Morning Insight

NOVEMBER 20, 2018

	19-Nov	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Indian Indices				
SENSEX Index	35,775	0.9	4.3	(5.7)
NIFTY Index	10,763	0.8	4.5	(6.2)
NSEBANK Index	26,301	0.2	4.8	(6.5)
NIFTY 500 Index	9,053	0.7	4.8	(7.3)
CNXMcap Index	17,592	0.5	6.5	(9.5)
BSESMCAP Index	14,539	0.4	3.2	(13.8)
World Indices				
Dow Jones	25,017	(1.6)	(1.7)	(2.9)
Nasdaq	7,028	(3.0)	(5.6)	(10.1)
FTSE	7,001	(0.2)	(0.7)	(7.8)
NIKKEI	21,821	0.6	(4.0)	(2.5)
Hangseng	21,821	0.6	(4.0)	(2.5)
Shanghai	26,372	0.7	1.8	(5.7)

Value traded (Rs cr)	19-Nov	% Chg Day
Cash BSE	2,460	(23.1)
Cash NSE	27,229	(22.2)
Derivatives	508,453	(12.7)

Net inflows (Rs cr)	16-Nov	MTD	YTD
FII	854	4,184	(38,501)
Mutual Fund	(164)	10	112,312

Nifty Gainers & Losers 19-Nov	Price (Rs)	Chg (%)	Vol (mn)
Gainers			
Yes Bank	205	7.2	64.3
ITC	285	2.9	16.7
Tata Motors	185	2.6	14.5
Losers			
Indiabulls H	734	(4.2)	9.0
Gail India	335	(2.2)	5.3
Bajaj Finance	2,361	(1.7)	1.4

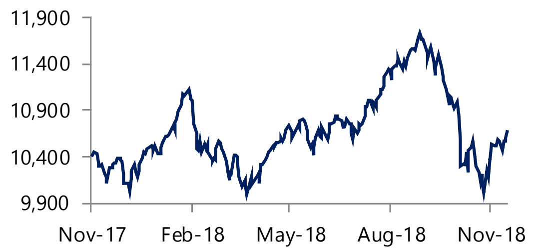
Advances / Declines (BSE)

19-Nov	A	B	T	Total	% total
Advances	260	498	53	811	100
Declines	170	519	51	740	91
Unchanged	2	29	15	46	6

Commodity	19-Nov	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Crude (US$/BBL)	66.6	(0.3)	(16.5)	(7.8)
Gold (US$/OZ)	1,224.1	0.2	(0.4)	2.6
Silver (US$/OZ)	14.4	0.1	(1.3)	(2.5)

Debt / forex market	19-Nov	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.8	7.8	7.9	7.9
Re/US$	71.7	71.9	73.3	69.8

Nifty



Source: Bloomberg

News Highlights

- The Reserve Bank of India board agreed to restructure small-scale loans and set up a committee to discuss the controversial issue of transfer of surplus reserves to the government as the central bank and the finance ministry appeared to put aside some of their differences to resolve some key issues. (ET)
- The Reserve Bank said it will inject Rs 80 bn into the system through purchase of government securities on November 22. "Based on an assessment of prevailing liquidity conditions and also of the durable liquidity needs going forward, the RBI has decided to conduct purchase of the following government securities under Open Market Operations for an aggregate amount of Rs 80 bn on Nov 22, 2018. (BS)
- A 10 GW solar tender that required power generators to set up equipment manufacturing facility received lukewarm response despite the government raising the ceiling tariff, sparking speculations of the tender being scrapped. (ET)
- The Supreme Court (SC) upheld the National Company Law Appellate Tribunal's (NCLAT's) order approving **UltraTech Cement's** revised bid for stressed asset Binani Cement, and dismissed a plea by the **Dalmia Bharat-**led consortium. (BS)
- **Reliance Industries Ltd.** is considering a plan to boost its oil-refining capacity by about half. The proposed plant, to come up at the world's biggest refining complex in Jamnagar, will be able to process as much as 30 million tons of crude a year. (BS)
- **GAIL (India)** and Gujarat Energy Transmission Corp have moved the National Company Law Tribunal seeking rejection of Arcelor Mittal's Rs.420 bn takeover plan for Essar Steel, saying operational creditors have been left out in the proposal. (BS)
- **HDFC** said that it has issued masala bonds under its medium-term note programme and raised Rs 5 bn. The rupee denominated bonds, popularly known as masala bonds, are issued under the MTN programme. (BS)
- Adani Gas, GAIL Gas and Bharat Gas Resources (a subsidiary of **BPCL**) will invest Rs 34 bn in creating city gas distribution network in Odisha in the next eight years in seven geographical areas covering 17 districts. (BS)
- The board of Directors meeting of the **HEG Limited** is scheduled to be held on the 26th Nov 2018, to consider inter-alia the proposal for buyback of the equity shares. (BSE)
- The board of Directors of **Oil India** has approved the proposal of buyback of equity shares. (BSE)
- **Bharti Airtel** is unlikely to pitch for expensive 5G airwaves in any potential early spectrum sale as it feels deployment of this ultra-fast wireless technology is three to four years away in India in the absence of suitable use-cases or a compatible devices ecosystem. (ET)
- **Jet Airways,** which has an annual interest outgo of Rs 9 bn, will have to go for a debt recast with its lenders if it does not get equity infusion in the near future and fails to sell assets. (BS)

