

BUY

TP: Rs 330 | ▲ 51%

MAYUR UNIQUOTERS

| Textiles

| 07 August 2019

Auto demand slump, margin contraction mar Q1

Mayur Uniquoters' (MUNI) Q1FY20 standalone revenue decreased 9% YoY as a sharp slowdown in footwear and auto sector demand saw volumes drop 9%. Standalone operating margins plummeted 710bps YoY to 19.6% due to higher RM cost and other expenses, inducing EBITDA/PAT declines of 33%/38% YoY. We cut FY20/FY21 PAT estimates by 18%/14% and reset our target P/E from 20x to 15x to bake in the bleak near-term demand outlook. Rolling valuations forward, we have a Jun'20 TP of Rs 330 (Rs 490 earlier).

Arun Baid

research@bobcaps.in

Slowdown in user industries dents revenue: MUNI reported a 9.2% YoY decline in standalone revenue to Rs 1.3bn for Q1FY20, with volumes slipping 9%. Revenues contracted across verticals, falling 10% YoY in the domestic automotive OEM segment, 25% in automotive replacement and 13% in footwear. Management stated that the near-term demand outlook was bleak and hinges on recovery in auto sales. The new PU plant will start trial production in October and commercial production from December this year.

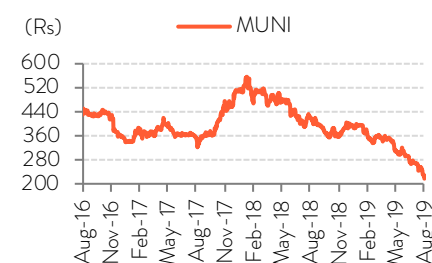
Operating margins slip: MUNI reported a 710bps drop in consolidated operating margins to 19.6%, mainly due to higher raw material cost (+408bps), employee cost (+89bps) and other expenditure (+212bps) – this dragged EBITDA/PAT down 33%/38% YoY. As per management, raw material (PVC resin) cost has spiraled 20% over the last six months and cannot be passed on in a weak market, thus hurting profitability.

Maintain BUY: We reduce FY20/FY21 PAT estimates by 18%/14% to factor in the disappointing Q1 and also cut our target one-year forward P/E multiple from 20x to 15x (25% discount to five-year average) considering near-term growth headwinds in user industries (auto, footwear). On rollover, we have a new Jun'20 TP of Rs 330 (earlier Rs 490).

Ticker/Price	MUNI IN/Rs 218
Market cap	US\$ 139.5mn
Shares o/s	45mn
3M ADV	US\$ 0.1mn
52wk high/low	Rs 428/Rs 211
Promoter/FPI/DII	61%/15%/24%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	905	903	751	943	1,111
Adj. EPS (Rs)	20.0	19.9	16.6	20.8	24.5
Adj. EPS growth (%)	21.9	(0.2)	(16.8)	25.5	17.8
Adj. ROAE (%)	21.7	18.7	13.8	15.6	16.5
Adj. P/E (x)	10.9	10.9	13.1	10.5	8.9
EV/EBITDA (x)	5.7	6.3	6.6	5.2	4.2

Source: Company, BOBCAPS Research

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FIG 1 – STANDALONE QUARTERLY PERFORMANCE

(Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Total revenues	1,282	1,411	(9.2)	1,237	3.6
Total raw material consumed	790	812	(2.7)	751	5.1
% of sales	61.6	57.5	408bps	60.7	88bps
Employee expense	81	77	5.6	55	48.9
% of sales	6.3	5.5	89bps	4.4	193bps
Other expense	160	146	9.5	164	(2.7)
% of sales	12.4	10.3	212bps	13.2	(80bps)
Total expenditure	1,031	1,035	(0.4)	970	6.3
EBITDA	251	377	(33.3)	267	(6.0)
% of sales	19.6	26.7	(708bps)	21.6	(201bps)
Depreciation	43.2	45	(3.4)	46	(7.0)
Other income	36.6	68	(45.9)	46	(20.9)
Interest cost	1.9	4.5	(58.4)	(4.5)	(142.0)
PBT	243	395	(38.5)	272	(10.6)
Taxes	84	139	(39.4)	74	14.1
Effective tax rate (%)	34.7	35.2	(51bps)	27.2	752bps
APAT	159	256	(38.0)	198	(19.8)

