21 September 2022

Mayur Uniquoters

Bright outlook provides sustainable growth assurance; retaining a Buy

Rating: **Buy**
Target Price: Rs.610
Share Price: Rs.496

Encouraging outlook. A healthy demand environment, raw material tailwinds and operating leverage would boost Mayur Uniquoters' performance.

Revenue growth boosted by automotive segment. Healthy increase in off take by Mercedes Benz, BMW and Volkswagen would lift utilisation at the PU plant. Also clients added and strong launch pipelines by OEMs assure sustainable growth for the next 2-3 years.

The benefits of anti-dumping duty would be visible gradually. Solutions for mandatory airbags in all seats are being explored, and have not affected the business till now.

Margin expansion likely. Easing input cost pressures and vigorous plans to scale up the high-margin furnishing and accessories categories would help gross margin expansion. Also, economies of scale would provide operating leverage to boost EBITDA margins.

For wider reach the company is increasing the number of its dealers in home furnishings. It is eyeing a tie-up with the Kolkata-based fashion accessories manufacturer to replace genuine leather with artificial leather for a few clients who happen to command marque brands globally.

Working capital to rise, routine capex to continue. The furnishings category will increase working capital (stocks). More working capital and regular capex, however, will be funded through internal accruals.

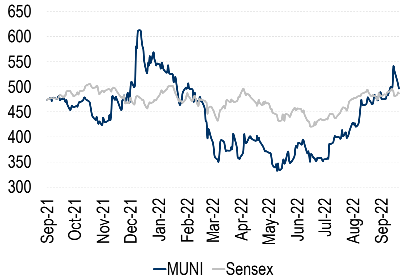
Further buyback not ruled out. The company has rewarded shareholders with four buybacks in the last 5-6 years; management expects the trend to continue.

Valuation. We expect 25%/38% revenue/earnings CAGRs over FY22-24 and retain our Buy rating on the stock, at an unchanged TP of Rs.610 based on 15x (unchanged) FY24e earnings.

Key data	MUNI IN / MAYU.BO
52-week high / low	Rs635 / 319
Sensex / Nifty	59457 / 17718
3-m average volume	$0.6m
Market cap	Rs22bn / $273.4m
Shares outstanding	44m

Shareholding pattern (%)	Jun'22	Mar'22	Dec'21
Promoters	59.5	59.4	59.4
- of which, Pledged	-	-	-
Free float	40.6	40.6	40.6
- Foreign institutions	1.3	1.6	1.7
- Domestic institutions	4.3	4.3	4.4
- Public	34.9	34.7	34.5

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY20	FY21	FY22	FY23e	FY24e
Sales (Rs m)	5,280	5,127	6,565	8,272	10,258
Net profit (Rs m)	798	897	944	1,335	1,786
EPS (Rs)	17.6	20.1	21.2	30.4	40.6
P/E (x)	28.2	24.6	23.5	16.3	12.3
EV / EBITDA (x)	20.5	16.6	16.9	12.0	8.9
P/BV (x)	3.9	3.6	3.1	2.7	2.3
RoE (%)	14.6	15.0	14.2	17.8	20.4
RoCE (%)	13.7	14.2	13.4	16.9	19.0
Dividend yield (%)	0.8	0.2	0.2	0.2	0.2
Net debt / equity (x)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)

Source: Company, Anand Rathi Research

Rishab Bothra
Research Analyst

Quick Glance – Financials and Valuations (consol.)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Net revenues	5,280	5,127	6,565	8,272	10,258
Growth (%)	*-10.7*	*-2.9*	*28.0*	*26.0*	*24.0*
Direct costs	3,077	2,759	3,978	4,911	6,010
SG&A	1,164	1,116	1,329	1,603	1,891
EBITDA	**1,039**	**1,252**	**1,257**	**1,758**	**2,356**
EBITDA margins (%)	*19.7*	*24.4*	*19.1*	*21.3*	*23.0*
- Depreciation	184	221	205	241	279
Other income	198	199	204	233	256
Interest expenses	17	35	24	26	29
PBT	1,036	1,195	1,232	1,723	2,304
Effective tax rate (%)	*23.0*	*24.9*	*23.4*	*22.5*	*22.5*
+ Associates / (Minorities)	-	-	-	-	-
Net income	798	897	944	1,335	1,786
Adjusted income	798	897	944	1,335	1,786
WANS	45.3	44.6	44.6	44.0	44.0
FDEPS (Rs / sh)	17.6	20.1	21.2	30.4	40.6
FDEPS growth (%)	*-11.0*	*14.4*	*5.1*	*43.5*	*33.7*
Gross margins (%)	*41.7*	*46.2*	*39.4*	*40.6*	*41.4*