What's Inside

- **Result Update:** Asian Granito India Ltd, Mirza International Ltd.

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

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Result Update

ASIAN GRANITO INDIA LTD

PRICE RS.182 **TARGET RS.185** **REDUCE**

Underperformance continues for another quarter in terms of realization, margins and profitability. Company expects volume growth to start witnessing improvement from Q3FY19 onwards. Sequentially, realizations have started witnessing improvement but acceptability of price hikes is likely to be watched out closely going forward owing to political uncertainty and lack of compliance towards e-way bill implementation.

Stock Details

Market cap (Rs mn)	:	5511
52-wk Hi/Lo (Rs)	:	618 / 156
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	137,851
Shares o/s (mn)	:	30

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	11,556	11,767	12,290
Growth (%)	8.6%	1.8%	4.4%
EBITDA	1,390	941	1,106
EBITDA margin (%)	12.0%	8.0%	9.0%
Net profit	526	255	349
EPS (Rs)	17.5	8.5	11.6
Growth (%)	16.9%	-51.5%	36.7%
BVPS (Rs)	143.5	150.4	160.4
DPS (Rs)	1.3	1.3	1.3
ROE (%)	12.6	5.8	7.5
ROCE (%)	14.1	8.0	9.6
P/E (x)	10.4	21.5	15.7
EV/EBITDA (x)	6.2	9.2	7.9
P/BV (x)	1.3	1.2	1.1

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Sep-18	Jun-18	Mar-18
Promoters	32.4	32.5	32.5
FII	3.4	4.5	6.4
DII	7.4	7.6	7.4
Others	56.6	55.4	53.6

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Asian Granito India	2.1	(18.3)	(59.5)
Nifty	4.5	(6.2)	1.6

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

Key highlights

Asian Granito revenue for Q2FY19 was in line with our estimates but it was largely led by sharp jump in outsourced tile volume by 27.6% YoY. Overall volumes were up by 7.1% YoY as transportation strike in July and Kerala floods impacted volume growth. Operating margins declined sharply sequentially and on yearly basis to 8.6% due to lower realization, higher gas prices and higher proportion of outsourced tiles. Net profit performance stood lower than our expectations and was impacted by fall in margins.

Valuation and recommendation

Stock is currently trading at valuations of 21.5x and 15.7x on FY19 and FY20 estimates respectively. Post revising our estimates, we arrive at a revised price target of Rs 185 based on 16x FY20 estimated earnings (Rs 255 earlier based on 16x FY20 estimates). We downgrade the stock to REDUCE from ACCUMULATE earlier as we believe that challenges on demand growth, gas prices and any potential imposition of anti-dumping duty by exporting nations may weigh on the company's volume and realizations going forward.

