BODHI CAPITAL

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Superhouse Ltd.

Company Name: Superhouse Ltd.

Current Price: **Rs. 95.8**

Market Capitalisation: **109.4 Cr**

Analyst Take: **BUY**

Date: **4th September 2020**

Pitch by: **Garvit Zalani and Satvik Agarwal**

Index

Company Overview

Superhouse Group is a conglomerate dealing in manufacture of leather goods, footwear and leather garments. They conduct their sales under the brand name of “Allen Cooper”, “Silver Street”, “Pancea” and “Double Duty.” They run operations in 18+ countries across the world in 5 continents.

Superhouse was founded by Mr. Mukhtarul Amin, in 1986, in Kanpur, a city famous for its leather products. It is an industry leader

It went public on 5^{th} July, 2002 with BSE at the price of Rs. 7.50 and reached its high of Rs. 289.15 on 1^{st} October 2014. They have 15 tanneries that produce all the in-sourced products and are located in Kanpur, Unnao, Agra and Noida.

During the year under review, the Company has sustained the Credit Rating “ICRA BBB+” assigned by ICRA, to its Long Term Bank facilities. Further, the Rating of “ICR A2” assigned to the Short Term Bank facilities of your Company has also been reaffirmed.

Business Model

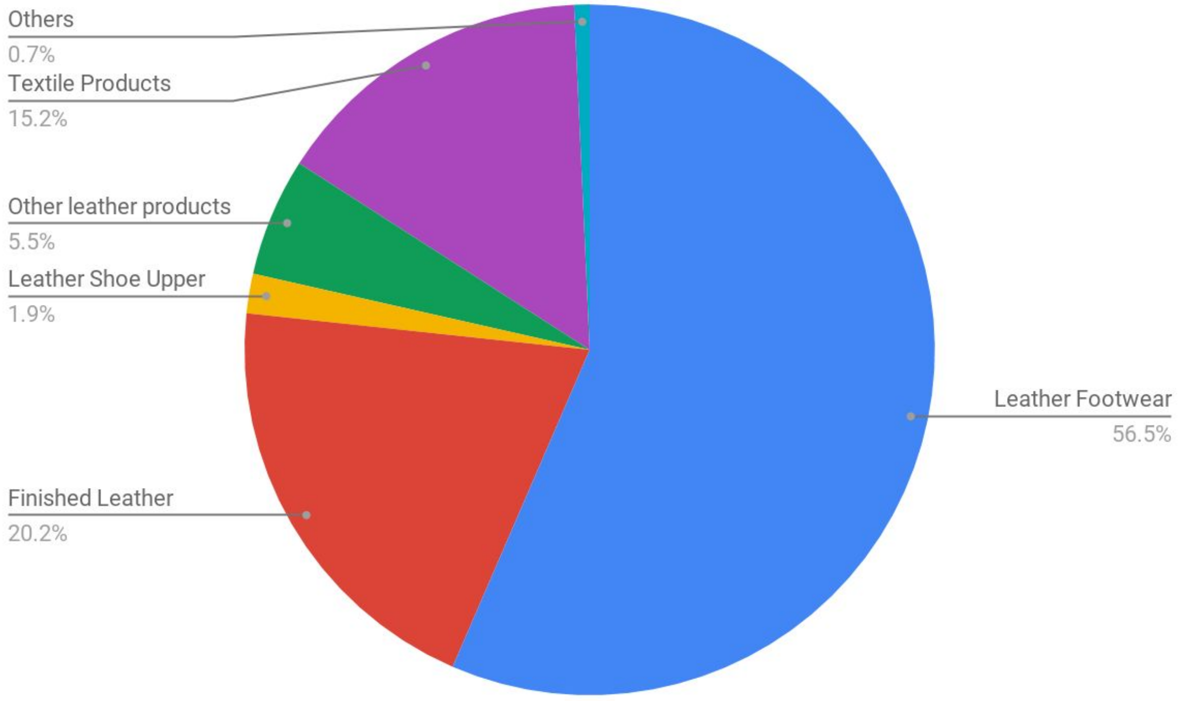
The primary revenue sources of Superhouse Inc. are roughly classified as:

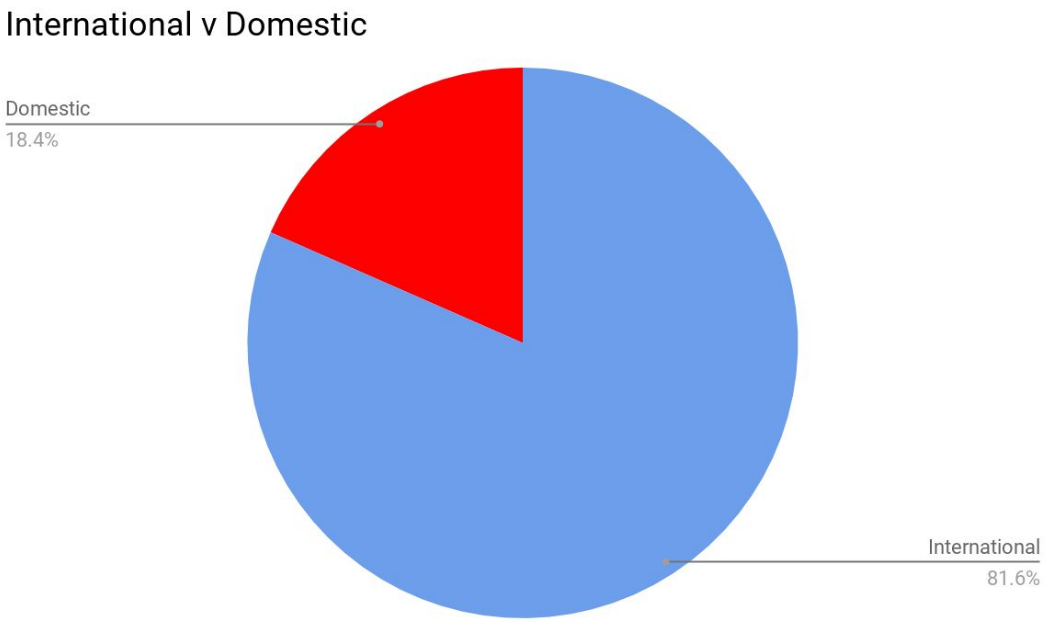
- ❖ Domestic and international sales under their own brands
- ❖ Act as supplier of raw material/finished goods to other companies.

- They sell leather products, primarily footwear under Allen Cooper and garments under Double Duty in India. They have other brands like Silver Street (Primarily in the U.K.) and Pancea that they use for sales outside India.

- Superhouse is a feeder company of leather footwear and accessories to the likes of Dorothy Perkins, Pierre Cardin, Bata, Hush Puppies, VIP etc.

