

MIRZA INTERNATIONAL LTD.

Analyst Recommendation: Buy

Buy

Accrue

Hold

Ease

Sell

BSE Code: 526642

NSE Code: MIRZAIN

Reuters Code: MIRZ.NS

Bloomberg Code: MRZI:IN

CMP: ₹21.80
6 months target: ₹28
SL: ₹20

EPS (₹) 4.2
 P/E (x) 5.2
 Revenue (₹mn) 4,728.5
 Operating Profit (₹mn) 846.0
 Operating Margin (%) 17.8
 EV/Operating Income (x) 3.9

Market Cap (₹mn) 2,021.0
 Free Float Mar Cap (₹mn) 687.7
 52 week high/low 28.1/14.7
 Total Debt (₹mn) 1,311
 Enterprise Value (₹mn) 3,283.9
 Book Value per Share (₹) 19.3
 P/BV (x) 1.1

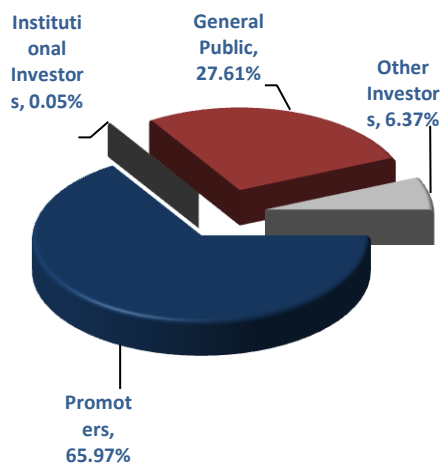
Quarterly income crossed ₹1k million mark in Q4FY11 and net profit increased over 50%

During Q4FY2011, Mirza International Ltd (MIL) has registered 18.34% growth in net sales at ₹1,167.7 million as against ₹986.7 million in Q4FY2010. Net profit of the company rose 50.65% to ₹93.4 million in Q4FY2011 as against ₹62 million during Q4FY2010. However, for the full year ended March 2011, the company recorded a turnover of ₹4,728.5 million as against ₹3,788.9 million during the previous year ended March 2010, registering a growth of 25%. The Profit before tax increased considerably by 96% to ₹542.2 million as against ₹276.1 million in the previous year. After providing for tax of ₹180.3 million, the net profit for the year surged by 108.6% to ₹391.8 million as against ₹187.8 million during the previous year.

Investment Rationale

- MIL is an export oriented company, generating 80% of revenue from the exports, covering around 24 countries.
- MIL remains on a capacity expansion mode in order to augment the shoe manufacturing capacities at Unnao and Greater Noida to 10 million pairs per annum in a period of 3 years from the current capacity of 4 million pairs per annum.
- Its flagship brand "Red Tape" is one of the highest selling brands in Men's footwear market. The company has recently entered into the apparel segment under the brand name "Red Tape".
- The company is also planning to increase its exclusive Red Tape stores count to 200 from the existing count of 50 stores in India by the end of 2011.
- Leather Industry enjoys a prominent position in the Indian economy mainly due to its greater employment opportunities and export. The leather sector has been identified as a thrust sector for exports promotion in India.

Shareholding pattern as on March 31, 2011



₹Million	FY10A	FY11A	FY12E	FY13E
Operating Income	3,788.9	4,728.5	5,863.3	7,182.6
Operating Profit	529.8	846.0	1,189.5	1,526.0
Net Profit	187.8	391.8	570.8	765.1
Share Capital	185.4	185.4	185.4	185.4
EPS (₹)	2.0	4.2	6.2	8.3
PE (x)	10.8	5.2	3.5	2.6
P/BV (x)	1.4	1.1	0.9	0.8
EV/Operating Income(x)	5.8	3.9	2.9	2.3
ROE (%)	13.0	21.9	26.3	29.2
ROA %	12.3	17.2	20.0	22.1

Brands positioning to explore the growth potential

Red Tape: The flagship brand of Mirza International, Red Tape caters to the hi-fashion and stylish segment, owing to its unmatched quality, skilled craftsmanship and trendy products. As a result of which, Red Tape has become the most admired premium lifestyle brand of India.

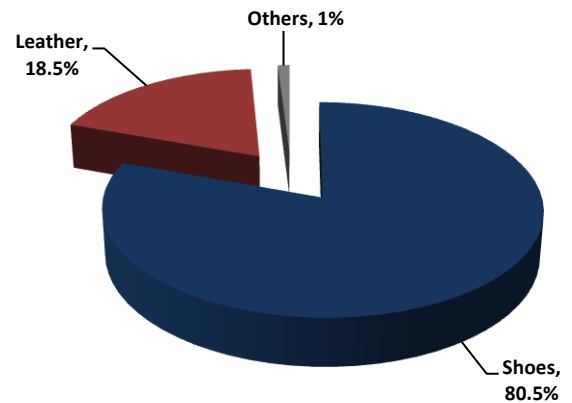
Red Tape Gal: After setting a foothold in the men's segment, Mirza International has also expanded its presence into the ladies footwear segment. Red Tape Gal brand was introduced in 2007, and offers trendy designs of footwear for women with an array styles and shapes. This brand was introduced in order to tap the immense opportunity prevailing in the women footwear segment. With a consistent focus towards quality and design, it has already become a preferred brand of the Indian women.