Consolidated financial highlights

(Rs mn)	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Net Sales	**2825**	**2730**	**3.5%**	**2387**	**18.4%**
Total Expenditure	2645	2374	11.4%	2183	21.2%
EBITDA	**180**	**356**	**-49.4%**	**204**	**-11.8%**
EBITDA %	6.4%	13.1%		8.6%	
Depreciation	68	50		64	
EBIT	**112**	**306**	**-63.3%**	**140**	**-19.9%**
Interest	82	88		72	
EBT (Exc other income)	31	218	-85.9%	68	-55.0%
Other Income	6	29		3	
EBT	**37**	**247**	**-85.0%**	**71**	**-47.9%**
Tax	9	107		18	
Tax (%)	22.9%	43.4%		25.6%	
PAT	**29**	**140**	**-79.5%**	**53**	**-46.0%**
Minority Interest After NP	-1	12		5	
Profit/Loss of Associate Company	14	22		10	
Extra-ordinary Items					
Net profit	**44**	**150**	**-70.7%**	**58**	**-24.9%**
Equity	300.9	300.9		300.9	
EPS (Rs)	**1.5**	**5.0**	**-70.7%**	**1.9**	**-24.9%**

Source: Company

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Revenue growth in line with our estimates

Asian Granito revenue for Q2FY19 was in line with our estimates but it was largely led by sharp jump in outsourced tile volume by 27.6% YoY. Own manufactured tile volumes were down by 3.2% YoY and realizations were down by 1.6% YoY. Associate plant volumes were down by 4.2% YoY and associate plant realization were down by 3.9%. Overall volumes were up by 7.1% YoY as transportation strike in July and Kerala floods impacted volume growth. Company expects volume growth to start witnessing improvement from Q3FY19 onwards.

Though average realizations are down by 3.9% YoY with pressure across the segments, but sequentially realizations have improved by 4.7% led by price hikes taken by the company during Q2FY19 and even recently in Q3FY19.

Segmental details on revenue and volumes

(Rs mn)	Q2FY18	Q2FY19	YoY (%)
Revenues			
Own manufacturing	1139	1085	-4.7%
Outsourcing	855	1027	20.1%
Associate	656	616	-6.1%
Volumes (MSM)			
Own manufacturing	3.1	3.0	-3.2%
Outsourcing	2.9	3.7	27.6%
Associate	2.4	2.3	-4.2%
Realization			
Own manufacturing	367	362	-1.6%
Outsourcing	295	278	-5.9%
Associate	273	268	-2.0%
Average	315	303	-3.9%

Source: Company, Kotak securities – Private Client Research

Company has mentioned that demand for quartz has remained strong and it is in the process of commissioning third line of Quartz by Dec, 2018. Company sold 1.2 mn sq m marble and 1,40,000 sq m of quartz during the quarter with total revenues of Rs 350 mn.

We maintain our estimates and expect revenues to grow at a CAGR of 3.2% between FY18-20.

Update on export markets

Demand from export markets (Latin America, Europe, South East Asia and other parts of the world) has remains strong. However pricing remains under pressure in-order to gain market share as the benefit of rupee deprecation is passed on to export customers. Offlate, the concern regarding imposition of anti-dumping duty on tile exports from India to GCC region has been in news. Out of total exports of AGL, nearly 25-30% are exported to GCC region. As per media reports, the Gulf Cooperation Council (GCC) has started an anti-dumping investigation against imports of ceramics and porcelain products of Indian, Chinese and Spanish origin to the GCC. Saudi Arabia is the 7th largest ceramic-consuming country, with 248mn sqm of annual demand, according to Ceramic World Reviews 2016 data. Due to sharp increase in imports offlate, the domestic prices in GCC region had corrected sharply - almost 25% decline in prices over the past five years.

We believe that imposition of anti-dumping duty, if implemented, would be negative for the sector and even for AGL.

Operating margins and net profits impacted by price decline and higher gas prices

Operating margins have witnessed a decline due to pressure on realizations and higher gas prices. Gas prices have moved up by 23% from April, 2018 till date. Second round of increase from APM(ONGC) and Sabarmati Gas has happened from Oct, 2018 taking the average gas price to around Rs 37 per cubic meter as against Rs 27 per cubic meter in Q2FY18. The advantage of low gas prices from Amazoon and Crystal plants is also not reflected in recent past due to lower realization and capacity utilization from the said plants.