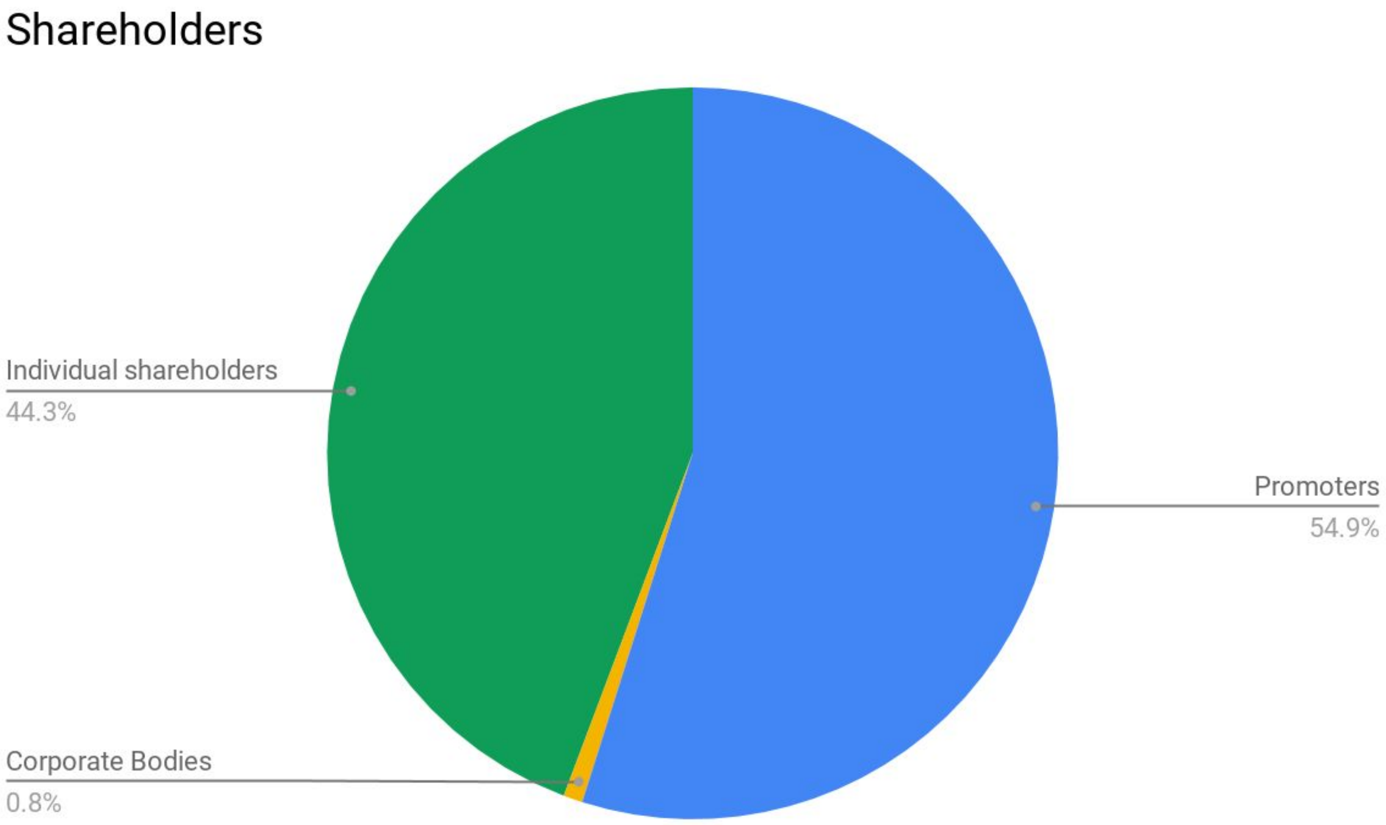
Revenue Segmentation

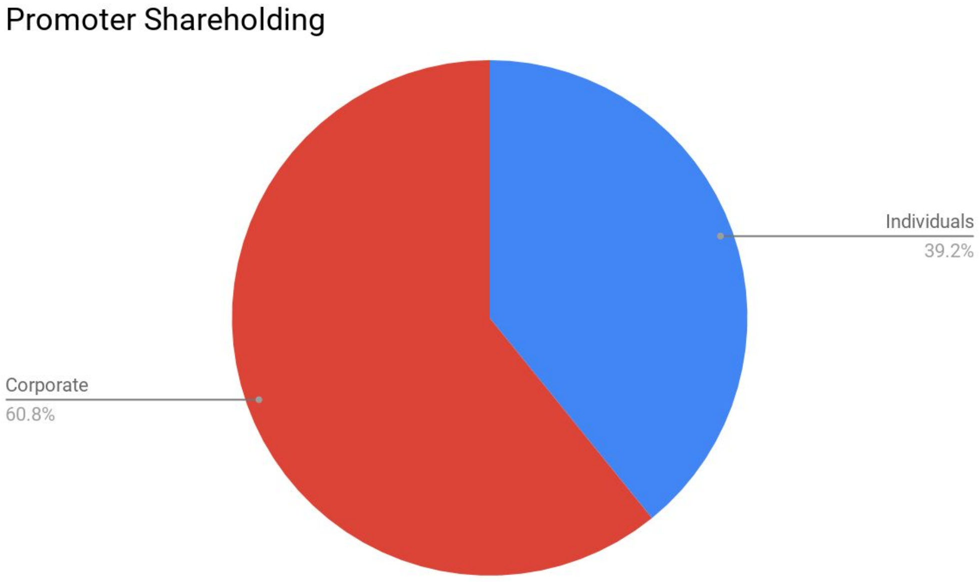




- The export turnover contributing 81.58% of the total turnover.
- Business largely consists of leather and leather products with 87% of sales coming from that segment
- Profit margins on Textiles are much lower than that of leather as leather goods are usually luxury goods
- Business is focused on the Leather segment with 91% of their capital employed in that segment

Shareholding Pattern





Shareholding Pattern Analysis

- So, there is a high and constant level of promoter/family holdings (55%), which is a very good sign, as it reduces chances of executives committing fraud, which is riskier in small caps.
- So as we can see, 42.62% of the company is owned by the Amin family and other of their own companies like Amin International Ltd (Minority holding-31%), Steven Constructions Ltd. (Minority Holding- 46.67%) ,Superhouse Accessories Ltd.
- Remaining promoters with 12.26% ownership are corporations like Modriba Hygiene Solutions Ltd., Steven Construction Ltd., Rojus Enterprises Ltd. And Chowdhary Overseas Ltd, which also have common directors on their board.
- All these corporations are based in Kanpur as well and common directors are members of the Amin family too.
- Outside corporate bodies have reduced their stake from 1.12% to 0.84%.

Management

The **Average Tenure** for managers is 17.3 years.

Superhouse was founded by Mukhtarul Amin, who is the Chairman and the MD of the company from 14.2 years.

His present compensation is 1.2 Cr after an increase of 18.8% in FY 2018-19.

Average %age increase made in the salaries of non-managerial employees in the FY ‘20 was 4.09% whereas the increase in the managerial remuneration was 20.27 %. Although, Amin’s remuneration has always followed the path of growth/loss in earnings of Superhouse. (Decrease of 10.31%, 84% decrease in Shahina Mukhtar’s remuneration)

It is 81.04 times the median remuneration of 1.32 lakhs of the average employee in his company, which is vastly lower than the average of 249 times of Nifty-50 companies.

[Source:https://economictimes.indiatimes.com/news/company/corporate-trends/4045-times-is-the-highest-ceo-pay-ratio-in-india-inc-for-fy19/articleshow/73423383.cms?from=mdr]

- 7 of the Board of directors are appointed for corporate governance roles and have remuneration based on the number of meetings they attend. We need to keep in mind that directors not attending a lot of meetings reduces their incentive in speaking out against the Amin family, and also shows that the company doesn't value its CG directors, as pointed out by Mr. Pavan Ahluwalia in our session.
- The total remuneration of non-independent directors is Rs. 2,44,76,000, i.e. 8.5% of the net profit. This is close to the limit on the remuneration of directors of 10% of the net profit of the company (as per Section 198 of the Companies Act, 2013)
- In the remaining non-independent directors, we can see that the authority is highly centralised with Mukhtarul Amin, as except Mr. Saran and Mr. Agarwal, all are part of his family. Saran and Agarwal hold negligible shares in the company as well.
- This centralisation of authority might help in making the decision making more quicker and is not that big a red flag, keeping in mind the high promoter holdings and the fact that it is a small-cap.

Managerial Ratios

- **Inventory Turnover Ratio** = **2.3** for FY 2019-20. It was 1.6 for the FY 2018-19.
- **Working Capital Turnover ratio**= **3.94** for indicates that working capital is employed efficiently.
- **Return on Capital employed**= **11.23%** for FY 2019-20 and **10%** for FY 2018-19.
- **Return on Equity: 8.1%** for FY 2019-20 and **6.8%** in 2019-20.
- **Dividend Payout Ratio:** Hasn't been high historically, wavers around 5% from the past 5 years.

  3% for FY 2019-20 and 5.5% for FY 2018-19.

Subsidiaries

100% owned subsidiaries:

- Superhouse (U.K.) Ltd.
- Superhouse (U.S.A.) International Inc.
- Superhouse Middle East
- Briggs Industrial Footwear
- Linea De Seguridad SLU Spain
- Superhouse GmbH
- LA Compagine Francaise D Protectio SARL Headquarters

Associate Subsidiaries

- Steven Construction Limited: **46.67%**
- **Unnao Tanneries Pollution Control Company: 34.05%**
- KnowledgeHouse Limited: **31.85%**
- Amin International Limited: **31.13%**
- Ceemos International Limited: **48.63%**

Qualitative Analysis

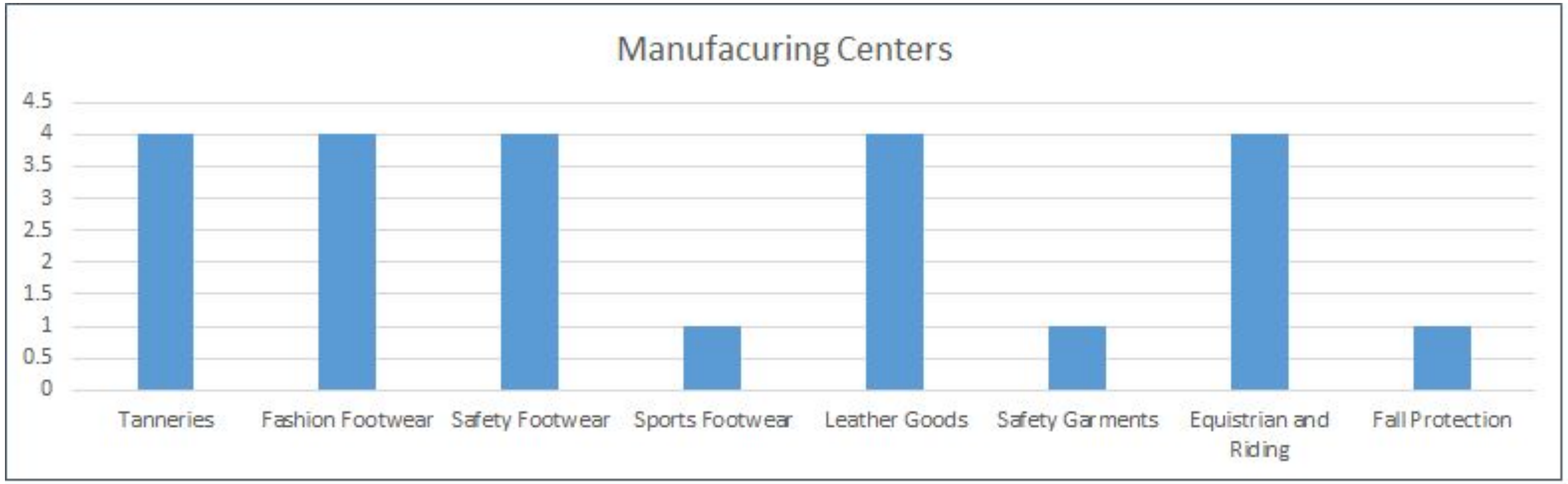
COVID-Angle

- In 2019-20 exports **declined by 10.89%** to roughly 5.07 billion US dollars from 5.69 billion US dollars in 2018-19.
- For **combined April and May 2020** only 17% or 128.52 million US dollars in exports was achieved hen compared to 757.11 million Us dollars in April-May 2019
- exports of leather, leather products and footwear stood at 442 million US dollars in June 2019, **only 35% of that is expected for June 2020**
- Due to severity of impact in US and Europe, which account for 70% exports, many international buyers have filed bankruptcy, cancelled orders or delayed payments
- On the domestic side, demand for leather footwear has significantly reduced with working professionals not buying and other consumers choosing not to spend money on it.
- The operations of Superhouse substantially got affected from mid of March, 2020 due to closure of factories of the Company, disruption of supply chain, closure of malls and shops across the country

Source: Statista and Council for Leather Exports

- The supply chain has been disrupted due to lockdown since March 2020 and unless the full supply chain resumes back to normal the availability of raw materials, packing material, etc is an issue in view of the countrywide lockdown
- Since Superhouse products fall under the non-essential categories, the demand for its products will remain low and will tend to witness a recovery in demand once the situations gets normalize. With fall of consumer discretionary income, demand for non-essential goods has reduced too
- Superhouse has sufficient reserves to service its debt paying capacity so liquidity shouldn't be a problem going forward especially when smaller players have had to close shop

Manufacturing Pattern



- Most of its units are set up in Unnao district of UP with a couple of them in places like Kolkata and Kanpur.
- All raw materials are made in-house which assures product quality and reduces dependence on outside stakeholders
- Supply chain is also not heavily disrupted as all products are manufactured in their single division and go out to wholesalers

Source: Superhouse

Industry Analysis and Macro Economic Trends

•Revenue in the Leather Footwear segment amounts to ₹219,595m in 2020. The market is expected to grow annually by 12.3% (CAGR 2020-2025).

•In global comparison, most revenue is generated in the United States (₹1,605,653m in 2020).

•India is the second largest producer of footwear and leather garments in the world.

