

**BUY**

TP: Rs 325 | ▲ 45%

**MAYUR UNIQUOTERS**

| Textiles

| 13 November 2019

## Demand slowdown deepens

**Mayur Uniquoters' (MUNI) Q2FY20 standalone revenue declined 16% YoY amid a continued slowdown in user industries (footwear, auto) where volumes dropped 20% YoY. Standalone operating margins contracted 185bps YoY to 16.8% due to higher employee and other expenses, which offset gross margin gains of 140bps. EBITDA/PBT were down 24%/27% YoY. We cut FY20-FY22 PAT estimates by 7-12% due to the deepening downturn in user industries. Rolling valuations over, we have a Sep'20 TP of Rs 325 (Rs 335 earlier).**

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**Continued weakness in user industries dents revenue:** MUNI reported a 16% YoY decline in standalone revenue to Rs 1.2bn for Q2FY20, with volumes contracting 20% YoY. Volumes sagged across verticals – the auto replacement segment was down 42% and footwear 37%. Management sees a bleak near-term demand outlook pending recovery in auto sales. The new PU plant will start trial production in November and commercial production from December this year.

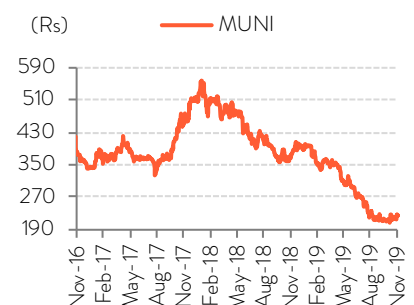
**Operating margins contract:** Despite gross margin expansion (+140bps), MUNI reported a 185bps drop in standalone operating margins to 16.8% due to higher employee cost (+90bps) and other expenditure (+240bps) – this dragged EBITDA/PBT down 24%/27% YoY. Gross margins expanded due to a better product mix whereas other expenses increased due to a Rs 20mn provision for bad debts and another Rs 20mn in fair value adjustment.

**Maintain BUY:** In light of the sustained downturn in end-user verticals, we cut FY20-FY22 PAT estimates by 7-12%. Maintain BUY with a revised Sep'20 TP of Rs 325 (vs. Rs 335), set at an unchanged 15x one-year forward P/E.

Ticker/Price	MUNI IN/Rs 224
Market cap	US\$ 140.7mn
Shares o/s	45mn
3M ADV	US\$ 0.2mn
52wk high/low	Rs 406/Rs 202
Promoter/FPI/DII	61%/13%/25%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	5,700	5,913	5,399	6,723	7,816
EBITDA (Rs mn)	1,500	1,292	942	1,338	1,579
Adj. net profit (Rs mn)	905	727	688	892	1,079
Adj. EPS (Rs)	20.0	16.0	15.2	19.7	23.8
Adj. EPS growth (%)	21.9	(19.7)	(5.3)	29.6	21.0
Adj. ROAE (%)	21.7	15.0	12.7	14.9	16.2
Adj. P/E (x)	11.2	14.0	14.7	11.4	9.4
EV/EBITDA (x)	5.9	6.5	8.8	6.2	5.0

Source: Company, BOBCAPS Research

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**FIG 1 – STANDALONE QUARTERLY PERFORMANCE**

(Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)
<b>Total revenues</b>	<b>1,242</b>	<b>1,477</b>	<b>(15.9)</b>	<b>1,282</b>	<b>(3.1)</b>
Total raw material consumed	777	945	(17.8)	790	(1.6)
% of sales	62.6	64.0	(142bps)	61.6	95bps
Employee expense	75	76	(1.2)	81	(7.9)
% of sales	6.0	5.1	90bps	6.3	(32bps)
Other expense	181	181	0.4	160	13.7
% of sales	14.6	12.2	238bps	12.4	215bps
Total expenditure	1,033	1,201	(14.0)	1,031	0.2
<b>EBITDA</b>	<b>209</b>	<b>276</b>	<b>(24.3)</b>	<b>251</b>	<b>(16.9)</b>
% of sales	16.8	18.7	(186bps)	19.6	(279bps)
Depreciation	44.3	44	(0.2)	43	2.6
Other income	51.6	68	(24.5)	37	40.9
Interest cost	1.4	5.5	(74.5)	1.9	(25.6)
<b>PBT</b>	<b>215</b>	<b>294</b>	<b>(27.0)</b>	<b>243</b>	<b>(11.6)</b>
Taxes	15	94	(84.4)	84	(82.6)
Effective tax rate (%)	6.8	32.0	(2,514bps)	34.7	(2,789bps)
<b>RPAT</b>	<b>200</b>	<b>200</b>	<b>(0.1)</b>	<b>159</b>	<b>26.2</b>