Realizations were also under pressure thereby putting pressure on overall margins. Due to higher sales from low value added products too, margins were impacted in the quarter and came below our estimates.

AGIL is continuously putting efforts to improve margins such as increasing the B2C sales from the current level 39% in FY18 to 50% in next 2-3 years via strengthening distribution network, opening exclusive brand showrooms, trade incentives on high value products, participation in key trade exhibitions etc. Along with this, with increased capacity in Quartz over next 2-3 years on its own and JVs is also likely to help in margin growth. This will help in increasing margins in the longer run.

Though gas prices are likely to come down going forward and realization have also started improving sequentially, performance may remain impacted going forward if the price hikes are not accepted owing to political uncertainty and lack of compliance towards e-way bill implementation. We thus revise our estimates downwards to factor in higher gas prices and expect margins of 8%/9% for FY19/20 respectively. (as against earlier estimate of 10%/11% estimated earlier for FY19/20 respectively).

Net profit performance came lower than our expectation and was impacted by lower margins.

Valuation and recommendation

Stock is currently trading at valuations of 21.5x and 15.7x on FY19 and FY20 estimates respectively. Post revising our estimates, we arrive at a revised price target of Rs 185 based on 16x FY20 estimated earnings (Rs 255 earlier based on 16x FY20 estimates). We downgrade the stock to REDUCE from ACCUMULATE earlier as we believe that challenges on demand growth, gas prices and any potential imposition of anti-dumping duty by exporting nations may weigh on the company's volume and realizations going forward.

Company background

Asian Granito India Limited (AGL) was established in 2000 by Mr. Kamlesh Patel and Mr. Mukesh Patel. AGL is one of the top three Indian Ceramic Companies engaged in the business of manufacturing, and trading of Ceramic Wall, Floor, Vitrified Tiles, Marble & Quartz Headquartered in Gujarat. AGL has 8 manufacturing facilities in Gujarat. AGL has production of 1,02,900 sqm per day including outsourcing. Pan India marketing & distribution network of more than 6000 dealers and sub-dealers and over 231+ showrooms with global footprint with exports to over 55+ countries.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**10,639**	**11,556**	**11,767**	**12,290**
% change YoY	7.0	8.6	1.8	4.4
EBITDA	**1,271**	**1,390**	**941**	**1,106**
% change YoY	36.0	9.4	(32.3)	17.5
Other Income	35	29	20	25
Depreciation	242	254	273	290
EBIT	**1,064**	**1,166**	**688**	**841**
% change YoY	44.0	9.5	(41.0)	22.2
Net interest	396	365	357	352
Profit before tax	**668**	**800**	**331**	**488**
% change YoY	52.0	19.8	(58.7)	47.7
Tax	190	256	93	137
as % of PBT	28.4	32.0	28.0	28.0
Profit after tax	**478**	**544**	**238**	**352**
Minority interest	43	43	20	40
Share of profit of associates	15	25	37	37
Net income	**450**	**526**	**255**	**349**
% change YoY	61.0	16.9	(51.5)	36.7
Shares outstanding (m)	30.1	30.1	30.1	30.1
EPS (reported) (Rs)	**15.0**	**17.5**	**8.5**	**11.6**
CEPS (Rs)	23.0	25.9	17.6	21.2
DPS (Rs)	1.30	1.30	1.30	1.30

Source: Company, Kotak Securities – Private Client Research

Balance Sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	186	208	121	36
Accounts receivable	3,110	4,005	3,623	3,784
Inventories	2,734	2,759	2,797	2,921
Loans and Adv & Others	763	259	468	483
Current assets	6,793	7,230	7,008	7,223
Other non current assets	-	74	74	74
LT investments	165	227	227	227
Net fixed assets	4,064	4,338	4,565	4,675
Total assets	**11,022**	**11,870**	**11,875**	**12,199**
Payables	2,456	2,965	2,760	2,883
Others	354	335	335	335
Current liabilities	2,810	3,299	3,095	3,217
Provisions	144	113	114	114
LT debt	3,501	3,574	3,574	3,474
Min. int and def tax liabilities	557	566	566	566
Equity	301	301	301	301
Reserves	3,710	4,016	4,224	4,525
Total liabilities	**11,022**	**11,870**	**11,875**	**12,199**
BVPS (Rs)	133.3	143.5	150.4	160.4

