September 18, 2023

Mirza International Limited: Ratings reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	17.00	0.00	-
Fund Based – Working Capital Facilities	410.00	35.00	[ICRA]A- (Stable); rating reaffirmed and removed from Rating Watch with Developing Implications, Stable outlook assigned
Non-fund Based – Working Capital Facilities	25.00	10.00	[ICRA]A2+; rating reaffirmed and removed from Rating Watch with Developing Implications.
Long term – Unallocated	28.00	0.00	-
ST Fund based Others	0.00	170.00	[ICRA]A2+; rating reaffirmed and removed from Rating Watch with Developing Implications.
Total	**480.00**	**215.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings of Mirza International Limited (MIL) were placed on Watch with Developing Implications, pending demerger of the domestic business into a separate company named Redtape Limited on a mirror shareholding basis along with amalgamation of RTS Fashions Private Limited, the ultimate holding company of Mirza U.K. Limited, with MIL. ICRA has now removed the ratings from Watch, following completion of the demerger/amalgamation process.

While reaffirming the ratings, ICRA has factored in the established track record of MIL as one of the leading leather footwear exporters in India, its backward-integrated manufacturing operations, supporting its cost competitiveness, along with its experienced promoter and management team. While ICRA notes that the company’s scale and profits have significantly reduced in FY2023 post demerger, the financial position continues to remain comfortable with reduction in total debt to ~Rs. 107 crore as on March 31, 2023 (including bills discounted) from Rs. 311 crore as on March 31, 2022 (prior to de-merger) and healthy debt protection metrics. In Q1 FY2024, the company reported an operating income of ~Rs. 125 crore with an OPBDITA of Rs. 11 crore. The export business is expected to remain stable with a likely improvement in the revenue and profits compared to the previous fiscal. The current manufacturing capacity remains sufficient to meet the incremental requirement at present and no major capital expenditure is required as of now. The liquidity position also remains adequate with sufficient cushion in the working capital limits and unencumbered cash and equivalent of Rs. 15 crore as of March 2023.

However, the ratings remain constrained by the high working capital intensity (37% in FY2023) owing to the high level of inventory and debtors' requirement. The ratings also continue to be impacted by the intense competition in the leather footwear industry, geographical concentration in exports (particularly to the UK), and vulnerability of profits to adverse movements in raw material prices and changes in rates of export incentives.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will continue to benefit from its strong business profile, supported by its established client base. Further, ICRA expects the company's debt metrics to remain comfortable over the medium term, with anticipated healthy accruals and in the absence of debt-funded capex plans.

Key rating drivers and their description

Credit strengths

Established track record in the footwear business – MIL has a long track record in domestic and global footwear market. Its manufacturing capacity is spread across four manufacturing units in Kanpur and Noida (Uttar Pradesh). MIL has a reputed customer base comprising Steve Madden, Lucky Brand, Camuto Group, DSW, Crown Vintage, Kenneth Cole, Marc Fisher, Next, Marks & Spencer, among others.

Comfortable financial risk profile – The financial risk profile of MIL remains comfortable with reduction in debt to ~Rs. 107 crore as on March 31, 2023 (including bills discounted) from Rs. 311 crore as on March 31, 2022 (prior to the de-merger). The coverage indicators too remained comfortable with an interest coverage ratio of 6.3 times in FY2023. In Q1 FY2024, the company reported an operating income of ~Rs. 125 crore with an OPBDITA of Rs. 11 crore. In FY2024, the export business is expected to remain stable with a likely improvement in the revenue and profits compared to the previous fiscal. Going forward, in the absence of any major debt-funded capex, the capital structure and coverage indicators are likely to remain strong.

Backward integrated nature of operations with leather tanneries and complete footwear manufacturing facilities – MIL has backward-integrated operations amid presence of leather tanneries and complete footwear manufacturing facilities, most of which are concentrated near Kanpur. This ensures quality control and helps capture value addition across the supply chain, besides enabling the company to fulfil orders in a timebound manner while maintaining the quality of the products.

Credit challenges

Reduction in scale post de-merger – Demerger of the branded business into Redtape Limited has reduced the scale of operations. As the demerged business was more profitable, the same impacted the profitability and cash accruals of the company. The company plans to focus on the export business in MIL and the revenues and profits are expected to gradually improve with the addition of new clients/business.

Elevated working capital intensity – MIL's working capital intensity remained elevated at 37% in FY2023 owing to high level of inventory and receivables and reduced scale, thus impacting the liquidity position to an extent. However, ICRA notes that the company has sufficient headroom in working capital limits, thus providing comfort to an extent.

Vulnerability of profits to adverse movement in raw material prices and export incentives – MIL is a manufacturer of leather and leather products, and its operations are dependent on procuring quality animal skins at competitive prices. Also, as an exporter, MIL enjoys export incentives and interest subvention under various schemes run by the Government of India (GoI). Any adverse change in raw material availability/prices, exchange rates, or in the GoI's regulations may adversely impact the company's profitability.

