

ADD

TP: Rs 300 | ▲ 13%

MAYUR UNIQUOTERS

| Textiles

| 12 November 2020

Good performance, outlook improving

Mayur Uniquoters' (MUNI) Q2FY21 standalone revenue declined 11% YoY and volumes dropped 5% amid a continued slowdown in user industries (footwear, auto), albeit less pronounced than expected. Operating margins rose 285bps YoY to 19.7% backed by higher gross margins, aiding EBITDA growth of 4%. Management is seeing signs of recovery in the auto segment and expects a better H2. We raise FY21-FY23 PAT by 5-59% due to faster-than-expected revival in user segments. On rollover, we have a new Dec'21 TP of Rs 300 (vs. Rs 270).

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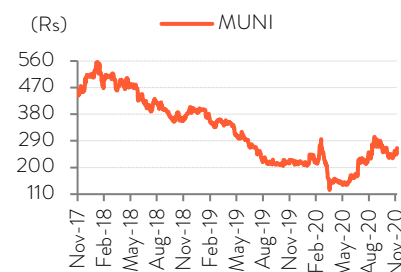
Continued weakness in user industries dents revenue: MUNI reported an 11% YoY decline in standalone revenue to Rs 1.1bn for Q2FY21, with volumes down 5% YoY. Management is seeing a demand pickup from the automotive segment and exports in Q3 whereas the footwear segment remains tepid. The company expects to begin supply to Mercedes from end-Q4 and also to Volkswagen India. Its PU plant has started to ramp up and will take another year to achieve scale as customer approvals come through.

Ticker/Price	MUNI IN/Rs 266
Market cap	US\$ 161.9mn
Shares o/s	45mn
3M ADV	US\$ 0.5mn
52wk high/low	Rs 309/Rs 119
Promoter/FPI/DII	61%/5%/33%

Source: NSE

Operating margins increase: MUNI reported 285bps expansion in standalone operating margins to 19.7% due to higher gross margins (+240bps YoY) and lower other expense (-190bps YoY), which was partly offset by increased employee cost (+145bps). Q2 EBITDA grew 4% YoY. Gross margins expanded due to a better product mix while other expenses declined as a result of cost rationalisation measures. Per management, recent price hikes should offset higher raw material prices and thus help sustain margins.

STOCK PERFORMANCE



Source: NSE

Maintain ADD: We increase our FY21-FY23 EBITDA estimates by 6-47% and PAT estimates by 5-59% due to the faster recovery in end-user verticals than expected. Maintain ADD as we roll forward to a Dec'21 TP of Rs 300 (vs. Rs 270), set at an unchanged 15x one-year forward P/E.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	5,913	5,280	4,227	5,811	6,686
EBITDA (Rs mn)	1,292	1,039	813	1,171	1,372
Adj. net profit (Rs mn)	731	655	520	784	918
Adj. EPS (Rs)	16.1	14.4	11.7	17.6	20.6
Adj. EPS growth (%)	(19.2)	(10.5)	(19.3)	50.8	17.2
Adj. ROAE (%)	15.1	12.0	8.9	12.8	13.7
Adj. P/E (x)	16.5	18.4	22.8	15.1	12.9
EV/EBITDA (x)	8.1	9.8	12.5	8.6	7.2

Source: Company, BOBCAPS Research

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FIG 1 – STANDALONE QUARTERLY PERFORMANCE