Oaktrak: It is a niche brand of formal footwear that is introduced for the higher executives and businessmen. The range is available in both casual and urban, without compromising on quality and style. Oaktrak is sold through independents, small retailers and multiples. Primary markets for the brand are UK and South Africa.

Setting up production unit at Greater Noida to augment its production capacities

MIL remains on a capacity expansion mode in order to augment the shoe manufacturing capacities. The company has already completed with the first phase of expansion programme for 1.7 million pairs at Unnao and the plant has been successfully commissioned. In addition to this, the company has recently started the trial production at the newly set up unit situated at Greater Noida. The commencement of production from the newly built Shoe factory will further boost the turnover as well as the profitability of the company. The capacity expansion will augment the manufacturing capacity of shoes to 10 million pairs per annum over the next three years from the current capacity of 4 million pairs per annum. The expansion plan would be financed through a mix of internal accruals and borrowings.

Segment revenue during Q4FY2011



Targeting pan India presence through 200 store chain by the end of 2011

Mirza International's flagship brand "Red Tape" is one of the highest selling brands in Men's footwear market. The company has recently entered into the apparel segment under the under brand "Red Tape". It will provide lifestyle fashion solutions that include apparels, leather accessories, etc, which will cater to the needs of the entire family. The various products offered include shirts, jackets, denims, tees, pants/shorts and accessories such as belts, socks, wallets etc. The company is also planning to increase its exclusive Red Tape stores count to 200 from the existing count of 50 stores in India by the end of 2011. These stores will be a combination of company owned and franchise stores. The investment to be made to set up a store would vary from ₹50-60 lakh per store. Apart from its EBO format, Red Tape products are also sold through shop-in-shops in renowned department stores such as Shoppers Stop, Lifestyle, Central, etc. Its chain of exclusive showrooms spread over 30 cities in India.

Strong focus on R&D and continuous product enhancement to capture larger market share

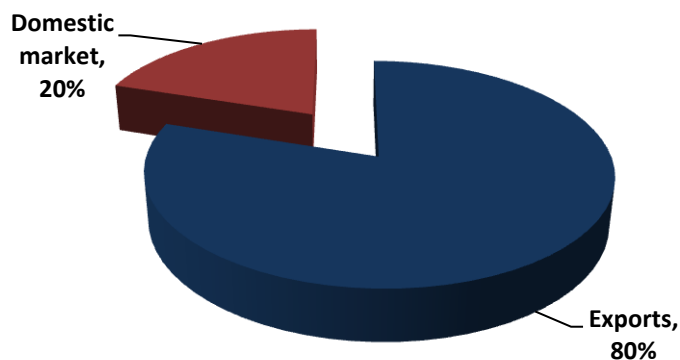
MIL has continued to remain focused towards investing on R&D in order to penetrate the market with new style, design and product line. The company has also set up a design team to look at improvising the product mix. It has a specialized in-house design team of more than 40 skilled designers internationally. MIL is having design centre in the UK, South Africa and India. In addition to this, the company has also set up a link of CAD-CAM facility to the UK centre to develop product faster. The company also remained focused towards supplying high quality leather and leather products to the overseas markets and gradually became one of the largest exporters of finished leather in the country.

Strong distribution network along with strategic tie-ups to boost growth

MIL has its own design studio, marketing offices, warehouses and distribution network in UK to take care of designs and promote its brands overseas. MIL is also having strategic marketing tie-ups and agents in Holland, France, Germany, Middle East and Australia. In addition to this, it is having marketing arrangement in South Africa. It has also set up a marketing office in the US to cater to the high demand. These all tie-ups and distribution network augurs well for the company in expanding its reach. MIL is one of the leading exporters to European region.

