

Mirza International

Result Update

31 May 2018

Levers in place to achieve Rs6bn domestic sales guidance

We maintain our BUY rating on Mirza International with a TP of Rs205 (20x FY20E EPS). While management has achieved its FY18E guidance of Rs4bn domestic sales, they have further guided for Rs6bn sales for FY19E on the back of new product launches and entry into women footwear. They believe the 100 online-offline large format stores have the potential to generate Rs30mn sales each which would offer them significant upside. Further sports shoes and Bond Street have contributed 30% to the domestic footwear sales which would further grow in FY19 as they launch new variants. Management remains confident of double digit growth in the exports business post three consecutive years of decline while leather business would increase utilisation levels and add to margins.

- **Q4FY18 and FY18 result highlights:** Revenue was up 10%YoY to Rs2,257mn due to 11.9% growth in shoe segment and 24.8% growth in leather segment for the quarter. In FY18 revenue growth was 3.9% as shoe segment posted growth of 7%. Operating profit for the quarter was at Rs414mn (up 5% YoY) with operating margins at 18.3% (down 87bps) on gross margin compression of 54bps while PAT was flat at Rs177mn. For FY18, operating profit was up 8% YoY while operating margins expanded by 69bps. PAT was up 9.2% on healthy operating profit growth.
- **Strong guidance for domestic footwear for FY19:** Company achieved its Rs4bn guidance for domestic sales in FY18 as it clocked revenues of Rs3.9bn, up 74% YoY. They have further guided for sales of Rs6bn for FY19E on the back of new product launches. In FY18 the new product of Bond Street and sports shoes contributed 30% of domestic footwear sales (Rs870mn) while the Red Tape leather footwear posted 22% growth. Garment business posted 75%YoY revenue growth. The company has already launched its women's footwear under brand 'Mode' which is currently available online. Further margin in the branded footwear segment (21.7%) is higher than unbranded segment (16.7%) for FY18. Management continues to guide for stable margins in FY19E
- **Focus on online-offline store for growth:** Management is focussing on opening 100 online-offline store in FY19 of which they have opened 19 store out of total 169 EBO. They believe each of these stores have a potential to garner revenues of Rs30mn/year with healthy margins. Response from initial store has been encouraging and bulk of the stores would be in North India. However we believe each store would have a capex of Rs5mn and further inventory of Rs4-5mn which would impact the working capital. In FY18 the working capital has stretched on the back of high imports of sports and women footwear while debtor days have increased due to online and wholesale business. Further management has guided for capex of Rs500mn in FY19E and believe the exports business could post a double digit growth in FY19 given three years of decline.
- **Maintain Buy:** Revenue estimates have been reduced by ~1% each for FY19E/FY20E while PAT has been lowered by 2.4%/3.7% for FY19E/FY20E. We maintain our Buy rating on the stock with a TP of Rs205, 20x FY20E EPS. Key downside risk being sustained pressure on the export revenues and increase in working capital and D/E.

| Y/E Mar (Rsmn) | Q4FY18 | Q4FY17 | YoY (%) | Q3FY18 | QoQ (%) | Q4FY18E | Var (%) |
|---------------------|--------|--------|----------|--------|---------|---------|---------|
| Net Sales | 2,257 | 2,052 | 10.0 | 2,540 | (11.1) | 2,149 | 5.0 |
| COGS | 996 | 895 | 11.3 | 1,316 | (24.3) | 1,031 | (3.4) |
| Employee Expenses | 237 | 215 | 10.1 | 239 | (0.6) | 245 | (3.2) |
| Admin & Other Exp | 610 | 548 | 11.3 | 524 | 16.3 | 540 | 12.9 |
| EBITDA | 414 | 394 | 5.0 | 460 | (10.1) | 332 | 24.5 |
| EBITDA margin (%) | 18.3 | 19.2 | (87) bps | 18.1 | 20 bps | 15.5 | 287 bps |
| Depreciation & Amm. | 89 | 78 | | 80 | | 80 | |
| Other Income | 3 | 7 | | 0 | | 1 | |
| Interest | 71 | 62 | | 66 | | 80 | |
| PBT | 257 | 262 | (1.8) | 314 | (18.2) | 173 | 48.7 |
| Tax | 80 | 84 | | 105 | | 59 | |
| Adjusted PAT | 177 | 178 | (0.2) | 209 | (15.1) | 114 | 55.6 |