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Revenues	1,106	1,242	(11.0)	381	190.6	1,487	2,524	(41.1)
Raw material consumed	666	777	(14.3)	217	206.9	882	1,567	(43.7)
% of sales	60.2	62.6	(238bps)	57.0	319bps	59.4	62.1	(271bps)
Employee expense	83	75	10.6	90	(8.4)	161	156	2.9
% of sales	7.5	6.0	146bps	23.8	(1,627bps)	10.8	6.2	462bps
Other expense	140	181	(22.6)	78	80.3	231	341	(32.3)
% of sales	12.7	14.6	(191bps)	20.5	(777bps)	15.5	13.5	202bps
Total expenditure	889	1,033	(14.0)	385	130.8	1,274	2,064	(38.3)
EBITDA	217	209	4.0	(5)	NM	213	460	(53.8)
% of sales	19.7	16.8	283bps	(1.2)	NA	14.3	18.2	(392bps)
Depreciation	50.1	44	13.1	34	47.8	84.0	87	(4.0)
Other income	30.3	52	(41.3)	55	(44.9)	85.2	88	(3.4)
Interest cost	7.7	1.4	446.5	4.9	58.1	12.5	3.3	280.5
PBT	190	215	(11.6)	12	NA	202	458	(56.0)
Taxes	46	15	211.0	4	1,202.1	49	99	(50.3)
Effective tax rate (%)	24.1	6.8	1,723bps	30.1	(604bps)	24.4	21.6	278bps
APAT	144	200	(28.0)	8	1,669.5	152	359	(57.5)

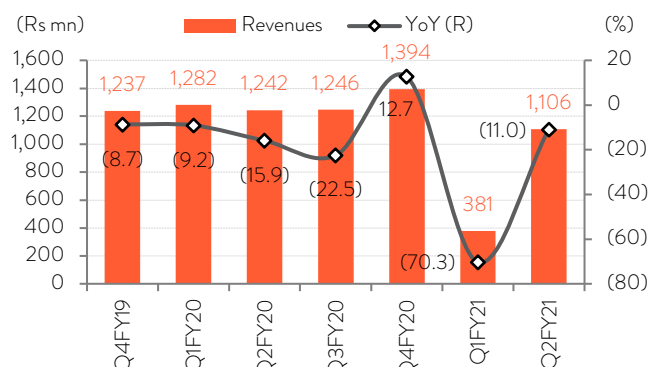
Source: Company, BOBCAPS Research

FIG 2 – CONSOLIDATED QUARTERLY PERFORMANCE

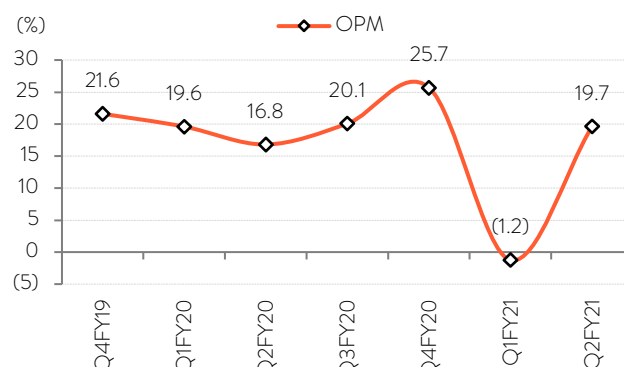
(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Revenues	1,258	1,309	(4.0)	389	223.2	1,647	2,583	(36.2)
Raw material consumed	715	796	(10.2)	220	224.8	935	1,618	(42.2)
% of sales	64.6	64.1	51bps	57.8	679bps	62.9	64.1	(124bps)
Employee expense	87	79	10.9	80	8.4	168	163	2.8
% of sales	7.9	6.3	155bps	21.1	(1,326bps)	11.3	6.5	482bps
Other expense	167	205	(18.7)	103	62.8	270	398	(32.3)
% of sales	15.1	16.5	(144bps)	27.0	(1,186bps)	18.1	15.8	236bps
Total expenditure	969	1,080	(10.3)	403	140.3	1,372	2,180	(37.1)
EBITDA	289	229	26.0	(14)	(2,154.3)	275	403	(31.9)
% of sales	23.0	17.5	546bps	(3.6)	2,656bps	16.7	15.6	107bps
Depreciation	50.1	44	13.1	34	47.7	84.1	88	(3.9)
Other income	31.3	52	(40.2)	55	(43.4)	86.6	89	(2.7)
Interest cost	7.9	2	371.9	5	57.1	12.9	4	239.9
PBT	262	235	11.3	2	11,234.6	264	401	(34.1)
Taxes	62	16	283.8	1	4,401.9	64	84	(24.5)
Effective tax rate (%)	23.8	6.9	1,688bps	59.8	(3,608bps)	24.1	21.0	305bps
APAT	200	219	(8.9)	1	21,417.3	201	317	(36.6)

Source: Company, BOBCAPS Research

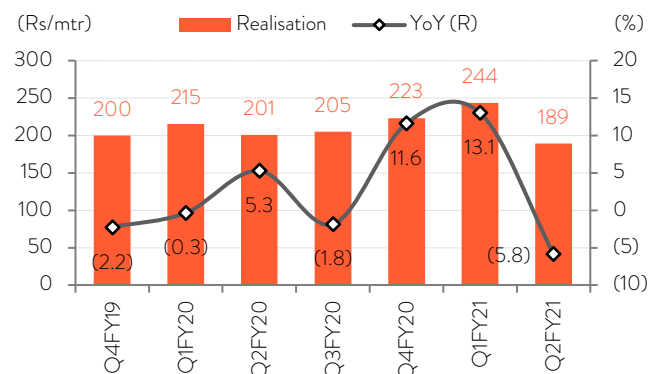
STANDALONE QUARTERLY TRENDS

FIG 3 – REVENUES


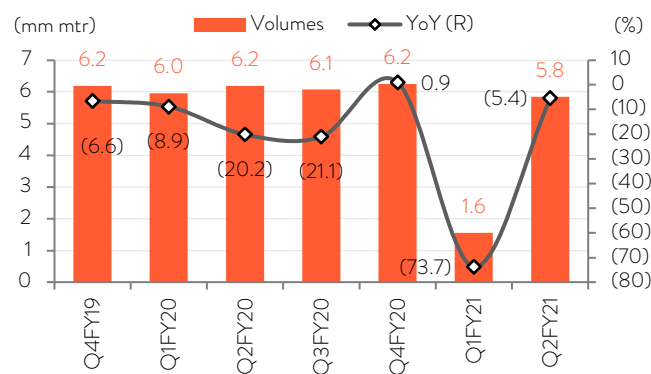
Source: Company, BOBCAPS Research

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 sustained demand pickup since August. The automotive segment is reviving but footwear remains a drag.
- The company is now an approved vendor for Volkswagen India and will start supplies from Q4FY21.
- MUNI has got approval from BMW for material supply which should begin from 2022.
- Supply to Mercedes, South Africa, will begin in Q4FY21.
- Product sampling is underway at the new PU plant and production will be ramped up over the next 12 months. The plant is currently producing 30-40k metres/month and ramping up by 10k/month. It can produce ~0.4mn/mtr per month and earn revenues of Rs 1.25bn-1.5bn annually on full ramp-up.

- The government has increased import duty on PU material to 22%, thus reducing the price gap between imports and domestic manufacturing.
- MUNI is working with Ford and Chrysler to get approval for PU usage in the automotive industry.
- The company has taken a 5% price increase in October and another 5-7% hike in November due to rising raw material prices. It plans to take a price increase in December as well.
- MUNI is adding its seventh PVC line. The current plant can produce 2.7-2.8mn metres annually. The target is to reach 2.8-2.9mn metres of PVC sales in FY22.
- Management is increasingly opting for backward integration in order to have better control over cost.
- MUNI has announced a buyback of 0.75mn shares (~1.65% of total equity) at Rs 400/sh through the tender route.

Valuation methodology

MUNI is the market leader in India's PVC synthetic leather industry and also caters to US auto OEMs – a market that no other domestic company has managed to penetrate. It has also entered the PU synthetic leather market which is primarily import-oriented, with the commencement of a plant in Madhya Pradesh in Jan'20.

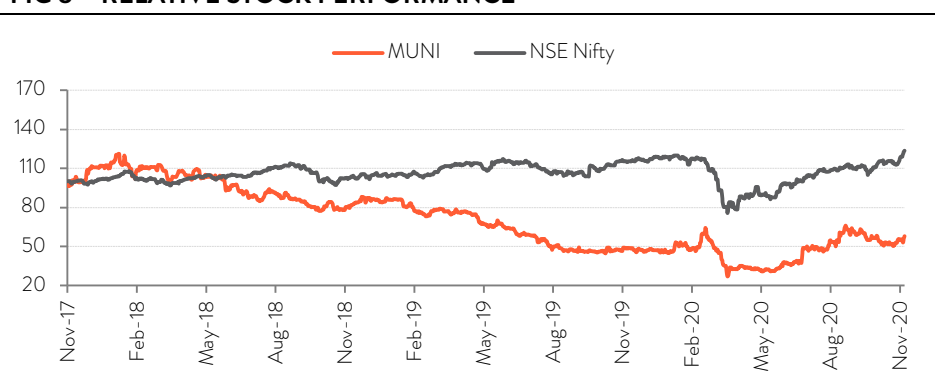
We increase our FY21/FY22/FY23 PAT estimates by 59%/5%/5% due to the faster recovery in end-user verticals than expected. Maintain ADD as we roll forward to a Dec'21 target price of Rs 300 (vs. Rs 270), set at an unchanged 15x one-year forward P/E.

FIG 7 – REVISED ESTIMATES

(Rs mn)	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenues	4,227	5,811	6,686	3,685	5,617	6,261	14.7	3.5	6.8
EBIDTA	813	1,171	1,372	551	1,107	1,295	47.4	5.8	5.9
PAT	520	784	918	328	745	871	58.5	5.2	5.4

Source: BOBCAPS Research

FIG 8 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Failure to run the PU plant:** Inability to run the newly commissioned PU plant will adversely affect growth prospects.
- **Continued slowdown in end-user industries:** A prolonged slowdown in key end-user industries of footwear and auto will adversely affect growth prospects.
- **Volatility in raw material prices:** A majority of MUNI's raw material is linked to crude prices. Any abnormal change in crude prices can hurt profitability.
- **Prolonged Covid-19 outbreak:** If pandemic fears prevail for a prolonged period of time, revenues will be adversely affected.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	5,913	5,280	4,227	5,811	6,686
EBITDA	1,292	1,039	813	1,171	1,372
Depreciation	(180)	(184)	(247)	(287)	(324)
EBIT	1,112	855	566	884	1,047
Net interest income/(expenses)	(9)	(17)	(20)	(10)	(8)
Other income/(expenses)	46	55	148	173	188
EBT	1,149	892	695	1,048	1,227
Income taxes	(418)	(238)	(175)	(264)	(309)
Extraordinary items	165	143	0	0	0
Reported net profit	896	798	520	784	918
Adjustments	(165)	(143)	0	0	0
Adjusted net profit	731	655	520	784	918

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	592	610	521	669	769
Other current liabilities	151	129	103	162	197
Provisions	30	76	21	29	33
Debt funds	217	326	200	100	70
Other liabilities	32	45	36	29	23
Equity capital	226	227	223	223	223
Reserves & surplus	4,953	5,547	5,614	6,163	6,806
Shareholders' fund	5,179	5,774	5,837	6,386	7,028
Total liabilities and equities	6,201	6,960	6,719	7,375	8,121
Cash and cash eq.	203	586	19	12	43
Accounts receivables	890	970	868	1,019	1,172
Inventories	1,229	1,351	1,135	1,385	1,594
Other current assets	337	346	289	318	366
Investments	1,870	1,652	2,300	2,320	2,700
Net fixed assets	1,242	1,608	1,662	1,875	1,801
CWIP	393	393	393	393	393
Intangible assets	38	39	39	39	39
Deferred tax assets, net	0	13	13	13	13
Total assets	6,201	6,960	6,719	7,375	8,121

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	1,076	982	766	1,070	1,242
Interest expenses	9	17	20	10	8
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(276)	(140)	195	(222)	(276)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	809	860	981	858	975
Capital expenditures	(498)	(494)	(300)	(500)	(250)
Change in investments	(308)	218	(648)	(20)	(380)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(806)	(276)	(948)	(520)	(630)
Equities issued/Others	0	0	(300)	0	0
Debt raised/repaid	159	108	(126)	(100)	(30)
Interest expenses	(9)	(17)	(20)	(10)	(8)
Dividends paid	(177)	(178)	(156)	(235)	(275)
Other financing cash flows	(56)	(114)	0	0	0
Cash flow from financing	(83)	(200)	(601)	(345)	(314)
Changes in cash and cash eq.	(80)	384	(568)	(7)	31
Closing cash and cash eq.	203	586	19	12	43