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	1,036	1,148	705	838
Depreciation	242	254	273	290
Change in working capital	(567)	93	(69)	(177)
Chgs in other net current assets	127	(84)	17	16
Operating cash flow	838	1,410	926	966
Interest	(396)	(365)	(357)	(352)
Tax	(190)	(287)	(108)	(152)
Cash flow from operations	**252**	**758**	**460**	**462**
Capex	(329)	(528)	(500)	(400)
(Inc)/decrease in investments	(35)	(62)	-	-
Cash flow from investments	**(364)**	**(590)**	**(500)**	**(400)**
Proceeds from issue of equity	75	-	-	-
Increase/(decrease) in debt	149	73	-	(100)
Proceeds from share premium	(99)	(173)	-	-
Dividends	-	(46.9)	(46.9)	(46.9)
Cash flow from financing	**125**	**(147)**	**(47)**	**(147)**
Opening cash	173	186	208	121
Closing cash	**186**	**207**	**121**	**36**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	11.9	12.0	8.0	9.0
EBIT margin (%)	10.0	10.1	5.8	6.8
Net profit margin (%)	4.2	4.6	2.2	2.8
Receivables (days)	87.1	112.4	112.4	112.4
Inventory (days)	88.9	86.7	86.7	86.7
Sales/assets(x)	2.6	2.7	2.6	2.6
Interest coverage (x)	2.7	3.2	1.9	2.4
Debt/equity ratio(x)	0.9	0.8	0.8	0.8
ROE (%)	10.2	12.6	5.8	7.5
ROCE (%)	11.9	14.1	8.0	9.6
EV/ Sales (x)	0.8	0.7	0.7	0.7
EV/EBITDA (x)	6.8	6.2	9.2	7.9
Price to earnings (x)	12.2	10.4	21.5	15.7
Price to book value (x)	1.4	1.3	1.2	1.1
Price to Cash Earnings (x)	7.9	7.0	10.4	8.6

Source: Company, Kotak Securities – Private Client Research

Result Update

MIRZA INTERNATIONAL LTD (MIL)

PRICE RS.81 **TARGET RS.104** **BUY**

MIL reported lower than expected Q2FY19 in terms of profit due to lower EBITDA margins and higher interest expenses.

Key Highlights

- MIL reported revenue of Rs 2.9bn, a growth of 23% yoy led by 41.7% yoy growth in branded shoes and 8.1% yoy growth in make to order exports. Make to order exports revenue recovered after long time with strong performance in rest of the world market. On domestic side, domestic brand sales grew by 60% yoy driven by robust growth in apparel and strong growth in new brands and products.
- EBITDA margin declined by 320 bps yoy to 14.4% and was below our estimates on account of lower margins in the branded shoes business on yoy basis led by higher discounts, MTM forex loss due to rupee depreciation and loss in tannery business due to cleaning up of old stock. The company witnessed increase in working capital which took its debt to Rs 3.5 bn (Vs Rs 2.7 bn at the end of Q4FY18).
- MIL management has maintained guidance for 50% growth in FY19E revenue from domestic brand business based on strong response expected for new brands and apparel. The company has good order in exports business for the next 3 months and expects 2-3% yoy growth in the segment in FY19E.

Valuation & outlook

We have cut our EPS estimates for FY19E & FY20E by 10.7% and 7.3% respectively factoring in lower margins and higher interest expenses in our estimates. The stock is trading at PE of 14.3x and 11x based on FY19E and FY20E revised EPS of Rs 5.7 (vs Rs 6.3) and Rs 7.4 (vs Rs 8.0), respectively. We retain our Buy rating on the stock with revised target price of Rs104 (Vs Rs120 earlier).