Source: Company, Centrum Research

| Target Price | Rs205 | Key Data | |
|------------------------|---------------------|--------------------------|------------|
| CMP* | Rs127 | Bloomberg Code | MRZI IN |
| Upside | 61% | Curr Shares O/S (mn) | 120.3 |
| Previous Target | Rs205 | Diluted Shares O/S(mn) | 120.3 |
| Previous Rating | Buy | Mkt Cap (Rsbn/USDmn) | 15.3/226.4 |
| Price Performance (%)* | | 52 Wk H / L (Rs) | 183.7/107 |
| | 1M 6M 1Yr | 5 Year H / L (Rs) | 183.7/19.3 |
| MRZI IN | (7.7) (20.0) (13.3) | Daily Vol. (3M NSE Avg.) | 224282 |
| Nifty | (0.6) 4.4 11.0 | | |

*as on 30 May 2018: Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

| | Mar-18 | Dec-17 | Sep-17 | Jun-17 |
|----------|--------|--------|--------|--------|
| Promoter | 70.4 | 73.5 | 73.7 | 73.8 |
| Flls | 3.6 | 4.0 | 4.5 | 1.1 |
| Dlls | 2.9 | 2.8 | 2.7 | 2.5 |
| Others | 23.1 | 19.7 | 19.1 | 22.6 |

Source: BSE, *as on 30 May 2018

Earning Revision

| Particulars (Rsmn) | FY19E | | | FY20E | | |
|--------------------|--------|--------|---------|--------|--------|----------|
| | New | Old | Chg (%) | New | Old | Chg (%) |
| Sales | 11,984 | 12,122 | (1.1) | 14,051 | 14,174 | (0.9) |
| EBITDA | 2,150 | 2,175 | (1.2) | 2,539 | 2,611 | (2.8) |
| Ebitda margin (%) | 17.9 | 17.9 | bps | 18.1 | 18.4 | (35) bps |
| Adj PAT | 1,008 | 1,033 | (2.4) | 1,236 | 1,283 | (3.7) |

Source: Centrum Research Estimates

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| Y/E Mar (Rsmn) | Rev | YoY (%) | EBITDA | EBITDA (%) | Adj PAT | YoY (%) | FDEPS (Rs) | RoE (%) | RoCE (%) | P/E (x) | EV/EBITDA (x) |
|----------------|--------|---------|--------|------------|---------|---------|------------|---------|----------|---------|---------------|
| FY16 | 9,258 | 0.8 | 1,706 | 18.4 | 781 | 52.6 | 7.2 | 20.7 | 15.0 | 12.7 | 6.9 |
| FY17 | 9,357 | 1.1 | 1,611 | 17.2 | 717 | (8.1) | 6.0 | 15.1 | 13.2 | 15.0 | 7.6 |
| FY18 | 9,721 | 3.9 | 1,740 | 17.9 | 784 | 9.3 | 6.5 | 14.6 | 11.1 | 22.5 | 11.6 |
| FY19E | 11,984 | 23.3 | 2,150 | 17.9 | 1,008 | 28.6 | 8.4 | 16.5 | 12.1 | 15.2 | 8.6 |
| FY20E | 14,051 | 17.3 | 2,539 | 18.1 | 1,236 | 22.6 | 10.3 | 17.6 | 13.0 | 12.4 | 7.3 |