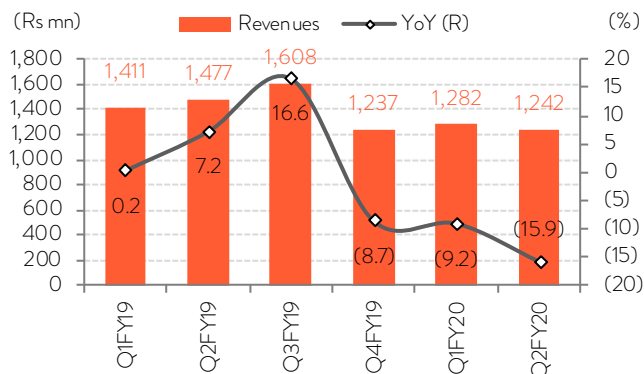
Source: Company, BOBCAPS Research

**FIG 2 – CONSOLIDATED QUARTERLY PERFORMANCE**

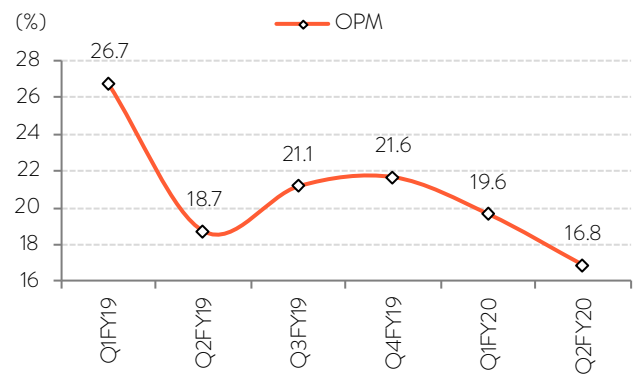
(Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)
<b>Total revenues</b>	<b>1,309</b>	<b>1,609</b>	<b>(18.7)</b>	<b>1,274</b>	<b>2.8</b>
Total raw material consumed	796	1,001	(20.5)	822	(3.2)
% of sales	64.1	67.8	(365bps)	64.1	(3bps)
Employee expense	79	77	1.7	84	(6.9)
% of sales	6.3	5.2	110bps	6.6	(26bps)
Other expense	205	197	4.3	193	6.5
% of sales	16.5	13.3	321bps	15.0	150bps
Total expenditure	1,080	1,275	(15.3)	1,099	(1.7)
<b>EBITDA</b>	<b>229</b>	<b>334</b>	<b>(31.5)</b>	<b>174</b>	<b>31.5</b>
% of sales	17.5	20.8	(329bps)	13.7	382bps
Depreciation	44.3	44	(0.2)	43	2.6
Other income	52.4	63	(16.9)	37	42.9
Interest cost	1.7	6	(69.9)	2	(21.4)
<b>PBT</b>	<b>235</b>	<b>347</b>	<b>(32.3)</b>	<b>165</b>	<b>42.2</b>
Taxes	16	105	(84.5)	68	(76.2)
Effective tax rate (%)	6.9	30.1	(2,319bps)	41.1	(3,425bps)
<b>RPAT</b>	<b>219</b>	<b>243</b>	<b>(9.8)</b>	<b>97</b>	<b>125.0</b>