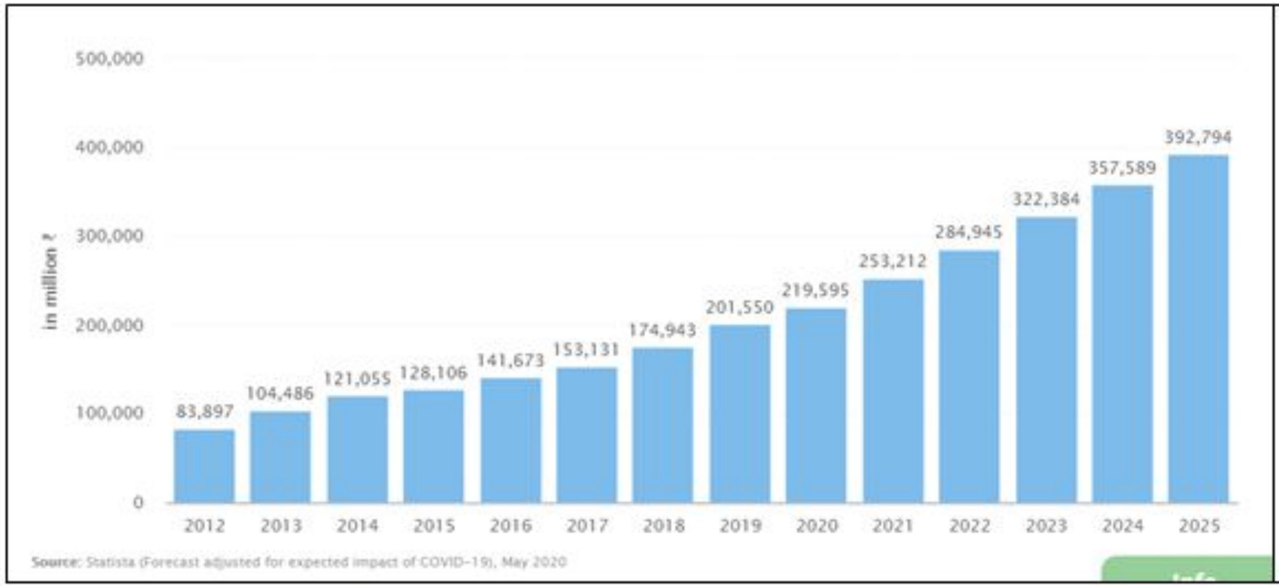
•India is the second largest exporter of leather garments and third largest exporter of Saddlery & Harness in the world.

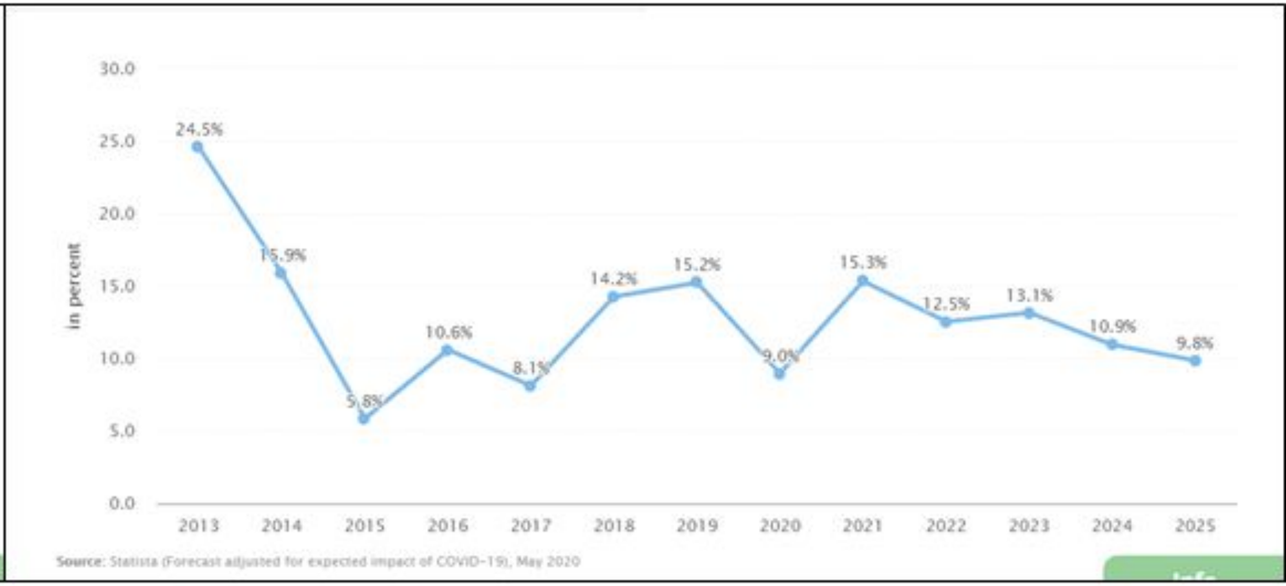
•Overall export of the country decreased by 5.11%, and leather industry export decreased by 10.9%, which is justifiable considering the elastic nature of leather.

•Reduction in consumer discretionary income is expected which is to hurt the entire industry

•The export business which is a major revenue driver for the industry is to take a hit

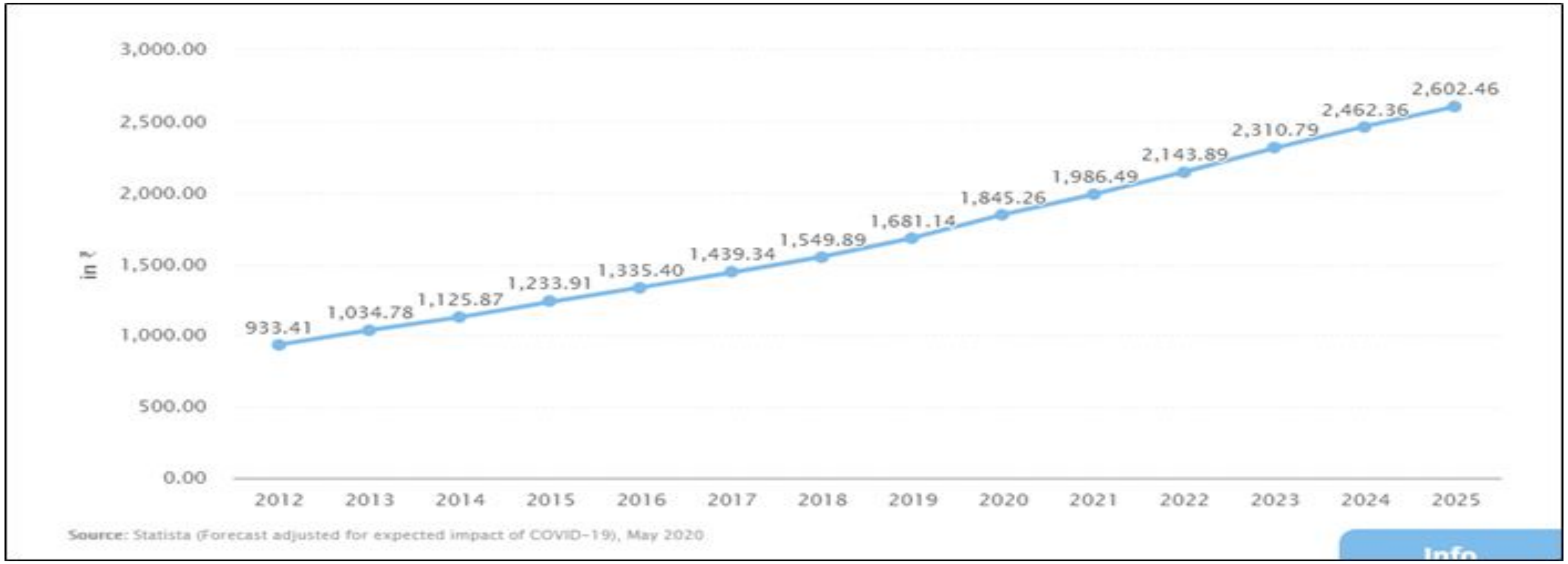
Source: Statista & AR '20



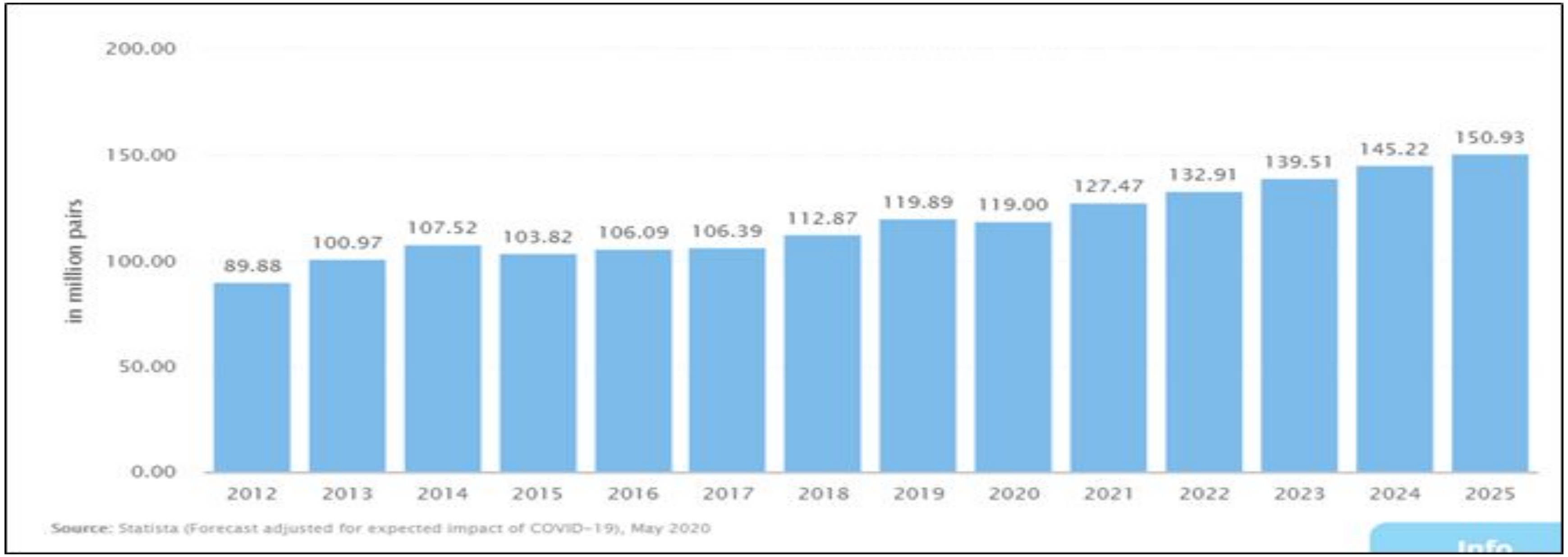


- These graphs show that the industry is sure to grow over the next few years, even taking into consideration the impact that COVID causes.