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Share capital	227	223	223	220	220
Net worth	5,547	6,009	6,849	7,696	9,407
Debt (incl. pref.)	457	538	441	597	843
Minority interest	-	-	-	-	-
DTL / (Assets)	-13	-9	-5	-5	-5
Capital employed	**6,218**	**6,761**	**7,507**	**8,508**	**10,465**
Net tangible assets	1,608	1,941	2,196	2,508	2,883
Net intangible assets	3	3	2	2	2
Goodwill	36	-	-	-	-
CWIP (tang. & intang.)	393	150	118	75	50
Investments (strategic)	280	562	554	554	554
Investments (financial)	1,373	1,489	982	982	982
Current assets (excl. cash)	685	467	622	802	1,039
Cash	247	210	297	210	747
Current liabilities	119	201	157	165	184
Working capital	1,711	2,141	2,894	3,541	4,391
Capital deployed	**6,218**	**6,761**	**7,507**	**8,508**	**10,465**
Contingent liabilities	20	4	1	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
EBIT (excl. other income)	1,036	1,195	1,232	1,723	2,304
+ Non-cash items	184	221	205	241	279
Oper. prof. before WC	1,220	1,416	1,436	1,964	2,583
- Incr. / (decr.) in WC	(585)	(189)	(873)	(801)	(1,053)
Others incl. taxes	(198)	(182)	(313)	(362)	(489)
Operating cash-flow	437	1,044	250	802	1,041
- Capex (tang. + intang.)	(551)	(309)	(427)	(510)	(629)
Free cash-flow	(114)	736	(177)	291	412
Acquisitions					
- Div.(incl. buyback & taxes)	(178)	(45)	(45)	(44)	(44)
+ Equity raised	-	(4)	-	(3)	-
+ Debt raised	121	81	(97)	156	246
- Fin investments	217	(399)	516	-	-
- Misc. (CFI + CFF)	(2)	(406)	(110)	(487)	(76)
Net cash-flow	45	(37)	87	(87)	537

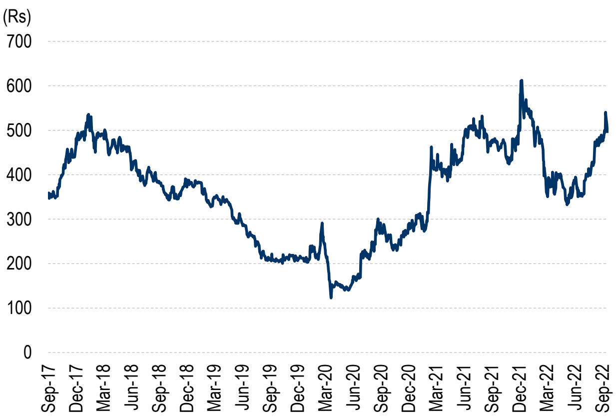
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	28.2	24.6	23.5	16.3	12.3
EV / EBITDA (x)	20.5	16.6	16.9	12.0	8.9
EV / Sales (x)	4.0	4.1	3.2	2.5	2.0
P/B (x)	3.9	3.6	3.1	2.7	2.3
RoE (%)	14.6	15.0	14.2	17.8	20.4
RoCE (%) - after tax	13.7	14.2	13.4	16.9	19.0
Fixed asset T/O (x)	20.9	20.9	18.8	21.7	24.1
DPS (Rs / sh)	3.9	1.0	1.0	1.0	1.0
Dividend yield (%)	0.8	0.2	0.2	0.2	0.2
Div. payout (%) - incl. DDT	22.3	5.1	4.7	3.3	2.5
Net debt / equity (x)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)
Receivables (days)	67.1	81.1	68.0	68.8	68.8
Inventory (days)	93.4	114.1	123.5	125.0	125.0
Payables (days)	42.2	42.7	30.6	37.5	37.5
CFO : PAT %	54.8	116.4	26.5	60.0	58.3