Source: Company, BOBCAPS Research

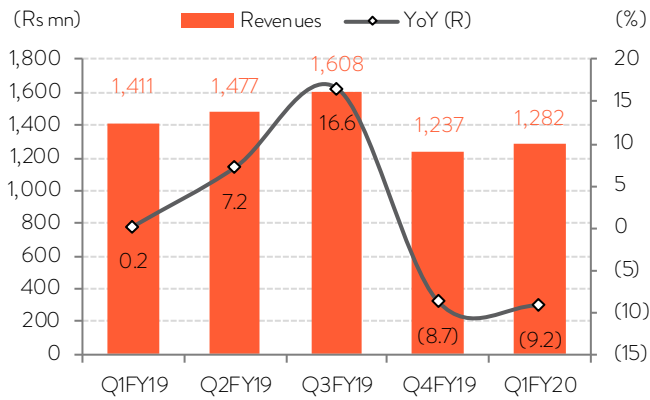
FIG 2 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Total revenues	1,274	1,403	(9.2)	1,279	(0.4)
Total raw material consumed	822	820	0.2	757	8.6
% of sales	64.1	58.1	600bps	61.2	295bps
Employee expense	84	78	7.7	57	49.4
% of sales	6.6	5.6	103bps	4.6	202bps
Other expense	193	171	12.9	184	4.5
% of sales	15.0	12.1	294bps	14.9	13bps
Total expenditure	1,099	1,070	2.8	998	10.2
EBITDA	174	333	(47.8)	281	(38.1)
% of sales	13.7	23.8	(1,009bps)	22.0	(832bps)
Depreciation	43.2	45	(3.4)	46	(7.0)
Other income	36.6	68	(45.9)	48	(23.7)
Interest cost	2.1	5	(53.6)	(4)	(149.2)
PBT	165	352	(53.0)	287	(42.4)
Taxes	68	123	(44.8)	75	(8.7)
Effective tax rate (%)	41.1	35.0	612bps	26.0	1,517bps
APAT	97	229	(57.4)	213	(54.2)
Add/(Less): Extraordinary items	0	0	NA	(0)	(100)
RPAT	97	229	(57.4)	213	(54.2)