Source: Statista

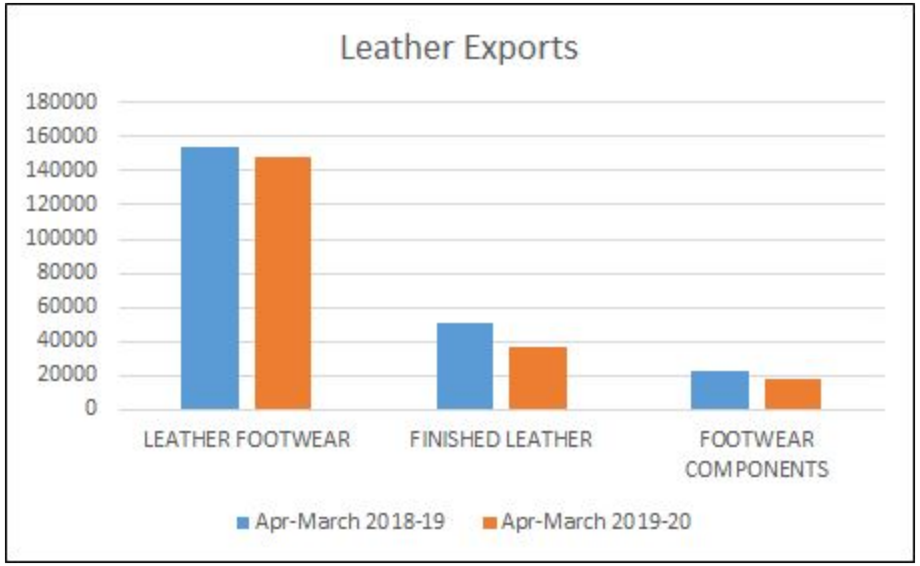


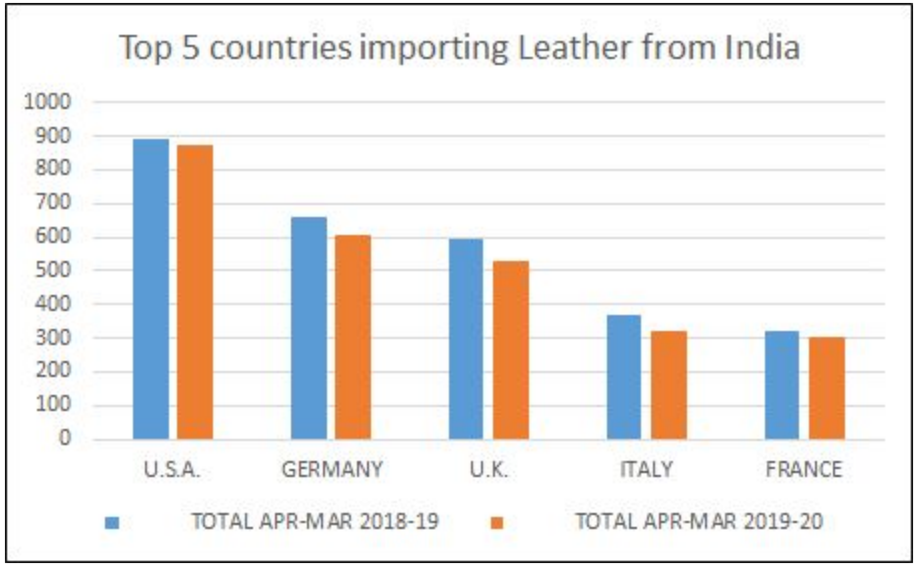
- This graph shows the growth in average price of leather footwear
- It shows a sustained growth of leather footwear over a period of time

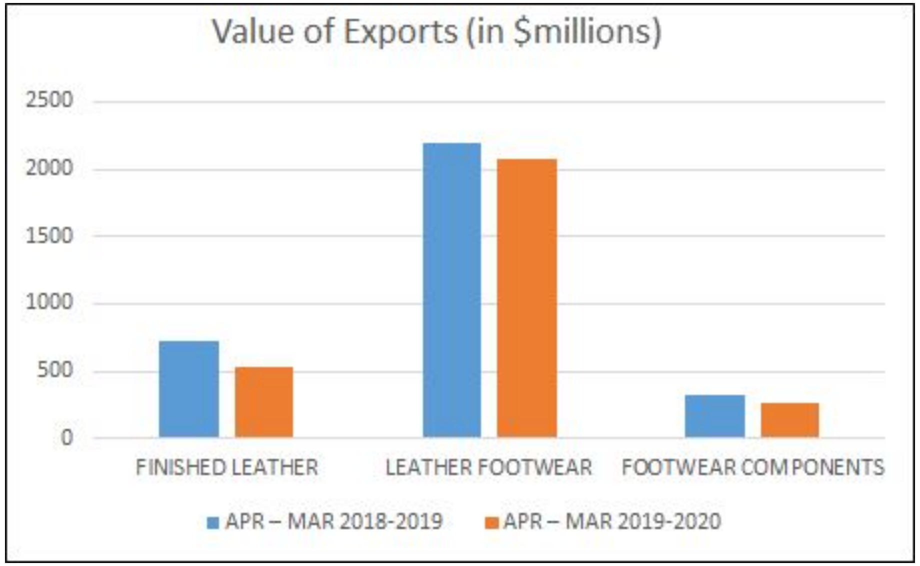


- This graph shows the volume of expected sales of leather footwear
- Even despite the COVID situation, it is expected that the market will grow at a sustained pace

Source: Statista







- We see negative growth in the all the parameters when it comes to international business
- This has only gone down with the current pandemic which has impacted exports heavily and lowered demand

Source: Council for leather Exports

Porter's 5 Forces

- **Threat of new entrants**

-Barriers to entry are strong in terms of high capex requirements

-Multi-tier supply chains exist in the industry which make it difficult for a new entrant to enter industry

-Brand loyalty is strong in the leather footwear industry

- **Bargaining Power of buyers**

-Consumers have different design choices and preferences that gives a higher degree of bargaining power

-Buyer is moderately price sensitive since he looks for long-lasting quality over just price

- **Threat of Substitute Products**

-There are no mass appeal substitutes of leather footwear in the market

-Risk of substitute is non-existent

- **Bargaining Power of Suppliers**

-There are a number of suppliers, right from big, listed companies to local brands

-Product differentiation is by quality, design, marketability and price

•**Rivalry among existing competitors**

-Competition is strong between local brands and bigger retailers

-Companies are constantly trying to come up with better designed products with higher quality at lower price

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Moats

	Moat	Score	Total	Comments
1	Monopoly- govt order, resource scarcity.	0	20	There are a number of companies in the sector; no one company can maintain hegemony
2	Technological advantage - patents , R&D	5	20	scope of patents and R&D do not exist in the industry, superhouse has edge in manufacturing
3	Cost - operating efficiency , economies of scale	9	10	Has the highest ROCE among its competitors and FCF has been increasing steadily
4	Entry barrier - high capital investment, too many licenses, government order	13	15	Capex required is high, government compliance is required,
5	Switching costs- high switching costs, change in consumer behaviour, investment is already made	5	10	switching costs are high as company has to be extremely to change in consumer behaviour, leading to higher possibility of dead stocks
6	Network effect - everyone is there and no one will leave as everyone is there.	3	15	Consumer is largely middle class, and thus would be indifferent to the brand, and would be price sensitive.
7	Brand - synonym with trusts	5	15	Is relatively unknown since it is a smaller, limited brand

Impact of Pollution Control

Kanpur is one of the most polluted cities in the world, primarily due to its high SPM concentration. The main reason behind this pollution is due to the liquid and gaseous chromium based wastes that the 400+ tanneries in Kanpur offload in the Ganges River. Due to this, Kanpur was the most polluted city in the world in 2016-2018.

During Kumbh Mela in 2018, to keep the water clean, the UP Government gave temporary closure orders to all tanneries in Kanpur. Superhouse was closed at this time as well, although we are not sure for how much time it was closed. This did not affect the revenues and profits of Superhouse, which have been improving since FY 2017. This was not mentioned in their annual reports as well.

Superhouse also has its own pollution control unit, and has a minority holding in the Unnao Tanneries Pollution Control Company. Considering the fact that Mukhtarul Amin is a past chairman of the Council for Leather Exports (sponsored by the central government), he holds reasonable influence, which might have led to relaxation of some restrictions for Superhouse.

Nonetheless, some articles state employees in Superhouse saying that they might have to migrate to Kolkata.

Although, considering the employment prospects that tanneries provide in Kanpur-Unnao, it is unlikely that government will take any permanent foreclosure forward

Government Legislations

- Superhouse has a capacity to produce 3 million sq ft. of leather per month. 16.67% of this leather is cow leather. Since the company isn’t heavily dependant on cows, therefore in the event of imposition of cow-vigilantism related laws in UP, switching costs won’t be high.
- The Government of India had identified the Leather Sector as a Focus Sector in the Indian Foreign Trade Policy in view of its immense potential for export growth prospects and employment generation
- Central Sector Scheme Indian Leather Development Programme (ILDP) is aimed at enabling existing tanneries, footwear, footwear components, and leather products units to upgrade leading to productivity gains, right-sizing of capacity, cost cutting, design and development simultaneously encouraging entrepreneurs to diversify and set up new units in the areas.

Source: ET; Council for Leather Exports, AR ‘20

SWOT Analysis

Strengths

1. Rising Net Cash Flow and Cash from Operating activity (375.3% returns for Nifty 500 over 5.9 years)

2. Company with high TTM EPS Growth (413.9% returns for Nifty 500 over 5.4 years)

3. Effectively using Shareholders fund - Return on equity (ROE) improving since last 2 year

4.Efficient in managing Assets to generate Profits - ROA improving since last 2 year

5. Growth in Quarterly Net Profit with increasing Profit Margin (YoY)
Annual Net Profits improving for last 2 years

6. Book Value per share Improving for last 2 years
Company with Zero Promoter Pledge

7. Low debt, can easily avoid a liquidity crunch with its high reserves in a time when it is impacting the entire industry in the short term

8. The industry outlook looks positive for the long term future

9. No change in domestic revenue in FY 2020

Weakness

1. Decline in Net Profit (QoQ)

2. The company has delivered a poor growth of -5.32% over past five years.

3. Is significantly smaller in operations and market cap than other competitors

Opportunities

1.Make changes to product line to suit changing consumer patterns

2. Many of the smaller players are shutting down but larger players like Superhouse can weather this crisis

3. Stock with Low PE (PE < = 10)

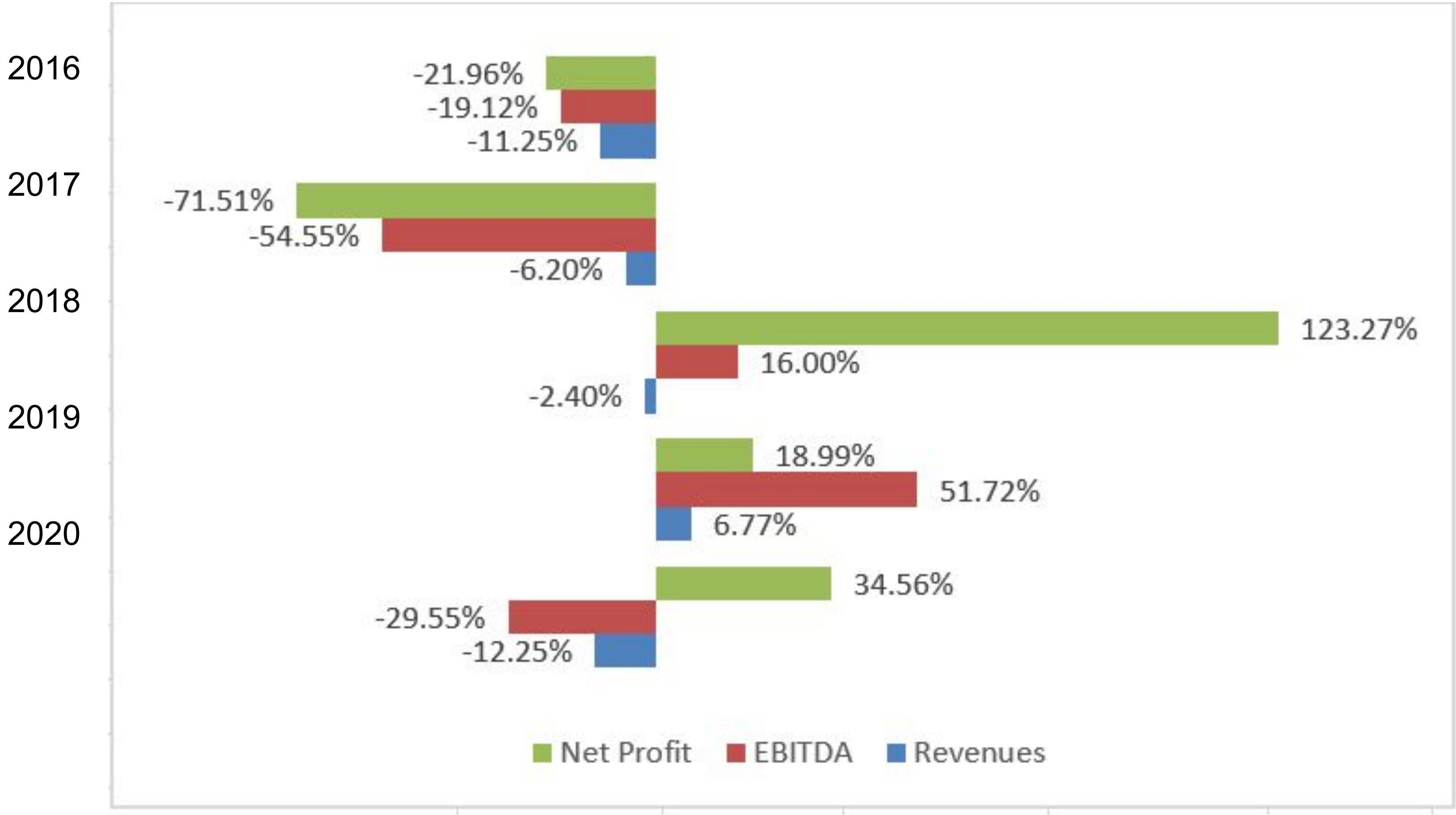
4. If government legislates anti-dumping duty on Chinese chemical imports could help the company compete better

Threats

1. Pollution caused can lead to temporary shutdown/migration.
2. Corona impact has proved to be disastrous for the industry
3. Change in buying pattern is detrimental to existing product line
4. International business segment has reduced on a YoY basis too
5. Labor issues
6. Adverse foreign exchange rate

Quantitative Analysis

Revenue and Profit Changes



- Sales growth and EBITDA growth have largely been negative over the last 5 years
- However net profit has been consistently increasing for the last 3 years.

Profit and Loss Statement

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED MARCH 31, 2020

Particulars	Note No.	2019 - 20 Rs. in Lacs		2018 - 19 Rs. in Lacs	
INCOME:					
Revenue from Operations	23		60,867.22		69,440.01
Other income	24		1,297.97		745.75
Total Income			**62,165.19**		**70,185.76**
EXPENSE:					
Cost of materials consumed	25		25,624.15		32,128.77
Purchase of stock-in-trade	26		8,783.13		10,160.91
Changes in inventories of finished goods, work-in-progress and stock-in-trade	27		733.39		(82.31)
Employee Benefits Expenses	28		5,616.33		5,646.59
Finance costs	29		1,693.39		1,935.55
Depreciation and Amortization Expenses			1,477.56		1,538.06
Other Expenses	30		15,559.59		15,688.18
Total Expenses			**59,487.54**		**67,015.75**
Profit before Exceptional items and Tax			2,677.65		3,170.01
Exceptional Items			-		-
Profit before Tax			2,677.65		3,170.01
Tax expense:					
1. Current Tax		615.43		943.07	
2. Deferred Tax		(436.07)		150.00	
3. Tax adjustment relating to earlier years		(126.13)		(13.32)	
			53.23		1,079.75
Profit for the period			2,624.42		2,090.26
Other comprehensive income					
(i) Items that will not be reclassified to profit or loss					
Re-measurements of the defined benefit plans		(53.11)		(5.03)	
(ii) Income tax related to items that will not be reclassified to profit or loss		(13.38)	(39.73)	(1.55)	(3.48)
Total comprehensive income for the period			2,584.69		2,086.78

Tax implications:

- Only 23% tax charged this year, compared to an average of 30% tax before.
- This year's tax expense is less due to deferred tax prepayments. This led to an increase in the PAT YoY.

Revenues: Domestic revenues remained constant. Shows inelasticity of sales in India due to target customer segment in India.

Expenses: There is a 20% decline in COGS, while there is only a 12% decline in revenue.

Profit and Loss Statement Analysis

Profitability	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	CAGR 9 YEAR CAGR (Till FY 19)
Net Sales and Operating Revenues	453.00	535.00	588.00	753.00	800.00	710.00	666.00	650.00	694.00	609.00	4.85%
Cost of Sales	411.00	477.00	530.00	665.00	718.00	640.00	625.00	605.00	635.00	563.00	
EBITDA	**42.00**	**58.00**	**58.00**	**88.00**	**82.00**	**70.00**	**41.00**	**45.00**	**59.00**	**46.00**	3.85%
Depreciation and impairment	9.00	10	12.00	14.00	14.00	15.00	16.00	16.00	15.00	15	
Operating Profit	**33.00**	**48.00**	**46.00**	**74.00**	**68.00**	**55.00**	**25.00**	**29.00**	**44.00**	**31.00**	3.25%
Interest and Finance Charges	10.00	17.00	19.00	25.00	21.00	22.00	21.00	20.00	19.00	17.00	
Other Income	4.00	5.00	6.00	5.00	8.00	12.00	11.00	16.00	7.00	15.00	
Profit before Tax and Exceptional Items	**27.00**	**36.00**	**33.00**	**54.00**	**55.00**	**45.00**	**15.00**	**25.00**	**32.00**	**29.00**	1.91%
Exceptional Items (Net)	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00	0.00	0.00	0.00	
Share in Profit/Loss of Associates	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Profit before Tax	**27.00**	**36.00**	**33.00**	**54.00**	**55.00**	**45.00**	**15.00**	**25.00**	**32.00**	**29.00**	1.91%
Tax Expense %	0.34	0.31	0.32	0.31	0.35	0.38	0.47	0.29	0.34	0.02	
Tax Expense	9.18	11.16	10.56	16.74	19.25	17.10	7.05	7.25	10.88	0.58	
Net Profit	17.82	24.84	22.44	37.26	35.75	27.90	7.95	17.75	21.12	28.42	1.91%

Profit and Loss Statement Analysis

Growth Y-O-Y	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20
Sales Growth	18.10%	9.91%	28.06%	6.24%	-11.25%	-6.20%	-2.40%	6.77%	-12.25%
EBITDA Growth	38.10%	0.00%	51.72%	-6.82%	-14.63%	-41.43%	9.76%	31.11%	-22.03%
Operating Profit Growth	45.45%	-4.17%	60.87%	-8.11%	-19.12%	-54.55%	16.00%	51.72%	-29.55%
Net Profit Growth	39.39%	-9.66%	66.04%	-4.05%	-21.96%	-71.51%	123.27%	18.99%	34.56%
Margins	**FY 12**	**FY 13**	**FY 14**	**FY 15**	**FY 16**	**FY 17**	**FY 18**	**FY 19**	**FY 20**
EBITDA Margin	10.84%	9.86%	11.69%	10.25%	9.86%	6.16%	6.92%	8.50%	7.55%
Operating Margin	8.97%	7.82%	9.83%	8.50%	7.75%	3.75%	4.46%	6.34%	5.09%
Net Margin	4.64%	3.82%	4.95%	4.47%	3.93%	1.19%	2.73%	3.04%	4.67%

- Sales growth has been really erratic since FY 16, after which revenues decreased for FY 16-18. Revenues increased in FY 19 despite a fire in their factory in FY 2019. Profits have followed a similar pattern.
- From the figures it seems like the company had started recovering from falling financials in FY 16 and FY 17. Profit margins were increasing in FY 18 and 19.
- Decreasing profit margins is pretty much standard in most comparable companies.

Balance Sheet

CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2020

Particulars	Note No.	As at March 31, 2020 Rs. in Lacs		As at March 31, 2019 Rs. in Lacs	
ASSETS					
Non-current assets					
(a) Property, Plant and Equipment	2 (a)		20,802.22		21,395.35
(b) Capital work-in-progress			190.73		275.18
(c) Investment Properties	2 (b)		457.85		202.17
(d) Goodwill	2 (c)		584.85		584.85
(e) Other Intangible assets	2 (d)		21.38		25.16
(f) Financial Assets					
(i) Investments	3	2,486.30		1,916.02	
(ii) Loans	4	399.37		450.99	
			2,885.67		2,367.01
(f) Deferred Tax Asset (net)	5		527.01		507.47
(g) Other non-current assets	6		675.66		684.87
Current Assets					
(a) Inventories	7		19,772.36		20,212.24
(b) Financial Assets					
(i) Trade receivables	8	13,506.28		14,856.05	
(ii) Cash and cash equivalents	9	1,153.13		1,286.65	
(iii) Bank Balances other than (ii) above	10	3,259.33		3,035.67	
(iv) Other Financial Assets	11	2,968.52		3,827.94	
			20,887.26		23,006.31
(c) Current Tax Assets (Net)			498.29		622.47
(d) Other current assets	12		1,161.86		1,275.80
TOTAL ASSETS			**68,465.14**		**71,158.88**
EQUITY AND LIABILITIES					
EQUITY					
(a) Equity Share Capital	13	1,102.50		1,141.98	
(b) Other Equity	14	34,223.17		31,169.01	
			35,325.67		32,310.99
LIABILITIES					
Non current liabilities					
(a) Financial liabilities					
(i) Borrowings	15		2,022.70		3,660.03
(b) Deferred tax liabilities (net)	16		1,471.47		1,901.38
(c) Other non-current liabilities	17		92.62		249.33
Current liabilities					
(a) Financial liabilities					
(i) Borrowings	18	13,381.60		15,304.70	
(ii) Trade payables	19	9,855.17		12,600.88	
(iii) Other financial liabilities	20	5,930.56		4,731.14	
			29,167.33		32,636.72
(b) Other current liabilities	21		233.16		243.47
(c) Provisions	22		152.19		156.96
(d) Current Tax Liability (Net)			-		-
TOTAL EQUITY AND LIABILITIES			**68,465.14**		**71,158.88**

- Large increase in Investments. Up until the previous year all long term investments were in equities.
- Decrease in Equity Share Capital, due to forfeiture of shares on event of non-payment.
- Repayment of debt has led to a significant drop in long term borrowings and a smaller drop in short term borrowings
- Trade Payables have also reduced
- PPE has fallen by a small amount, due to sale in "Other Buildings."

Balance Sheet Analysis

CAGR 9 YEAR

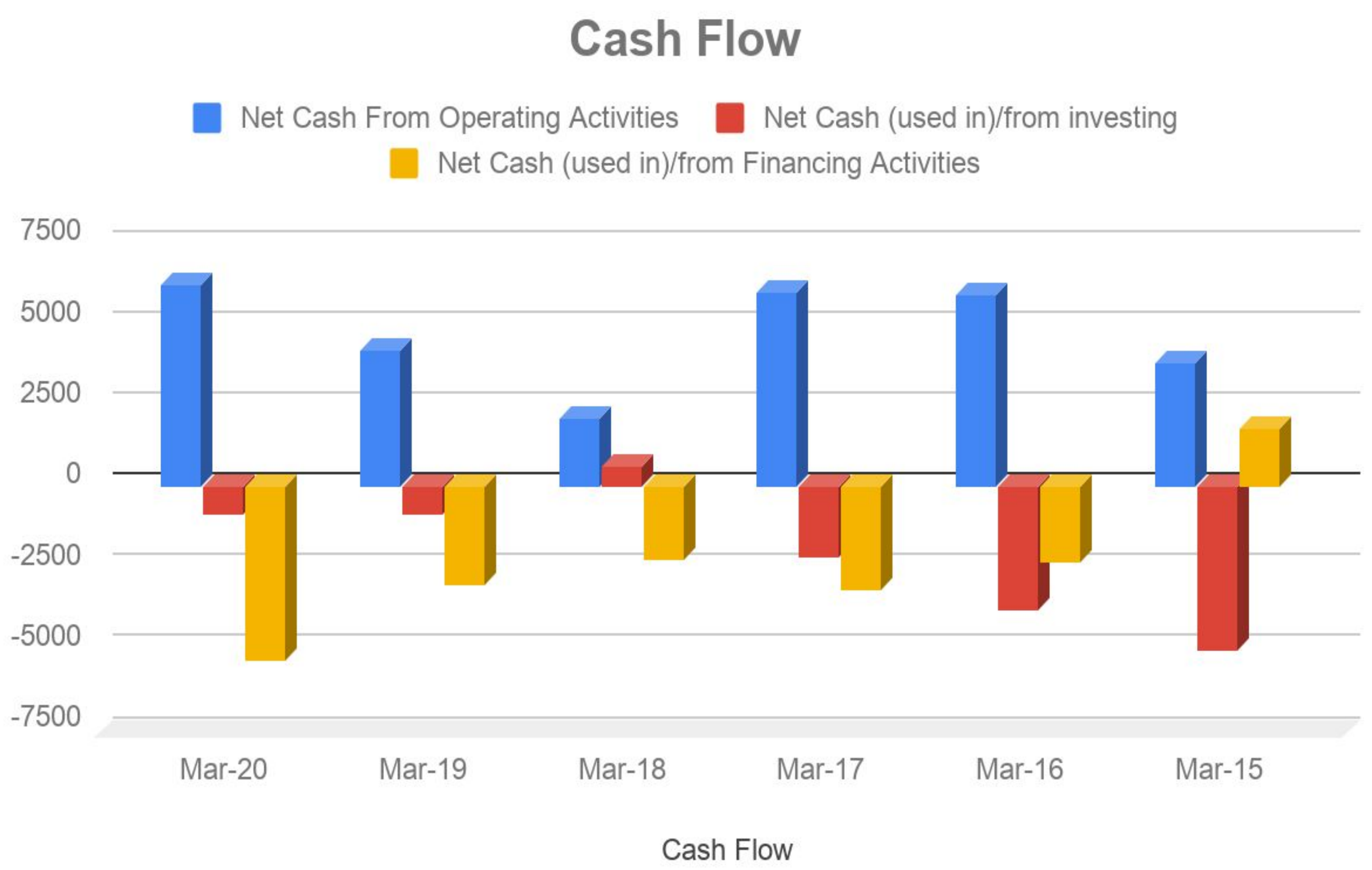
Financial Position	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	CAGR (Till FY 19)
Equity	11.42	11.42	11.42	11.42	11.42	11.42	11.42	11.42	11.42	11.03	
Reserves	124.00	147.00	167.00	200	234.00	262.00	272.00	289	312.00	342.00	
Net Worth	**135.42**	**158.42**	**178.42**	**211.42**	**245.42**	**273.42**	**283.42**	**300.42**	**323.42**	**353.03**	10.16%
Total Debt	104.00	142.00	168.00	193	232.00	231.00	221.00	220	209.00	154.00	
Capital Employed	**239.42**	**300.42**	**346.42**	**404.42**	**477.42**	**504.42**	**504.42**	**520.42**	**532.42**	**507.03**	9.29%
Other Liabilities	135.00	133.00	155.00	180	160.00	161.00	151.00	184	174.00	178.00	
Total Liabilities	**374.42**	**433.42**	**501.42**	**584.42**	**637.42**	**665.42**	**655.42**	**704.42**	**706.42**	**685.03**	
Assets	**FY 11**	**FY 12**	**FY 13**	**FY 14**	**FY 15**	**FY 16**	**FY 17**	**FY 18**	**FY 19**	**FY 20**	**CAGR (Till FY 19)**
Net Fixed Assets	126.00	144.00	168.00	172	193.00	223.00	231.00	224.00	222.00	219	6.50%
Capital Work-In-Progress (CWIP)	9.00	8.00	5.00	3	16.00	12.00	4.00	6.00	3.00	2	
Investments (Including Current)	4.00	5.00	5.00	6	9.00	10.00	12.00	16.00	20.20	45.7	
Inventories	110.00	138.00	163.00	186	211.00	215.00	205.00	205.00	202.00	198	
Trade Recievables	82.00	91.00	102.00	145	126.00	137.00	109.00	154.00	149.00	135	
Cash & Cash Equivalents	21.00	24.00	23.00	28	34.00	34.00	47.00	42.00	43.00	44	
Loans and Advances	21.00	20.00	33.00	43	45.00	30.00	40.00	55.00	64.00	4	
Other Assets	3.00	4.00	2.00	0	4.00	7.00	9.00	3.00	4.00	58	
Total Assets	**376**	**434**	**501**	**583**	**638**	**668**	**657**	**705**	**707.2**	**705.7**	7.27%

Balance Sheet Analysis

- Equity share capital has remained constant from the past 9 years, until 2019.
- Reserves have constantly increased primarily due to transfer of earnings in general reserve and retained earnings.
- Debt has been decreasing from the past 4 years
- Increase in net fixed assets since the past 10 years, due to which there is a constant increase in book value of the company.
- Cash and Cash equivalents have had a historical growth of 6% over last 5 years
- Some of the goods were lost in a fire in FY 2018-19, for which they are waiting for their insurance claim to be passed.
- Working capital has been increasing annually.

	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	CAGR (Till FY 19)
Current Assets	237.00	278.00	323.00	402	420.00	422.00	409.00	460	463.00	439.00	
Current Liabilities	135.00	133.00	155.00	180	160.00	161.00	151.00	184	174.00	177.00	
Working Capital	102.00	145.00	168.00	222.00	260.00	261.00	258.00	276.00	289.00	262.00	12.27%

Cash Flow Statement Analysis



- Positive cash flow from operating over last 5 years
- Company has been spending a large sum of Investing cash flows on Capex every year
- Most of Financing activities consists of repayment of debt which company has rapidly undertaken over the past year

Ratio Analysis

Ratios										
Return Ratios (%)	**FY 11**	**FY 12**	**FY 13**	**FY 14**	**FY 15**	**FY 16**	**FY 17**	**FY 18**	**FY 19**	**FY 20**
Return on Equity	13.16%	15.68%	12.58%	17.62%	14.57%	10.20%	2.81%	5.91%	6.53%	8.05%
Return on Capital Employed	13.69%	15.95%	13.29%	18.36%	14.23%	10.85%	4.94%	5.57%	8.25%	5.87%
Return on Assets	4.74%	5.72%	4.48%	6.39%	5.60%	4.18%	1.21%	2.52%	2.99%	4.03%
	FY 11	**FY 12**	**FY 13**	**FY 14**	**FY 15**	**FY 16**	**FY 17**	**FY 18**	**FY 19**	**FY 20**
Basic EPS (Rs)	15.60	21.75	19.65	32.63	31.30	24.43	6.96	15.54	18.49	25.77
Cash EPS (Rs)	14.01	27.15	21.89	21.89	33.27	50.79	52.54	18.39	36.28	50.44
Book Value Per Share (Rs)	118.58	138.72	156.23	185.13	214.90	239.42	248.18	263.06	283.20	320.06
Dividend Payout %	9.00%	7.00%	8.00%	5.00%	5.00%	6.00%	14.00%	6.00%	5.00%	3.00%
Market Price (Rs)	40.57	55.03	106.89	206.53	174.99	137.00	144.40	134.00	129.00	58.00
Face Value (Rs)	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
No. of Shares (Crores)	1.14	1.14	1.14	1.14	1.14	1.14	1.14	1.14	1.14	1.10
Market Capitalisation (Crores)	46.33	62.85	122.07	235.86	199.84	156.45	164.90	153.03	147.32	63.97
Enterprise Value (Crores)	129.33	180.85	267.07	400.86	397.84	353.45	338.90	331.03	313.32	173.97

