

Mirza International

Red Tape to escalate the green print

Mirza International Ltd (MIL) is engaged in manufacturing and marketing leather and leather footwear. It exports its products to the European Union, Germany, the United Kingdom, the United States, Italy, and France among other geographies. Its brands include Red Tape and Oaktrak.

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 ~11% to ~₹1,148cr 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 ~11% to ₹97cr over the same period on the back of margin improvement. **At the current market price of ₹84, the stock trades at a PE of 12.2x and 10.5x its FY2017E and FY2018E EPS of ₹6.9 and ₹8.0, respectively. We initiate coverage on the stock with a Buy recommendation and target price of ₹113 based on 14x FY2018E EPS, indicating an upside of ~34% from the current levels.**

Key financials

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net sales	919	927	1,024	1,148
% chg	29.9	0.9	10.4	12.2
Net profit	51	78	83	97
% chg	51.2	78.1	83.0	96.7
EBITDA margin (%)	15.5	18.5	18.0	18.0
EPS (₹)	4.3	6.5	6.9	8.0
P/E (x)	19.8	12.9	12.2	10.5
P/BV (x)	3.3	2.4	2.1	1.7
RoE (%)	16.4	18.5	16.6	16.3
RoCE (%)	22.3	22.6	21.5	21.5
EV/Sales (x)	1.3	1.3	1.2	1.0
EV/EBITDA (x)	8.6	7.1	6.5	5.8

Source: Company, Angel Research, Note: CMP as of September 1, 2016

BUY

CMP	₹84
Target Price	₹113

Investment Period	12 Months
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Stock Info

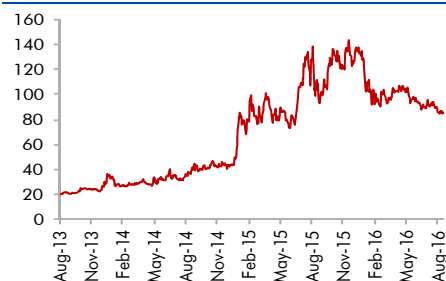
Sector	Footwear
Market Cap (₹ cr)	1,011
Net Debt (₹ cr)	213
Beta	1.6
52 Week High / Low	145/83
Avg. Daily Volume	100,469
Face Value (₹)	2
BSE Sensex	28,452
Nifty	8,786
Reuters Code	MIRZ.BO
Bloomberg Code	MRZI.IN

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	6.7	8.3	50.7
MIL	(13.4)	(24.4)	318.2

3-year price chart



Source: Company, Angel Research

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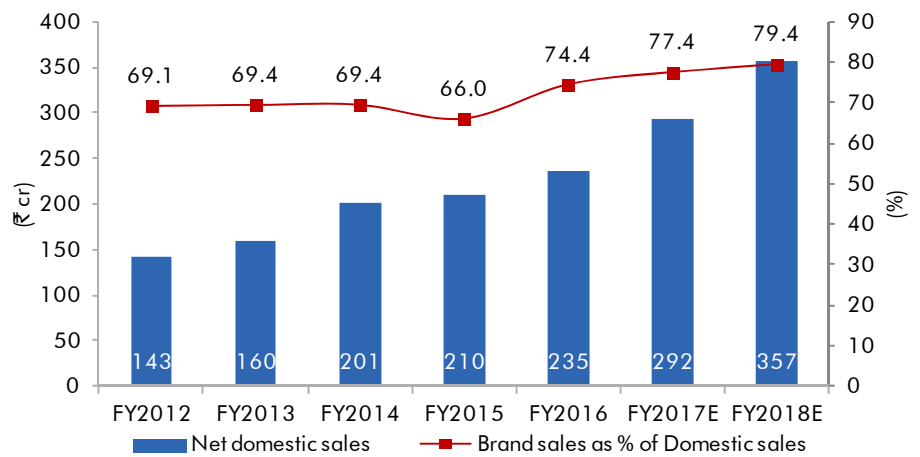
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Key investment arguments