Derives major chunk of revenue from exports

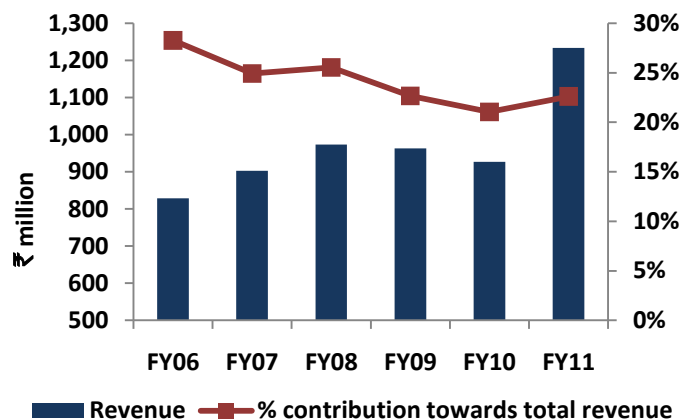
MIL is an export oriented company, generating 80% of revenue from the exports. MIL exports its products to around 24 countries. Its primary export market includes UK, Europe, South Africa, New Zealand, Middle East, etc. The company sells 15% of the total export under the brands Red Tape and Oak Trak in Europe, while, the remaining 85% is being despatched to international companies, to be sold under their own labels. Among the total exports, 70% of the exports are from UK, catering to the mid-segment of men's leather shoes that are sold through 300 prime outlets.



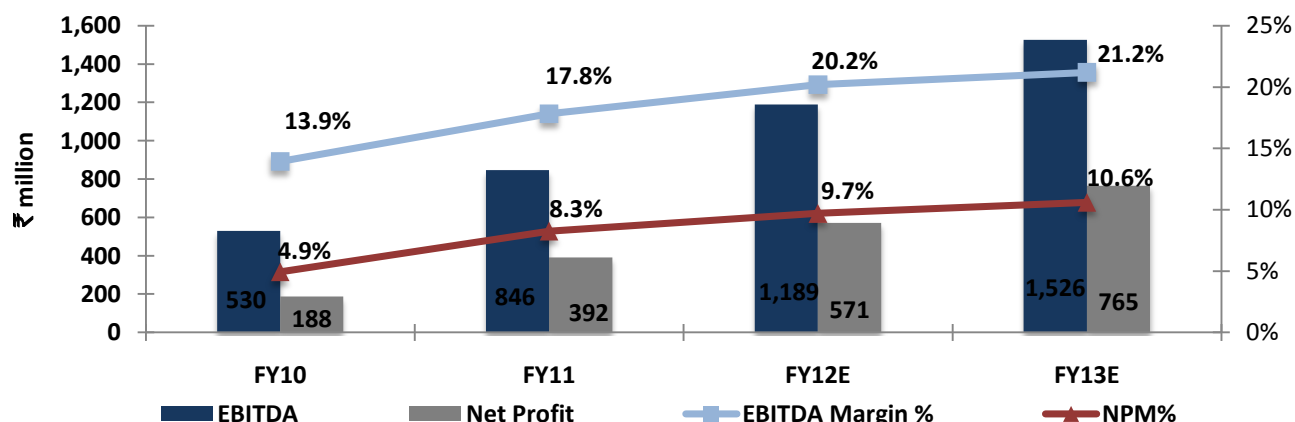
Tannery division aids to reduce risk on revenue

MIL's tannery division deals in the manufacturing of finished leather from raw hides and wet blues. The company sources its rawhides from Europe and manufactures leather according to the international standard, ensuring that no banned chemicals are used in the production process. The leather then sold under the international supplier's label. The tannery capacity of MIL stood at 20 million sq ft per annum. The tannery is located at Magarwara in Unnao. These plants are backed by more than 25 dedicated ancillary units. This division contributes around 20% towards the total revenue, thereby assists in reducing the risk of its revenue generation.

Revenue trend from Tannery division



Capacity expansion will augment the margins



SWOT analysis of Mirza International

Strength	Weakness
<ul style="list-style-type: none"> • Strong focus on R&D towards maintaining quality and helps to stay update on product style • Innovative product design will lead to expand its strong foothold in the overseas as well as in the domestic market • Strong brand name under its product umbrella like Red Tape aids to better acceptability of the products 	<ul style="list-style-type: none"> • Low Market penetration in domestic market has restricted the sales volume growth • Lack of proper advertising and promotion has restricted the company to fight out against increasing competition • Increase use of tanneries could invite government restriction as these are environment hazard.
Opportunities	Threats
<ul style="list-style-type: none"> • Sports segment still to be tapped as it has not entered into sports section of shoes and accessories • Chinese counterparts have given a considerable competition due to cost advantage. But with strengthening of Chinese Yuan and Europe imposing antidumping duty on Chinese footwear provides an edge for Indian footwear exporter to be a preferred supplier 	<ul style="list-style-type: none"> • Fluctuating commodity prices, unstable interest rates and lack of infrastructure facilities could disrupt MIL's Capex plan. • Slowdown in the global economy along with exposure to currency fluctuation would impact on company's earnings, as it derives majority of revenue from export

Business Overview

MIL is a leading exporter of Leather Footwear from India. It is engaged in manufacturing and marketing of leather, leather footwear and apparel. MIL has 2 business segments: Shoe Division and Tannery Division. The Tannery division manufactures finished leather and the shoe division manufactures finished leather shoes. The company markets its products to countries like UK, Europe, South Africa, US, Canada, New Zealand and the Middle East. The overseas markets contribute around 80% of the total sales to 24 countries across the globe. MIL sells 15% of the total export under the brands Red Tape and Oak Trak in Europe, while, the remaining 85% is being despatched to international companies, to be sold under their own labels. The company is having 4 manufacturing plants situated at Unnao (Uttar Pradesh) and Noida (Uttar Pradesh). The Company has three brands that include Red Tape, Oaktrak and Redtape Gal. Red Tape is the flagship brand of the company. Red Tape operates in the apparel sector, footwear segment and men's clothing and accessories. Oaktrak is a brand of formal footwear.

