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MIL International Ltd (MIL)

-Increasing domestic market presence to drive growth

Multibagger Report

Recommendation	:	Buy
CMP	:	Rs 95
Target	:	NA
% Allocation	:	5%

Sector	:	Footwear
Sensex	:	27930
Bloomberg code	:	MRZI.IN
Reuters Code	:	MIRZ.BO

AT A GLANCE

52 Week High Low	:145.00/83.50
Mkt. Cap (Rs. in Crs)	:1139
Major Shareholders	
Promoters (%)	:73.78%
Free Float (%)	:26.22%

Background: MIL is an India-based company engaged in manufacturing and marketing leather and leather footwear. The company's operations are segmented as the Footwear division and the Tannery division. Its Tannery division manufactures finished leather from raw hides, wet blue and crust and the Footwear division manufactures finished leather shoes. The company exports its products to the European Union, Germany, the United Kingdom, the United States, Italy, and France, among other geographies. It operates an in-house shoe production facility and a design studio in London. Its brands include Red Tape and Oaktrak. The Red Tape brand's product portfolio includes men's footwear, women's footwear, shirts, jackets, denims, tees, pants/shorts and accessories.

Domestic Brands - Growth Driver

In the branded domestic segment, the management expects the company to report a ~25% CAGR over FY2016-18E to `365cr. The company anticipates strong growth for the company on the back of the company's wide distribution reach through its 1,000+ outlets including 120 exclusive brand outlets (EBOs) in 35+ cities and the same are expected to reach 200 over the next 2-3 years.

Strong Global Footprint- Strategic Fit

MIL exports its products to the European Union, the United Kingdom, the United States, Italy, and France, among other geographies. The company's major export revenue comes from the UK (73%), followed by the US (14%) and the balance from ROW. Exports constitute ~75% of the company's total revenue. The company is reasonably insulated in terms of client concentration. Among the company's clients are ASDA, River Island, Matalan, ASOS, Elan Polo, Steve Madden etc. In the UK, the company has a market share of ~25% in the men's leather footwear mid segment category.