Strong growth in domestic branded segment to drive overall growth

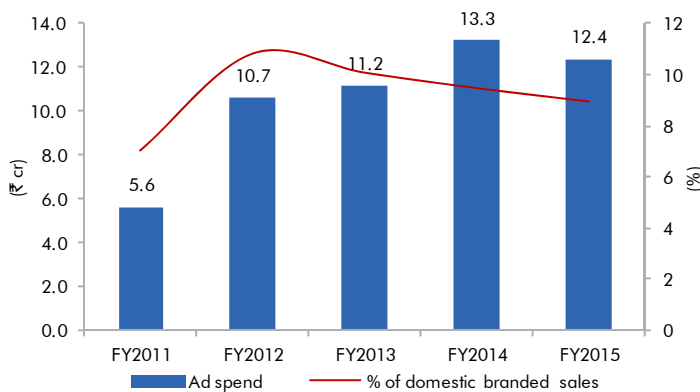
In the branded domestic segment, we expect the company to report a ~24% CAGR over FY2016-18E to ₹346cr. We anticipate strong growth for the company on the back of (a) the company's wide distribution reach through its 1,000+ outlets including 120 exclusive brand outlets (EBOs) in 35+ cities and the same 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%.

Exhibit 1: Healthy domestic growth expected



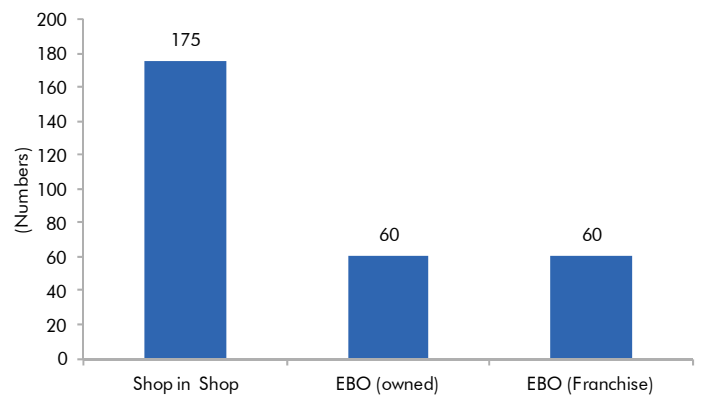
Source: Company, Angel Research

Exhibit 2: Company's historical ad spend trend



Source: Company, Angel Research

Exhibit 3: Distribution channel profile



Source: Company, Angel Research

Exhibit 4: REDTAPE brand profile – Footwear, Apparel, Accessories etc.



Source: Company, Angel Research

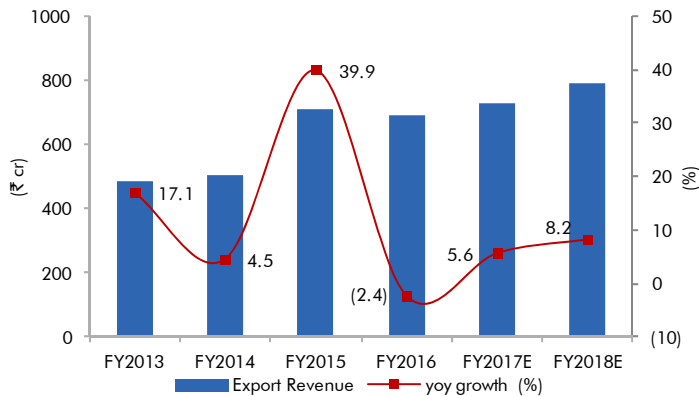
Strong global footprint to drive overall growth

MIL exports its products to the European Union, the United Kingdom, the United States, Italy, and France, among other geographies. The company’s major export revenue comes from the UK (73%), followed by the US (14%) and the balance from ROW. Exports constitute ~75% of the company’s total revenue. The company is reasonably insulated in terms of client concentration. Among the company’s clients are ASDA, River Island, Matalan, ASOS, Elan Polo, Steve Madden etc. In the UK, the company has a market share of ~25% in the men’s leather footwear mid-segment category. On the revenue front, the company reported a ~14% CAGR over the past four years and is expected to generate healthy growth in the coming few years as well on back of recovery in the UK market, strong growth in the US market and with it looking to penetrate further across international geographies like the Middle East countries.

