

DARK HORSE- LIBERTY SHOES LTD.

Dated : 4th December, 2018

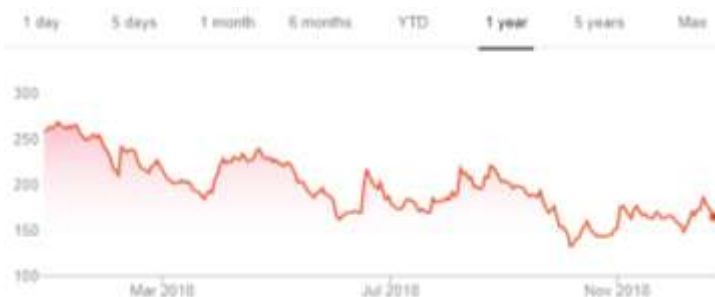
ACCUMULATE	
Price ₹	165
Fair Value	230
Upside	39.39%
Div Yield	-
Tenure	2-3Years
Sensex	36134.31
Nifty	10869.50
Group/Index	B / S&P BSE SmallCap

Stock Details	
M.cap (₹ in cr)	281
Equity (₹ In cr)	17.04
52 wk H/L ₹	281/129.05
Face Value ₹	10
NSE code	LIBERTSHOE
BSE code	526596

Key Valuation Ratios	
RONW	5%
P/E	30.00
P/BV	1.6
EV/EBIDTA	9.33

Key Financial Data	
EV (₹in cr)	401.95
BV (₹in cr)	101.27
NW(₹in cr)	172.56
Adj. EPS (TTM)	5.50

Share Holding Pattern



Source: Google

Investment Rationale

Twofold hike in custom duty to 25% from 20% & 10% earlier to dampen imports has been breathtaking for the footwear industry. Besides GST rate cut from 18% to 5% priced under Rs 1000; Government has also set aside a package of ₹ 2,600cr for the leather and footwear industry which would accelerate revenues and volume growth for this sector. *Get your shoe shined with liberty.*

Vision ₹ 1000 cr by 2020

With an annual revenue target of ₹ 1,000 crore by 2020, Indian footwear major Liberty Shoes is preparing to open about 50 stores by FY19. With 12 sub-brands in its portfolio, is planning to introduce a few varieties of footwear and raise its retail presence across the country.

Liberty, the second largest shoe manufacturing company in the country after Bata, sells its products at 400 exclusive stores and through more than 5,000 multi-brand outlets.

New Launches to drive Growth

▲ Broadened Horizon- Foray into fragrance segment

known for its fashionable and comfortable footwear, liberty foray into lifestyle retail and unveiled its new business venture, Liberty Lifestyle tapping Millennial & Gen Z with its 12 New Fragrance and one aftershave Launches.

New EDP (Eau de Perfume) collection consists of twelve fragrances. With names like Flirt, Eden, Bloom, Bliss, Dream, Dusk for women and OUDGold, Legend, Passion, Marine, Rebel, Impulse for men along with an aftershave named Marine and hopes to appeal to its customer base, including millennial and Gen Z. The new line is imagined in India and crafted in France in one of the best perfumeries of the world and is available at a price that best suits your pocket. The entire range is priced between ₹ 1699 and ₹ 2499.

The fragrance segment currently occupies 5% of the total lifestyle market in India giving a huge window for growth. *Company aims to establish the brand as the most preferred and recognized luxury perfume brands fully networked by 2020, and aspires to compete with mass-market players in the segment. Moreover, is targeting sales of over 2 lakh bottles by the end of next year on the back of receiving remarkable response.*

In addition to this, Liberty Lifestyle products are also available on e-commerce platform at Liberty Lifestyle's website www.libertylifestyle.co.in and other major online platforms like Nykaa, Purplle, Myntra, Amazon, Flipkart & Infibeam.

▲ Leap 7x- Footwear range

To tap the potential in tier-II and tier-III cities and towns in India, Leap 7x, is the latest collection introduced under athleisure footwear (mix of casual and sports) segment with the aim to offer branded, qualitative and affordable footwear to the middle and upper middle class potential customers. To promote Leap 7x, LIBERTY is running motivational campaign #CHAL BADH CHAL by engaging two brand ambassadors initially.