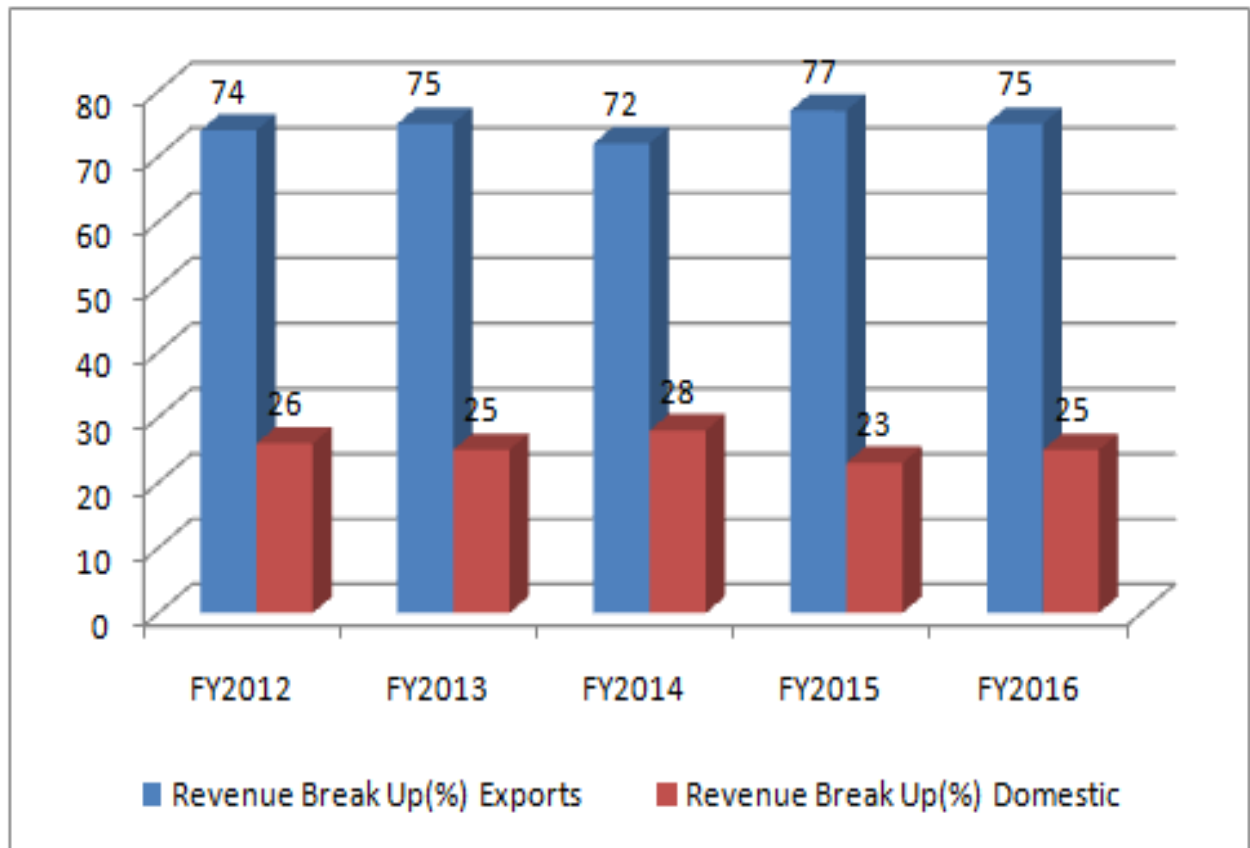
Outlook & Valuation

We Initiate coverage of MIL International with a **BUY** rating. Given the Increasing Capacity, Increasing Capacity Utilization, Penetration in the domestic market, Improving market share and an improving product mix are key positives for the stock. We expect MIL International to report an EPS growth of 18% for the next 3 years. At the CMP of INR 95, the stock trades at 11.87x EPS of FY18. **Key Risks** to our recommendation include any steep increase in competition from peer companies and any steep increase in raw material cost will adversely impact the company.

Year(Rs.Cr)	Net Sales*	Operating Profit	Pre-tax Profit*	Net Profit*	OPM Margin	PBT Margin	PAT Margin	PE (X)
2016	927	172	116	78	18.55	12.51	8.41	14.62
2017E	1024	185	124	83	18.07	12.11	8.11	13.77
2018E	1141	206	143	96	18.05	12.53	8.41	11.88

Investment Arguments

Company Profile: MIL is an India-based company engaged in manufacturing and marketing leather and leather footwear. The company's operations are segmented as the Footwear division and the Tannery division. Its Tannery division manufactures finished leather from raw hides, wet blue and crust and the Footwear division manufactures finished leather shoes. The company exports its products to the European Union, Germany, the United Kingdom, the United States, Italy, and France, among other geographies. It operates an in-house shoe production facility and a design studio in London. Its brands include Red Tape and Oaktrak. The Red Tape brand's product portfolio includes men's footwear, women's footwear, shirts, jackets, denims, tees, pants/shorts and accessories. Oaktrak is a brand of formal footwear including casual and urban styles. Oaktrak is sold through independents, small retailers and multiples.



Redtape Brand Portfolio

REDTAPE brand profile – Footwear, Apparel, Accessories etc.



