

## Online EBOs to boost domestic branded business

We maintain our BUY rating on Mirza International with revised TP of Rs162. We believe the growth momentum in the domestic business would get better on the back of increasing focus on the newly launched Bond Street & sports/canvas shoes. Further online EBO channel is garnering strong traction wherein the management has plans to aggressively open new stores. Entry in the women's footwear through 'Mode' brand would help the company in garnering incremental sales while the garmenting business continues to grow at healthy pace. Margin guidance of 17-18% and marginal growth in exports is a positive.

- **Results below expectations:** Revenue was up 3.9%YoY to Rs2,618mn on the back of 40% YoY growth in the branded footwear business while the B2B footwear business was down 17.6% YoY. Leather business was down 22% YoY. Operating profit for the quarter was flat at Rs432mn with operating margins at 16.5% (down 85bps) while PAT was down 10.3% at Rs181mn. Segmental margins in the B2B unbranded footwear business was at 16.7% (up 145bps) while in the branded segment it was at 19.8% (down 524bps). Overall in the footwear segment margins were at 18.4% (down 95bps).
- **Domestic business to fuel growth:** Management remains optimistic to post Rs6bn in revenues from the domestic branded business on the back of new online EBOs. During the quarter the company opened 15 new EBOs of which 14 were online EBOs taking the total online EBO count to 23. They will further open 20 more online EBOs in the Q2FY19. Domestic business posted revenue growth of 27% YoY to Rs1165mn on the back of healthy 21% YoY on domestic footwear business while garmenting business was up 48% YoY. We believe the contribution of the newly launched Bond Street/sports shoes was ~30% and is expected to increase going forward.
- **Exports continue to disappoint:** While the exports business posted revenue decline of 8.3%, volume decline was steeper at 14.8% on the back of slowdown in UK market. Company posted growth in US market while Rest of World was flat. Management is confident of posting positive growth in exports for FY19E on the back of strong order book. Further the management believes the working capital would get better as sales momentum picks up in the domestic business and the inventory days would remain in the 140-150 days range which debt which is currently at Rs3bn could marginally increase.
- **Estimates cut; maintain BUY:** We have reduced our revenue estimates by 5.2%/4.9 for FY19E/FY20E factoring sustained decline in footwear exports and leather business while operating profit has been cut by 7.9%/8.6% for FY19E/FY20E on the back of marginally higher fixed cost and lower revenues. PAT has been lowered by 11.6%/12.5% for FY19E/FY20E. We maintain our Buy rating on the stock with a TP of Rs162, 18x FY20E EPS. We have reduced our PE multiple on the back of increasing working capital, debt and sustained disappointment in the exports business. Key downside risk being slowdown in the domestic business, increase in import duty for footwear and garments.

Y/E Mar (Rsmn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)	Q1FY19E	Var (%)
Net Sales	2,618	2,521	3.9	2,257	16.0	2,790	(6.1)
COGS	1,410	1,309	7.7	996	41.6	1,480	(4.7)
Employee Expenses	227	213	6.6	237	(4.5)	240	(5.6)
Admin & Other Exp	550	562	(2.0)	610	(9.7)	550	0.1
EBITDA	432	437	(1.2)	414	4.4	520	(17.0)
EBITDA margin (%)	16.5	17.3	(85) bps	18.3	(184) bps	18.6	(215) bps
PBT	280	307	(8.7)	257	9.0	357	(21.5)
Tax	100	106		80		121	
Adjusted PAT	181	201	(10.3)	177	1.8	236	(23.3)

Source: Company, Centrum Research

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	11,360	16.9	1,981	17.4	891	13.6	7.4	14.7	10.9	13.5	7.6
FY20E	13,359	17.6	2,319	17.4	1,081	21.4	9.0	15.8	11.8	11.1	6.6

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

Target Price	Rs162	Key Data	
CMP*	Rs99	Bloomberg Code	MRZI IN
Upside	64%	Curr Shares O/S (mn)	120.3
Previous Target	Rs205	Diluted Shares O/S(mn)	120.3
Previous Rating	Buy	Mkt Cap (Rsbn/USDmn)	11.9/173.3
Price Performance (%)*		52 Wk H / L (Rs)	183.7/92.2
	1M 6M 1Yr	5 Year H / L (Rs)	183.7/19.3
MRZI IN	1.5 (28.4) (37.7)	Daily Vol. (3M NSE Avg.)	372215
Nifty	5.7 9.8 15.8		

\*as on 8 August 2018: Source: Bloomberg, Centrum Research

### Shareholding pattern (%)\*

	Jun-18	Mar-18	Dec-17	Sep-17
Promoter	70.4	70.4	73.5	73.7
FII	3.0	3.6	4.0	4.5
DII	2.9	2.9	2.8	2.7
Others	23.7	23.1	19.7	19.1