Source: Company, BOBCAPS Research

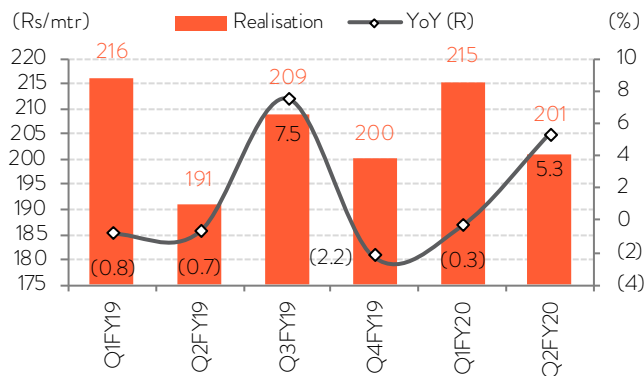
## STANDALONE QUARTERLY TRENDS

**FIG 3 – REVENUES**


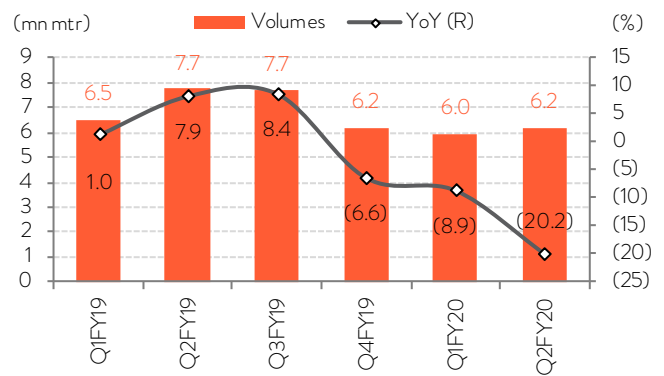
Source: Company, BOBCAPS Research

**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 (including replacement market) and footwear – the latter due to tight liquidity conditions.
- Automotive OEMs have started to ask for discounts but the company has been able to fend them off by citing its premium products.
- Additions to the automotive OEM customer base helped restrict the revenue decline from the auto segment to ~10% in Q2. MG Motors was one of the additions in the domestic segment and MUNI is now the sole supplier.
- Management expects to start supplies to Mercedes Benz, Europe, from Q3FY21.
- South India forms ~85% of footwear revenues. Due to the continued slowdown in the footwear market, MUNI has been compelled to take a 3-3.5% price reduction.

- Efforts are underway to cut costs given the difficult external environment. The company has laid off 120 employees during the year.
- As per management, raw material (PVC resin) cost remains elevated but plasticizer cost is stable. The higher RM cost cannot be passed on due to tepid demand conditions.
- The company has provided for ~Rs 20mn due from an automotive OEM and also ~Rs 20mn as fair valuation adjustment (both in other expense) during the quarter.
- PU plant dry runs have already begun as most of the machinery has been installed. The company plans to do trial runs by end-November and start commercial production by end-December.
- The PU plant has a capacity to install four lines of 0.5mn mtrs each. The company will initially start with one line. PVC line expansion is on hold due to the weak market conditions.
- MUNI has opted for the new tax regime and its tax rate will be ~25.2% going ahead.

## 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 Dec'19.

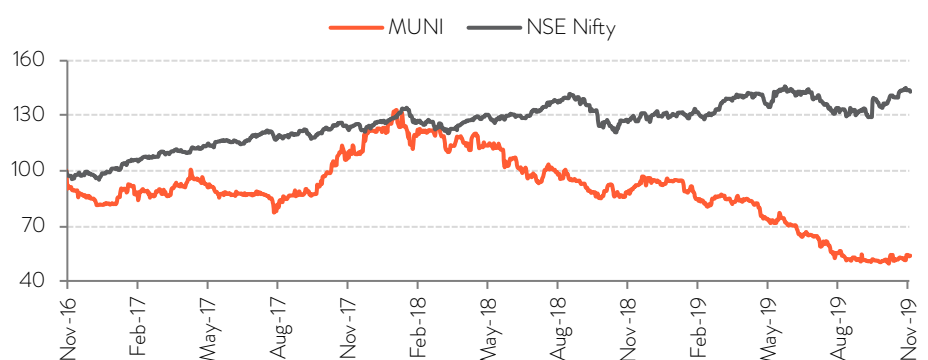
We cut FY20-FY22 PAT estimates by 7-12% due to a deepening downturn in the auto and footwear end-user industries. Rolling valuations over, we have a revised Sep'20 target price of Rs 325 (Rs 335 earlier), set at an unchanged 15x one-year forward P/E multiple. Maintain BUY.