Business Model

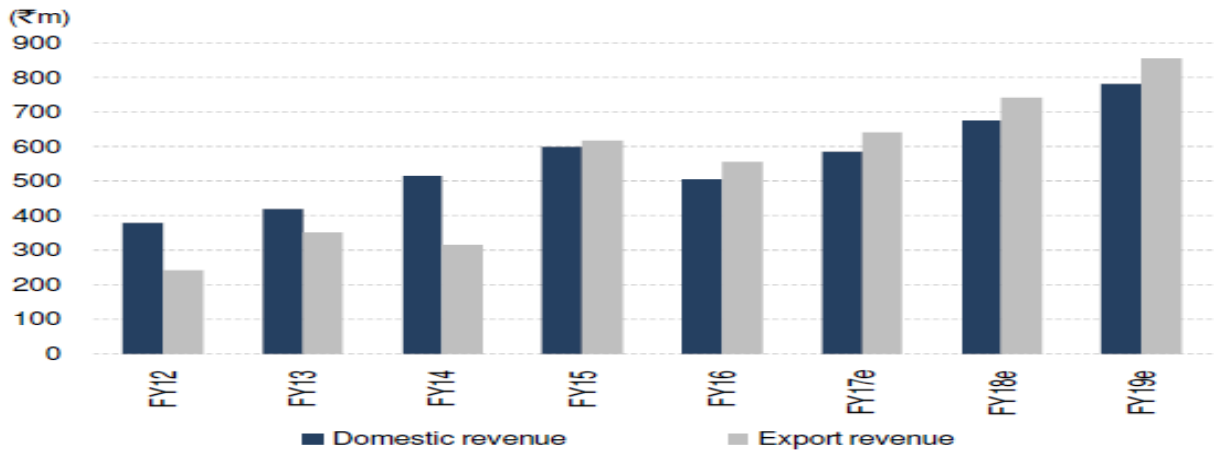
MIL has been developed as a “Raw to Retail” integrated brand. From sourcing the highest quality of raw material and processing it to finished leather, designing a product range to manufacturing it in-house and then despatching products to retail stores and customers across the globe.

The business model of the tannery involves procuring raw hide locally on a per-unit basis, processing it to wet blues, and further drying and processing them to finished leather, sold per sq.ft.

The company has complete backward integration for footwear manufacturing. Raw hides are processed at its tannery, then used in manufacturing footwear; the balance sold in domestic and international markets.

Tannery revenue has increased from `622m in FY12 to `1,063m in FY16 at a 14.3% CAGR. From FY12 to FY16 the tannery division had been a losing proposition. The company expects a 15.5% CAGR over FY16-19 in tannery revenue. The company expects the division to be profitable primarily due to the upholstery segment. The company has secured a sample order for upholstery. Management expects realizations to improve due to the sale of finished leather for upholstery.