▲ HEALERS- COMFORT over price- Premium segment

Keeping in mind customers urge to buy comfort over price & footwear with pronounced health benefits, LIBERTY has further augmented and added its new product range as "HEALERS" to tap the medicated footwear segment, the premium segment market at a fairly reasonable price as compared to other players of this segment. In the year gone by, has launched wave massage, bubble massage, HI, H4 and H in this segment. Now, the New technologies like soflex, HA, HM and H8 is been introduced for the upcoming AW'18 collection.

The Company has robust plan of expansion of exclusive "HEALERS" store across India in next couple of years to increase its customer base with simultaneous focus on "Shop in Shop" (SIS) arrangement.

Corporate Governance Transparency Ratio's

Year End	201803	201703	201603	201503
Tax Rate %	39.39	36.16	17.74	-
Receivable day	74	79	85	76
Div. Payout %	-	-	-	-

Results Corner

Q2 & HI (ended 30th September, 2018) Highlights

- The company has achieved a turnover of ₹ 166.69cr during Q2 with a previous growth of **32%** as compared to ₹ 125.82 cr during the previous year.
For the Half year ended 30th September, 2018 has recorded a turnover of ₹ 312.72 Cr. with a growth of **23%** as compared to ₹ 254.44 Cr. during the corresponding Half year in the previous year.
- **Domestic sales** increased by **31%** from ₹ 119.61 cr to ₹ 156.82cr. Whereas, for the Half Year ended 30th September, 2018 the domestic sales increased by **23%** from ₹ 240.13 Cr. to ₹ 295.68 Cr. during the corresponding period in the previous year 2017-18.
FOCO model-(Franchisee Owned Company Operated) received around 6 crores from franchisee which has helped in debt reduction & increasing profits & helped improve the bottomline. Besides, easing out working capital cycle. The Company is now concentrating more on Domestic segment to improve and capture the growing market in coming years.
- Liberty saw improvements in Institutional Sales at ₹ 121 Cr. during the current period ended 30th September, 2018 & contributing around **39%** of the total sales. **This Segment itself registered a growth rate of around 30%.**
- **Export Sales** have started picking up scale and registered growth by 59% during the Q2.
- In terms of pairs, the Company has recorded impressive growth of over **39% & 27%** by selling **13 Lakh & 17 Lakh more pairs of footwear** during the Q2 & HI ended 30th September, 2018 as compared to the corresponding period in the last year 2017-18.
- **EBIDTA** has improved in terms of value but in terms of % it remained at 6.51% during the Q2 of 2017-18 as against 7.32% during the corresponding period of last year *due to increased share of traded institutional sales having higher cost of sales in comparison to manufacturing sales.*
Besides this, administrative cost on account of Advertising & Business Promotion, Rental of New Stores, Commission for Sales etc. have increased as against last year leading to modest decline in EBIDTA %.
- **PBT** has improved in higher proportion due to **increase in sales** and stood at ₹ 3.89 cr & ₹ 7.18cr during the 2nd quarter & HI ended 30th September, 2018 as against ₹ 1.74cr & ₹ 3.52cr during the corresponding period of last year.
- **PAT** has also improved during the Q2 and HI ended 30th September, 2018 and recorded at ₹ 2.02cr and ₹ 4.28cr as against ₹ 1.14cr and ₹ 2.22cr during the corresponding period of Last year.

Tabular presentation

Particulars	Standalone Results						₹ in crores	
	Quarter Ended			% change		Year ended		% change
	201809	201806	201709	Q-0-Q	Y-0-Y	2018	2017	Y-0-Y
Net Sales	166.87	146.16	125.85	14.17%	32.59%	545.55	497.39	9.68%
EBITDA	10.90	10.46	9.33	4.21%	16.83%	39.96	39.42	1.37%
EBITDA %	6.53%	7.16%	7.41%	-	-	7.32%	7.93%	-
PBT	3.89	3.29	1.74	18.24%	123.56%	10.89	10.01	8.79%
PBT%	2.33%	2.25%	1.38%	-	-	2.00%	2.01%	-
PAT	2.02	2.26	1.14	-10.62%	77.19%	6.60	6.39	3.29%
PAT %	1.21%	1.55%	0.91%	-	-	1.21%	1.28%	-
EPS	1.18	1.33	0.67	-11.28%	76.12%	3.87	3.75	3.20%

Note: PAT & EPS calculated before considering extraordinary items

COMPANY OVERVIEW

Liberty Shoes have been fashioning footwear, for well over 60 years now, for the style-conscious people around the globe. Currently with an annual turnover exceeding U.S. \$150 million, it figures amongst the top 5 manufacturers of leather footwear of the world producing more than **50,000 pairs a day** using a capacity of more than **3 lakh square feet of leather per month.**

Helping dress up the feet of the fashion-driven and quality-seeking customers in more than 25 countries, which includes major international fashion destinations like France, Italy and Germany, is the worldwide distribution network of **100 distributors, 400 exclusive showrooms and more than 5000 multi-brand outlets.**

GOVERNMENT INITIATIVES TO ADD SPUNK

The Central Government has recently notified the long and much awaited relief package for the domestic footwear sector to the tune of **₹ 2600 Crores** during 2017-18 to 2019- 20 which would boost the exports, infrastructure development, attract large scale investments and make the sector competitive globally. He also stated that among others the Sub Scheme IDLS will provide the monetary benefits to the sector upto the maximum amount of **₹ 425 Crores** towards investment in Plant and Machinery in addition to the similar benefits available under other Sub schemes of the Package.

Government of India has already commenced "**Make in India**" campaign which has been proving beneficial in boosting manufacturing in India. In this way to support "Make in India" campaign "the Govt, of India has recently announced and notified "**Indian Footwear Leather and Accessories development program 2017-20**" for the footwear sector which has the objective to develop infrastructure for the footwear sector and to provide a level playing field to the domestic sector to compete with the international brands.

INDUSTRY AT A GLANCE

Shift from unorganised to organised segment to drive growth

The Indian footwear industry is valued at **₹ 500-550 billion**, which is expected to grow at a CAGR of around 15% going ahead. One third of the industry is mainly dominated by the unorganized sector. **However, organized segment is expected to grow at a faster pace compared to the unorganized segment on the back of increase in household income and rising brand consciousness amongst Indian consumers.**

The growth story of footwear industry in India, with the current under-penetration (per person spending of only 1.8 pairs yearly versus 3.1 in China) and consumer preference shift towards branded wear is expected to gain traction & there is a lot more to tap in this sector.

Overall Footwear Industry is a very optimistic right now with growing awareness about the latest trends and consciousness among consumers. Consumer's increased exposure to **plastic money and imposition of GST** is going to provide more **organized retailing and trade transparency** in long term. The Indian footwear industry is gearing up to leverage its strengths towards maximizing benefits.

Going forward, with expansion in **retail sector and technological advancements**, footwear market will be amongst the fastest emerging sectors in the fashion industry. However for the Indian footwear sector to explode and deliver, the favorable government policies, infrastructure, removal of high doses of taxation, infrastructural support in capacity building, skill education, technology up gradation and brand building exercise should be initiated in expeditious manner.

India has a lot of potential in **tier-II and tier-III cities** and towns and therefore, LIBERTY is constantly entering these towns and tapping the potential market

The Market perception of the footwear industry has gained traction, PE ratio of the most of the footwear Companies including LIBERTY has improved.

VALUATION CONCLUSION

To tap the high potential tier 1 & tier 2 cities & towns in India, liberty is entering into these towns to cap up the potential & is targeting an annual Revenue of Rs 1000cr by 2020.

Leap 7x the latest collection been issued under athleisure footwear segment is gaining traction through the motivational campaign #chal badh chal. Moreover, has broadened horizon with the launch of its new lifestyle segment- its first range of perfumes, expected to be **fully networked by FY2020**. The new line fragrances are available at a price that best suit your pocket. Also, The Company has robust plan of expansion of exclusive "**HEALERS**" store across India in next couple of years to increase its customer base with simultaneous focus on "Shop in Shop" (SIS) arrangement.

On the numbers side as well, LIBERTY has performed quite well. Q2 numbers have been appealing for liberty. During the Q2FY19, Liberty domestic sales grew by 31% from Rs 119.61 cr to Rs 156.82 cr. Splendid performance by FOCO model has helped ease out the working capital cycle. Export sales registered growth of 59%. PAT improved to Rs 2cr from 1.14cr. Advertising & business promotion, rental of new stores, commission for sales etc. have increased as against last year leading to modest decline in EBITDA at 6.51%, though a worth drop eventually.

We suggest to accumulate Liberty for 2-3 years for a target of ₹ 230 initially.

Quarterly Results (₹ in cr except per share)					
Particulars	LTM	201809	201806	201803	201712
Net Sales	609.30	166.87	146.16	133.05	163.18
EBITDA	43.10	10.90	10.46	9.85	11.87
Depreciation	13.70	3.54	3.45	3.27	3.42
Op Income	29.40	7.36	7.01	6.58	8.45
Misc.Inc (Exp.)	0.50	0.07	0.22	0.05	0.20
Interest Exp	14.80	3.48	3.72	3.76	3.89
EBT	14.60	3.89	3.29	2.82	4.56
Taxes	5.90	1.88	1.02	1.10	1.90
Net Inc(Reg)	8.70	2.02	2.26	1.72	2.66
Extraord. Items	(0.70)	(0.01)	0.03	(0.74)	0.06
Rep Net Inc	9.30	2.03	2.23	2.46	2.60
EPS	5.10	1.19	1.33	1.01	1.56
Adjusted EPS	5.50	1.20	1.30	1.40	1.50

Income Statement and Estimates (₹ in Cr except per share)							
Particulars	201503	201603	201703	201803	2019E	2020E	2021E
Revenue	525.69	454.17	497.39	543.99	712.19	967.09	1287.83
Other operating Income	-	-	-	-	-	-	-
Total Inc. from operations	525.69	454.17	497.39	543.99	712.19	967.09	1287.83
Operating EBITA	30.59	28.44	25.51	26.13	41.84	65.02	94.62
Profit & Loss							
Total Inc. from operations	525.69	454.17	497.39	543.99	712.19	967.09	1287.83
TOTAL EXPENDITURE	482.68	412.23	458.29	504.40	656.28	887.30	1177.08
EBITDA	43.01	41.94	39.10	39.59	55.91	79.78	110.75
Depreciation	(12.42)	(13.50)	(13.59)	(13.46)	(14.06)	(14.76)	(16.13)
Rep. profit before othrin., fin.cost,tax & expc. Item	30.59	28.44	25.51	26.13	41.84	65.02	94.62
Goodwill amortization	-	-	-	-	-	-	-
Rep. profit before othrin., fin.cost,tax & expc. Item	30.59	28.44	25.51	26.13	41.84	65.02	94.62
OTHER INCOME	0.48	0.34	0.47	0.37	0.42	0.43	0.44
Profit from ordinary act. Before Fin.Cost ,TAX & Exp.Items	31.07	28.78	25.98	26.50	42.26	65.45	95.06
Net financials							
Interest income	-	-	-	-	-	-	-
Interest expenses	(16.07)	(16.39)	(15.82)	(15.61)	(15.13)	(14.05)	(13.68)
Net Financial Items	(16.07)	(16.39)	(15.82)	(15.61)	(15.13)	(14.05)	(13.68)
Reported Pre-tax profit	15.00	12.39	10.16	10.89	27.13	51.40	81.38
Reported Tax charge	2.06	(2.17)	(3.62)	(4.29)	(10.58)	(20.05)	(31.74)
Reported Net profit	17.06	10.22	6.54	6.60	16.55	31.35	49.64
Minorities	-	-	-	-	-	-	-
P/L OF ASSOCIATE CO.	-	-	-	-	-	-	-
Rep. NP after min. Int.	17.06	10.22	6.54	6.60	16.55	31.35	49.64
Extra Ordinary income	(0.69)	(0.92)	(0.24)	(0.35)	-	-	-
Rep.Net Income after extra ordinary items	17.75	11.14	6.78	6.95	16.55	31.35	49.64

Note: Estimated Sales & PAT has been taken on a higher side owing to strong growth & new product launches for the company.

EPS and Dividend							
Dividend Paid	(2.56)	-	-	-	-	-	-
Retained earnings	15.19	11.14	6.78	6.95	16.55	31.35	49.64
Reported EPS	10.01	6.00	3.84	3.87	9.71	18.40	29.13
DPS	1.50	-	-	-	-	-	-

Number Of Shares							
Opening Balance	17.04	17.04	17.04	17.04	17.04	17.04	17.04
Issued	-	-	-	-	-	-	-
Bought Back	-	-	-	-	-	-	-
Closing Balance	17.04	17.04	17.04	17.04	17.04	17.04	17.04
FV	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Wtd. Avg. no. of shares	1.704	1.704	1.704	1.704	1.704	1.704	1.704

Note:- The figures shown in the brackets means NEGATIVE.

BALANCE SHEET							
Particulars	201503	201603	201703	201803	2019E	2020E	2021E
Equity & Liabilities							
Shareholders' Fund							
Share Capital	17.04	17.04	17.04	17.04	17.04	17.04	17.04
Reserves and Surplus	127.91	138.12	144.66	151.26	167.81	199.16	248.81
Minority Interests	-	-	-	-	-	-	-
Total Shareholders' Fund	144.95	155.16	161.70	168.30	184.85	216.20	265.85
Non-Current Liabilities							
Long-term Borrowings	11.36	7.76	8.83	5.65	3.84	2.98	2.85
Other LT Liabilities	5.76	5.98	6.09	12.21	15.34	15.50	15.75
Deferred Tax Liability	2.07	1.46	0.67	-	-	-	-
Long term Provisions	0.28	0.24	0.46	0.64	0.70	0.77	0.85
Total Non-Current Liab.	19.47	15.44	16.05	18.50	19.88	19.26	19.45
Current Liabilities							
Short term Borrowings	121.17	121.67	127.32	105.92	98.11	94.60	82.40
Trade Payables	90.84	73.79	93.73	102.04	128.91	164.40	206.05
Other current liability	22.09	19.35	22.39	17.98	17.09	19.34	25.76
Short term Provisions	5.99	3.86	3.74	0.90	0.99	1.09	1.20
Total current Liab.	240.09	218.67	247.18	226.84	245.10	279.44	315.41
Total Equity & Liab.	404.51	389.27	424.93	413.64	449.83	514.90	600.71
Assets							
Non-Current Assets							
Fixed Assets							
Tangible fixed Assets	97.68	99.37	94.02	90.83	92.08	96.66	105.64
G/W On Consolidation	-	-	-	-	-	-	-
Non-current Investment	1.22	1.22	1.22	1.22	1.22	1.22	1.22
Long term L&A	18.27	18.93	18.26	15.67	13.70	12.60	9.70
Other Non current Ass.	-	-	-	-	-	-	-
Deferred tax receiv.	-	-	-	-	-	-	-
Total Non-Current Ass.	117.17	119.52	113.5	107.72	107.00	110.48	116.56
Current Assets							
Current Investments	-	-	-	-	-	-	-
Inventories	143.21	141.08	164.15	169.39	195.50	247.57	316.81
Trade Receivables	114.81	95.48	120.17	101.16	116.80	125.72	136.51
Cash & cash Equi.	6.34	7.53	7.85	8.76	9.18	10.46	12.75
Short Term L&A	22.97	25.65	19.25	26.61	21.40	20.62	18.10
Other current Assets	-	-	-	-	-	-	-
Total current Assets	287.33	269.74	311.42	305.92	342.88	404.37	484.17
Total Assets	404.51	389.27	424.93	413.64	449.83	514.90	600.71

Cash & cash equivalents	6.34	7.53	7.85	8.76	9.18	10.46	12.75
Other int. bearing assets	1.22	1.22	1.22	1.22	1.22	1.22	1.22
Interest-bearing debt	154.62	148.78	158.54	129.55	119.04	116.92	111.01
Net interest-bearing debt	147.06	140.03	149.47	119.57	108.63	105.24	97.04
Net gearing (%)	101.46%	90.25%	92.44%	71.05%	58.77%	48.68%	36.50%

Investments							
Tangible assets							
Gross capex	(19.68)	(17.16)	(9.19)	(12.17)	(15.31)	(19.34)	(25.11)
Sale of fixed assets	1.67	0.80	0.52	1.26	-	-	-
Net capex	(18.01)	(16.36)	(8.67)	(10.91)	(15.31)	(19.34)	(25.11)
Depreciation tangibles	(12.42)	(13.50)	(13.59)	(13.46)	(14.06)	(14.76)	(16.13)

Note:- The figures shown in the brackets means **NEGATIVE**.

