

September 10, 2024

Mirza International Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Working Capital Facilities	35.00	25.00	[ICRA]A- (Stable); rating reaffirmed
Non-fund Based – Working Capital Facilities	10.00	10.00	[ICRA]A2+; rating reaffirmed
ST Fund based Others	170.00	170.00	[ICRA]A2+; rating reaffirmed
Total	215.00	205.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation factors in ICRA's established track record of MIL as one of the leading leather footwear exporters in India, its backward-integrated manufacturing operations and its experienced promoter and management team. The financial profile of the company also remains satisfactory with limited reliance on debt and adequate debt protection metrics.

After reporting a YoY moderation in revenues in FY2024 due to weak export demand, MIL's revenues and profits increased in Q1 FY2025, led by improved order flow. The export business is expected to remain stable due to higher order inflows. 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. 16 crore as of June 2024.

The ratings, however, remain constrained by MIL's high working capital intensity of operations (37% in FY2024) owing to the high level of inventory holding and receivables position. The ratings also continue to be impacted by the intense competition in the leather footwear industry, high geographical concentration in exports (with ~60% of exports to the UK), and vulnerability of profits to adverse movements in raw material prices and changes in the rates of export incentives. ICRA also notes MIL's moderate capacity utilisation levels and losses in the tannery segment, though derives comfort from the fact that the same is primarily used for captive consumption.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company's debt metrics are expected to remain comfortable over the medium term, with anticipated healthy cash flows, led by improved order inflows in the export segment, and 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 units in Kanpur and Greater Noida (Uttar Pradesh). MIL has a reputed customer base comprising Next, Marks & Spencer, among others.

Comfortable financial risk profile – The financial risk profile of MIL remains comfortable with reduction in debt to ~Rs. 84 crore as on March 31, 2024 (including bills discounted) from Rs. 107 crore as on March 31, 2023. The coverage indicators too remained comfortable with an interest coverage ratio of 4.1 times in FY2024. In Q1 FY2025, the company reported an operating income of ~Rs. 144 crore with an OPBDITA of Rs. 10.5 crore. In FY2025, 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 healthy.

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, Uttar Pradesh. 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

Elevated working capital intensity – MIL's working capital intensity of operations remained elevated at 37% as on March 31, 2024 owing to high level of inventory and receivables. These remain on a higher side due to backward integrated process and 60-90 days of credit period offered to export customers.

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.

Exposed to intense competition and geographical concentration risks – The company is exposed to intense competition in both domestic and export markets, which puts pressure on margins. High competition has also impacted MIL's capacity utilisation in both footwear and tannery divisions. The same stood at 65% for the footwear division and 48% for the tannery division in FY2024. Moreover, the company is exposed to high geographical concentration risk as 60% of its sales is made to the UK.

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 additional costs required to be incurred for treating and managing effluents. The 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 disruption 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 of MIL is adequate, reflected by adequate unutilised portion of working capital limits. MIL reported an average utilisation of 50% of the sanctioned working capital limits for the past 13 months ending in July 2024. Further, it has a buffer from unencumbered cash and equivalent of Rs. 16 crore as of June 2024. The company has no major capex plan, going forward. The cash flows are expected to be sufficient for debt repayments of around Rs. 17 crore in FY2025.

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	The ratings are based on the consolidated financials of the company.

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. Various brands of MIL include Thomas Crick, Off The Hook London and Oaktrak.

Key financial indicators (audited, consolidated)

MIL Consolidated	FY2023	FY2024
Operating income	653.0	630.4
PAT	26.4	12.0
OPBDIT/OI	9.4%	7.7%
PAT/OI	4.0%	1.9%
Total outside liabilities/Tangible net worth (times)	0.5	0.4
Total debt/OPBDIT (times)	1.7	1.7
Interest coverage (times)	6.3	4.1

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
			September 10, 2024	September 18, 2023	Mar 14, 2023	Oct 07, 2022	Nov 24, 2021
1 Fund Based – Term Loan	Long term	0.00	-	-	[ICRA]A- &	[ICRA]A-&	[ICRA]A-&
2 Fund Based – Working Capital Facilities	Long term	25.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- &	[ICRA]A-&	[ICRA]A-&
3 Non-fund Based – Working Capital Facilities	short term	10.00	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+&	[ICRA]A2+&	[ICRA]A2+&
4 Long term-unallocated	Long term	0.00	-	-	[ICRA]A- &	[ICRA]A-&	[ICRA]A-&
5 Fund based Others	short term	170.00	[ICRA]A2+	[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	25.00	[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

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+ 91 22 61143442
kinjal.shah@icraindia.com

Sakshi Suneja
+91 22 61693349
sakshi.suneja@icraindia.com

Gaurav Singla
+91 124 4545366
gaurav.singla@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

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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