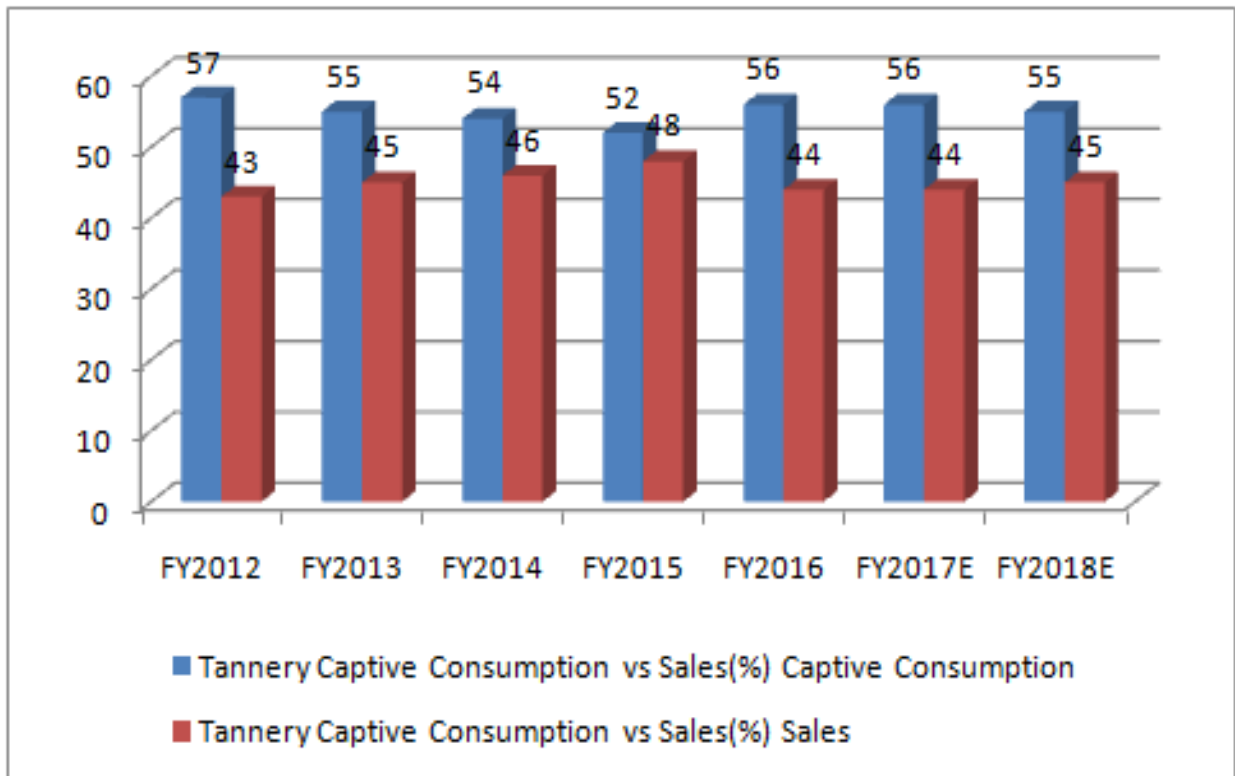
Tannery - domestic and export revenue



Captive consumption and third party sales

Of the finished leather produced, ~50-55% is utilised in-house by the footwear division. The rest is sold domestically and internationally. Exports of finished leather have seen a 23% CAGR, from `242m in FY12 to `556m in FY16. Domestic revenue has registered a 7.5% CAGR over FY12- 16. Domestic sales of finished leather are primarily to Euro Footwear, the job-worker manufacturing shoes for MIL.

Realizations have increased from `75 a sq.ft. to `110 at a 10% CAGR over FY12-16. The company expects realizations to register a 5% CAGR over FY16-19.