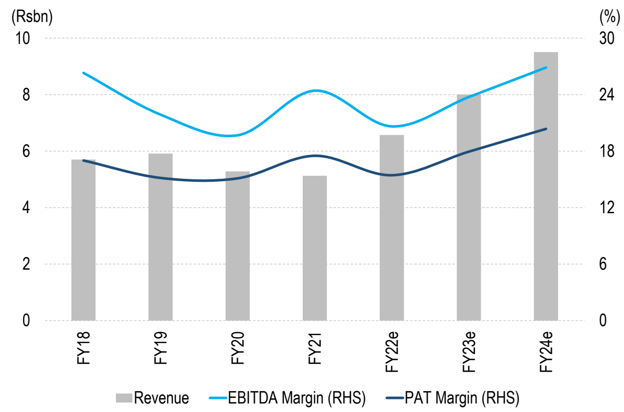
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Revenue and margin trends



Source: Company

Management call KTAs

Encouraging outlook

- **Healthy demand environment ahead.** Offtake in the previous few years had been muted, led by i) de-monetization (2016-17), ii) Covid-19 (2020-21), iii) chip shortages (2021-22) and iv) the Russo-Ukraine war (2022). The concerns have faded with time, and management is confident of encouraging demand in the automotive business, powered by clients added and strong launch pipelines of OEMs.
- **Raw material tailwinds.** The raw material price situation is now (Q2 FY23) settling after steep increases and volatility in the year prior (FY22) and in Q1 FY23. The energy crisis in Europe, however, might further push up power & fuel costs, which seem high even now.

Expects robust growth in the automotive sector

- **Improving demand context.** The automotive sector has been plagued with chip shortages. The situation now, however, has started improving and the sector industry is doing well. When chips were in short supply, OEMs focused only on selling high-margin premium products.
- **Exciting orders for new models.** The company has a good approval pipeline for new models. It expects approvals in the next 2-3 years for ~6-7 models (of which 3-4 have already been confirmed). From Q1 FY24 new models in the market would lead to additional business and more revenue. (A new model is phased out after 6-7 years).
- **Encouraging demand outlook in automotives.** The company has orders from Mercedes Benz and BMW. Its supplies to the former in the past year have risen from 15,000 to 20,000 and 30,000 metres p.m. It has also received enquiries from Ford (could be a sizeable order). Management expects FY23 to be encouraging while FY24 is expected to be robust. Sep'22/Oct'22 look good because of the festival season and management does not foresee any demand issue for the next six months (except for one month after the festival season, which is usually muted each year).
- **Shift toward artificial leather.** In the automotive sector, genuine leather and fabric is mostly used. Artificial leather is being used to replace them. Artificial leather is now preferred because i) genuine leather requires killing of animals, ii) the quality of artificial leather has greatly improved (and seems similar to that of genuine leather) and iii) of the substantial price difference (~4x).
- **Increasing business in high-margin solid PU.** The company manufactures PVC, wet PU (better than the former) and high solid PU (better than both the others) priced at $22-25 per metre, double that of PU. The company manufactures wet PU at its Morena (MP) plant, while high solid PU is produced on its PVC machine near Jaipur.
- **Focus on margin along with growth.** The company focuses not only on high growth but also on healthy margins. In the Mid-East, PU is sold at $1.6-1.7/metre while the company's products are being sold at $3.5-4/metre.

Benefits of anti-dumping duty (ADD) to be gradual

- **Quantum of ADD the same irrespective of finished goods prices.** ADD imposed on various grades of PU is 46 cents/metre. Hence, the quantum of ADD is higher for low-priced products and lower for high-priced products. However, the benefits of ADD are likely to be gradual as the price difference is narrowing and the quantum of low-priced imports has reduced.

Solutions for airbag issue being explored

- Management has not now seen any impact of airbags for all seats. It believes, however, that the effect will be felt by the replacement market. It hopes, though, that the issue will be addressed to mitigate the impact of demand destruction in the replacement segment.
- It has started supplying foot-mats to the automotive segment.

Footwear business to deliver reasonable growth

- **Footwear business seems to be back in shape.** Also, the footwear segment is seeing better demand than in the previous few quarters. Revenue in this segment is generated largely from the home market, that too, from the lower/mid sub-categories (ladies, men's, kids wear). The company supplies (though not much) for sport shoes, but significantly for white shoes.