Source: Company, BOBCAPS Research

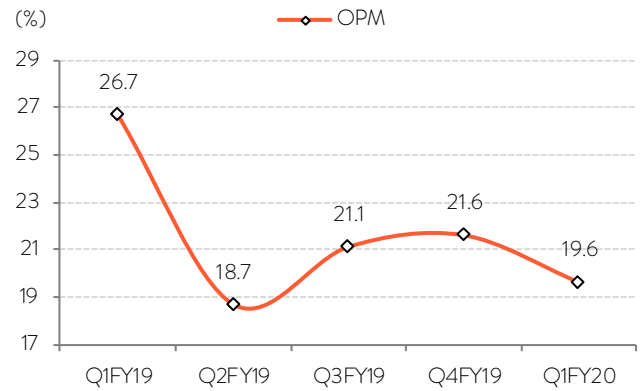
STANDALONE QUARTERLY TRENDS

FIG 3 – REVENUES



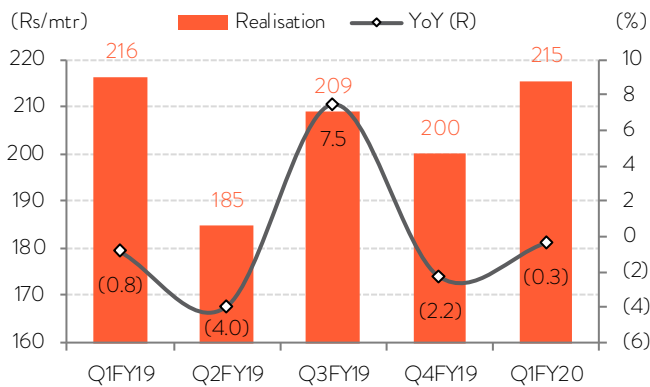
Source: Company, BOBCAPS Research

FIG 4 – OPERATING MARGINS



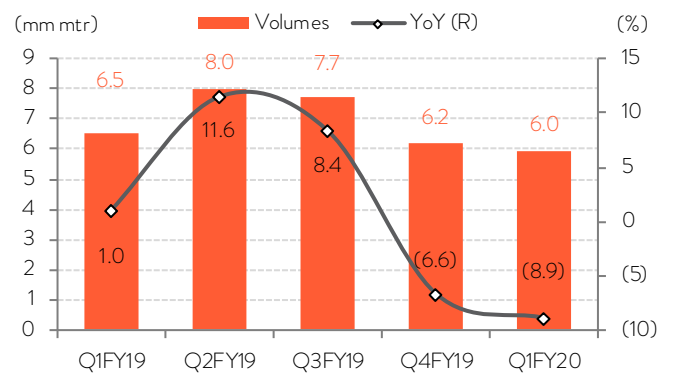
Source: Company, BOBCAPS Research

FIG 5 – REALISATIONS



Source: Company, BOBCAPS Research

FIG 6 – VOLUMES



Source: Company, BOBCAPS Research

Earnings call highlights

- MUNI has seen a sharp drop in demand from both its major client industries, i.e. automotive (incl. replacement market) and footwear. BS-VI rollout and the government's electric vehicle push are further near-term headwinds for the auto industry.
- The company has added MG Motors as a customer in the domestic automotive OEM segment. It also expects to start supplies to Mercedes Benz, Europe, from Q3FY21.
- There is no pressure yet from automotive OEMs to reduce prices. On the raw material front, PVC resin prices have risen 20% over the last six months, but the company is unable to pass this on due to the market slowdown.
- Efforts are underway to cut costs given the difficult external environment.
- The company has participated in three export automotive programmes and is hopeful of orders in this segment.
- The footwear market continues to suffer post demonetisation. Management expects some revenue pickup after commissioning of the new PU facility (trial production in Oct'19 and commercial production from Dec'19).
- Consolidated profitability was lower than standalone figures in Q1FY20 as the company had a one-time loss on inventory correction. Management expects this profit trend to reverse for full-year FY20.
- The company has Rs 1.8bn of cash in hand as of Jun'19. Incremental capex in FY20 will total ~Rs 450mn.

Valuation methodology

MUNI is the market leader in India's PVC synthetic leather industry and also caters to US auto OEMs – a market which no other domestic company has managed to penetrate. The company is entering the PU synthetic leather market, which is primarily import-oriented, with the commencement of a plant in Madhya Pradesh in Oct'19.

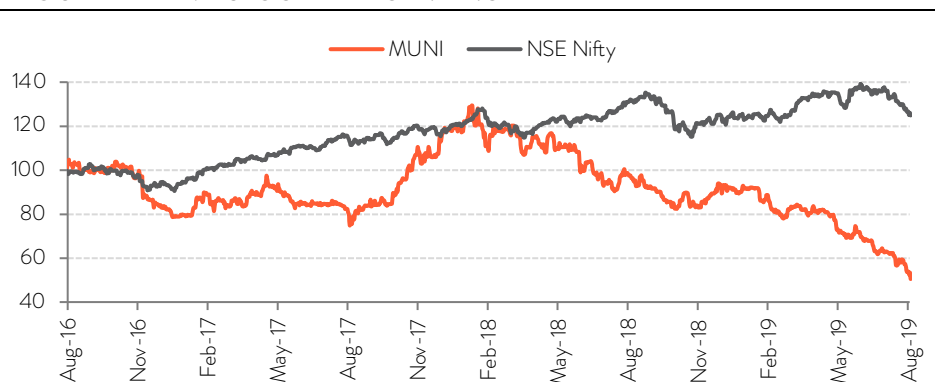
Due to the Q1FY20 underperformance and continued tepid demand from user industries, we pare FY20-FY21 PAT estimates by 18%/14%. We also cut our target one-year forward P/E multiple from 20x to 15x (25% discount to five-year average) in light of the subdued near-term growth prospects in MUNI's key auto and footwear markets. Rolling valuations forward, we have a revised Jun'20 target price of Rs 330 (from Rs 490). Maintain BUY.