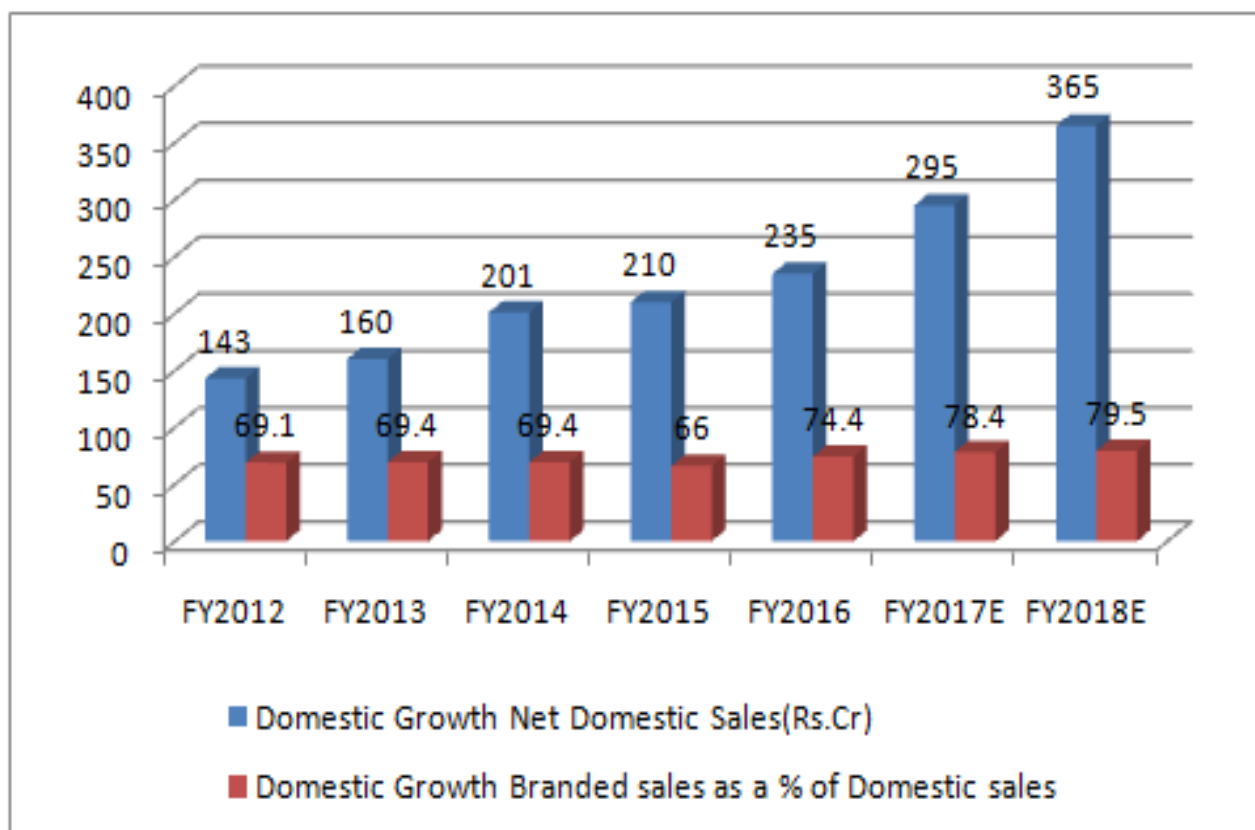


Capex and Utilization

MIL has installed capacity of 36m sq.ft. for finished leather, and produced ~22m sq.ft. by 31st Mar'16. During FY16, its tannery was 60% utilized; ahead, we expect utilisation to rise to 75%. Over FY12-16, capex of `1,887m was implemented, of which `1,000m primarily related to an increase in capacity at the tannery from 24m sq.ft. (during FY14) to 36m sq.ft. through new specialised machinery. The company has technology installed at the tannery for overall water conservation, energy-saving and reduced chemical wastage. The tannery is equipped with a state-of-the-art 1.65m litres-per-day effluent-treatment plant.

Domestic Branded Segment – Growth Driver

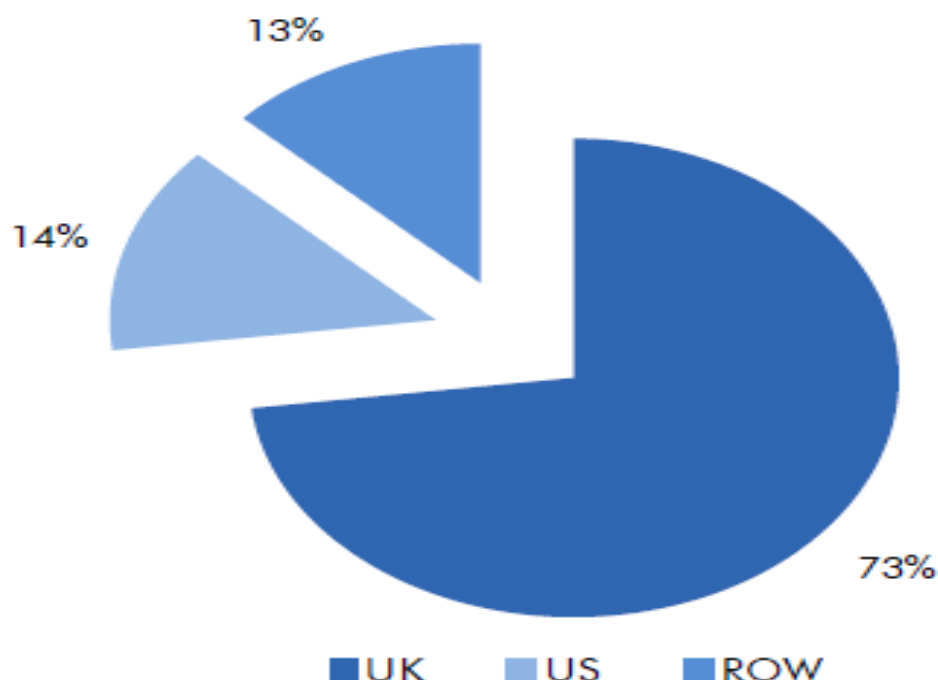
In the branded domestic segment, the management expects the company to report a ~25% CAGR over FY2016-18E to `365cr. The company anticipates strong growth for the company on the back of the company's wide distribution reach through its 1,000+ outlets including 120 exclusive brand outlets (EBOs) in 35+ cities and the same are expected to reach 200 over the next 2-3 years and strong branding in the Red Tape brand in the shoes segment. Further, MIL is enhancing its brand visibility owing to higher ad spend in FY2017. MIL has doubled its ad spend over the last five years; ad spends as a proportion of branded product sales now stand at 9-10%.