Focus on high-margin home furnishing and fashion accessories (B2C)

- The company aims to vigorously expand its furnishings and fashion accessories business in the next 2-3 years. Its home furnishings business will be scaled up under the brand name Texture & Fuse.
- **Expanding dealer network in home furnishing.** The company is entering the furnishings business which consumes ~50% of artificial leather. This will be more of a B2C business. Currently, it has 150-170 dealer and plans to add 1,000 across the country in the next 6-8 months.
- **Distribution model focused on reaching a wider customer base.** For its furnishings business, the company will first approach wholesalers, distributors, dealers and retailers. It will then add furniture manufacturers and interior designers. Dealers and retailers will keep its catalogues while inventory will be with wholesalers and distributors for supply when customers place orders with dealers and retailers. (7,000-8,000 metres sold last month).
- **Roping in key personnel.** Marketing being key in this business, the company has appointed a country head (ex D'Décor) and is in the process of appointing regional heads to scale up the business all-India.
- **To vigorously scale up the fashion accessories category.** The company has provided ~50-60 samples in various shades to a Kolkata-based fashion-accessory manufacturer (jackets, belts, purses, bags, etc.) to showcase its products to his clients (global brands). The latter has introduced Mayur's product to 2-3 global brands, which earlier sourced genuine leather products from him. Supplies are expected to begin from Dec'22

Higher working capital needs

- Working capital days are likely to increase largely due to an increase in inventory days (because of the home furnishings business).
- Higher working capital required would be met largely from internal accruals.

Capex as usual

- Routine capex likely but insignificant, funded only through internal accruals.

Overseas plant setup

- Overseas OEMs are asking to supply materials locally, hence the company intend to set up a plant in the USA. But before committing capital it needs assurance of a minimum order of 4-5 lakh metres p.m. It has begun work such as searching for land, understanding key manufacturing costs (other than raw material) and power & fuel costs, as well as labour laws.

Share buyback likely as usual

- The company will continue to reward shareholders by buybacks as it has done in the last 5-6 years (four). The quantum and time, however, will be known once a buyback is approved by the Board.

Strong growth momentum likely, coupled with margin expansion

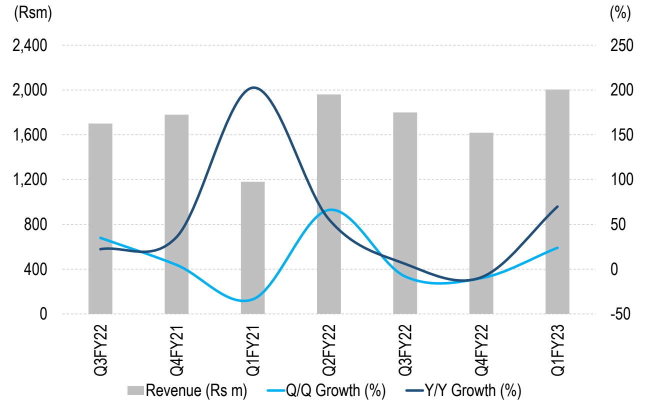
- FY23 volume growth: 15-20% (in its automotive segment, 20% in FY23, 18-19% in FY24, 12-13% in FY25). Overall 14% volume CAGR over FY22-25.
- Revenue growth of 20-25% over next 3-4 year. Revenue growth in automotive industry is expected to be 25-30% for the next 2-3 years.
- Aims to scale up margins to previous levels; however, in the current environment, it expects 100-150bp margin improvement.

Succession plan suspense continues

- **Succession plan still some time away.** CMD Suresh Kumar Poddar continues to look after overseas OEM. Executive director and son-in-law Arun Kumar Bagaria looks after domestic OEM. Son Manav Poddar has joined the company and is being exposed to various functions in different departments; responsibilities will be assigned to him in due course. Hence, management said there is nothing material now which can be shared, and will be known to all in due course.