Ratio Analysis

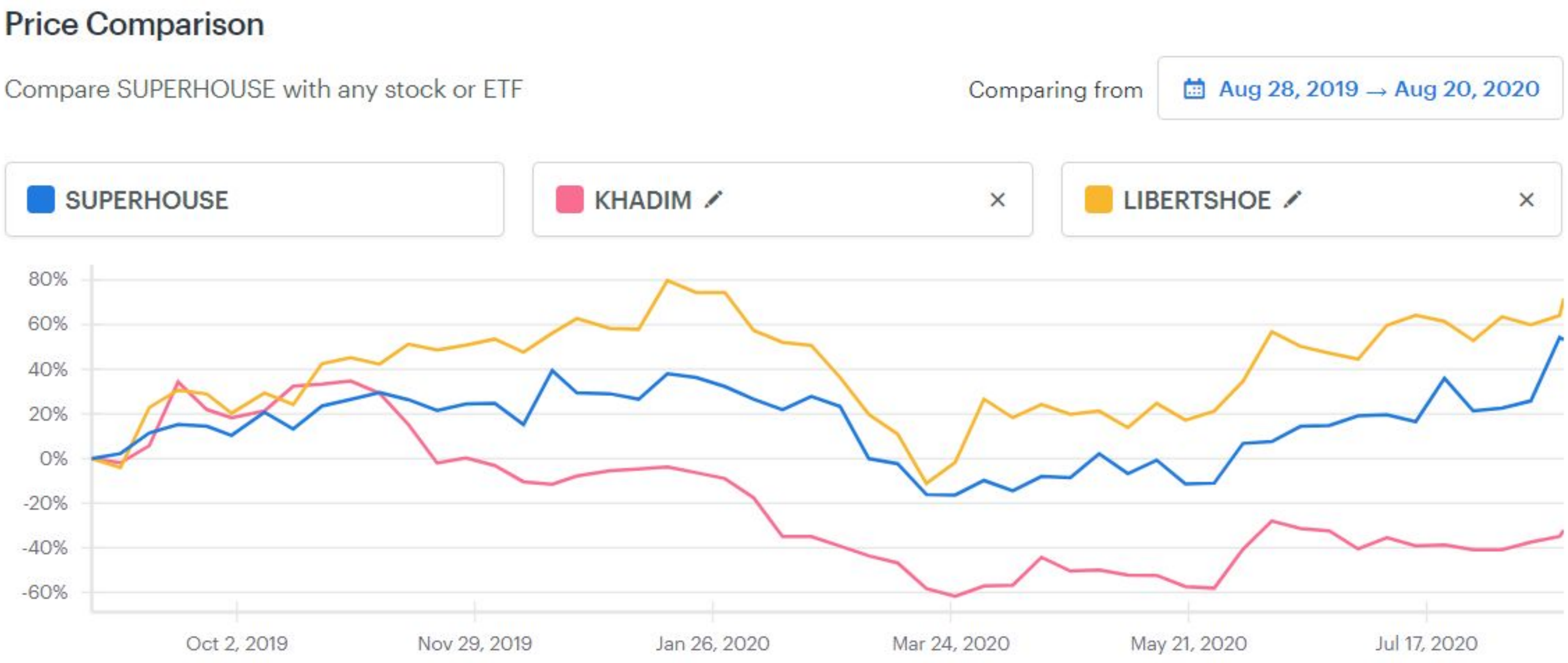
Valuation (x)	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20
P/E	2.60	2.53	5.44	6.33	5.59	5.61	20.74	8.62	6.98	2.25
ROI (EBITDA/EV)	32.47%	32.07%	21.72%	21.95%	20.61%	19.80%	12.10%	13.59%	18.83%	26.44%
P/BV	0.30	0.35	0.60	0.98	0.71	0.50	0.51	0.45	0.40	0.16
EV/Sales	0.29	0.34	0.45	0.53	0.50	0.50	0.51	0.51	0.45	0.29
Market Cap/Sales	0.10	0.12	0.21	0.31	0.25	0.22	0.25	0.24	0.21	0.11
Other Ratios	**FY 11**	**FY 12**	**FY 13**	**FY 14**	**FY 15**	**FY 16**	**FY 17**	**FY 18**	**FY 19**	**FY 20**
Debtor (Days)	66	62	63	70	57	70	60	86	78	81
Inventory (Days)	89	94	101	90	96	111	112	115	106	119
Inventory Turnover Ratio	4	4	4	4	4	3	3	3	3	3
Debt/Equity	0.77	0.90	0.94	0.91	0.95	0.84	0.78	0.73	0.65	0.44
Interest Coverage Ratio	3.30	2.82	2.42	2.96	3.24	2.50	1.19	1.45	2.32	1.82
Cash Flow Statement	**FY 11**	**FY 12**	**FY 13**	**FY 14**	**FY 15**	**FY 16**	**FY 17**	**FY 18**	**FY 19**	**FY 20**
Cash from Operations	16.00	31.00	25.00	25.00	38.00	58.00	60.00	21.00	41.43	55.64
Less: CAPEX	11.00	18.00	21.00	3.00	37.00	27.00	2.00	-1.00	-0.80	21.50
Free Cash Flow	5	13	4	22	1	31	58	22	42.23	34.14
FCF/Net Profit	28.06%	52.33%	17.83%	59.04%	2.80%	111.11%	729.56%	123.94%	199.95%	120.13%
Price/FCF	8.11	4.23	26.72	9.39	174.99	4.42	2.49	6.09	3.05	1.70

Ratio Analysis

- Decrease in Inventory turnover ratios
- Interest payments are not well covered by the EBIT, as can be seen from the low interest coverage ratio
- Debt/Equity has reduced significantly over the last 5 years
- Current liabilities are well covered by Current assets
- The valuation ratios as a whole have been very favourable (Current PEG= 0.168).
- Return on equity for FY 2019-20 was 8.1%, and the average ROE for the past 5 years is 6.6%. Average ROE for the past 10 years is 10.04%. The return ratios are pretty low.
- Book value is Rs. 310 per share. The stock is trading at less a third of its book value.

Competitor Analysis

For this comparison we have taken Khadims India Ltd and Bhartiya International Ltd since they are the closest competitors in terms of market cap.



- Superhouse stock price has shown capacity to return to pre-Covid levels banking on strong fundamentals and has been able to exceed in the recent surge in price
- Among its competitors, Superhouse has shown the same track of recovery as Liberty Shoes and has completely outperformed Khadims

	Market Cap	PE Ratio	PB Ratio	RoE	RoA	5Y Avg Return on Assets	5Y Avg Net Profit Margin	5Y Avg RoE	5Y Avg Op. Profit Margin	5Y Avg RoI	5Y Historical Revenue Growth	5Y EBITDA Growth	Total Revenue	Net Income	PBT	Earnings Per Share	Reserves & Surplus	Free Cash Flow
A	238.73	22.71	1.43	3.98	1.64	2.33	1.50	6.12	8.28	8.68	4.54	8.64	656.93	10.99	17.81	6.45	146.83	15.88
B	220.67	-7.35	0.80	7.61	4.07	4.57	2.65	8.37	9.27	10.94	10.82	13.99	778.54	-31.28	-34.09	-17.40	147.52	-35.89
C	120.50	4.19	0.37	6.70	2.96	3.39	3.06	8.42	9.47	8.45	-5.05	-7.51	623.96	28.55	29.08	25.89	293.82	29.02

A= Liberty Shoes; B= Khadim India; C= Superhouse Ltd

The above proves that Superhouse, despite its significantly lesser market cap, outperforms or performs at par with its competitors across most parameters.

Classification

The company has demonstrated to be a strong asset play according to the Lynch Principles.

It gets a score out of 17/24 demonstrating that it is a strong asset play.

1) The Value of the Assets are higher than that of the business' Market Capitalisation. (1pt)	1
2) The business possesses 'Hidden' Assets (ex - patent, trademark, Higher Depreciation values etc) (1pt)	1
3) The business has a potential catalyst(s) for unlocking value (1pt)	1
4) Can the business survive a raid from creditors? (1pt)	1
5) If so, what's left for the shareholders? (1pt)	1
6) The Private Market Value for the Hidden Asset is greater than or forms a significant proportion of the business' market cap (1pt)	1
7) There is no increase in debt (1pt)	1
8) There is a decrease in debt (1pt)	1
9) The business enjoys a low p/b ratio (< 1) (1pt)	1
10) The business trades at 2-3 times it's free cash flow (1pt)	0
11) The business' NCAV is higher than that of it's market price/forms a considerable chunk of it (1pt)	0

12) The business' liquidation value > Market Capitalisation (1pt)	1
13) The business is out of favour with investors and market sentiment (1pt)	1
14) The business is in a 'sunset' industry (1pt)	1
15) The business has made/is trading at a price near to it's 52 week low (1pt)	0
16) The Working Capital Requirements of a business are greater than/ form a considerable proportion of it's price. (1pt)	1
17) Insider Buying is taking place? (1pt)	0
18) An HNI buys a stake into the business (1pt)	0
19) The business is by and large a profitable one and doesn't erode shareholder wealth? (1pt)	1
20) The business hasn't issued fresh equity recently (1pt)	1
21) The business isn't witnessing a diminishing intrinsic value from a net-net perspective (1pt)	1
22) The business is on the verge of a turnaround (1pt)	1
23) Free Cash Flow per share is greater than or forms a significant chunk of the price you're paying for a business. (1pt)	0
24) The business has a low degree of promoter ownership (1pt)	0

Valuation

Comparable Company Analysis

	Market Data			Financial Data			Valuation			
Comparable Companies	Price	Market Cap (in Rs. Cr)	Enterprise Value	Sales	EBITDA	EBIT	EV/Sales	EV/EBITDA	EV/EBIT	P/E
Relaxo Footwear	595	14775	14984.96	2,410.48	418	308.58	6.216587568	35.8491866	48.56102145	73.6
Mirza International	47	569	988.9	1,151.70	145.75	110.29	0.858643744	6.78490566	8.966361411	12.0
Sreeleathers	127	321	575	167.66	45.51	44.33	3.429559823	12.63458581	12.97090007	11.2
Liberty Shoes	133	227	424.97	497.00	39.42	25.83	0.855070423	10.78056824	16.45257453	30.3
Khadim India	109	195	245.44	771.87	37.14	-4.8	0.317981007	6.608508347	-51.13333333	Invalid
Bhartiya International	120	147	461.61	720.70	63.99	54.01	0.640502289	7.213783404	8.546750602	6.9
Mean		2705.666667	2946.813333	953.235	124.9683333	89.70666667	**2.0530575**	**13.31192301**	**7.3940458**	**26.78**
Median		321	575	167.66	45.51	44.33	**2.14**	**11.71**	**14.71**	**20.72**
Superhouse	84	92	173.97	586.56	58.48	43.7	**0.2965937**	**2.9748632**	**3.9810069**	**3.5**

All comparables of Superhouse are the lowest multiples among their peers. This shows that Superhouse is greatly undervalued as compared to its peers' performance and prices.