Source: Company, Centrum Research Estimates

In the interest of timeliness, this document is not edited

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

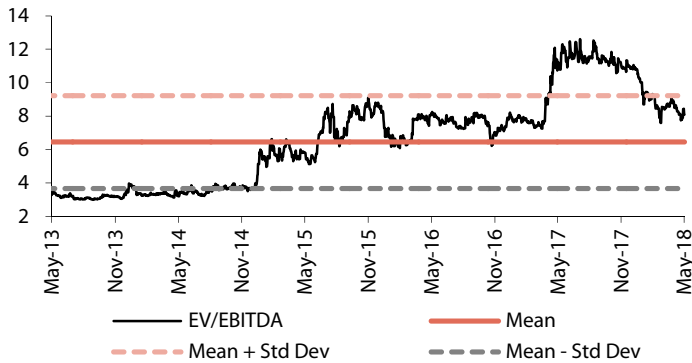
Valuation

Exhibit 1: Sensitivity Analysis

| Sensitivity to key variables (FY19E) | % increase | % impact on EBITDA | % impact on EPS |
|--------------------------------------|------------|--------------------|-----------------|
| RM cost | 1.0 | (2.5) | (4.0) |

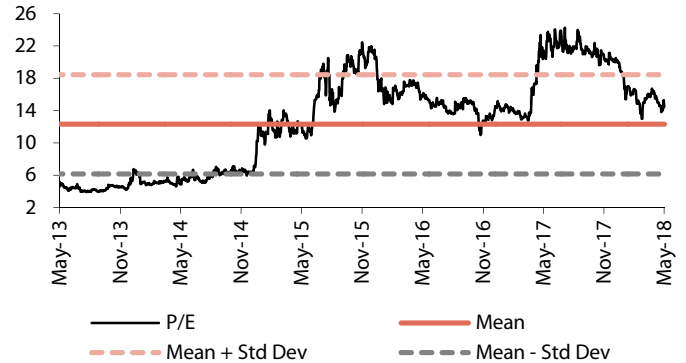
Source: Company, Centrum Research Estimates

Exhibit 2: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 3: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 4: Comparative Valuations

| Company | Mkt Cap (Rsmn) | CAGR FY18-FY20E (%) | | | EBITDA Margin (%) | | | PE (x) | | | EV/EBITDA (x) | | | RoE (%) | | | Div Yield (%) | | |
|-----------------|----------------|---------------------|--------|------|-------------------|-------|-------|--------|-------|-------|---------------|-------|-------|---------|-------|-------|---------------|-------|-------|
| | | Rev. | EBITDA | PAT | FY18 | FY19E | FY20E | FY18 | FY19E | FY20E | FY18 | FY19E | FY20E | FY18 | FY19E | FY20E | FY18 | FY19E | FY20E |
| Mirza* | 15,261 | 20.2 | 20.8 | 25.5 | 17.9 | 17.9 | 18.1 | 22.5 | 15.2 | 12.4 | 11.6 | 8.6 | 7.3 | 14.6 | 16.5 | 17.6 | 0.6 | 1.0 | 1.0 |
| Bata | 1,01,562 | 13.1 | 18.4 | 20.4 | 13.2 | 13.7 | 14.4 | 39.0 | 39.0 | 32.2 | 23.1 | 24.7 | 20.6 | 15.4 | 16.2 | 17.4 | 0.7 | 0.8 | 0.9 |
| Relaxo Footwear | 84,248 | 14.6 | 20.2 | 23.2 | 14.5 | 15.7 | 15.9 | 43.8 | 43.9 | 36.9 | 23.6 | 24.0 | 20.7 | 22.3 | 22.3 | 22.5 | 0.1 | 0.1 | 0.1 |