Quarterly performance table (standalone)

Year to March (Rs Mn.)	Q2FY19	Q2FY18	% Chg	Q1FY19	% Chg
Net Revenues	**2,958**	**2,404**	**23.0**	**2,618**	**13.0**
Raw Materials Cost	1,643	1,187	38.4	1,410	16.5
Gross Profit	1,315	1,217	8.0	1,209	8.8
Employee Expenses	241	217	10.6	227	6.2
Other Expenses	649	575	12.7	550	17.9
Operating Expenses	2,532	1,980	27.9	2,187	15.8
EBITDA	**426**	**424**	**0.3**	**432**	**(1.4)**
EBITDA margin	14.4%	17.7%		16.5%	
Depreciation	85	75	12.1	79	7.5
Other income	1	0	-	0.6	
Net finance expense	91	53	70.7	73	23.2
Profit before tax	252	296	(15.0)	280	(10.3)
Provision for taxes	90	102	(11.8)	100	(9.1)
Reported net profit	**161**	**193**	**(16.7)**	**181**	**(10.9)**
Net profit margin %	5.4	8.0		6.9	

Source: Company

Stock Details

Market cap (Rs mn)	:	9709
52-wk Hi/Lo (Rs)	:	175 / 68
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	254,034
Shares o/s (mn)	:	120

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	9,721	11,042	12,853
Growth (%)	3.9	13.6	16.4
EBITDA	1,740	1,741	2,140
EBITDA margin (%)	17.9	15.8	16.6
PAT	784	681	890
EPS	6.5	5.7	7.4
EPS Growth (%)	10	(13)	31
Book value (Rs/share)	48	52	58
Dividend per share (Rs)	0.9	0.8	1.0
ROE (%)	14.6	11.3	13.4
ROCE (%)	18.6	15.0	16.9
P/E (x)	12.4	14.3	11.0
EV/EBITDA (x)	7.1	7.7	6.2
P/BV (x)	1.7	1.5	1.4

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Sep-18	Jun-18	Mar-18
Promoters	70.2	70.4	73.5
FII	1.4	3.6	4.5
DII	2.5	2.9	2.8
Others	25.9	23.0	19.2

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Mirza International	1.2	(19.6)	(35.9)
Nifty	4.5	(6.2)	1.6

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

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Strong Q2FY19 revenue, make to order exports recovered

Net revenue for Q2FY19 grew by 23% yoy to Rs2.95 bn which was above our estimates of Rs 2.5 bn. The revenue was led by 42% yoy growth in branded shoes business and 8.1% yoy growth in revenue from make to order exports. In exports business (including Red Tape exports), revenue from rest of world grew by 54% yoy (due to growth in France and Italy), with US was flattish and UK market declined by 6.3% yoy. Red Tape brand exports declined by 34% yoy. The exports business has recovered after successive decline for past several quarters. As per the management, the company has good order in exports for next three months, and expects 2-3% yoy growth in FY19 exports.

Strong Growth in Domestic branded business

On domestic side, domestic brand sales grew by 60% yoy which recovered after a slower growth rate in Q1FY19. The company has guided for 50% growth in domestic brand sales expected to be at Rs 5.5-6 bn in FY19E. The growth in domestic brand sales was driven by 90% yoy growth in apparel (at Rs 380 mn and robust growth of 37% yoy in new brands and products which includes Bond Street, Red Tape sports, ladies footwear, etc. In terms of channel, wholesale channel witnessed weakness while E-commerce and retail continued to remain strong. The company is positive on domestic branded footwear business based on large product portfolio catering to various segments. Further, pickup in online stores and new EBOs would also support growth of domestic brands business.

EBITDA Margins at 14.4% was below our estimates

EBITDA for the quarter was flattish at Rs 426 mn (Vs estimates of Rs 413 mn). EBITDA margin for the quarter was at below our estimates at 14.4% (Vs estimates of 16.3%) due to of lower margins in the branded shoes business on yoy led by higher discounts, MTM forex loss due to rupee depreciation and loss in tannery business due to cleaning of old stock.

The EBIT margins in branded shoes business in Q2FY19 was at 16.9% (Vs 20.3% in Q2FY18) and in make to order exports business, it was at 17.2% (Vs 19.4% in Q2FY18). The margin was lower in the quarter due to higher discounts and increased overheads on account of new online stores opened by the company. These stores are yet to contribute significantly and are in process of ramping up. Apart from that, the raw material import (sports shoes, garments, etc) was also expensive due to currency depreciation.

The company expects lower EBITDA margin of 15-16% (vs earlier guidance of 17-18%) may continue for next one year as it would push new brands and products at discounted price.

