## **INVESTMENT RESEARCH**



### FUNDAMENTAL COVERAGE - MIRZA INTERNATIONAL LIMITED

### Dated: 08 th Feb. 2018

2000.00	100.2010
BU	JY
Price ₹	137
Fair Value	170
Upside	24%
Div Yield	0.7%
Tenure	1 Year
Sensex	34413.16
Nifty	10576.85
Group/Index	B / S&P BSE Small Cap

## Stock Details

M.cap (₹ in cr)	1649
Equity (₹ In cr)	24.06
52 wk H/L ₹	183/83.90
Face Value ₹	2.00
NSE code	MIRZAINT
BSE code	526642

<b>Key Valuation Ratios</b>							
RONW	14%						
P/E	21.08						
P/BV	2.9						
EV/EBIDTA	10.39						

## IN ₹

<b>Key Financial Data</b>							
EV (₹in cr)	1795.09						
BV (₹in cr)	46.91						
NW(₹in cr)	564.31						
EPS (TTM)	6.50						



## **Investment Rationale**

Company intends to grow Red tape business by aggressive marketing and increasing focus on online business. Also planning to foray in the affordable segment under a new brand, **Bond street**, in the domestic market. It intends to penetrate this segment by offering quality products at a competitive price to its competitors.

## Flagship Brand REDTAPE - Drive overall growth

In order to retain the leadership position that company have in overseas markets & to grow further in India, MIL made some significant moves in the past year. Going forward, company is in focus for accelerating growth for the REDTAPE Brand in high-traction markets i.e. US, India and UK. REDTAPE will be made available in more retail stores through tie-up with five US retail giants & in India, company plans to have 170 REDTAPE stores from 120 stores in the next two years.

REDTAPE continued to gain traction in India and overseas underpinned by its ability to deliver on the high expectations of its customers. Furthermore, its fast-growing sales in the UK & US, a market which is the hub for all major brands, demonstrates that REDTAPE is well-entrenched as a leading leather footwear brand. Company will continue to expand its distribution network to grow market share. Underlining REDTAPE's success, overseas revenue from REDTAPE increased by over 35% on a year-on-year basis.

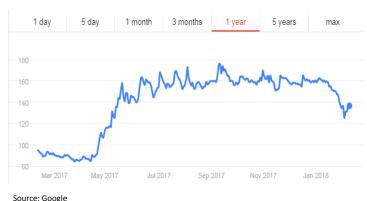
Further, company have also revamped its product portfolio. Through the launch of **Bond Street** and Redtape Athleisure Sports range, company have forayed into new categories, namely the PU segment and sportswear. This will enable MIL to make inroads into the entire range of men's footwear and expand its total addressable market.

## Online Sales - Domestic Growth - Bodes well for company to enhance profitability

Online sales contributed around 27% of the total domestic sales as company has started to directly sell through e-commerce platform. Further during Q2 FY 18 they have launched a store in Ambala where they will have online prices and customers can buy through any portal and pick up delivery at the store. Going forward, company plans to open 100 stores, of which 50-60 store open in next 5-6 months, each store would deliver ₹ 7-8 crores revenue in next two years. Management continues to guide for revenues of ₹150-200 crores for FY18 from the newly launched Bond Street and sports shoes which contributed double digit to the revenues for H1FY18.

## Strong global footprint

Company's operation spans across 30 countries around the globe, main overseas markets are UK, France, Germany and USA. Company's major export revenue comes from the UK (73%), followed by the US (14%) and the balance from ROW. Company expects to report healthy growth over the next 2-3 years on back of recovery in the UK market, strong growth in the US market, concentrating to grow up in America and Indian market. With this company tapping newer international geographies like the Middle East countries.



VALUATION (₹ In Cr except per share)								
FY 19Est. Earn	nings			110.22				
Equity Share (		24.06						
FV	······································							
No. of Equity	Shares			12.03				
EPS(FY19 Est.) 9.16								
Estimated P/	E Ratio			19				
Estimated Pr	ice/share			170				
Corpor	ate Gover	nance Trai	nsparency	Ratio's				
Year End	201703	201603	201503	201403				
Гах Rate %	33.07	32.58	35.01	36.01				
Rece. days	26.00	21.00	17.00	19.00				
Div. Pay. %	15.09	7.70	9.06	10.68				

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## Entry into women shoes segment - Value accretive in medium term

Company is planning to re-enter the women shoes segment from Q4 FY18 post their unsuccessful attempt in the past. While they sell women footwear for the export market which accounts for less than 10%, entry into the domestic market would have significant upside. The women sports shoes would be under Red Tape and the fashion footwear would be under a new brand. The continuing downside from the export markets would be mitigated by the launch of new ranges in the domestic market.

### **Government Initiative:-**

Recently, government has announced ₹2,600cr package for the leather and footwear industry for employment generation in the leather and footwear sectors which has the potential to generate 3.24 lakh new jobs, over three financial years from 2017-18 to 2019-20. For this purpose, there should be increased focus on the Make in India concept, with products being designed, developed and manufactured from the country such efforts would boost exports. Further during budget 2018, Government has propose an increase in custom duty on footwear to 20% from the current 10%, and on parts of footwear to 15% from the existing 10%.

## Way Forward:-

- Company products are well accepted brands in overseas market, the focus will be to expand geographic presence to new countries and deeper penetration in existing market through aggressive marketing and distribution
- → After entrenching its position in leather market, now the Company focused at replicating the leather market success in Sports Shoes market
- Online platforms now offer a new growth engine for retail companies, cognizant of this, the Company will be looking at engaging with more customers through a well-thought digital strategy
- The footwear industry being highly market driven, there are sustained opportunities for driving growth. Leveraging its leadership position in manufacture and marketing of leather goods, the focus shall be on creation of long-term value for all stakeholders

### An Eye on the Quarterly numbers:-

- Revenue for the quarter stood at ₹ 253.95 crore, growth of 11.37% Y-O-Y compared to Q3 FY 17
- ➤ Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) in Q3 FY18 stood at ₹ 46.07 crore, up 15.43%. The company's EBITDA margin stood at a robust 18.14% in Q3FY18, as compared to 17.50% in Q3FY17.
- ➤ Earnings per share (EPS) for the quarter ended Q3FY18 stood at ₹ 1.72, as compared with ₹ 1.43for the quarter ended Q3 FY 17.

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SEGMENT WISE BREAKUP(STANDALONE)								
Segment Wise	Q	uarter End	ed	% change	% change % change		lonths	% change
segment wise	Q3 FY 18	Q2 FY 18	Q3 FY 17	Q-0-Q	Y-0-Y	Dec-17	Dec-16	Y-0-Y
Shoes	242.60	223.81	209.24	8.40%	15.94%	694.11	656.76	5.69%
Leather	42.50	41.66	47.83	2.02%	-11.14%	146.34	178.53	-18.03%
Unallocated	0.03	0.01	0.02	200.00%	50.00%	0.09	0.14	-35.71%
TOTAL	285.13	265.48	257.09	7.40%	10.91%	840.54	835.43	0.61%
Intersegment revenue	31.15	25.07	29.05	24.25%	7.23%	94.01	104.8	-10.30%
Inc. from operations	253.98	240.41	228.04	-	-	746.53	730.63	-