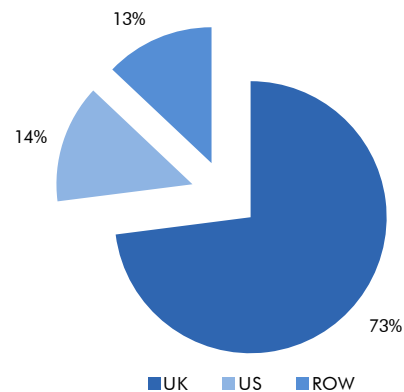
Exhibit 5: Strong Distribution network in US & UK and also reach in 30 countries worldwide

MBO Stores in USA	MBO Stores in UK
500+	1200+

Source: Company, Angel Research

Exhibit 6: Historical and Projected export trend


Source: Company, Angel Research

Exhibit 7: Export revenue break-up in FY2016


Source: Company, Angel Research

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.

Exhibit 8: Financial data of MIL and Genesis Footwear

	Mirza International	Genesis footwear	Merged company
Sales	927	90	927.17
Operating Profit	146	26	171.98
Margin (%)	15.7%	28.9%	18.5%
PAT	58	20	78.09
ROE	15.9%	23.8%	17.5%
No of share cr	9.27	3.0	12.03
EPS	6.3	6.7	6.5

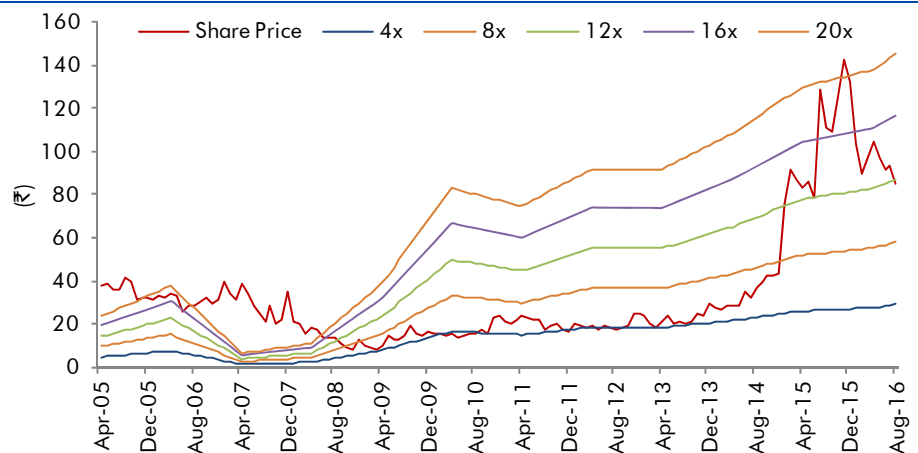
Source: Company, Angel Research

About Genesis Footwear: Genesis Footwear is engaged in footwear manufacturing and has an in-house design studio and R&D facility. Its manufacturing plant is fully exempt from excise payment as it's situated in the Kashipur, Uttarakhand, tax free zone. Before the merger, the company used to buy raw materials from MIL and also sell shoes to MIL.

Outlook and Valuation

We expect MIL to report a net revenue CAGR of ~11% to ~₹1,148cr 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 ~11% to ₹97cr over the same period on the back of margin improvement. **At the current market price of ₹84, the stock trades at a PE of 12.2x and 10.5x its FY2017E and FY2018E EPS of ₹6.9 and ₹8.0, respectively. We initiate coverage on the stock with a Buy recommendation and target price of ₹113 based on 14x FY2018E EPS, indicating an upside of ~34% from the current levels.**

Exhibit 9: One year forward PE Chart



Source: Company, Angel Research

Exhibit 10: Peer Comparison

	Market Cap	EPS			PE (x)			EV/EBITDA (x)			ROE (%)		
		FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18
MIL	1,021	6.5	6.9	8.0	12.9	12.2	10.5	7.1	6.5	5.8	18.5	16.6	16.3
Bata	6,862	11.2	12.9	15.1	47.8	41.5	35.5	24.9	22.5	19.7	13.2	14.1	15.6