Environmental and Social Risks

Environmental considerations

The exposure of footwear entities to environmental risks emanates from the tightening regulatory requirements related to waste treatment and the additional costs required to be incurred for treating and managing effluents. Lapses in adhering to the statutory pollution limits could invite fines and penalties, which could also impact profitability. Thus, an entity's ability to remain compliant with the necessary regulatory stipulations remains a key consideration. Further, the entities face the risk of physical climate change from drought that may impact water availability. As footwear manufacturing involves a high volume of water consumption, any disruption in operations because of the lack of availability of water would have a bearing on the credit profile.

Social considerations

The exposure of footwear entities to social risks is generally not material. However, being a manpower-intensive segment, the entities are exposed to the risks of disruptions due to inability to properly manage human capital in terms of their safety and overall well-being. Also, the adverse impact of environmental pollution in nearby localities could trigger local criticism. An entity's track record of carrying out its operations responsibly over the years provides rating comfort. The risk profile of entities is also influenced by other social factors such as changing consumer preferences, responsible sourcing, product and supply chain sustainability, owing to high reliance on external suppliers.

Liquidity position: Adequate

The liquidity position is **adequate**, reflected by the unutilised portion of the working capital limits. MIL reported an average utilisation of 18% of the sanctioned working capital limits for the past 12 months ending in April 2023. The company only has auto loans. Further, it has a buffer from unencumbered cash and equivalent of Rs. 15 crore as of March 2023. The company has no major capex plan and limited debt repayments for which the cash accruals are more than sufficient.

Rating sensitivities

Positive factors – A significant increase in the scale of operations and profitability, leading to an improvement in debt protection metrics and healthy liquidity position on a sustained basis, could lead to ratings upgrade.

Negative factors – The ratings may be downgraded in case of a sustained decline in revenues and profitability, resulting in weakening of debt protection metrics. Moreover, pressure on the liquidity, driven by any major debt-funded capex or a stress in the working capital cycle, could also be a negative trigger. A specific credit metric for ratings downgrade includes an interest coverage below 4 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Footwear Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated

About the company

Mirza International Limited (MIL) was incorporated in 1979 as a private limited company and was promoted by Mr. Irshad Mirza and his son Mr. Rashid Mirza. Initially, its operations were limited to manufacturing and sale of processed leather through its own tannery unit in Kanpur. However, in 1990, MIL established an integrated shoe factory at Unnao, Kanpur. At present, the manufacturing capacity is spread across its four manufacturing units in Kanpur and Noida. Besides the above manufacturing capacities, the company outsources the production of footwear to other vendors. It has expanded its presence in the domestic market since FY2019. The various brands of MIL include Thomas Crick, Off The Hook London and Oaktrak.

Key financial indicators (audited)

	FY2022^	FY2023
Operating income	1,399.2	653.0
PAT	86.4	26.4
OPBDIT/OI	12.6%	9.4%
PAT/OI	6.2%	4.0%
Total outside liabilities/Tangible net worth (times)	0.6	0.5
Total debt/OPBDIT (times)	0.8	1.7
Interest coverage (times)	7.5	6.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

^financials are not comparable with FY2023 as the same includes financials of Redtape Limited for the first nine months.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31,2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					September 18, 2023	Mar 14, 2023	Oct 07, 2022	Nov 24, 2021	Mar 22, 2021
1	Fund Based – Term Loan	Long term	0.00	-	-	[ICRA]A- Rating Watch with Developing Implications	[ICRA]A-&	[ICRA]A-&	[ICRA]A- (Negative)
2	Fund Based – Working Capital Facilities	Long term	35.00	-	[ICRA]A- (Stable)	[ICRA]A- Rating Watch	[ICRA]A-&	[ICRA]A-&	[ICRA]A- (Negative)

						with Developing Implications			
3	**Non-fund Based – Working Capital Facilities**	short term	10.00	-	**[ICRA]A2+**	**[ICRA]A2+ Rating Watch with Developing Implications**	**[ICRA]A2+&**	**[ICRA]A2+&**	**[ICRA]A2+**
4	**Long term-unallocated**	Long term	0.00	-	-	**[ICRA]A- Rating Watch with Developing Implications**	**[ICRA]A-&**	**[ICRA]A-&**	**[ICRA]A- (Negative)**
5	**Fund based Others**	short term	170.00	-	**[ICRA]A2+**	-	-	-	-

&-on watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based – Working Capital Facilities	Simple
Non-fund Based – Working Capital Facilities	Very Simple
Fund based Others	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based – Working Capital Facilities	NA	NA	NA	35.00	[ICRA]A- (Stable)
NA	Non-fund Based – Working Capital Facilities	NA	NA	NA	10.00	[ICRA]A2+
NA	Fund based Others	NA	NA	NA	170.00	[ICRA]A2+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	MIL Ownership	Consolidation Approach
TNS Hotels and Resorts Private Limited	100.0%	Full Consolidation
RTS Fashion Ltd	100.0%	Full Consolidation
Mirza (U.K.) Limited	100.0%	Full Consolidation

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1100
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

Sumit Jhunjhunwala
+91 33 7150 1111
sumit.jhunjhunwala@icraindia.com

Prerna Aggarwal
+91 124 4545 380
prerna.aggarwal1@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody’s Investors Service is ICRA’s largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches