ICRA

August 30, 2017

Mirza International Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Term Loans	20 (earlier 75)	[ICRA] A (stable) reaffirmed
Fund-based Limits	350 (earlier 295)	[ICRA] A (stable) reaffirmed

* Instrument details are provided in Annexure I

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A (pronounced ICRA A)[1] for Rs. 370-crore[2] term loans and fund-based limits of Mirza International Limited (MIL). The outlook on long-term rating is Stable.

Rationale

The re-affirmation of MIL's rating takes into account its experienced promoters; its integrated manufacturing operations which increase its cost competitiveness and its established market position as one of the leading footwear exporters in India. The rating also derives comfort from the healthy growth in MIL's domestic turnover during the last two years mainly driven by increase in sales of products under the in-house "Red Tape" brand. Furthermore, with decline in debt level & interest expense in FY2017 along with the increase in cash flow from operations, MIL's debt protection indicators have improved - interest coverage ratio increased from 5.40 times in FY2016 to 6.19 times in FY2017, Total debt/OPBIDTA improved from 2.27 times as on March 31, 2016 to 2.09 times as on March 31, 2017 while gearing levels declined from 0.88 times to 0.68 times during the same period. Further, ICRA notes that post incurring substantial debt funded capital expenditure over the last three years, MIL has limited capital expenditure plans going forward and its annual cash accruals from operations are expected to remain comfortable to service the overall debt obligations in a timely manner.

The rating is however constrained due to decline in MIL's export revenues during FY2017 mainly on account of weak demand from its customers in the European region and referendum in United Kingdom (MIL's largest export destination) to withdraw from the European Union, which led to sharp depreciation in Great Britain Pound (GBP). The rating also factors in restriction on slaughter of cattle and closure of multiple slaughter houses and tanneries in Uttar Pradesh, which impacted the availability of raw material; high competitive intensity in the leather footwear industry, geographic concentration in MIL's revenue, its large working capital requirements and vulnerability of its profits to adverse movements in exchange rates, raw material prices and changes in duty drawback rates. Going forward, MIL's ability to grow its sales turnover while managing its working capital intensity as well as capital structure will be the key rating sensitivities.

[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

[2] 100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

- **Experienced promoters with long track record in the leather footwear business -** Mirza International Limited (MIL) was incorporated in 1979 as a private limited company. Initially the operations of the company were limited to manufacture and sale of processed leather through its own tannery unit in Kanpur (Uttar Pradesh). However in 1990, MIL established an integrated shoe factory at Unnao, Kanpur. Currently, the manufacturing capacity is spread across its 5 manufacturing units in Kanpur and Noida (Uttar Pradesh)
- **Established position in the export footwear market with diversified and large customer base -** MIL has a customer base of more than 200 clients, including reputed clients like Establisements Cleon, Debenhams Retail, Bugatti Shoes, Asda (a subsidiary of Wal-Mart), Next, Stead & Simpson, Shoe Zone, Stylo Battatt Shoes Ltd etc. Company has been doing business over the past many years and has bagged repeated orders from them reflecting positively on its track record
- **Established market position in the domestic market under "Red Tape" brand -** MIL's domestic sales includes sale of finished leather to its vendors and sale of footwear under the Red Tape brand through its own chain of stores across India and through various retail stores like Shopper's stop, Metro shoes, Lifestyle, Reliance retail, Regal shoes, Big bazaar etc. for shoes. Domestic sales witnessed a healthy growth of 22% in FY2017
- **100% hedging of export receivables since the past few years** – Post FY2011, MIL has changed its policy related to foreign exchange receivables and it now hedges maximum export receivables and does not indulge into speculative transactions. At the time of order booking, MIL knows the delivery schedule of the order and depending on the credit terms with various parties, it books the forward contracts. It has been following this practice since more than three years and the same is reflected in the minimal profit/ loss reported by the company on account of foreign currency fluctuations
- **Improvement in debt protection indicators in FY2017 on the back of steady internal cash generation and reduced leverage-** With decline in long term debt levels & interest expense in FY2017 along with the improvement in cash flow from operations, MIL's debt protection indicators have improved -interest coverage ratio increased from 5.40 times in FY2016 to 6.19 times in FY2017, Net Cash Accruals/ Total Debt increased from 25% in FY2016 to 26% in FY2017 and gearing levels declined from 0.88 times in FY2016 to 0.68 times in FY2017