Balance Sheet

(₹ million)	FY10A	FY11A	FY12E	FY13E
Share Capital	185.4	185.4	185.4	185.4
Reserve and surplus	1,259.0	1,600.0	1,984.0	2,430.4
Net Worth	1,444.4	1,785.4	2,169.4	2,615.8
Loan funds	1,042.7	1,310.9	1,442.0	1,586.2
Deferred Tax Liability	185.9	189.0	198.4	208.3
Capital Employed	2,673.0	3,285.3	3,809.8	4,410.3
Total Fixed Assets	1,732.1	2,036.3	2,321.4	2,646.4
Investments	9.0	10.0	11.0	12.1
Deferred Tax Assets	12.9	14.9	16.4	18.0
Net Current Assets	919.0	1,224.1	1,461.1	1,733.8
Capital Deployed	2,673.0	3,285.3	3,809.8	4,410.3

Profit & Loss Account

(₹million)	FY10A	FY11A	FY12E	FY13E
Operating Income	3788.9	4728.5	5863.3	7182.6
Other Income	11.4	15.3	16.8	17.7
Total Income	3800.3	4743.8	5880.1	7200.2
Operating Expenses	3270.6	3897.8	4690.7	5674.2
EBITDA	529.8	846.0	1189.5	1526.0
EBITDA Margin (%)	13.9	17.8	20.2	21.2
Depreciation	114.0	129.6	158.3	190.0
EBIT	415.8	716.5	1031.2	1336.0
EBIT Margin (%)	10.9	15.1	17.5	18.6
Interest	139.7	174.3	191.7	210.9
PBT	276.1	542.1	839.4	1125.1
Tax	94.3	180.3	268.6	360.0
PAT	181.8	361.9	570.8	765.1
Minority Interest	0.0	36.6	0.0	0.0
Net Profit	187.8	391.8	570.8	765.1
Net Profit Margin (%)	4.9	8.3	9.7	10.6

Key Ratios & Valuations

	FY10A	FY11A	FY12E	FY13E
EBITDA Margin (%)	13.9	17.8	20.2	21.2
EBIT Margin (%)	10.9	15.1	17.5	18.6
NPM (%)	4.9	8.3	9.7	10.6
ROCE (%)	15.6	21.8	27.1	30.3
ROE (%)	13.0	21.9	26.3	29.2
ROA (%)	12.3	17.2	20.0	22.1
EPS (₹)	2.0	4.2	6.2	8.3
Cash EPS (₹)	4.7	7.2	9.9	12.6
P/E (x)	10.8	5.2	3.5	2.6
BVPS (₹)	15.6	19.3	23.4	28.2
P/BVPS (x)	1.4	1.1	0.9	0.8
EV/Operating Income (x)	0.8	0.7	0.6	0.5
EV/EBITDA (x)	5.8	3.9	2.9	2.3
EV/EBIT (x)	7.3	4.6	3.3	2.7

Valuation

MIL remains on a capacity expansion mode in order to augment the shoe manufacturing capacities at Unnao and Greater Noida to 10 million pairs per annum in a period of 3 years from the current capacity of 4 million pairs per annum. Production at newly set up Shoe Factory at Greater Noida has already commenced and this will further augment the Company's turnover and overall profitability. Further, MIL is poised to grow well supported by its intense penetration in the retail chain stores as the company is planning to increase its exclusive Red Tape stores count to 200 from the existing count of 50 stores in India by the end of 2011. Separately, its well established design studio, along with continuous focus towards R&D in order to improve its product mix, strong distribution network and strategic marketing tie-ups will allow the company to maintain its growth trajectory. Considering the above aspects, we rate the stock as 'BUY' at the current market price of ₹21.80. At the current market price, the stock is trading at PE of 5.2x on FY11 EPS of ₹4.2 and 3.5x on FY12E EPS of ₹6.2.



Indbank Merchant Banking Services Ltd.
I Floor, Khiviraj Complex I,
No.480, Anna Salai, Nandanam, Chennai 600035
Telephone No: 044 – 24313094 - 97
Fax No: 044 – 24313093
www.indbankonline.com

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