Source: Bloomberg consensus, *Centrum Research Estimates

Quarterly financials, Operating Metrics and Key Performance Indicators

Exhibit 5: Quarterly Financials

| Y/E Mar (Rsmn) | Q1FY17 | Q2FY17 | Q3FY17 | Q4FY17 | Q1FY18 | Q2FY18 | Q3FY18 | Q4FY18 |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Total Income | 2,522 | 2,503 | 2,280 | 2,052 | 2,521 | 2,404 | 2,540 | 2,257 |
| COGS | 1,466 | 1,459 | 1,214 | 895 | 1,309 | 1,187 | 1,316 | 996 |
| Staff cost | 154 | 159 | 179 | 215 | 213 | 217 | 239 | 237 |
| Admin & other expenses | 464 | 505 | 489 | 548 | 562 | 575 | 524 | 610 |
| Total Expenditure | 2,084 | 2,123 | 1,881 | 1,658 | 2,084 | 1,980 | 2,079 | 1,843 |
| EBITDA | 438 | 380 | 399 | 394 | 437 | 424 | 460 | 414 |
| Depreciation | 67 | 71 | 75 | 78 | 72 | 75 | 80 | 89 |
| EBIT | 371 | 308 | 324 | 317 | 366 | 349 | 380 | 325 |
| Interest | 68 | 65 | 64 | 62 | 59 | 53 | 66 | 71 |
| Other Income | 1 | 1 | 0 | 7 | 1 | 0 | 0 | 3 |
| Exceptional Item | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| PBT | 304 | 244 | 260 | 262 | 307 | 296 | 314 | 257 |
| Total tax | 104 | 79 | 87 | 84 | 106 | 102 | 105 | 80 |
| Reported PAT | 200 | 165 | 173 | 178 | 201 | 193 | 209 | 177 |
| Adj PAT | 200 | 165 | 173 | 178 | 201 | 193 | 209 | 177 |
| Growth % | | | | | | | | |
| Revenue | 1.0 | (2.0) | 5.5 | (0.3) | (0.0) | (3.9) | 11.4 | 10.0 |
| EBIDTA | 0.8 | (7.0) | 16.6 | (26.3) | (0.1) | 11.8 | 15.3 | 5.0 |
| Adj PAT | 11.2 | 2.8 | 14.7 | (38.6) | 0.6 | 17.5 | 20.8 | (0.2) |
| Margins % | | | | | | | | |
| Gross Margin | 41.9 | 41.7 | 46.8 | 56.4 | 48.1 | 50.6 | 48.2 | 55.9 |
| EBIDTA | 17.4 | 15.2 | 17.5 | 19.2 | 17.3 | 17.7 | 18.1 | 18.3 |
| EBIT | 14.7 | 12.3 | 14.2 | 15.4 | 14.5 | 14.5 | 15.0 | 14.4 |
| Adj PAT | 7.9 | 6.6 | 7.6 | 8.7 | 8.0 | 8.0 | 8.2 | 7.9 |
| Segmental Breakup | | | | | | | | |
| Shoes - Sales | 2,196 | 2,279 | 2,092 | 1,868 | 2,277 | 2,238 | 2,426 | 2,090 |
| YoY Growth (%) | 4.0 | (1.9) | 12.6 | (1.4) | 3.7 | (1.8) | 15.9 | 11.9 |
| Leather- Sales | 714 | 593 | 478 | 324 | 622 | 417 | 425 | 405 |
| YoY Growth (%) | (7.7) | 14.5 | (21.9) | (35.7) | (12.9) | (29.8) | (11.1) | 24.8 |
| Shoes - EBIT | 432 | 403 | 420 | 386 | 441 | 453 | 438 | 401 |
| EBIT Margin (%) | 19.7 | 17.7 | 20.1 | 20.7 | 19.4 | 20.3 | 18.1 | 19.2 |
| Leather - EBIT | 35.9 | 3.6 | 5.1 | 18.9 | 30.1 | 20.8 | 10.6 | 17.0 |
| EBIT Margin (%) | 5.0 | 0.6 | 1.1 | 5.8 | 4.8 | 5.0 | 2.5 | 4.2 |

Source: Company, Centrum Research

Exhibit 6: Assumptions

| Assumptions | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E |
|-------------------------------------|-------|-------|--------|--------|-------|-------|
| Exports Sales growth (%) | 37.4 | (1.8) | (3.0) | (15.9) | 6.9 | 4.9 |
| Domestic Sales growth (%) | (1.0) | 26.6 | 28.0 | 74.1 | 48.1 | 29.8 |
| Tannery - External Sales growth (%) | 45.7 | (9.3) | (14.2) | (25.4) | 6.1 | 11.1 |