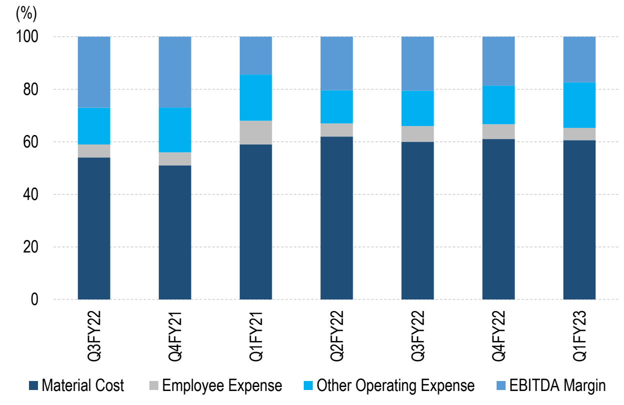
Story in charts

Fig 7 – Revenue growth – quarterly trend



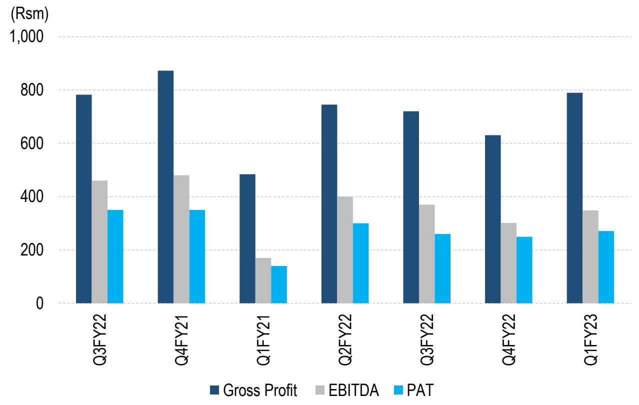
Source: Company, Anand Rathi Research

Fig 8 – Expenses mix and margin – quarterly trends



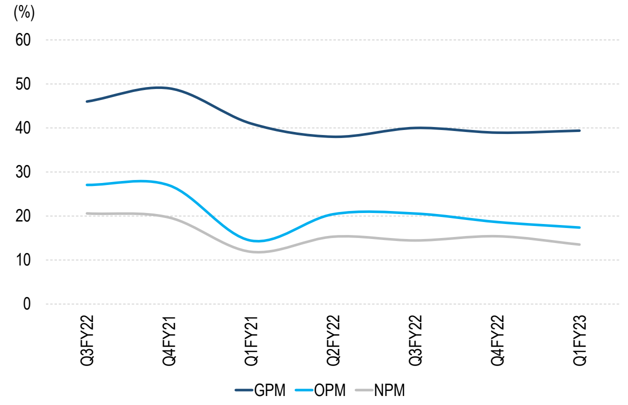
Source: Company, Anand Rathi Research

Fig 9 – Profitability – quarterly trend



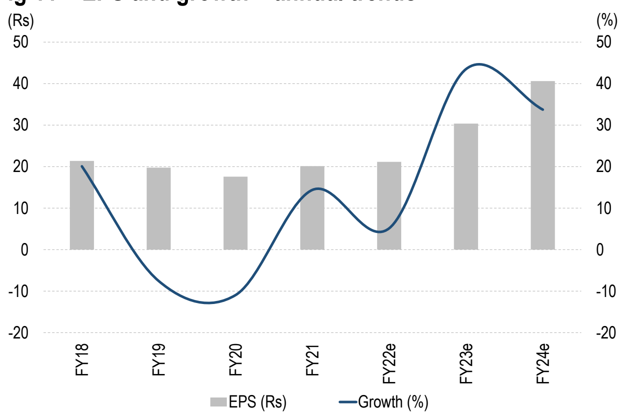
Source: Company, Anand Rathi Research

Fig 10 – Margins – quarterly trend



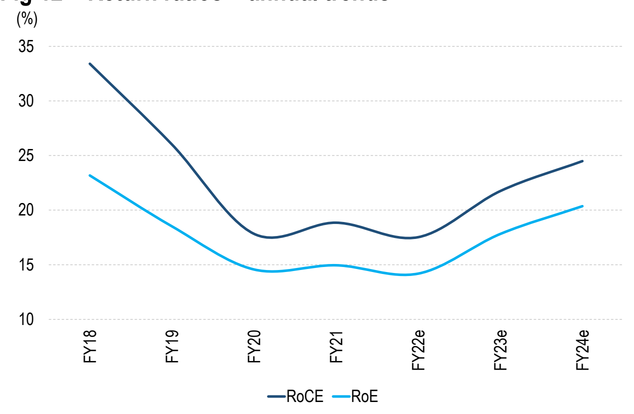
Source: Company, Anand Rathi Research

Fig 11 – EPS and growth – annual trends



Source: Company, Anand Rathi Research

Fig 12 – Return ratios – annual trends



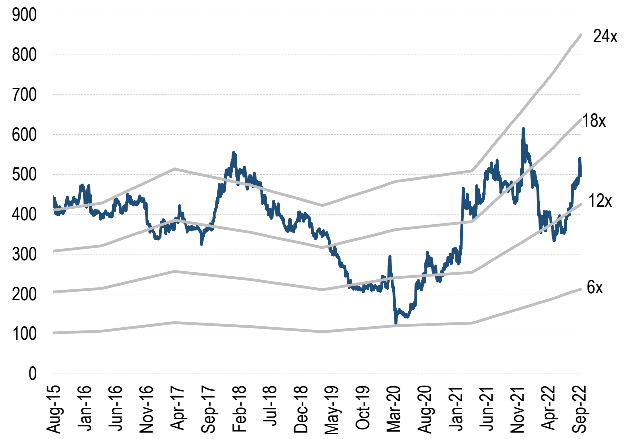
Source: Company, Anand Rathi Research

Outlook and Valuation

We are keen on the company for its leading position in synthetic leather and inherent strengths. The outlook for demand is very encouraging as recently-added OEMs will start contributing notably. Also, the company is geared up for anticipated higher demand with its i) brand name, ii) quality of products, iii) new products in its basket and iv) addition of marquee clientele and products regularly.