**FIG 7 – REVISED ESTIMATES**

(Rs mn)	New			Old			Change (%)		
	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
Revenues	5,399	6,723	7,816	5,780	7,132	8,267	(6.6)	(5.7)	(5.5)
EBITDA	942	1,338	1,579	1,168	1,448	1,695	(19.3)	(7.6)	(6.8)
PAT	688	892	1,079	785	969	1,160	(12.4)	(7.9)	(6.9)

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	FY19A	FY20E	FY21E	FY22E
<b>Total revenue</b>	<b>5,700</b>	<b>5,913</b>	<b>5,399</b>	<b>6,723</b>	<b>7,816</b>
EBITDA	1,500	1,292	942	1,338	1,579
Depreciation	(171)	(180)	(193)	(277)	(299)
EBIT	1,329	1,112	749	1,061	1,279
Net interest income/(expenses)	(14)	(9)	(13)	(15)	(15)
Other income/(expenses)	67	42	183	146	178
Exceptional items	0	0	0	0	0
EBT	1,382	1,145	920	1,192	1,443
Income taxes	(477)	(418)	(232)	(300)	(364)
Extraordinary items	64	169	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>969</b>	<b>896</b>	<b>688</b>	<b>892</b>	<b>1,079</b>
Adjustments	(64)	(169)	0	0	0
<b>Adjusted net profit</b>	<b>905</b>	<b>727</b>	<b>688</b>	<b>892</b>	<b>1,079</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	610	592	562	682	792
Other current liabilities	77	151	148	147	171
Provisions	29	30	27	34	39
Debt funds	59	217	50	50	50
Other liabilities	52	32	32	32	32
Equity capital	226	226	226	226	226
Reserves & surplus	4,270	4,953	5,435	6,059	6,814
Shareholders' fund	4,496	5,179	5,661	6,285	7,041
<b>Total liabilities and equities</b>	<b>5,322</b>	<b>6,201</b>	<b>6,480</b>	<b>7,229</b>	<b>8,125</b>
Cash and cash eq.	283	203	66	248	245
Accounts receivables	1,031	890	873	1,050	1,221
Inventories	965	1,229	1,109	1,253	1,435
Other current assets	127	337	251	276	321
Investments	1,562	1,870	1,800	2,100	2,650
Net fixed assets	1,310	1,254	1,961	1,884	1,835
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
<b>Total assets</b>	<b>5,322</b>	<b>6,201</b>	<b>6,480</b>	<b>7,229</b>	<b>8,125</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	1,140	1,076	881	1,169	1,379
Interest expenses	14	9	13	15	15
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(135)	(276)	186	(220)	(258)
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>1,019</b>	<b>809</b>	<b>1,080</b>	<b>964</b>	<b>1,136</b>
Capital expenditures	(204)	(498)	(900)	(200)	(250)
Change in investments	(365)	(308)	70	(300)	(550)
Other investing cash flows	5	0	0	0	0
<b>Cash flow from investing</b>	<b>(564)</b>	<b>(806)</b>	<b>(830)</b>	<b>(500)</b>	<b>(800)</b>
Equities issued/Others	(250)	0	0	0	0
Debt raised/repaid	(61)	159	(167)	0	0
Interest expenses	(14)	(9)	(13)	(15)	(15)
Dividends paid	(77)	(177)	(206)	(268)	(324)
Other financing cash flows	10	(56)	0	0	0
<b>Cash flow from financing</b>	<b>(392)</b>	<b>(83)</b>	<b>(386)</b>	<b>(283)</b>	<b>(339)</b>
<b>Changes in cash and cash eq.</b>	<b>63</b>	<b>(80)</b>	<b>(136)</b>	<b>181</b>	<b>(3)</b>
<b>Closing cash and cash eq.</b>	<b>283</b>	<b>203</b>	<b>66</b>	<b>248</b>	<b>245</b>

