographies like the Middle East countries.

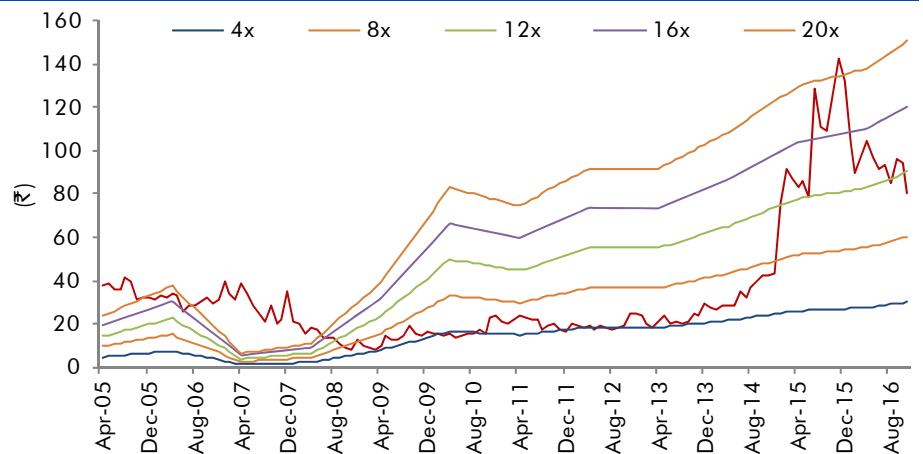
Genesis Footwear merger to boost margins

In FY2016, the company acquired Genesis Footwear which has a better margin profile than it. The deal resulted in MIL's EPS increasing by ~4% and ROE improving from 15.9% to 17.5%. Further, due to this merger, the company's capacity has increased from 5.4mn to 6.4mn units. During FY2016, the company reported net sales of ₹90cr, EBITDA margin of ~29%, and PAT of ₹20cr.

Outlook and Valuation

We expect MIL to report a net revenue CAGR of ~9% to ~₹1,106cr over FY2016-18E on back of strong growth in domestic branded sales (owing to aggressive ad spend and addition in the number of EBOs & multi-brand outlets [MBOs]) and healthy export revenues. On the bottom-line front, we expect a CAGR of ~9% to ₹92cr over the same period on the back of margin improvement. **Thus, we maintain our Buy rating with the target price of ₹107.**

Exhibit 2: One year forward PE Chart



Source: Company, Angel Research

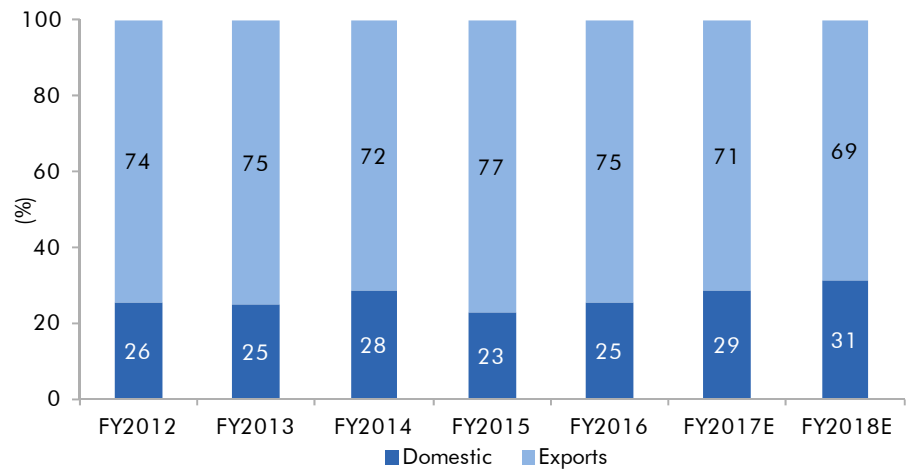
Downside risks to our estimates

- Any slowdown in global economy could hurt the company's revenue (75% of revenue comes from exports).
- Volatility in USD and Euro exchange rate against INR can have negative impact on margins.

Company Background

MIL is an India-based company engaged in manufacturing and marketing leather and leather footwear. The company's operations are segmented as the Footwear division and the Tannery division. Its Tannery division manufactures finished leather from raw hides, wet blue and crust and the Footwear division manufactures finished leather shoes. The company exports its products to the European Union, Germany, the United Kingdom, the United States, Italy, and France, among other geographies. It operates an in-house shoe production facility and a design studio in London. Its brands include Red Tape and Oaktrak. The Red Tape brand's product portfolio includes men's footwear, women's footwear, shirts, jackets, denims, tees, pants/shorts and accessories. Oaktrak is a brand of formal footwear including casual and urban styles. Oaktrak is sold through independents, small retailers and multiples.