DCF Valuation

WACC Calculation Sheet for Superhouse

Cost of Equity= riskfree rate + beta* ERP

Riskfree rate=

10 year government bond rate+ currency default spread

Gov Bond rate=	5.84%
Sovereign Currency default spread	1.69%

Risk free rate= 7.53%

Beta=

Country		Business Segments: Leather Footwear	Leather and leather apparel	Country-wise betas	Revenue Segment	Adjusted Betas
	% of total revenues	**53.10%**	**46.90%**			
India	Beta	1.01	0.5	0.77081	19.00%	0.1464539
Europe	Beta	1.67	0.93	1.32294	58.00%	0.7673052
Remaining (Primarily USA and Middle East)	Beta	0.9	0.7	0.8062	24.00%	0.193488

Final Beta 1.1072471

Equity Risk Premium=

Riskfree rate	7.53%
Beta	1.1072471
Mature ERP(USA)	5.23%
Country Risk premium	

	Moodys	CRP	Revenue Exposure	Adjusted CRP
India	Baa3	3.23%	19%	0.61%
Europe	Aa2	0.73%	58%	0.42%
Remaining	Taken Aaa	0.00%	24%	0.00%
				1.04%

ERP= Riskfree rate+ Beta(Mature ERP)+ CRP

14.36%

Cost Of Equity

Risk-free rate+ beta*ERP = **23.421534703707500%**

Cost Of Debt= (Risk-free rate+ company default spread+ country risk premium)(1- Marginal Tax rate)

Company Default spread

Interest Coverage Ratio=			2.58	
	If ICR > 2.5	Rating=B1/B+		Which is also the rating given by ICRA
	Therefore CDS=		**3.51%**	

Marginal Tax Rate= 27.90%

Cost of Debt= **8.70542610%**

Cost Of Capital= Cost of equity (Value of Equity/(Value of Equity + Value of Debt)) + Cost of Debt(1-marginal tax rate)(Value of Debt/(Value of Equity + Value of Debt))

Value of Equity	342.23 Cr
Value of Debt	154.043 Cr

Cost of Capital/WACC **18.10%**

Consolidated Statement of Profit and Loss											Assumptions
	Year ended		(In crores)								
	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21E	Mar-22E	Mar-23E	Mar-24E	Mar-25E	Mar-26E	
Revenue from operations	666	650	694	609	590.7	608.5	643.4	680.4	714.5	750.2	*According to industry analysis and reports from statista, the leather industry is supposed to grow at roughly 12.3% CAGR from 2020-25. Keeping in mind that the company has been getting negative growth in revenues from the past 4 years, we will take a consevative estimate of 3-6%, and similar negative growth in FY'21as FY'20 due to the pandemic as well.*
Sales growth		-2%	7%	-12%	-3%	3%	6%	6%	5%	5%	
Other income	11.00	16.00	7.00	15.00	16.5	18.15	20	22	24.2	26.6	*Assumed a 10% average increase, as there is no stable source of other income, it is primarily from investments, which are mainly in equity*
Total income	**677.00**	**666.00**	**701.00**	**624.00**	**607.23**	**626.60**	**663.44**	**702.44**	**738.66**	**776.78**	
Expenses:											
COGS	625	605	635	563	546	563	595	629	661	694	
COGS/Sales	*0.94*	*0.93*	*0.91*	*0.92*	*0.93*	*0.93*	*0.93*	*0.93*	*0.93*	*0.93*	
Gross Margin	*6.16%*	*6.92%*	*8.50%*	*7.55%*	*7.50%*	*7.50%*	*7.50%*	*7.50%*	*7.50%*	*7.50%*	*Taken No growth in margins.*
EBITDA	**52.00**	**61.00**	**66.00**	**61.00**	**60.80**	**63.78**	**68.26**	**73.03**	**77.78**	**82.86**	
EBITDA/Revenue	*8%*	*9%*	*10%*	*10%*	*10%*	*10%*	*11%*	*11%*	*11%*	*11%*	
Depreciation and amortisation exp	16.00	16.00	15.00	15	14.26	14.69	15.53	16.42	17.25	18.11	*Depreciation taken: 7% of PPE, in accordance with past figures*
Total Operating Expenses	**16.00**	**16.00**	**15.00**	**15.00**	**14.26**	**14.69**	**15.53**	**16.42**	**17.25**	**18.11**	
Total operating exps/ Sales	*2.40%*	*2.46%*	*2.16%*	*2.46%*	*2.41%*	*2.41%*	*2.41%*	*2.41%*	*2.41%*	*2.41%*	
EBIT	**36.00**	**45.00**	**51.00**	**46.00**	**46.55**	**49.10**	**52.73**	**56.61**	**60.54**	**64.76**	
Interest Expenses	21.00	20.00	19.00	17.00	16.00	16.32	16.65	16.98	17.32	17.67	
Total expenses	**662.00**	**641.00**	**669.00**	**595.00**	**576.68**	**593.82**	**627.36**	**662.81**	**695.44**	**729.69**	
Profit before tax and exceptional	**15.00**	**25.00**	**32.00**	**29.00**	**30.55**	**32.78**	**36.08**	**39.63**	**43.22**	**47.09**	
Share in profit/loss of Associates	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Exceptional Items	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Profit before tax	15.00	25.00	32.00	29.00	30.55	32.78	36.08	39.63	43.22	47.09	
Tax expense	0.47	0.29	0.34	0.02	0.25	0.25	0.25	0.25	0.25	0.25	*Assumed an average 25% tax to be levied, according to corporate tax rate, 2019 onwards*
Current tax	7.05	7.25	10.88	0.58	7.64	8.19	9.02	9.91	10.80	11.77	
Net Operating Profit(NOP)	**7.95**	**17.75**	**21.12**	**28.42**	**22.91**	**24.58**	**27.06**	**29.72**	**32.41**	**35.32**	
PAT to sales	**1.17%**	**2.67%**	**3.01%**	**4.67%**	**3.88%**	**4.04%**	**4.21%**	**4.37%**	**4.54%**	**4.71%**	
Paid up equity share capital (face v	11.42	11.42	11.42	11.03	11.03	11.03	11.03	11.03	11.03	11.03	
Weighted average number of shar	1.14	1.14	1.14	1.10	1.10	1.10	1.10	1.10	1.10	1.10	
Earnings per equity share	6.96	15.54	18.49	25.77	20.77	22.29	24.53	26.95	29.39	32.02	

Consolidated Balance Sheet											Assumptions
Assets	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21E	Mar-22E	Mar-23E	Mar-24E	Mar-25E	Mar-26E	
Property, Plant and Equipment (Net)	231.00	224.00	222.00	219.00	203.70	209.81	221.88	234.63	246.36	258.68	*PPE has been forecasted on the basis on average of historical Sales/PPE trends.*
Sales	***666.0***	***650.0***	***694.0***	***609.0***	***590.7***	***608.5***	***643.4***	***680.4***	***714.5***	***750.2***	
Sales/PPE	***2.88***	***2.90***	***3.13***	***2.78***	***2.90***	***2.90***	***2.90***	***2.90***	***2.90***	***2.90***	
Change in PPE	***4.00***	***-7.00***	***-2.00***	***-3.00***	***-15.30***	***6.11***	***12.06***	***12.76***	***11.73***	***12.32***	
Capital work-in-progress	4.0	6.0	3.0	2.0	2.0	2.1	2.2	2.3	2.5	2.6	
Investment properties	12.00	16.00	20.20	45.7	49	53	57	61	66	71	*7.5% average growth*
Current assets	409.00	460.00	463.00	439.00	425.83	438.60	463.82	490.49	515.02	540.77	*In accordance with sales forecasts*
COGS	**625.00**	**605.00**	**635.00**	**563.00**	**546.43**	**562.82**	**595.18**	**629.40**	**660.87**	**693.92**	
Inventories	**205.00**	**205.00**	**202.00**	**198.00**	**187.98**	**198.79**	**210.22**	**220.73**	**231.77**	**231.77**	
Inventories/COGS	32.8%	33.9%	31.8%	35.2%	33.4%	33.4%	33.4%	33.4%	33.4%	33.4%	
Inventory DOH at COGS	**119.72**	**123.68**	**116.11**	**128.37**	**121.91**	**121.91**	**121.91**	**121.91**	**121.91**	**121.91**	
Trade receivables	**109.00**	**154.00**	**149.00**	**135.00**	**118.15**	**121.69**	**128.69**	**149.70**	**157.18**	**165.04**	
Trade Receivables/ Sales	16.4%	23.7%	21.5%	22.2%	20%	20%	20%	22%	22%	22%	
Trade payables	**99.00**	**135.00**	**126.00**	**99.00**	**109.29**	**112.56**	**119.04**	**125.88**	**132.17**	**138.78**	
Cash and Cash Equivalents	**47.00**	**42.00**	**43.00**	**44.00**	**41.35**	**42.59**	**45.04**	**47.63**	**50.01**	**52.51**	

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Net Operating Profit (NOP)	**7.95**	**17.75**	**21.12**	**28.42**	22.91	24.58	27.06	29.72	32.41	35.32
Change in net PPE	**4**	**(7)**	**(2)**	**(3)**	(15)	6	12	13	12	12
Change in Non-cash WC calculation										
Operating current Assets										
Accounts Receivable	109	154	149	135	118	122	129	150	157	165
+ Inventories	205	205	202	198	188	199	210	221	232	231.7682
= Operating Current Assets	314	359	351	333	306	320	339	370	389	397
Operating current liabilities										
Accounts Payable	99	135	126	99	109	113	119	126	132	139
= Operating current liabilities	99	135	126	99	109	113	119	126	132	139
NOWC (current ass - current liab)	215	224	225	234	197	208	220	245	257	258
Change in NOWC		9	1	9	(37)	11	12	25	12	1
FCF calculation										
FCF	4	16	22	22	75	7	3	(8)	8	22

	FY 20	**FY 21**	**FY 22**	**FY 23**	**FY 24**	**FY 25**	**FY 26**	**Residual Value of firm**
Discounted FCF	18.98	63.82	5.30	1.85	-3.96	3.68	8.02	64.25

PV of residual value	23.68	
Sum of PVs of Future Cash Flows	102.38	
Add Cash and Current Investments (2020)	44.12	
FCFF =	146.50	
FCFE = FCFF – Int(1 – Tax rate) + Net borrowing		
FCFE	312.75	
Weighted Avg Number of Shares	1.10	
Value per share	**283.54**	Rs
CMP	95.9	Rs
Rating	BUY	

Investment Thesis

- Superhouse is an asset play, where net asset value is more than the share price it is currently being traded at. Current Price/Book Value is 0.34.
- Company with high TTM EPS Growth (413.9% returns for Nifty 500 over 5.4 years)
- Low debt, and can easily avoid a liquidity crunch with its high reserves. Was able to manage to reduce debt by 44% during 2019-20.
- Company is mostly by acting as a feeder to big companies like Bata, Hush Puppies, etc and selling shoes via their own brand, which caters to the middle class, lower middle class segment. This segment's buying patterns are out of necessity, rather than for fashion or luxury purposes. This makes its demand more inelastic as compared to its peers.

Therefore, we believe that Superhouse Ltd. is an excellent investment opportunity for Bodhi Capital. Our target price is Rs. 260-290 and current market price is Rs. 96.

Reports used

- ICRA's rating, mentioned in DCF: https://www.icra.in/Rationale/ShowRationaleReport?Id=90320
- Council for Leather Exports for Industry Analysis and International Market
- Statista for future of industry

There were no brokerage reports available for Superhouse.
There were no conference calls available for Superhouse.
There were no third-party reports available either.