Strong Global Footprint - Strategic Fit

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Export revenue break-up in FY2016



Genesis Footwear Acquisition - Margin Lever

In FY2016, the company acquired Genesis Footwear which has a better margin profile than it. Genesis Footwear is engaged in footwear manufacturing and has an in-house design studio and R&D facility. Its manufacturing plant is fully exempt from excise payment as it's situated in the Kashipur, Uttarakhand, tax free zone. Before the merger, the company used to buy raw materials from MIL and also sell shoes to MIL. The deal resulted in MIL's EPS increasing by ~4% and ROE improving from 15.9% to 17.5%. Further, due to this merger, the company's capacity has increased from 5.4mn to 6.4mn units. During FY2016, the company reported net sales of `90cr, EBITDA margin of ~29%, and PAT of Rs.20cr.

Over FY12-16, Genesis had over 30% EBITDA margin and a ~22-25% PAT margin. We expect synergies from the merger to flow to MIL, as Genesis enjoys higher margins. Genesis, being in an excise-exemption zone, the benefit would be available till FY20.

Abridged financials of Genesisfootwear Enterprises Pvt. Ltd.

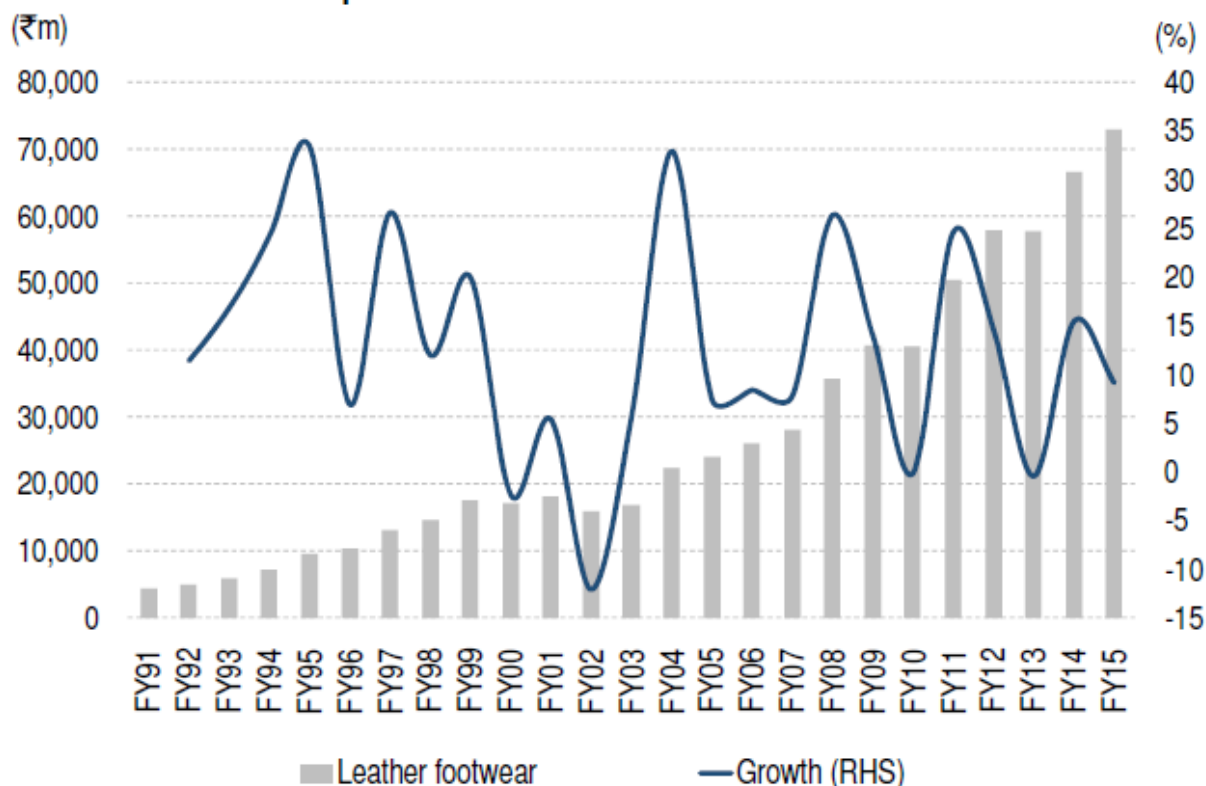
(₹ m)	FY12	FY13	FY14	FY15	FY16
Sales	511	558	755	750	900
EBITDA	158	174	226	260	280
EBITDA Margin (%)	30.9	31.2	29.9	34.7	31.1
PAT	138	155	189	180	200
PAT Margin (%)	27.0	27.8	25.0	24.0	22.2