<sup>\*</sup>Income from operations including other income



## Graphical presentation Q3 FY 18 & 9M FY 2018 Results:

<b>50</b>	Standalone Results								
ths	Particulars	Q	uarter End	ed	% change	% change % change		Ionths	% change
Mon sis	rai ucuiai s	Q3 FY 18	Q2 FY 18	Q3 FY 17	Q-0-Q	Y-0-Y	Dec-17	Dec-16	Y-0-Y
_ >	Revenue	253.95	240.40	228.02	5.64%	11.37%	746.43	730.48	2.18%
<u> </u>	EBITDA	46.07	42.43	39.91	8.58%	15.43%	132.7	122.02	8.75%
Z <	EBITDA %	18.14%	17.65%	17.50%	-	-	17.78%	16.70%	-
y & alts	PBT	31.43	29.59	25.98	6.22%	20.98%	92.12	81.02	13.70%
rterly Result	PBT%	12.38%	12.31%	11.39%	-	-	12.34%	11.09%	11.27%
art R	PAT	20.91	19.35	17.29	8.06%	20.94%	60.66	53.94	12.46%
Quarterly Resul	PAT %	8.23%	8.05%	7.58%	-	-	8.13%	7.38%	10.06%
J	EPS	1.72	1.58	1.43	8.86%	20.28%	4.98	4.45	11.91%

## **Company Overview**

With an established footprint that spans across 30 countries, as well as a rock solid infrastructure, Mirza has taken ground-breaking strides in the Indian leather industry since its inception in 1979. Expanding aggressively in global markets and capturing the growing opportunities in the domestic arena, Mirza today is at an inflection point. Backed by rich industry experience of close to four decades and equipped with state-of-the-art manufacturing plants, the future is truly exciting.

## **Industry Overview**

India is the fifth-largest exporter of leather goods and accessories in the world. Leather is one of the most widely traded commodities globally. Total production of the Indian leather stands at over USD 12 Billion with great potential for exports and a huge domestic market. India is endowed with 21% of the world's cattle and buffalo and 11% of the world's goat and sheep population. This abundant raw material availability enables it to produce 2 billion sq. ft. of leather, accounting for 10% of the world leather requirements.

## **Leather Exports**

India is one of the largest footwear manufacturers, exporting around 10-15 % of the output. Currently around USD12 billion in size, the leather industry has been identified as a focus sector under the Make In India scheme of the Government of India. Around 50% of the leather business is export oriented, while the rest is focused at the domestic market

### FOOTWEAR INDUSTRY

India is the second largest footwear producer after China with annual production of 2200 million pairs. Footwear export accounts for 45% share in India's total leather and leather products export. On the home front, 1950 million pairs are sold in the domestic market. The Footwear product mix constitutes: Gents 55%, Ladies 35% and Children 10%.

Footwear consumption in India has witnessed a healthy growth over the last decade, though it remains much below the global average

India's annual footwear consumption of  $\sim 2.1$  billion pair is the third largest globally after China and USA and has recorded a healthy growth over the past decade driven by rise in income levels, higher disposable income, growing fashion consciousness, and increasing discretionary spending. However, the average per capita footwear consumption in India continues to be low at  $\sim 1.66$  pair per annum in comparison to the global average consumption of  $\sim 3$  pair per annum and developed countries average of 6-7 pair per annum. This gap coupled with increasing disposable income, rising middle class and changing consumer preferences provide a tremendous opportunity for the Indian footwear market to grow at a rapid pace going forward.

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### **Valuation Conclusion**

Company expects to report healthy growth over the **next 2-3 years** on back of recovery in UK market, strong growth in US market, concentrating to grow up in America and Indian market. **With this company tapping newer international geographies like the Middle East countries.** 

Company intends to grow **Red tape** business by aggressive marketing and increasing focus on online business. It is also planning to foray in the affordable segment under a new brand, **Bond street**, in the domestic market. **Company has a fully integrated model and has a track record of generating positive operating cash flows, based on robust margins and control over working capital.** 

Company's iconic brand **REDTAPE** has been going strong overseas, and is poised to capture new territory in the most influential markets of the United States and Europe, while already being a market leader in the United Kingdom. *Extending brand offerings beyond footwear to allied areas of garments and accessories, Red Tape has emerged as a premium life-style brand for the young and trendy.* 

Company's plan to enter into the Women Footwear Segment would be value accretive in medium term and mitigate the decline from the export markets. Further, online sales have started to contribute substantially and has started a store with online pricing and plans to further expand the same. Operating margins will continue to expand with the growth in domestic business as they have higher gross margins.

Growing demand for organic leather products is expected to contribute to the market growth in the coming years. High growth potential in exports, ready availability of leather, the abundance of essential raw materials and rapid strides in the areas of capacity modernization and expansion, coupled with a favorable investment climate has made the Indian leather industry a favorable investment destination.

Estimating the share price of the company as per P/E valuation, putting the estimated P/E of FY19E at 19x & the estimated EPS at  $\ref{thm:price}$  9.16, the estimated share price for next 1 year tenure turns around to be  $\ref{thm:price}$  170. Therefore, we recommend to BUY this script.

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Quarterly Results (₹ in cr except per share) unaudited									
Particulars	LTM	201712	201709	201706	201703				
Net Sales	951.60	253.95	240.40	252.08	205.19				
EBITDA	172.70	46.08	42.45	44.19	39.96				
Depreciation	30.50	8.01	7.55	7.17	7.77				
Op Income	142.20	38.07	34.90	37.02	32.19				
Misc.Inc (Exp.)	0.80	0.03	0.01	0.06	0.73				
Interest Exp	24.10	6.64	5.30	5.92	6.21				
EBT	118.10	31.43	29.60	31.10	25.98				
Taxes	39.80	10.52	10.25	10.69	8.33				
Net Inc(Reg)	78.30	20.91	19.35	20.41	17.65				
Extraord. Items	-	-	-	-	-				
Rep Net Inc	78.30	20.91	19.35	20.41	17.65				
EPS	6.50	1.74	1.61	1.70	1.47				
Adj. EPS	6.50	1.70	1.60	1.70	1.50				

	I		J. P. W	( = : C	tl					
					pt per share)					
Particulars	201403	201503	201603	201703	2018E	2019E	2020E			
Sales	706.97	918.34	925.75	935.67	1025.70	1130.10	1262.70			
Oth. operating Income	0.38	0.65	-	-	-	-	-			
Total Inc. from operations	707.35	918.99	925.75	935.67	1025.70	1130.10	1262.70			
Operating EBITA	99.79	118.01	144.74	132.27	160.37	182.36	211.56			
Profit & Loss										
Total Inc. from operations	707.35	918.99	925.75	935.67	1025.70	1130.10	1262.70			
TOTAL EXPENDITURE	585.52	776.36	755.18	774.34	834.92	915.38	1016.47			
EBITDA	121.83	142.63	170.57	161.33	190.78	214.72	246.23			
Depreciation	(22.04)	(24.62)	(25.83)	(29.06)	(30.41)	(32.36)	(34.67)			
Rep.profit before othrinc., fin.cost,tax & excp. Item	99.79	118.01	144.74	132.27	160.37	182.36	211.56			
Goodwill amortization	-	-	-	-	-	-				
Rep.profit before othrinc., fin.cost,tax & excp. Item	99.79	118.01	144.74	132.27	160.37	182.36	211.56			
OTHER INCOME	-	-	2.97	0.88	1.07	1.15	1.27			
Profit from ordinary act. Before Fin.Cost ,TAX & Exp.Items	99.79	118.01	147.71	133.15	161.44	183.51	212.82			
Net financials										
Interest income	-	-	-	-	-	-	-			
Interest expenses	(32.00)	(39.29)	(31.87)	(25.93)	(22.58)	(19.25)	(15.73)			
Net Financial Items	(32.00)	(39.29)	(31.87)	(25.93)	(22.58)	(19.25)	(15.73)			
Reported Pre-tax profit	67.79	78.72	115.84	107.22	138.86	164.26	197.09			
Reported Tax charge	(24.41)	(27.56)	(37.74)	(35.46)	(45.82)	(54.04)	(64.65)			
Reported Net profit	43.38	51.16	78.10	71.76	93.04	110.22	132.44			
Minorities		-	-	-	-	-	-			
P/L OF ASSOCIATE CO.	-	-	-	-	-	-	-			
Reported NP after min. Intt.	43.38	51.16	78.10	71.76	93.04	110.22	132.44			
Extra Ordinary income	-	-	-	-	-	-	-			
Reported Net Income after extra ordinary items	43.38	51.16	78.10	71.76	93.04	110.22	132.44			
		1	EPS and Divi	dend						
Dividend Paid	(4.64)	(4.64)	(6.02)	(10.83)	(10.79)	(10.80)	(10.86)			
Retained earnings	38.75	46.53	72.08	60.93	82.24	99.42	121.58			
Reported EPS	4.68	5.52	6.49	<b>5.97</b>	7.73	9.16	11.01			
Adjusted EPS	3.61	4.25	6.49	5.97	7.73	9.16	11.01			
DPS - originally declared	0.50	0.50	0.50	0.90	0.90	0.90	0.90			
Di 5 originally decialed	0.50	0.50	0.50	0.70	0.70	0.70	0.70			
			Number Of S	hares						
Opening Balance	18.54	18.54	18.54	24.06	24.06	24.06	24.06			
Issued during the Period	-	10.54	5.52	-	24.00	24.00	2 r.00			
Closing Balance	18.54	18.54	24.06	24.06	24.06	24.06	24.06			
FV	2.00	2.00	2.00	2.00	2.00	2.00	2.00			
1 V	2.00	2.00	2.00	2.00	2.00	2.00	2.00			