**Per Share**

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	21.4	19.8	15.2	19.7	23.8
Adjusted EPS	20.0	16.0	15.2	19.7	23.8
Dividend per share	1.2	3.3	3.8	4.9	6.0
Book value per share	99.3	114.4	125.0	138.8	155.5

**Valuations Ratios**

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	1.6	1.4	1.5	1.2	1.0
EV/EBITDA	5.9	6.5	8.8	6.2	5.0
Adjusted P/E	11.2	14.0	14.7	11.4	9.4
P/BV	2.3	2.0	1.8	1.6	1.4

**DuPont Analysis**

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	65.5	63.5	74.8	74.8	74.8
Interest burden (PBT/EBIT)	104.0	103.0	122.8	112.4	112.7
EBIT margin (EBIT/Revenue)	23.3	18.8	13.9	15.8	16.4
Asset turnover (Revenue/Avg TA)	113.6	102.6	85.1	98.1	101.8
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.1	1.2
Adjusted ROAE	21.7	15.0	12.7	14.9	16.2

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



**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
<b>YoY growth (%)</b>					
Revenue	18.3	3.7	(8.7)	24.5	16.3
EBITDA	17.4	(13.9)	(27.1)	42.0	18.0
Adjusted EPS	21.9	(19.7)	(5.3)	29.6	21.0
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	26.3	21.9	17.5	19.9	20.2
EBIT margin	23.3	18.8	13.9	15.8	16.4
Adjusted profit margin	15.9	12.3	12.7	13.3	13.8
Adjusted ROAE	21.7	15.0	12.7	14.9	16.2
ROCE	20.4	14.2	10.1	13.2	14.3
<b>Working capital days (days)</b>					
Receivables	64	59	60	52	53
Inventory	101	112	128	103	101
Payables	47	47	47	42	43
<b>Ratios (x)</b>					
Gross asset turnover	3.1	3.5	2.5	2.5	2.6
Current ratio	3.2	3.1	3.0	3.2	3.1
Net interest coverage ratio	96.9	128.4	59.9	70.7	85.3
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%

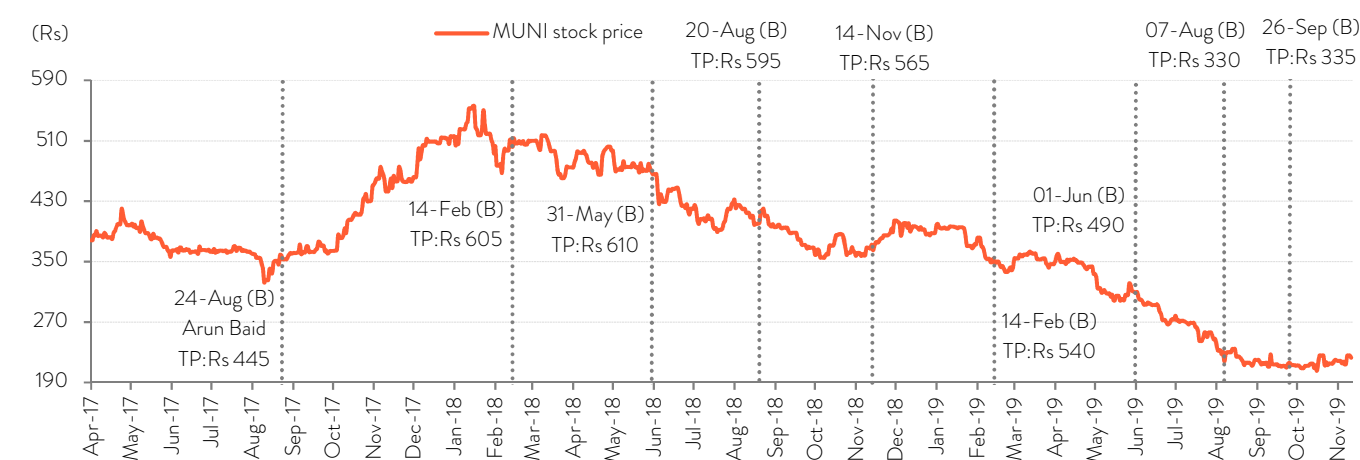
**ADD** – Expected return from >+5% to +15%

**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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