PAT for the quarter declined by 16.7% to Rs 161 (vs our estimates of Rs 175 mn) on lower margins and higher finance expenses. The finance expenses for the quarter grew by 70.7% yoy to Rs 91 mn as the debt at the end of the quarter grew to Rs 3.5 bn (Vs Rs 2.7 bn in Q4FY18) due to increased working capital. Further, it has utilized Rs 1 bn limit for receivable discounting on exports side. The company expects debt to increase further by Rs 300-400 mn as it requires to meet investment requirement in new online stores and working capital in domestic brand business.

Maintained 50% yoy growth guidance in domestic brand business

The company has maintained 50% yoy growth guidance in domestic branded shoes and apparel business in FY19E. This would be driven by strengthening of sales and distribution of its brands. The company has currently 40 online stores which are 3-4x larger (~3000-3500 sqft size) than its EBOs (800-1000 sqft size) and sells products at discounted price like online retailers. The company plans to open 25 more online stores in current year to take it to 65 stores. Altogether, the company has 194 stores which includes 40 online stores, 143 offline EBOs and 11 factory outlets which are selling Red Tape branded leather and sports footwear, apparels and accessories. The company has also launched ladies sandals under brand name 'Mode' which are sourced from third party. The future expansion of this brand depends upon the initial response. This will expand its product basket and strengthen growth in domestic markets.

Other highlights

- In terms of distribution, retail contributed 45%, online 40% and wholesale contributed 15% to domestic brand revenue.
- The company is targeting capex of Rs 400-450 mn in FY19E
- Capex is expected to peak out in this year and next year onwards the company expects improvement in margins, reduction in working capital and improved cash flows

Outlook and valuation

We believe that the company is aggressively focusing on growing revenue in the domestic market by launching multiple products and brands through retail and online channel expansion. Its aggressive investment in these has resulted in lower margins, higher working capital, negative cash flows and increased debt position and are point of concern. We believe that the success of these brands and products would be the key and may take few years before resulting in improvement in cash flows and reduction in debt.

We have cut our EPS estimates for FY19E & FY20E by 10.7% and 7.3% respectively factoring in lower margins and higher interest expenses in our estimates. The stock is trading at PE of 14.3x and 11x based on FY19E and FY20E revised EPS of Rs 5.7 (vs Rs 6.3) and Rs 7.4 (vs Rs 8.0), respectively. We maintain our Buy rating on the stock (as we see upside in the stock post correction) with revised target price of Rs104 (Vs Rs120 earlier). We have assigned PE of 14x (Vs 15x) on FY20E EPS to arrive at our target price, factoring increased risk on earnings.

Revision in estimates

Particulars (Rs mn)	Previous		Revised		% Chg	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	10830	12799	11042	12853	2.0	0.4
EBITDA margin (%)	17.0	17.3	15.8	16.6	-130 bps	-60 bps
PAT	762	960	681	890	-10.7	-7.3
EPS Rs	6.3	8.0	5.7	7.4	-10.7	-7.3

Source: Kotak Securities Private Client Research

Company background

Mirza International Ltd (MIL), incorporated in 1979, is engaged in manufacturing and marketing of leather footwear and accessories in the domestic and the international market. 56% of the company's business comes from international markets where it mostly meets the outsourcing requirements of global retailers and footwear companies. On the other hand, domestic market contributes 44% of its total revenue where it sells leather shoes, sports shoes, sandals, fashion garment and accessories under its brand 'Red Tape', 'Bond Street'. The company is focused on mid to high-end fashion footwear segment and sells its products through exclusive brand outlets, online stores, large format stores, multi brand outlets and online channels. The company has a fully integrated in-house shoe production facility backed by its own tannery with its own pollution treatment plant, and a dedicated design studio.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**9,357**	**9,721**	**11,042**	**12,853**
% change yoy	1.1	3.9	13.6	16.4
EBITDA	**1,605**	**1,740**	**1,741**	**2,140**
% change yoy	(5.9)	8.4	0.1	22.9
Depreciation	291	316	338	363
EBIT	**1,314**	**1,424**	**1,403**	**1,777**
Other Income	9	4	4	4
Interest	259	250	384	444
Profit Before Tax	1,064	1,178	1,023	1,337
% change yoy	(8.1)	10.8	(13.2)	30.7
Tax	352	394	342	447
as % of EBT	33.1	33.5	33.5	33.5
PAT	**712**	**784**	**681**	**890**
% change yoy	(8.8)	10.1	(13.2)	30.7
Shares outstanding (mn)	120	120	120	120
EPS (Rs)	**5.9**	**6.5**	**5.7**	**7.4**
DPS (Rs)	0.9	0.9	0.8	1.0
CEPS (Rs)	8.3	9.1	8.5	10.4
BVPS (Rs)	41.7	47.5	52.3	58.5