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	19.8	17.6	11.7	17.6	20.6
Adjusted EPS	16.1	14.4	11.7	17.6	20.6
Dividend per share	3.3	3.0	2.9	4.4	5.1
Book value per share	114.4	127.4	130.9	143.3	157.7

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	1.8	1.9	2.4	1.7	1.5
EV/EBITDA	8.1	9.8	12.5	8.6	7.2
Adjusted P/E	16.5	18.4	22.8	15.1	12.9
P/BV	2.3	2.1	2.0	1.9	1.7

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	63.6	73.4	74.8	74.8	74.8
Interest burden (PBT/EBIT)	103.4	104.4	122.6	118.5	117.2
EBIT margin (EBIT/Revenue)	18.8	16.2	13.4	15.2	15.7
Asset turnover (Revenue/Avg TA)	102.6	80.2	61.8	82.5	86.3
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.2	1.2
Adjusted ROAE	15.1	12.0	8.9	12.8	13.7

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	3.7	(10.7)	(20.0)	37.5	15.1
EBITDA	(13.9)	(19.5)	(21.8)	44.0	17.1
Adjusted EPS	(19.2)	(10.5)	(19.3)	50.8	17.2
Profitability & Return ratios (%)					
EBITDA margin	21.9	19.7	19.2	20.2	20.5
EBIT margin	18.8	16.2	13.4	15.2	15.7
Adjusted profit margin	12.4	12.4	12.3	13.5	13.7
Adjusted ROAE	15.1	12.0	8.9	12.8	13.7
ROCE	14.2	10.9	7.0	10.6	11.5
Working capital days (days)					
Receivables	59	64	79	59	60
Inventory	112	153	188	136	140
Payables	47	52	60	47	49
Ratios (x)					
Gross asset turnover	3.5	2.6	1.7	2.1	2.1
Current ratio	3.1	3.3	3.2	3.1	3.1
Net interest coverage ratio	128.4	49.1	28.3	88.4	124.7
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

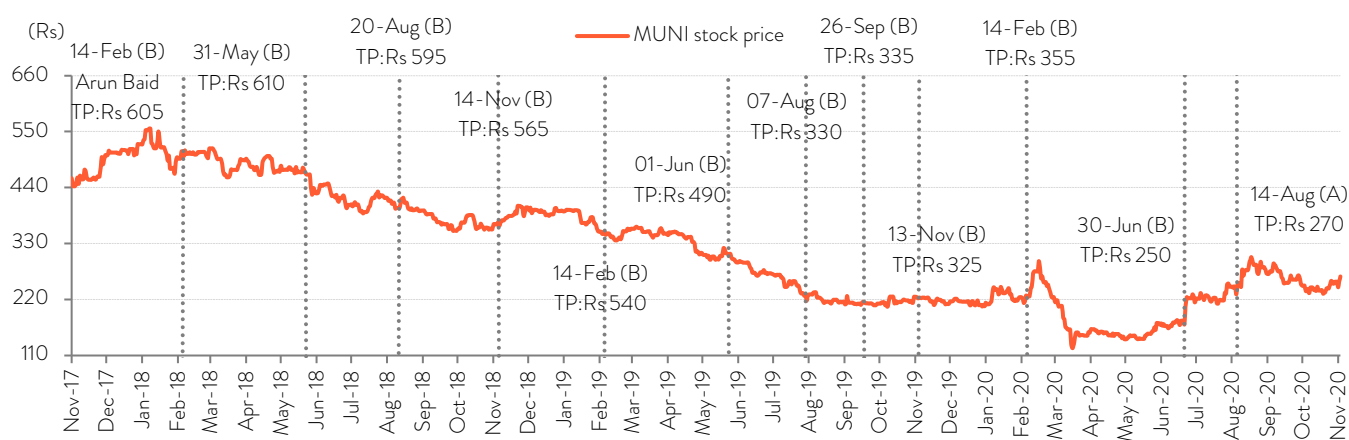
ADD – Expected return from >+5% to +15%

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): MAYUR UNIQUOTERS (MUNI IN)



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

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