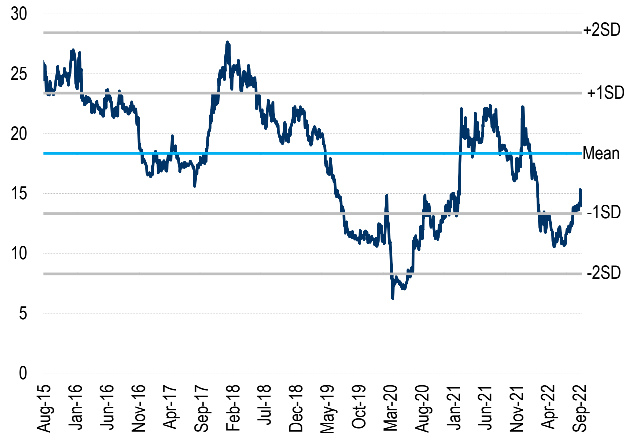
We expect 25%/38% revenue/earnings CAGRs over FY22-24, and maintain our Buy rating on the stock with an unchanged TP of Rs610 based on 15x FY24e earnings.

Fig 13 – One-year-forward P/E band



Source: Company, Anand Rathi Research

Fig 14 – P/E and Standard deviation



Source: Company, Anand Rathi Research

Risks

- **Key challenges: raw material non-availability, high prices.** Release paper, knitted fabric and chemicals (PU/PVC resins) are important raw materials. Their non-availability would hamper production schedules and profitability.

  Higher prices of key raw materials are usually passed on partially/fully with a lag. Till then, margins may be under pressure.

- **Keener competition.** Heightened competition from Chinese products especially in PU coated fabric or in other products might have a bearing on the market share, cutting into offtake and margins.

Appendix

Analyst Certification

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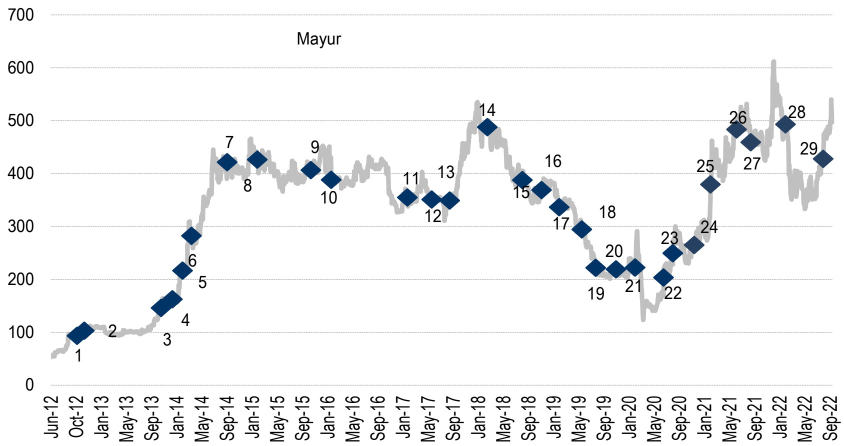
Rating and Target Price History (as of 21 September 2022)



	Date	Rating	TP (Rs)	Share Price (Rs)
14	8-Mar-18	**Hold**	563	517
15	20-Aug-18	**Hold**	470	404
16	20-Nov-18	**Hold**	437	379
17	14-Feb-19	**Hold**	432	350
18	3-Jun-19	**Buy**	396	300
19	8-Aug-19	**Buy**	312	218
20	16-Nov-19	**Buy**	283	220
21	14-Feb-20	**Buy**	311	226
22	30-Jun-20	**Buy**	283	205
23	14-Aug-20	**Buy**	337	251
24	11-Nov-20	**Buy**	356	265
25	14-Feb-21	**Buy**	474	377
26	11-Jun-21	**Buy**	625	502
27	5-Aug-21	**Buy**	654	522
28	12-Feb-22	**Buy**	661	479
29	12-Aug-22	**Buy**	610	474

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Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

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