Domestic Footwear Industry

The branded footwear business in India is built on a structurally sound business model, a sustainable revenue stream from established brands, increasing fashion trends and awareness, a growing population base and a high degree of profitability.

Domestic leather footwear has registered a 12.3% CAGR, from `4.5bn in 1991 to `72.8bn in 2015. The largest listed entities are Bata, Liberty Shoes, MIL International, Superhouse and Sreeleathers. Other players would be private footwear businesses (Metro, Mochi, Lee Cooper, Park Avenue, Clarks, Provogue, Red Chief, Louis Philippe, Van Heusen, Woodland, etc.).

Domestic consumption of leather footwear



Over FY11-15, Bata's revenue registered a 14.4% CAGR. (Leather footwear comprises ~70% of its footwear sales.) Bata being a market leader, has a ~25% market share. Liberty Shoes recorded a 14.5% CAGR in revenue (incl. leather and non-leather footwear). Super House saw a 14.6% CAGR in revenue (including leather and leather products).

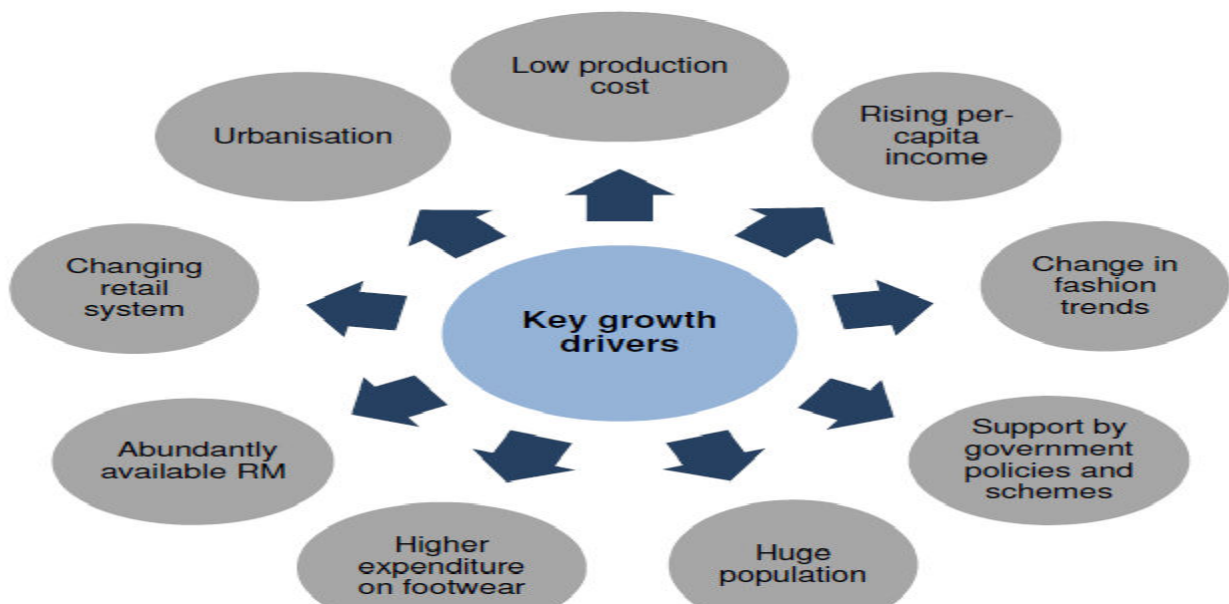
Over the same period, MIL's domestic footwear revenue registered a 13.1% CAGR. It has a ~1.5% market share in domestic leather footwear. The company expects its market share to expand, primarily due to deeper penetration in tier-III and -IV cities by increasing PoS through EBOs, MBOs and LFSs.