Credit weaknesses

- **De-growth of 5% in export sales during FY2017-** Following weak demand from the customers in MIL's largest export market, United Kingdom (UK), due to UK's vote on exiting European Union and consequent sharp decline in value of Great Britain Pound (GBP), the company's exports have declined by 5% in FY2017
- **High working capital intensity of operations** – MIL's working capital intensity has consistently remained elevated, hovering around 53% in the last two years, due to significant investments made in inventory and receivables. The high working capital intensity necessitates large working capital borrowings to run the operations
- **Regulatory changes led to decline in profits -** Restriction on slaughter of cattle and closure of multiple slaughter houses and tanneries in Uttar Pradesh impacted the availability of raw material
- **Continuing sluggish economic growth in the European countries-** ~75% of the exports sales of MIL are coming from European continent, which is witnessing sluggish economic growth, that has led to two consecutive years of decline in exports
- **Vulnerability of profits to adverse movements in exchange rate, raw material prices and export incentives** – MIL is a manufacturer of leather and leather products and the 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 Government of India (GoI). Any adverse change in raw material availability/ prices or in GoI's regulations may impact company's profitability. However, the company is currently hedging 100% of its export receivables which mitigates the currency fluctuation risk

- **High Competition Intensity -** Leather industry is characterised by high competition intensity due to presence of large number of small to medium sized players owing to low entry barriers. This limits the pricing power of all players in the industry

Analytical approach

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Link to the applicable criteria

Corporate Credit Rating Methodology
Rating Methodology for Entities in the Footwear Industry

About the company

Mirza International Limited (MIL) was incorporated in 1979 as a private limited company promoted by Mr. Irshad Mirza and his son Mr. Rashid Mirza. Initially the operations of the company were limited to manufacture and sale of processed leather through its own tannery unit in Kanpur. However in 1990, MIL established an integrated shoe factory at Unnao, Kanpur. Currently, the company has a manufacturing capacity of 54 lakh pairs per annum, which is spread across its 5 manufacturing units in Kanpur and Noida. Besides the above manufacturing capacities, the company also outsources the production of footwear to other vendors, which exclusively cater to manufacturing footwear for Mirza International. The promoters together hold 64.8% stake in the company.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	918.35	935.67
PAT (Rs. crore)	51.17	71.18
OPBDIT/ OI (%)	15%	17%
RoCE (%)	18%	16%
Total Debt/ TNW (times)	0.88	0.67
Total Debt/ OPBDIT (times)	2.27	2.09
Interest coverage (times)	5.40	6.19
NWC/ OI (%)	53%	53%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Rating history for the last three years

Table

S. No	**Instrument**	**Current Rating (FY2018)**			**Chronology of Rating History for the past 3 years**			
		Type	**Amount Rated (Rs. Crore)**	**Date & Rating**	**Date & Rating assigned in FY2017**	**Date & Rating assigned in FY2016**	**Date & Rating assigned in FY2015**	**Date & Rating assigned in FY2015**
				Aug-17	Aug-16	Jul-15	Oct-14	Jul-14
1	Term Loans	Long Term	20	[ICRA]A (stable)	[ICRA]A (stable)	[ICRA]A (stable)	[ICRA]A (stable)	[ICRA]A (stable)
2	Fund-based Limits	Long Term	350	[ICRA]A (stable)	[ICRA]A (stable)	[ICRA]A (stable)	[ICRA]A (stable)	[ICRA]A (stable)

Note on complexity levels of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of Issuance/ Sanction	Coupon Rate	Maturity	Amount Rated/ Outstanding (Rs crore)	Current Rating and Outlook
Term Loan	--	--	25.02.2020	20.00	[ICRA]A (stable)
Fund-based Limits	--	--	--	350.00	[ICRA]A (stable)

Source: Mirza International Limited

Contact Details

Analyst Contact:

Mr. K. Ravichandran,
+91-44-45964301
ravichandran@icraindia.com

Mr. Shubham Jain
+91-124-4545306
shubhamj@icraindia.com

Mr. Kapil Banga
+91-124-4545391
Kapil.banga@icraindia.com

Relationship Contact:

Jayanta Chatterjee (+91-80-4332 6401)
jayantac@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**

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	