Exhibit 3: Historical revenue mix



Source: Company, Angel Research

Consolidated Profit & Loss Statement

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Total operating income	644	707	919	927	987	1,106
% chg	16.3	9.9	29.9	0.9	6.5	12.1
Total Expenditure	528	586	776	755	809	907
Cost of Materials	370	404	548	504	550	617
Personnel	33	37	46	59	67	80
Others Expenses	125	145	182	192	192	210
EBITDA	116	122	143	172	178	199
% chg	37.2	5.1	17.1	20.6	3.3	12.1
(% of Net Sales)	18.0	17.2	15.5	18.5	18.0	18.0
Depreciation & Amortisation	20	22	25	26	29	31
EBIT	96	100	118	146	149	169
% chg	38.7	4.0	18.3	23.9	2.0	13.1
(% of Net Sales)	14.9	14.1	12.8	15.8	15.1	15.2
Interest & other Charges	32	32	39	32	34	34
Other Income	-	-	-	2	2	2
Recurring PBT	64	68	79	116	117	137
% chg	27.6	5.3	16.1	47.2	1.2	16.6
Prior Period & Extraord. Exp./ (Inc.)	-	-	-	-	-	-
PBT (reported)	64	68	79	116	117	137
Tax	21	24	28	38	39	45
(% of PBT)	32.5	36.0	35.0	32.6	33.0	33.0
PAT (reported)	43	43	51	78	79	92
Add: Share of earnings of asso.	-	-	-	-	-	-
ADJ. PAT	43	43	51	78	79	92
% chg	43.4	43.4	51.2	78.1	78.6	91.6
(% of Net Sales)	6.7	6.1	5.6	8.4	8.0	8.3
Basic EPS (₹)	3.6	3.6	4.3	6.5	6.5	7.6
Fully Diluted EPS (₹)	3.6	3.6	4.3	6.5	6.5	7.6
% chg	43.8	(0.1)	17.9	52.7	0.6	16.6

Consolidated Balance Sheet

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS						
Equity Share Capital	19	19	19	24	24	24
Reserves & Surplus	233	268	294	398	471	558
Shareholders Funds	251	287	313	422	495	582
Minority Interest	-	-	-	-	-	-
Total Loans	167	212	218	225	225	225
Deferred Tax Liability	21	23	15	15	15	15
Total Liabilities	440	521	545	662	736	823
APPLICATION OF FUNDS						
Gross Block	371	441	489	551	591	631
Less: Acc. Depreciation	119	133	181	207	236	266
Net Block	252	308	308	344	356	365
Capital Work-in-Progress	30	7	3	3	3	3
Investments	1	1	1	1	1	1
Current Assets	224	300	346	421	486	573
Inventories	138	192	225	262	284	324
Sundry Debtors	33	42	43	63	73	88
Cash	4	6	6	11	26	34
Loans & Advances	44	56	67	74	89	105
Other Assets	5	3	5	10	15	22
Current liabilities	68	97	115	110	113	122
Net Current Assets	156	203	231	311	373	451
Deferred Tax Asset	2	2	3	3	3	3
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	440	521	545	662	736	823

Consolidated Cashflow Statement

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Profit before tax	64	68	79	116	117	137
Depreciation	20	22	25	26	29	31
Change in Working Capital	(8)	(48)	(19)	(74)	(48)	(69)
Interest / Dividend (Net)	31	32	39	32	34	34
Direct taxes paid	(19)	(24)	(28)	(38)	(39)	(45)
Others	0	(0)	1	-	-	-
Cash Flow from Operations	89	48	97	61	93	87
(Inc.)/ Dec. in Fixed Assets	(58)	(54)	(59)	(63)	(40)	(40)
(Inc.)/ Dec. in Investments	-	-	-	-	-	-
Cash Flow from Investing	(58)	(54)	(59)	(63)	(40)	(40)
Issue of Equity	-	-	-	36	-	-
Inc./(Dec.) in loans	1	45	6	8	-	-
Dividend Paid (Incl. Tax)	(5)	(5)	(5)	(5)	(5)	(5)
Interest / Dividend (Net)	(36)	(33)	(40)	(32)	(34)	(34)
Cash Flow from Financing	(39)	8	(39)	7	(38)	(38)
Inc./(Dec.) in Cash	(8)	2	(1)	6	14	8
Opening Cash balances	12	4	6	6	11	26
Closing Cash balances	4	6	6	11	26	34

Key ratios

Y/E March	FY13	FY14	FY15	FY16	FY17E	FY18E
Valuation Ratio (x)						
P/E (on FDEPS)	23.3	23.3	19.8	12.9	12.2	10.5
P/CEPS	16.0	15.4	13.3	9.7	9.1	7.9
P/BV	4.1	3.6	3.3	2.4	2.1	1.7
Dividend yield (%)	0.5	0.5	0.5	0.5	0.5	0.5
EV/Sales	1.8	1.7	1.3	1.3	1.2	1.0
EV/EBITDA	10.1	10.0	8.6	7.1	6.5	5.8
EV / Total Assets	2.3	2.0	1.9	1.6	1.4	1.2
Per Share Data (₹)						
EPS (Basic)	3.6	3.6	4.3	6.5	6.9	8.0
EPS (fully diluted)	3.6	3.6	4.3	6.5	6.9	8.0
Cash EPS	5.3	5.4	6.3	8.6	9.3	10.5
DPS	0.4	0.4	0.4	0.4	0.4	0.4
Book Value	20.4	23.4	25.3	34.4	40.9	48.4
Returns (%)						
ROCE	22.9	20.0	22.3	22.6	21.5	21.4
Angel ROIC (Pre-tax)	23.2	20.3	22.5	23.0	22.4	22.8
ROE	17.3	15.1	16.4	18.5	16.6	16.2
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.7	1.6	1.9	1.7	1.7	1.8
Inventory / Sales (days)	78	99	89	103	105	107
Receivables (days)	18	22	17	25	27	29
Payables (days)	27	35	33	30	30	28
WC cycle (ex-cash) (days)	69	86	74	98	102	108

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Mirza International

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)