Source: Company, Angel Research

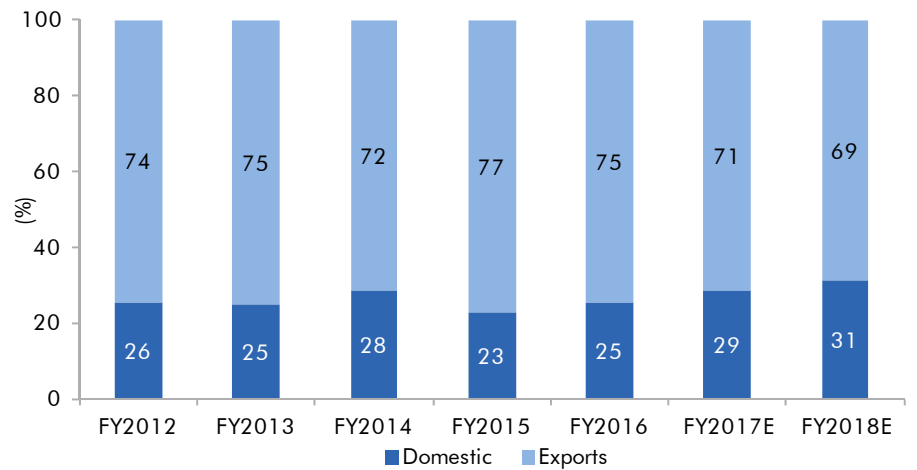
Downside risks to our estimates

- 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 11: 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	1,024	1,141
% chg	16.3	9.9	29.9	0.9	10.4	11.4
Total Expenditure	528	586	776	755	839	935
Cost of Materials	370	404	548	504	570	636
Personnel	33	37	46	59	70	82
Others Expenses	125	145	182	192	200	217
EBITDA	116	122	143	172	184	205
% chg	37.2	5.1	17.1	20.6	7.1	11.4
(% 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	156	175
% chg	38.7	4.0	18.3	23.9	6.5	12.3
(% of Net Sales)	14.9	14.1	12.8	15.8	15.2	15.3
Interest & other Charges	32	32	39	32	34	34
Other Income	0	0	0	2	2	2
Recurring PBT	64	68	79	116	124	143
% chg	27.6	5.3	16.1	47.2	6.9	15.4
Prior Period & Extraord. Exp./ (Inc.)	-	-	-	-	-	-
PBT (reported)	64	68	79	116	124	143
Tax	21	24	28	38	41	47
(% of PBT)	32.5	36.0	35.0	32.6	33.0	33.0
PAT (reported)	43	43	51	78	83	96
Add: Share of earnings of asso.	-	-	-	-	-	-
ADJ. PAT	43	43	51	78	83	96
% chg	43.4	43.4	51.2	78.1	83.0	95.8
(% of Net Sales)	6.7	6.1	5.6	8.4	8.1	8.4
Basic EPS (₹)	3.6	3.6	4.3	6.5	6.9	8.0
Fully Diluted EPS (₹)	3.6	3.6	4.3	6.5	6.9	8.0
% chg	43.8	(0.1)	17.9	52.7	6.2	15.4

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	476	567
Shareholders Funds	251	287	313	422	500	591
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	740	831
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	499	588
Inventories	138	192	225	262	294	334
Sundry Debtors	33	42	43	63	76	91
Cash	4	6	6	11	30	48
Loans & Advances	44	56	67	74	87	103
Other Assets	5	3	5	10	11	13
Current liabilities	68	97	115	110	121	129
Net Current Assets	156	203	231	311	378	460
Deferred Tax Asset	2	2	3	3	3	3
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	440	521	545	662	740	831

Consolidated Cashflow Statement

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Profit before tax	64	68	79	116	124	143
Depreciation	20	22	25	26	29	31
Change in Working Capital	(8)	(48)	(19)	(74)	(48)	(64)
Interest / Dividend (Net)	31	32	39	32	34	34
Direct taxes paid	(19)	(24)	(28)	(38)	(41)	(47)
Others	0	(0)	1	-	-	-
Cash Flow from Operations	89	48	97	61	97	96
(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	19	18
Opening Cash balances	12	4	6	6	11	30
Closing Cash balances	4	6	6	11	30	48

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)