

Current	Previous
CMP : Rs.320	
Rating : BUY	Rating : BUY
Target : Rs.400	Target : Rs.400

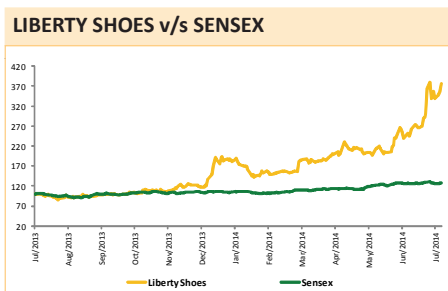
STOCK INFO	
BSE	526596
NSE	LIBERTSHOE
Bloomberg	LBS IN
Reuters	LIBS.BO
Sector	Footwear
Face Value (Rs)	10
Equity Capital (Rs mn)	170
Mkt Cap (Rs mn)	5,453
52w H/L (Rs) (Adj.)	351/67.8
3m Avg Daily Volume (BSE + NSE)	448414

SHAREHOLDING PATTERN	%
(as on 30th Jun. 2014)	
Promoters	64.9
FII's	0.0
DII's	0.0
Public & Others	35.1

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
LIBERTY SHOES	44	77	292
SENSEX	4	14	29

Source: Capitaline, IndiaNivesh Research



Source: Capitaline, IndiaNivesh Research

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Missed institutional order results in a disappointing quarter

Rs Mn	Q1 FY15	Q4FY14	Q1FY14	QoQ (%)	YoY (%)	INSPL Estimate	Variance (%)
Net Sales	1,016	1,420	1,126	-28.4	-9.7	1389	-26.8
EBIDTA	93	120	94	-22.9	-1.3	118	-21.6
PAT	33	45	33	-25.8	0.7	49	-31.9
EPS	1.9	2.6	1.9	-25.8	0.7	2.9	-31.9
Margin				QoQ (bps)	YoY (bps)		Var (bps)
EBITDA (%)	9.1	8.5	8.3	65	78	8.5	61
PAT (%)	3.3	3.1	2.9	12	34	3.5	-24

Source: Company; IndiaNivesh Research

Liberty Shoes Ltd (LSL) reported disappointing Q1FY15 results. The net sales of the company stood at Rs 1016 mn in Q1FY15 against our estimate of Rs 1389 mn, lower by 26.8%. This is on account of lower domestic sales which stood at Rs 948 mn in Q1FY15 against Rs 1097 mn in Q1FY14, decline of 13.6% yoy. As per the company, an institutional order worth Rs 480 mn was bagged in Q1FY15, which will now be supplied in Q2FY15E. This postponement of sales to Q2FY15E led to a major disappointment in Q1FY15 results. Exports stood at Rs 114.6 mn against Rs 69.2 mn in Q1FY14, signifying growth of 65.5% yoy.

During the quarter, the company added 21 new exclusive stores in Company Owned & Company Operated (COCO) & franchise format. Sales in own stores grew by 14% yoy to reach Rs 238 mn in Q1FY15 against Rs 209 mn in Q1FY14. The company plans to add 20 exclusive stores in Q2FY15.

In line with sales disappointment, EBITDA stood at Rs 93 mn in Q1FY15 against our expectation of Rs 118 mn. However, EBITDA margin improved to 9.1% against our estimate of 8.5%. Thus, there is an improvement in margin despite lower sales. This is on account of lower raw material cost which declined from 51.9% of sales in Q1FY14 to 44.7% of sales in Q1FY15.

PAT of the company stood at Rs 33 mn against our estimate of Rs 49 mn, lower by 31.9%. PAT margin stood at 3.3% in Q1FY15 against our estimate of 3.5%. However, this is an improvement over 2.9% margin reported in Q1FY14. Lower sales coupled with stable fixed cost resulted in lower margin at the PAT level.

The company mentioned that its plan to restructure its operations by consolidating the business available from group concerns under franchise agreements is being considered actively. In our opinion, this would be the key catalyst for the re-rating of the company.