The companies revenue growth is expected to continue, considering the increase in the youth category and the number of working women are leading to changes in fashion trends, rising disposable incomes and greater brand consciousness.

Besides, the young working population, who would be required to maintain a certain office dress code, reveals the vast potential that India holds. Obviously, affordability is a huge driver for such consumers, driven by quality and price. We believe that the potential for MIL arising from these affluent customers is vast

Raw Material & Labour

Raw materials required for the leather industry in India are plentiful. India has 21% of the world's cattle & buffalo and 11% of its goat & sheep population. Added to this are the strengths of skilled manpower, innovative technology, increasing industry compliance with international environmental standards, and the dedicated support of allied industries.



Per-capita consumption of footwear

In India per-capita consumption of footwear is 1.7, lower than in developed economies. In developed nations, consumption is 6-8 pairs per head. This indicates the potential for growth in consumption in India. According to the growth momentum of the industry, per-capita consumption is expected at 3.8 pairs in 2020.

Global per-capita consumption of footwear

Countries	2012			2013			2014			2015		
	Pairs (m)	Population (m)	Per capita consumption	Pairs (m)	Population (m)	Per capita consumption	Pairs (m)	Population (m)	Per capita consumption	Pairs (m)	Population (m)	Per capita consumption
UK	459	64	7.2	447	64	7.0	523	65	8.1	560	65	8.6
United States	2,237	314	7.1	2,285	316	7.2	2,295	319	7.2	2,442	321	7.6
France	371	66	5.7	402	66	6.1	435	66	6.6	422	67	6.3
Germany	389	80	4.8	407	82	5.0	435	81	5.4	445	81	5.5
Italy	208	60	3.5	286	60	4.7	312	61	5.1	312	61	5.1
Japan	690	128	5.4	674	127	5.3	608	127	4.8	660	127	5.2
Brazil	787	202	3.9	816	204	4.0	807	206	3.9	786	208	3.8
Indonesia	532	248	2.1	540	251	2.1	548	254	2.2	826	258	3.2
China	3,279	1,351	2.4	3,678	1,357	2.7	3,646	1,364	2.7	3,800	1,371	2.8
India	2,260	1,264	1.8	2,068	1,279	1.6	2,048	1,295	1.6	2,196	1,311	1.7

Per-capita footwear consumption in India is set to grow rapidly from its present level. The global average is three pairs a year; in developed countries it is more than five pairs per annum.

Profit & Loss (Consolidated)

Particulars(Rs.Cr)	FY15	FY16	FY17E	FY18E
Net sales	919	927	1024	1141
Operating expenses	776	755	839	935
EBITDA	143	172	185	206
Depreciation	25	26	29	31
EBIT	118	146	156	175
Interest paid	39	32	34	34
Other income	0	2	2	2
Pre-tax profit	79	116	124	143
Tax	28	38	41	47
Net profit	51	78	83	96

Balance Sheet(Consolidated)

Balance sheet(Rs.Cr)	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS				
Equity Share Capital	19	24	24	24
Reserves & Surplus	294	398	476	567
Shareholders Funds	313	422	500	591
Minority Interest	-	-	-	-
Total Loans	218	225	225	225
Deferred Tax Liability	15	15	15	15
Total Liabilities	545	662	740	831
APPLICATION OF FUNDS				
Gross Block	489	551	591	631
Less: Acc. Depreciation	181	207	236	266
Net Block	308	344	356	365
Capital Work-in-Progress	3	3	3	3
Investments	1	1	1	1
Current Assets	346	421	499	588
Inventories	225	262	294	334
Sundry Debtors	43	63	76	91
Cash	6	11	30	48
Loans & Advances	67	74	87	103
Other Assets	5	10	11	13
Current liabilities	115	110	121	129
Net Current Assets	231	311	378	460
Deferred Tax Asset	3	3	3	3
Mis. Exp. not written off	-	-	-	-
Total Assets	545	662	740	831

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