Note:- The figures shown in the brackets means NEGATIVE.

9.27

Wtd. Avg. no. of shares

12.03

12.03

12.03 12.03 12.03



			BALANCE SH	IEET			
Particulars	201403	201503	201603	201703	2018E	2019E	2020E
Equity & Liabilities							
Shareholders' Fund							
Share Capital	18.54	18.54	24.06	24.06	24.06	24.06	24.06
Reserves and Surplus	268.05	293.97	421.56	479.58	561.82	661.24	782.83
Minority Interests	-	-	-	-	-	-	-
Total Shareholders' Fund	286.59	312.51	445.62	503.64	585.88	685.30	806.89
Non-Current Liabilities							
Long-term Borrowings	45.44	30.97	27.69	14.82	11.50	9.56	8.20
Other Long term Liab.	3.00	4.27	5.13	6.04	6.64	7.31	8.04
Deferred Tax Liability	20.58	11.72	14.91	16.67	18.88	21.38	24.21
Long term Provisions	5.37	7.87	8.22	10.06	11.69	13.58	15.78
Total Non-Current Liab.	74.39	54.83	55.95	47.59	48.71	51.83	56.24
Current Liabilities							
Short term Borrowings	143.54	152.53	162.74	127.12	113.70	105.20	98.35
Trade Payables	66.92	82.78	55.78	39.61	42.57	40.68	37.88
other current liability	36.83	46.27	32.11	31.74	28.77	30.90	34.88
Short term Provisions	7.49	7.99	9.42	16.24	17.85	24.15	29.24
Total current Liabilities	254.78	289.57	260.05	214.71	202.89	200.94	200.35
<b>Total Equity &amp; Liabilities</b>	615.77	656.91	761.62	765.94	837.49	938.07	1063.47
Assets							
Non-Current Assets							
Fixed Assets							
Tangible fixed Assets	315.30	310.44	344.84	356.18	375.01	399.15	427.61
G/W on consolidation	-	-	-	-	-	-	-
Non-current Investments	0.70	0.70	0.58	0.58	0.64	0.70	0.77
Long term L&A	3.47	4.63	4.95	6.05	6.40	7.68	9.22
Other Non current Assets	-	-	-	-	-	-	-
Deferred tax receivables	-	-	-	-	-	-	-
<b>Total Non-Current Assets</b>	319.47	315.77	350.37	362.81	382.05	407.53	437.60
Current Assets							
Current Investments	-	-	-	-			
Inventories	191.55	225.21	262.99	264.23	307.71	352.59	404.06
Trade Receivables	42.02	43.33	63.42	67.36	87.18	110.75	145.21
Cash & cash Equivalents	6.35	5.76	11.45	6.52	7.59	9.04	11.92
Short Term L&A	2.41	5.72	6.67	5.53	6.80	7.31	7.86
Other current Assets	53.97	61.12	66.72	59.49	46.16	50.85	56.82
Total current Assets	296.30	341.14	411.25	403.13	455.44	530.54	625.87
<b>Total Assets</b>	615.77	656.91	761.62	765.94	837.49	938.07	1063.47
Cash & cash equivalents	6.35	5.76	11.45	6.52	7.59	9.04	11.92
Other int. bearing assets	0.70	0.70	0.58	0.58	0.64	0.70	0.77
Interest-bearing debt	225.81	229.77	222.54	173.68	153.97	145.66	141.43
Net interest-bearing debt	218.76	223.31	210.51	166.58	145.74	135.93	128.74
Net gearing (%)	76.33%	71.46%	47.24%	33.08%	24.88%	19.83%	15.96%
nee gearing (70)	7 0.00 70	, 1.10,0			21.0070	17.0070	18.7070
			Investmer	its			
Tangible assets							
Gross capex	(55.93)	(61.54)	(45.58)	(38.99)	(49.23)	(56.51)	(63.14)
Sale of fixed assets	1.63	2.02	1.07	0.41	-	-	-
Net capex	(54.30)	(59.52)	(44.51)	(38.58)	(49.23)	(56.51)	(63.14)
Depreciation tangibles	(22.04)	(24.62)	(25.83)	(29.06)	(30.41)	(32.36)	(34.67)
Note:- The figures shown in t	he brackets	means <b>NEGA</b> '	TIVE.				