FIG 7 – REVISED ESTIMATES

(Rs mn)	New		Old		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenues	5,881	7,455	6,711	8,213	(12.4)	(9.2)
EBITDA	1,211	1,551	1,510	1,840	(19.8)	(15.7)
PAT	751	943	921	1,102	(18.4)	(14.4)

Source: Company, BOBCAPS Research

FIG 8 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Failure/delays in commissioning of PU/PVC plant:** Delays in setting up the proposed PU/PVC facilities or a failure to do so could adversely affect growth prospects.
- **Continued slowdown in end-user industries:** A prolonged slowdown in MUNI's major end-user industries of footwear and auto will adversely affect the company's growth prospects.

- **Volatility in raw material prices:** A majority of MUNI's raw material is linked to crude prices. Any abnormal increase/decrease in crude prices can hurt the company's profitability.
- **Competition from unorganised players:** MUNI operates in a highly fragmented market that has several unorganised players – these may pose stiff competition and erode the company's growth.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19P	FY20E	FY21E	FY22E
Total revenue	5,700	5,913	5,881	7,455	8,537
EBITDA	1,500	1,293	1,211	1,551	1,810
EBIT	1,329	1,113	979	1,272	1,509
Net interest income/(expenses)	(14)	(9)	(13)	(15)	(15)
Other income/(expenses)	67	217	172	172	190
Exceptional items	0	0	0	0	0
EBT	1,382	1,321	1,139	1,429	1,684
Income taxes	(477)	(418)	(387)	(486)	(573)
Extraordinary items	64	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	969	903	751	943	1,111
Adjustments	(64)	0	0	0	0
Adjusted net profit	905	903	751	943	1,111

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19P	FY20E	FY21E	FY22E
Accounts payables	610	592	548	674	772
Other current liabilities	77	187	161	163	187
Provisions	29	18	29	37	43
Debt funds	59	192	50	50	50
Other liabilities	52	32	32	32	32
Equity capital	226	227	227	227	227
Reserves & surplus	4,270	4,953	5,479	6,139	6,917
Shareholders' fund	4,496	5,180	5,706	6,366	7,144
Total liabilities and equities	5,322	6,200	6,526	7,322	8,227
Cash and cash eq.	283	203	97	223	232
Accounts receivables	1,031	890	918	1,164	1,333
Inventories	965	1,229	1,096	1,266	1,450
Other current assets	127	337	274	306	351
Investments	1,562	1,869	1,800	2,100	2,650
Net fixed assets	1,310	1,254	1,922	1,844	1,793
CWIP	19	393	393	393	393
Intangible assets	26	26	26	26	26
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	5,322	6,200	6,526	7,322	8,227

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19P	FY20E	FY21E	FY22E
Net income + Depreciation	1,140	1,083	984	1,221	1,412
Interest expenses	14	9	13	15	15
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(135)	(252)	109	(313)	(270)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	1,019	840	1,106	924	1,157
Capital expenditures	(204)	(498)	(900)	(200)	(250)
Change in investments	(365)	(307)	69	(300)	(550)
Other investing cash flows	5	0	0	0	0
Cash flow from investing	(564)	(805)	(831)	(500)	(800)
Equities issued/Others	(250)	0	0	0	0
Debt raised/repaid	(61)	134	(142)	0	0
Interest expenses	(14)	(9)	(13)	(15)	(15)
Dividends paid	(77)	(177)	(225)	(283)	(333)
Other financing cash flows	10	(63)	0	0	0
Cash flow from financing	(392)	(115)	(380)	(298)	(348)
Changes in cash and cash eq.	63	(80)	(106)	126	9
Closing cash and cash eq.	283	203	97	223	232