CASH FLOW ANALYSIS							
Particulars	201503	201603	201703	201803	2019E	2020E	2021E
EBIT	31.07	28.78	25.98	26.50	42.26	65.45	95.06
Depreciation	12.42	13.50	13.59	13.46	14.06	14.76	16.13
Dep.(ex goodwill)	12.42	13.50	13.59	13.46	14.06	14.76	16.13
Mov.in Inventories	(30.80)	2.13	(23.06)	(5.24)	(26.11)	(52.08)	(69.23)
Mov. in Debtors	2.21	19.66	(23.25)	19.01	(15.64)	(8.92)	(10.79)
Mov. in Creditors	31.01	(19.89)	25.96	(12.21)	26.87	35.50	41.65
Movement in L&A	-	-	-	-	-	-	-
Other W.C Inc./dec.	(12.85)	(3.02)	6.86	(5.03)	-	-	-
Change in W.C	(10.43)	(1.12)	(13.49)	(3.47)	(14.88)	(25.50)	(38.37)
Tax paid	2.06	(2.17)	(3.62)	(4.29)	(10.58)	(20.05)	(31.74)
Operating Cash Flow	35.12	38.99	22.46	32.20	30.87	34.66	41.08
Net interest	(16.07)	(16.39)	(15.82)	(15.61)	(15.13)	(14.05)	(13.68)
Cash Earnings	19.05	22.60	6.64	16.59	15.74	20.62	27.41
Gross CapEx	(19.68)	(17.16)	(9.19)	(12.17)	(15.31)	(19.34)	(25.11)
Sale of fixed assets	1.67	0.80	0.52	1.26	-	-	-
Net CapEx	(18.01)	(16.36)	(8.67)	(10.91)	(15.31)	(19.34)	(25.11)
Free CF pre div.	1.04	6.24	(2.03)	5.68	0.42	1.27	2.29
Dividend	(2.56)	-	-	-	-	-	-
Free CF post Dividend	(1.52)	6.24	(2.03)	5.68	0.42	1.27	2.29
Net acqui./disposals	-	-	-	-	-	-	-
Net cash flow	(1.52)	6.24	(2.03)	5.68	0.42	1.27	2.29

RATIO ANALYSIS							
Particulars	201503	201603	201703	201803	2019E	2020E	2021E
Return on assets	-	2.81%	1.67%	1.66%	3.83%	6.50%	8.90%
Return on equity	-	7.42%	4.28%	4.21%	9.37%	15.64%	20.60%
ROCE	-	15.38%	13.43%	13.09%	19.47%	27.13%	33.82%
EBIT Margin	-	6.34%	5.22%	4.87%	5.93%	6.77%	7.38%
Pre tax margin	-	2.73%	2.04%	2.00%	3.81%	5.32%	6.32%
Net Profit Margin	-	2.45%	1.36%	1.28%	2.32%	3.24%	3.85%
Total asset turnover	-	1.14	1.22	1.30	1.65	2.00	2.31
Fixed asset turnover	-	4.61	5.14	5.89	7.79	10.25	12.73
Equity turnover	-	3.03	3.14	3.30	4.03	4.82	5.34
Current Ratio	-	1.23	1.26	1.35	1.40	1.45	1.54
Quick Ratio	-	0.59	0.60	0.60	0.60	0.56	0.53
Cash Ratio	-	0.03	0.03	0.04	0.04	0.04	0.04
Receivable Days	-	84.50	79.13	74.25	55.85	45.77	37.16
Inventory Days	-	125.86	121.55	120.68	101.47	91.13	87.50
Payable Days	-	73.26	63.51	70.10	61.77	56.98	54.25
Conversion Cycle (Days)	-	137.10	137.16	124.83	95.56	79.91	70.42
Financial Leverage Effect	-	3.76	5.77	5.70	3.38	2.54	2.23
Debt to Capital	-	0.49	0.50	0.43	0.39	0.35	0.29
Debt to Equity	-	0.96	0.98	0.77	0.64	0.54	0.42

Note:- The figures shown in the brackets means **NEGATIVE**.

Disclosures & Disclaimers

Disclosures :

1) Business Activity :

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