Source: Company, Kotak Securities – Private Client Research

Balance Sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Paid - Up Equity Capital	241	241	241	241
Reserves	4,780	5,477	6,048	6,794
Net worth	5,020	5,718	6,289	7,035
Borrowings	1,489	2,700	3,700	3,700
Net Deferred tax	167	177	177	177
Total Liabilities	**6,677**	**8,595**	**10,166**	**10,912**
Net block	3,490	3,570	3,682	3,819
Capital work in progress	19	246	246	246
Total fixed assets	3,509	3,817	3,929	4,066
Investments	38	6	6	6
Inventories	2,642	3,827	4,840	5,423
Sundry debtors	674	1,325	1,664	1,761
Cash and equivalents	65	128	106	104
Loans and advances & Others	806	888	1,155	1,328
Total current assets	4,187	6,168	7,764	8,616
Sundry creditors and others	794	1,267	1,392	1,620
Provisions	263	128	141	155
Total CL & provisions	1,057	1,395	1,533	1,775
Net current assets	3,130	4,773	6,232	6,841
Total Assets	**6,677**	**8,595**	**10,166**	**10,912**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-Tax Profit	1,064	1,178	1,023	1,337
Depreciation	291	316	338	363
Change in WC	106	(1,579)	(1,481)	(611)
Other operating activities	(418)	(384)	(342)	(447)
Operating Cash Flow	**1,042**	**(469)**	**(462)**	**642**
Capex	(351)	(624)	(450)	(500)
Free Cash Flow	691	(1,093)	(912)	142
Change in Investments	(32)	32	-	-
Investment cash flow	**(383)**	**(592)**	**(450)**	**(500)**
Equity Raised	-	-	-	-
Debt Raised	(561)	1,211	1,000	-
Dividend	(127)	(127)	(110)	(144)
Other financing activity	(21)	40	-	-
CF from Financing	**(709)**	**1,124**	**890**	**(144)**
Change in Cash	(50)	64	(22)	(2)
Opening Cash	115	65	128	106
Closing Cash	**65**	**128**	**106**	**104**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Profitability Ratios				
EBITDA margin (%)	17.2	17.9	15.8	16.6
EBIT margin (%)	14.0	14.6	12.7	13.8
Net profit margin (%)	7.6	8.1	6.2	6.9
Adjusted EPS growth (%)	(8.8)	10.1	(13.2)	30.7
Balance Sheet Ratios:				
Receivables (days)	26	50	55	50
Inventory (days)	103	144	160	154
Loans & Advances	31	33	38	38
Payable (days)	31	48	46	46
Cash Conversion Cycle (days)	130	179	207	196
Asset Turnover (x)	1.4	1.1	1.1	1.2
Net Debt/ Equity (x)	0.3	0.4	0.6	0.5
Return Ratios:				
RoCE (%)	19.7	18.6	15.0	16.9
RoE (%)	15.0	14.6	11.3	13.4
Valuation Ratios:				
P/E (x)	13.7	12.4	14.3	11.0
P/BV (x)	1.9	1.7	1.5	1.4
EV/EBITDA (x)	7.0	7.1	7.7	6.2
EV/Sales (x)	1.2	1.3	1.2	1.0

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 12% returns over the next 12 months
ACCUMULATE	–	We expect the stock to deliver 5% - 12% returns over the next 12 months
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 12 months
SELL	–	We expect the stock to deliver negative returns over the next 12 months
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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NA	–	**Not Available or Not Applicable.** The information is not available for display or is not applicable
NM	–	**Not Meaningful.** The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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