Source: BSE, \*as on 8 August 2018

### Earning Revision

Particulars (Rsmn)	FY19E			FY20E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	11,360	11,984	(5.2)	13,359	14,051	(4.9)
EBITDA	1,981	2,150	(7.9)	2,319	2,539	(8.6)
Ebitda margin (%)	17.4	17.9	(50) bps	17.4	18.1	(71) bps
Adj PAT	891	1,008	(11.6)	1,081	1,236	(12.5)

Source: Centrum Research Estimates

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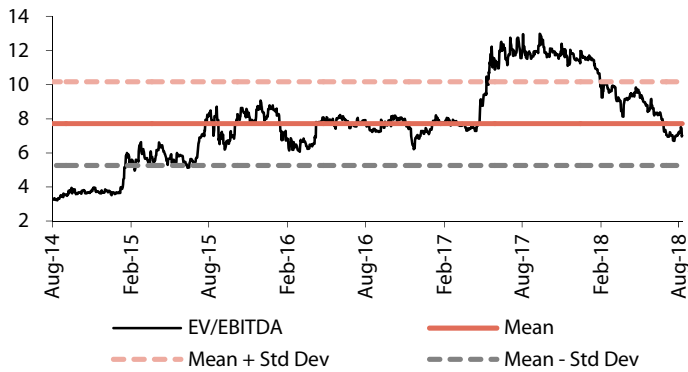
## Valuation

### Exhibit 1: Sensitivity Analysis

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

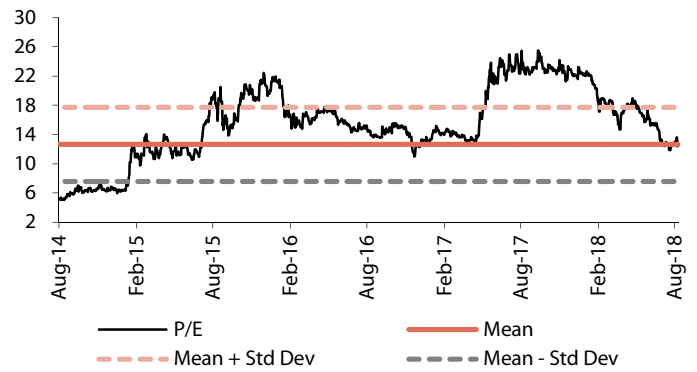
Source: Company, Centrum Research Estimates

### 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*	11,886	17.2	15.5	17.4	17.9	17.4	17.4	22.5	13.5	11.1	11.6	7.6	6.6	14.6	14.7	15.8	0.6	1.3	1.3
Bata	1,22,063	11.8	21.1	22.4	13.2	14.9	15.4	39.0	44.0	36.9	23.1	26.3	22.5	15.4	17.3	17.5	0.7	0.7	0.7
Relaxo Footwear	99,833	16.5	23.8	28.1	14.5	15.9	16.3	43.8	50.2	41.7	23.7	27.4	22.8	22.3	23.4	23.7	0.1	0.2	0.2