Source: Company, Centrum Research

Financials

Exhibit 7: Income Statement

| Y/E March (Rsmn) | FY16 | FY17 | FY18 | FY19E | FY20E |
|-----------------------------|--------------|--------------|--------------|---------------|---------------|
| Revenue | 9,258 | 9,357 | 9,721 | 11,984 | 14,051 |
| Employee Cost | 594 | 707 | 902 | 1,127 | 1,296 |
| %of revenue | 6.4 | 7.6 | 9.3 | 9.4 | 9.2 |
| Material cost | 5036 | 5033 | 4808 | 5929 | 6966 |
| %of revenue | 54.4 | 53.8 | 49.5 | 49.5 | 49.6 |
| Other expenses | 1,922 | 2,006 | 2,271 | 2,778 | 3,250 |
| % of revenue | 20.8 | 21.4 | 23.4 | 23.2 | 23.1 |
| EBIDTA | 1,706 | 1,611 | 1,740 | 2,150 | 2,539 |
| EBIDTA Margins (%) | 18.4 | 17.2 | 17.9 | 17.9 | 18.1 |
| Depreciation & Amortization | 258 | 291 | 316 | 330 | 360 |
| EBIT | 1,447 | 1,320 | 1,424 | 1,820 | 2,179 |
| Interest expenses | 319 | 259 | 250 | 309 | 326 |
| PBT for operations | 1,129 | 1,061 | 1,174 | 1,511 | 1,853 |
| Other income | 30 | 9 | 4 | 5 | 5 |
| Exceptional item | - | - | - | - | - |
| PBT | 1,158 | 1,069 | 1,178 | 1,516 | 1,858 |
| Taxes | 377 | 352 | 394 | 508 | 623 |
| Effective tax rate (%) | 32.6 | 32.9 | 33.5 | 33.5 | 33.5 |
| Net Profit | 781 | 717 | 784 | 1,008 | 1,236 |
| Adj Net Profit | 781 | 717 | 784 | 1,008 | 1,236 |

Source: Company, Centrum Research Estimates

Exhibit 8: Key Ratios

| Y/E March | FY16 | FY17 | FY18P | FY19E | FY20E |
|-------------------------------|------|-------|-------|-------|-------|
| Growth ratios (%) | | | | | |
| Revenues | 0.8 | 1.1 | 3.9 | 23.3 | 17.3 |
| EBIDTA | 20.1 | (5.6) | 8.0 | 23.6 | 18.1 |
| Adj Net Profit | 52.6 | (8.1) | 9.3 | 28.6 | 22.6 |
| Margin ratios (%) | | | | | |
| EBIDTA Margins | 18.4 | 17.2 | 17.9 | 17.9 | 18.1 |
| PBT from operations Margins | 12.2 | 11.3 | 12.1 | 12.6 | 13.2 |
| PAT Margins | 8.4 | 7.7 | 8.1 | 8.4 | 8.8 |
| Return Ratios (%) | | | | | |
| ROCE | 15.0 | 13.2 | 11.1 | 12.1 | 13.0 |
| RoE | 20.7 | 15.1 | 14.6 | 16.5 | 17.6 |
| RoIC | 14.9 | 13.3 | 11.2 | 12.2 | 13.1 |
| Turnover Ratios (Days) | | | | | |
| Gross block turnover ratio(x) | 1.8 | 1.7 | 1.6 | 1.8 | 2.0 |
| Inventory | 104 | 103 | 144 | 145 | 145 |
| Debtors | 25 | 26 | 50 | 50 | 50 |
| Creditors | 22 | 15 | 32 | 30 | 30 |
| Cash conversion cycle | 107 | 114 | 161 | 165 | 165 |
| Solvency Ratio | | | | | |
| Debt-equity | 0.5 | 0.3 | 0.5 | 0.5 | 0.5 |
| Net Debt-equity | 0.4 | 0.3 | 0.5 | 0.5 | 0.4 |
| Current ratio | 4.3 | 4.6 | 4.4 | 4.6 | 4.6 |
| Interest coverage ratio | 4.5 | 5.1 | 5.7 | 5.9 | 6.7 |
| Gross debt/EBITDA | 1.2 | 1.0 | 1.5 | 1.6 | 1.4 |
| Per Share (Rs) | | | | | |
| FDEPS (Adjusted) | 7.2 | 6.0 | 6.5 | 8.4 | 10.3 |
| CEPS | 9.6 | 8.4 | 9.1 | 11.1 | 13.3 |
| Book Value | 40.9 | 41.9 | 47.3 | 54.2 | 62.9 |
| Dividend | 0.5 | 0.9 | 0.9 | 1.3 | 1.3 |
| Dividend Payout (%) | 9.3 | 18.2 | 16.6 | 18.6 | 15.2 |
| Valuations (x) | | | | | |
| PER | 12.7 | 15.0 | 22.5 | 15.2 | 12.4 |
| P/BV | 2.2 | 2.1 | 3.1 | 2.3 | 2.0 |
| EV/EBIDTA | 6.9 | 7.6 | 11.6 | 8.6 | 7.3 |
| Dividend yield(%) | 0.6 | 1.0 | 0.6 | 1.0 | 1.0 |
| 5 Yr Avg AOCF/EV yield % | 3.6 | 4.6 | 1.8 | 2.0 | 2.1 |