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19P	FY20E	FY21E	FY22E
Reported EPS	21.4	19.9	16.6	20.8	24.5
Adjusted EPS	20.0	19.9	16.6	20.8	24.5
Dividend per share	1.2	3.3	4.1	5.2	6.1
Book value per share	99.3	114.3	125.9	140.4	157.6

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19P	FY20E	FY21E	FY22E
EV/Sales	1.5	1.4	1.4	1.1	0.9
EV/EBITDA	5.7	6.3	6.6	5.2	4.2
Adjusted P/E	10.9	10.9	13.1	10.5	8.9
P/BV	2.2	1.9	1.7	1.6	1.4

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19P	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	65.5	68.4	66.0	66.0	66.0
Interest burden (PBT/EBIT)	104.0	118.7	116.3	112.3	111.6
EBIT margin (EBIT/Revenue)	23.3	18.8	16.7	17.1	17.7
Asset turnover (Revenue/Avg TA)	113.6	102.6	92.4	107.7	109.8
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.1	1.2
Adjusted ROAE	21.7	18.7	13.8	15.6	16.5

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	18.3	3.7	(0.5)	26.8	14.5
EBITDA	17.4	(13.8)	(6.3)	28.0	16.7
Adjusted EPS	21.9	(0.2)	(16.8)	25.5	17.8
Profitability & Return ratios (%)					
EBITDA margin	26.3	21.9	20.6	20.8	21.2
EBIT margin	23.3	18.8	16.7	17.1	17.7
Adjusted profit margin	15.9	15.3	12.8	12.7	13.0
Adjusted ROAE	21.7	18.7	13.8	15.6	16.5
ROCE	20.4	15.3	11.6	13.8	14.6
Working capital days (days)					
Receivables	64	59	56	51	53
Inventory	101	112	117	94	95
Payables	47	47	45	38	39
Ratios (x)					
Gross asset turnover	3.1	3.5	2.7	2.7	2.9
Current ratio	3.2	2.9	3.1	3.3	3.3
Net interest coverage ratio	96.9	128.6	78.3	84.8	100.6
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

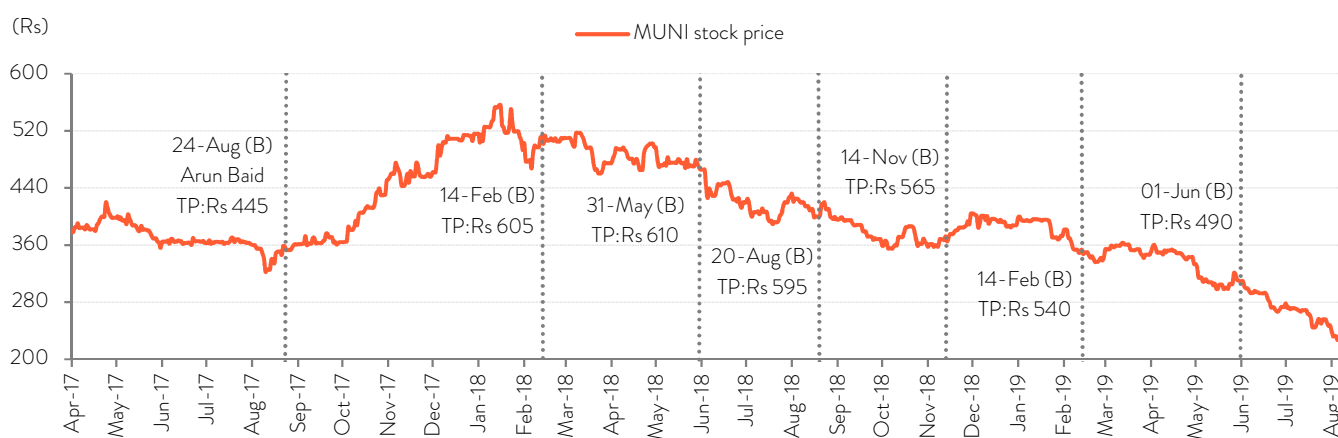
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: MAYUR UNIQUOTERS (MUNI IN)



B – Buy, A – Add, R – Reduce, S – Sell

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