Valuation and Outlook

If we overlook postponement of institutional order, then results are better than our estimates. Improved EBITDA margin and lower finance cost would have resulted in a better than expected bottom-line performance. As a result, we retain our estimates and await Q2FY15E performance to take a wholistic view.

At CMP of Rs 320, the stock trades at PE of 23.7x and 16.0x its FY15E and FY16E earnings of Rs 13.5 and Rs 20 per share respectively. The company plans to expand its reach aggressively by increasing its store count to from 520 currently to 800 over the next three years. Considering the strong brand recall, expansion plans and the company's strategies to improve its growth rate, we are of the opinion that the valuation is attractive. We maintain our BUY rating on the stock with a target price of Rs 400 per share.

Financial Performance

Rs in mn	Q1 FY15	Q4FY14	Q1FY14	QoQ (%)	YoY (%)
Net sales	1,016	1,420	1,126	-28.4	-9.7
Raw Materials	455	768	585	-40.8	-22.2
Staff cost	147	152	146	-3.5	0.9
Other expenditure	<u>322</u>	<u>380</u>	<u>302</u>	-15.3	6.7
Operating Expenses	924	1,300	1,032	-29.0	-10.5
EBITDA	93	120	94	-22.9	-1.3
<i>EBITDA Margin (%)</i>	<i>9.1%</i>	<i>8.5%</i>	<i>8.3%</i>		
Other Operating Income	3	4	3	-5.5	3.2
Other Income	1	2	1	-62.7	28.2
Depreciation	<u>27</u>	<u>30</u>	<u>26</u>	-11.7	4.0
Profit bef. Int. & Tax	70	96	72	-26.7	-2.6
Interest & finance ch.	<u>37</u>	<u>42</u>	<u>39</u>	-13.8	-5.4
Profit before tax	34	53	33	-37.0	0.6
Total tax expenses	<u>1</u>	<u>9</u>	<u>1</u>	-93.7	-7.1
Adj. Net profit	33	45	33	-25.8	0.7
Exceptional Items	0	(2)	0		
Reported PAT	33	43	33	-22.1	1.0
<i>Effective tax rate</i>	<i>1.6%</i>	<i>16.4%</i>	<i>1.8%</i>		
<i>PAT Margins (%)</i>	<i>3.3%</i>	<i>3.1%</i>	<i>2.9%</i>		
Adj. PAT	1.9	2.6	1.9	-25.8	0.7

Source: Company; IndiaNivesh Research

Financial Statements

Income statement

Y E March (Rs m)	FY 12	FY 13	FY 14P	FY 15E	FY 16E
Net sales	3564	3629	4835	6189	8009
Growth %	15.0	1.8	33.2	28.0	29.4
Expenditure	3266	3345	4440	5635	7279
Raw Material	1716	1717	2534	3218	4165
Advertisement and selling expenses	443	481	643	823	1065
Employee	437	460	591	743	945
Others	670	687	672	851	1104
EBITDA	298	284	394	554	730
Growth %	29.4	-4.9	39.0	40.4	31.9
EBITDA Margin %	8.4	7.8	8.2	8.9	9.1
Other Income	13	20	18	19	20
Depreciation and amortisation	97	104	111	122	135
EBIT	214	199	302	451	616
EBIT Margin %	6.0	5.5	6.2	7.3	7.7
Interest	138	143	160	176	211
Exceptional/Extraordinary item	-38	-4	-2	0	0
PBT	38	53	140	274	405
PBT Margin %	1.1	1.5	2.9	4.4	5.1
Tax	-4	-1	8	44	65
Effective tax rate %	-10	-2	6	16	16
PAT Before Minority Interest	42	54	132	230	340
Minority Interest	-2	0	0	0	0
PAT After Minority Interest	44	54	132	230	340
Adj. PAT	82	58	134	230	340
Growth%	-28.0	22.9	145.2	74.4	47.7
Adj. PAT Margin %	2.3	1.6	2.8	3.7	4.2

Balance sheet

Y E March (Rs m)	FY 12	FY 13	FY 14E	FY 15E	FY 16E
Share Capital	170	170	170	170	170
Reserves & Surplus	1147	1197	1207	1408	1718
Net Worth	1318	1367	1378	1578	1888
Total debt	1047	1146	1171	1307	1621
Net deferred tax liability	51	51	48	43	35
Total Liabilities	2416	2564	2597	2928	3544
Gross Fixed Assets	1767	1850	1937	2114	2299
Less Depreciation	740	838	949	1071	1206
Capital Work in Progress	1	2	3	3	3
Net Fixed Assets	1028	1014	991	1046	1096
Goodwill on Consolidation	0	92	0	0	0
Investments	0	0	0	0	0
Current Assets	2293	2409	2696	3362	4151
Inventories	1028	1112	1126	1362	1602
Sundry Debtors	716	792	1175	1300	1842
Cash & Bank Balance	101	124	23	251	169
Loans & advances	427	358	333	402	481
Other Current assets	22	23	40	48	57
Current Liabilities & provisions	905	951	1090	1480	1703
Net Current Assets	1388	1458	1606	1882	2448
Mis Exp not written off	0	0	0	0	0
Total assets	2416	2564	2597	2928	3544

Cash Flow

Y E March (Rs m)	FY 12	FY 13	FY 14E	FY 15E	FY 16E
Profit Before Interest, Tax and Extraordinary Items	165	179	302	451	616
Adjustment for:					
Depreciation	97	104	111	122	135
Others	-4	-18	-12	-10	-11
Changes in working capital	-28	45	-276	-45	-643
Tax expenses	-20	-12	-11	-49	-73
Cash flow from operations	210	299	114	469	24
Capital expenditure	-98	-95	-87	-177	-185
Free Cash Flow	111	205	27	292	-161
Others	3	-87	2	2	2
Cash flow from investments	-95	-182	-84	-175	-183
Interest	-127	-133	-160	-176	-211
Loans availed or (repaid)	-13	35	25	136	314
Refund of Share Application Money	-55	0	0	0	0
Dividend paid (incl tax)	0	0	0	-30	-30
Cash flow from Financing	-195	-98	-134	-70	73
Net change in cash	-80	19	-105	224	-86
Cash at the beginning of the year	179	101	124	23	251
Cash at the end of the year	99	120	19	247	165
Other Bank Balances	1	4	4	4	4
Cash as per Balance Sheet	101	124	23	251	169

Key ratios

Y E March	FY 12	FY 13	FY 14E	FY 15E	FY 16E
Adj. EPS (Rs)	4.8	3.4	7.9	13.5	20.0
Cash EPS (Rs)	8.3	9.3	14.3	20.7	27.9
BVPS	77.3	80.2	80.9	92.6	110.8
DPS (Rs)	0.0	0.0	1.5	1.5	1.5
Adj. P/E (x)	66.5	94.2	40.8	23.7	16.0
P/CEPS (x)	38.8	34.5	22.4	15.5	11.5
P/BV (x)	4.1	4.0	4.0	3.5	2.9
EV/EBITDA(x)	18.9	20.1	14.8	10.4	8.4
M cap/sales (x)	1.3	1.3	1.0	0.8	0.6
ROCE	9.0	8.2	11.9	16.6	19.3
ROE	3.3	4.0	9.6	15.6	19.6
Inventory (days)	104.5	107.6	84.5	73.3	67.5
Debtors (days)	68.4	75.8	74.2	73.0	71.6
Trade Payables (days)	69.1	69.4	54.5	54.6	55.5
Total Asset Turnover (x)	1.1	1.1	1.4	1.5	1.7
Fixed Asset Turnover (x)	3.5	3.6	4.9	5.9	7.3
Debt/Equity (x)	0.8	0.8	0.8	0.8	0.9
Debt/Ebitda (x)	3.5	4.0	3.0	2.4	2.2
Interest Coverage (x)	1.6	1.4	1.9	2.6	2.9
Dividend Yield %	0.0	0.0	0.5	0.5	0.5

Source: Company; IndiaNivesh Research



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