Source: Bloomberg consensus, \*Centrum Research Estimates

## Quarterly financials, Operating Metrics and Key Performance Indicators

### Exhibit 5: Quarterly Financials

Y/E Mar (Rsmn)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
<b>Total Income</b>	<b>2,503</b>	<b>2,280</b>	<b>2,052</b>	<b>2,521</b>	<b>2,404</b>	<b>2,540</b>	<b>2,257</b>	<b>2,618</b>
COGS	1,459	1,214	895	1,309	1,187	1,316	996	1,410
Staff cost	159	179	215	213	217	239	237	227
Admin & other expenses	505	489	548	562	575	524	610	550
Total Expenditure	2,123	1,881	1,658	2,084	1,980	2,079	1,843	2,187
<b>EBITDA</b>	<b>380</b>	<b>399</b>	<b>394</b>	<b>437</b>	<b>424</b>	<b>460</b>	<b>414</b>	<b>432</b>
Depreciation	71	75	78	72	75	80	89	79
EBIT	308	324	317	366	349	380	325	353
Interest	65	64	62	59	53	66	71	73
Other Income	1	0	7	1	0	0	3	1
Exceptional Item	0	0	0	0	0	0	0	0
PBT	244	260	262	307	296	314	257	280
Total tax	79	87	84	106	102	105	80	100
Reported PAT	165	173	178	201	193	209	177	181
<b>Adj PAT</b>	<b>165</b>	<b>173</b>	<b>178</b>	<b>201</b>	<b>193</b>	<b>209</b>	<b>177</b>	<b>181</b>
<b>Growth %</b>								
Revenue	(2.0)	5.5	(0.3)	(0.0)	(3.9)	11.4	10.0	3.9
EBIDTA	(7.0)	16.6	(26.3)	(0.1)	11.8	15.3	5.0	(1.2)
Adj PAT	2.8	14.7	(38.6)	0.6	17.5	20.8	(0.2)	(10.3)
<b>Margins %</b>								
Gross Margin	41.7	46.8	56.4	48.1	50.6	48.2	55.9	46.2
EBIDTA	15.2	17.5	19.2	17.3	17.7	18.1	18.3	16.5
EBIT	12.3	14.2	15.4	14.5	14.5	15.0	14.4	13.5
Adj PAT	6.6	7.6	8.7	8.0	8.0	8.2	7.9	6.9
<b>Segmental Breakup</b>								
Shoes - Sales	2,279	2,092	1,868	2,277	2,238	2,426	2,090	2,425
YoY Growth (%)	(1.9)	12.6	(1.4)	3.7	(1.8)	15.9	11.9	6.5
Leather- Sales	593	478	324	622	417	425	405	487
YoY Growth (%)	14.5	(21.9)	(35.7)	(12.9)	(29.8)	(11.1)	24.8	(21.7)
Shoes - EBIT	403	420	386	441	453	438	401	447
EBIT Margin (%)	17.7	20.1	20.7	19.4	20.3	18.1	19.2	18.4
Leather - EBIT	3.6	5.1	18.9	30.1	20.8	10.6	17.0	4.0
EBIT Margin (%)	0.6	1.1	5.8	4.8	5.0	2.5	4.2	0.8

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)	(4.1)	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)	(4.0)	6.1

Source: Company, Centrum Research

## Financials

### Exhibit 7: Income Statement

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
<b>Revenue</b>	<b>9,258</b>	<b>9,357</b>	<b>9,721</b>	<b>11,360</b>	<b>13,359</b>
Employee Cost	594	707	902	1,037	1,193
%of revenue	6.4	7.6	9.3	9.1	8.9
Material cost	5,036	5,033	4,808	5,632	6,637
%of revenue	54.4	53.8	49.5	49.6	49.7
Other expenses	1,922	2,006	2,271	2,710	3,210
% of revenue	20.8	21.4	23.4	23.9	24.0
<b>EBIDTA</b>	<b>1,706</b>	<b>1,611</b>	<b>1,740</b>	<b>1,981</b>	<b>2,319</b>
EBIDTA Margins (%)	18.4	17.2	17.9	17.4	17.4
Depreciation & Amortization	258	291	316	330	360
<b>EBIT</b>	<b>1,447</b>	<b>1,320</b>	<b>1,424</b>	<b>1,651</b>	<b>1,959</b>
Interest expenses	319	259	250	298	314
<b>PBT for operations</b>	<b>1,129</b>	<b>1,061</b>	<b>1,174</b>	<b>1,353</b>	<b>1,645</b>
Other income	30	9	4	5	5
Exceptional item	-	-	-	-	-
<b>PBT</b>	<b>1,158</b>	<b>1,069</b>	<b>1,178</b>	<b>1,358</b>	<b>1,650</b>
Taxes	377	352	394	467	569
Effective tax rate (%)	32.6	32.9	33.5	34.4	34.5
<b>Net Profit</b>	<b>781</b>	<b>717</b>	<b>784</b>	<b>891</b>	<b>1,081</b>
<b>Adj Net Profit</b>	<b>781</b>	<b>717</b>	<b>784</b>	<b>891</b>	<b>1,081</b>

Source: Company, Centrum Research Estimates

### Exhibit 8: Key Ratios

Y/E March	FY16	FY17	FY18	FY19E	FY20E
<b>Growth ratios (%)</b>					
Revenues	0.8	1.1	3.9	16.9	17.6
EBIDTA	20.1	(5.6)	8.0	13.8	17.1
Adj Net Profit	52.6	(8.1)	9.3	13.6	21.4
<b>Margin ratios (%)</b>					
EBIDTA Margins	18.4	17.2	17.9	17.4	17.4
PBT from operations Margins	12.2	11.3	12.1	11.9	12.3
PAT Margins	8.4	7.7	8.1	7.8	8.1
<b>Return Ratios (%)</b>					
ROCE	15.0	13.2	11.1	10.9	11.8
RoE	20.7	15.1	14.6	14.7	15.8
RoIC	14.9	13.3	11.2	11.3	12.0
<b>Turnover Ratios (Days)</b>					
Gross block turnover ratio(x)	1.8	1.7	1.6	1.7	1.9
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
<b>Solvency Ratio</b>					
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	4.7	4.6
Interest coverage ratio	4.5	5.1	5.7	5.5	6.2
Gross debt/EBITDA	1.2	1.0	1.5	1.7	1.5
<b>Per Share (Rs)</b>					
FDEPS (Adjusted)	7.2	6.0	6.5	7.4	9.0
CEPS	9.6	8.4	9.1	10.1	12.0
Book Value	40.9	41.9	47.3	53.2	60.6
Dividend	0.5	0.9	0.9	1.3	1.3
Dividend Payout (%)	9.3	18.2	16.6	21.1	17.4
<b>Valuations (x)</b>					
PER	12.7	15.0	22.5	13.5	11.1
P/BV	2.2	2.1	3.1	1.9	1.6
EV/EBIDTA	6.9	7.6	11.6	7.6	6.6
Dividend yield(%)	0.6	1.0	0.6	1.3	1.3
5 Yr Avg AOCF/EV yield %	3.6	4.6	1.8	2.8	2.6