Source: Company, Centrum Research Estimates

Exhibit 9: Balance Sheet

| Y/E March (Rsmn) | FY16 | FY17 | FY18P | FY19E | FY20E |
|---------------------------------|--------------|--------------|--------------|---------------|---------------|
| Share Capital | 217 | 241 | 241 | 241 | 241 |
| Reserves & Surplus | 4,240 | 4,802 | 5,456 | 6,276 | 7,324 |
| Total Shareholders Funds | 4,457 | 5,042 | 5,696 | 6,517 | 7,565 |
| Loan Funds | 2051 | 1560 | 2696 | 3346 | 3446 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| Deferred Tax Liabilities | 149 | 167 | 177 | 177 | 177 |
| Total Liabilities | 6,656 | 6,769 | 8,569 | 10,039 | 11,188 |
| Gross Block | 5,460 | 5,858 | 6,254 | 6,954 | 7,454 |
| Less:- Accumulated Depreciation | 2,097 | 2,368 | 2,684 | 3,014 | 3,374 |
| Net Block | 3,363 | 3,490 | 3,570 | 3,940 | 4,079 |
| Capital WIP | 85 | 19 | 246 | 246 | 246 |
| Net Fixed assets | 3,448 | 3,509 | 3,816 | 4,186 | 4,326 |
| Investments | 6 | 38 | 6 | 6 | 6 |
| Inventory | 2,630 | 2,642 | 3,827 | 4,761 | 5,582 |
| Debtors | 634 | 674 | 1,325 | 1,642 | 1,925 |
| Loans & advances | 116 | 137 | 80 | 132 | 155 |
| Other Assets | 667 | 595 | 809 | 839 | 984 |
| Cash & bank balances | 115 | 65 | 106 | 87 | 120 |
| Total current assets | 4,162 | 4,112 | 6,146 | 7,460 | 8,765 |
| Trade payables | 558 | 396 | 854 | 985 | 1,155 |
| Other liabilities | 226 | 237 | 417 | 486 | 599 |
| provisions | 176 | 263 | 128 | 141 | 155 |
| Net current assets | 3,202 | 3,216 | 4,747 | 5,848 | 6,856 |
| Total | 6,656 | 6,769 | 8,569 | 10,039 | 11,188 |

Source: Company, Centrum Research Estimates

Exhibit 10: Cash Flow

| Y/E March (Rsmn) | FY16 | FY17 | FY18P | FY19E | FY20E |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| CF before WC changes | 1,711 | 1,613 | 1,740 | 2,150 | 2,539 |
| Working capital changes | (503) | (134) | (1,490) | (1,120) | (975) |
| Cash from Operations | 903 | 1,142 | (133) | 522 | 942 |
| Adj. OCF (OCF-Interest) | 584 | 882 | (383) | 213 | 616 |
| Change in Fixed assets | (445) | (333) | (623) | (700) | (500) |
| Adj. FCF (AOCF-Capex) | 139 | 549 | (1,006) | (487) | 116 |
| Cash from investing | (423) | (363) | (587) | (695) | (495) |
| Cash from financing | (507) | (822) | 756 | 154 | (413) |
| Net change in cash | (26) | (44) | 36 | (19) | 33 |

Source: Company, Centrum Research Estimates

Appendix A

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Mirza International price chart



Source: Bloomberg

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