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RATIO ANALYSIS								
Particulars	201403	201503	201603	201703	2018E	2019E	2020E	
Return on assets	7.73%	8.04%	11.01%	9.40%	11.60%	12.42%	13.23%	
Return on equity	16.13%	17.08%	20.60%	15.12%	17.08%	17.34%	17.75%	
ROCE	23.78%	27.52%	29.55%	22.88%	25.02%	24.77%	24.77%	
EBIT Margin	14.11%	12.84%	15.96%	14.23%	15.74%	16.24%	16.85%	
Pre tax margin	9.58%	8.57%	12.51%	11.46%	13.54%	14.54%	15.61%	
Net Profit Margin	6.13%	5.57%	8.44%	7.67%	9.07%	9.75%	10.49%	
Total asset turnover	1.26	1.44	1.31	1.23	1.28	1.27	1.26	
Fixed asset turnover	2.37	2.94	2.83	2.67	2.81	2.92	3.05	
Equity turnover	2.63	3.07	2.44	1.97	1.88	1.78	1.69	
Current Ratio	1.16	1.18	1.58	1.88	2.24	2.64	3.12	
Quick Ratio	0.41	0.40	0.57	0.65	0.73	0.89	1.11	
Cash Ratio	0.02	0.02	0.04	0.03	0.04	0.04	0.06	
Receivable Days	19.24	16.95	21.04	25.51	27.50	31.96	36.99	
Inventory Days	102.81	97.97	117.98	124.26	125.02	131.64	135.85	
Payable Days	46.05	46.95	46.71	34.50	25.54	23.81	20.14	
Conversion Cycle (Days)	76.00	67.97	92.32	115.26	126.97	139.80	152.70	
Financial Leverage Effect	2.81	2.79	2.18	2.25	2.05	1.95	1.86	
Debt to Capital	0.44	0.42	0.33	0.26	0.21	0.18	0.15	
Debt to Equity	0.79	0.74	0.50	0.34	0.26	0.21	0.18	

Note:- The figures shown in the brackets means NEGATIVE.

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### **Disclosures & Disclaimers**

### **Disclosures:**

## 1) Business Activity:

Rudra Shares & Stock Brokers Limited is engaged in the business of providing broking services & distribution of various financial products. RUDRA is also registered as a Research Analyst under SEBI(Research Analyst) Regulations, 2014. SEBI Reg. No. INH100002524.

## 2) Disciplinary History:

There has been no instance of any Disciplinary action, penalty etc. levied/passed by any regulation/administrative agencies against RUDRA and its Directors. Pursuant to SEBI inspection of books and records of Rudra, as a Stock Broker, SEBI has not issued any Administrative warning to Rudra.

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