Source: Company, Centrum Research Estimates

### Exhibit 9: Balance Sheet

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Share Capital	217	241	241	241	241
Reserves & Surplus	4,240	4,802	5,456	6,159	7,052
<b>Total Shareholders Funds</b>	<b>4,457</b>	<b>5,042</b>	<b>5,696</b>	<b>6,399</b>	<b>7,293</b>
Loan Funds	2051	1560	2696	3346	3446
Minority Interest	0	0	0	0	0
Deferred Tax Liabilities	149	167	177	177	177
<b>Total Liabilities</b>	<b>6,656</b>	<b>6,769</b>	<b>8,569</b>	<b>9,922</b>	<b>10,915</b>
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
<b>Net Fixed assets</b>	<b>3,448</b>	<b>3,509</b>	<b>3,816</b>	<b>4,186</b>	<b>4,326</b>
Investments	6	38	6	6	6
Inventory	2,630	2,642	3,827	4,513	5,307
Debtors	634	674	1,325	1,556	1,830
Loans & advances	116	137	80	125	147
Other Assets	667	595	809	795	935
Cash & bank balances	115	65	106	302	186
<b>Total current assets</b>	<b>4,162</b>	<b>4,112</b>	<b>6,146</b>	<b>7,291</b>	<b>8,405</b>
Trade payables	558	396	854	934	1,098
Other liabilities	226	237	417	486	568
provisions	176	263	128	141	155
<b>Net current assets</b>	<b>3,202</b>	<b>3,216</b>	<b>4,747</b>	<b>5,730</b>	<b>6,583</b>
<b>Total</b>	<b>6,656</b>	<b>6,769</b>	<b>8,569</b>	<b>9,922</b>	<b>10,915</b>

Source: Company, Centrum Research Estimates

### Exhibit 10: Cash Flow

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
<b>CF before WC changes</b>	<b>1,711</b>	<b>1,613</b>	<b>1,740</b>	<b>1,981</b>	<b>2,319</b>
Working capital changes	(503)	(134)	(1,490)	(788)	(970)
<b>Cash from Operations</b>	<b>903</b>	<b>1,142</b>	<b>(133)</b>	<b>726</b>	<b>780</b>
Adj. OCF (OCF-Interest)	584	882	(383)	428	467
Change in Fixed assets	(445)	(333)	(623)	(700)	(500)
Adj. FCF (AOCF-Capex)	139	549	(1,006)	(272)	(33)
<b>Cash from investing</b>	<b>(423)</b>	<b>(363)</b>	<b>(587)</b>	<b>(695)</b>	<b>(495)</b>
<b>Cash from financing</b>	<b>(507)</b>	<b>(822)</b>	<b>756</b>	<b>164</b>	<b>(402)</b>
<b>Net change in cash</b>	<b>(26)</b>	<b>(44)</b>	<b>36</b>	<b>196</b>	<b>(116)</b>

Source: Company, Centrum Research Estimates

## Appendix A

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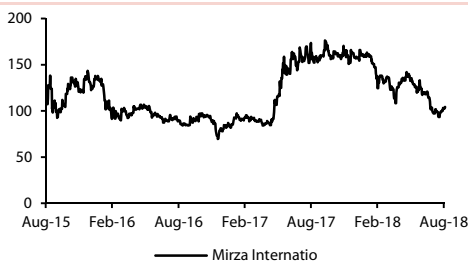
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### Mirza International price chart



Source: Bloomberg



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		Mirza International
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Rating	Market cap < Rs20bn	Market cap > Rs20bn but < 100bn	Market cap > Rs100bn
Buy	Upside > 20%	Upside > 15%	Upside > 10%
Hold	Upside between -20% to +20%	Upside between -15% to +15%	Upside between -10% to +10%
Sell	Downside > 20%	Downside > 15%	Downside > 10%

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