

BUY

TP: Rs 355 | ▲ 56%

MAYUR UNIQUOTERS

| Textiles

| 14 February 2020

Slow quarter but demand outlook improving

Mayur Uniquoters' (MUNI) Q3FY20 standalone revenue declined 23% YoY (volume down 21% YoY) due to continued slowdown in user industries (footwear, auto). Standalone operating margins contracted 105bps YoY to 20.1% due to higher employee and other expenses, which offset gross margin gains of 390bps. EBITDA/PBT decreased 26%/28% YoY. Management has observed some demand improvement from December and expects a better FY21. Maintain BUY with a revised Mar'21 TP of Rs 355 (earlier Rs 325) on rollover.

Arun Baid

research@bobcaps.in

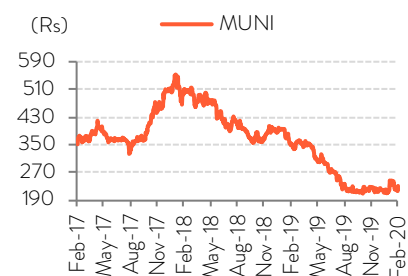
Revenues decline due to slowdown in user industries: MUNI reported a 23% YoY decline in standalone revenue to Rs 1.25bn, with volumes contracting 21%. Revenues declined across segments, barring auto OEMs which grew 22% YoY off a low base and as supplies to a few new models commenced during the quarter. Footwear, auto replacement and export sales dropped 37%/26%/18% YoY due to the weak market conditions. Management has seen some pickup from December and expects a better FY21. The new PU plant has begun commercial production from Jan'20 and is likely to stabilise by end-FY20.

Ticker/Price	MUNI IN/Rs 228
Market cap	US\$ 144.7mn
Shares o/s	45mn
3M ADV	US\$ 0.4mn
52wk high/low	Rs 369/Rs 200
Promoter/FPI/DII	61%/12%/27%

Source: NSE

Operating margins decline: Despite gross margin expansion (+390bps), MUNI reported a 105bps drop in standalone operating margins to 20.1% due to higher employee cost (+113bps) and other expenditure (+383bps). Gross margins expanded due to higher sales of value-added items whereas employee/other expenses increased as a percentage of sales due to negative operating leverage which dragged EBITDA/PBT down 26%/28% YoY. Management intends to focus on sales of value-added items to maintain margins.

STOCK PERFORMANCE



Source: NSE

Maintain BUY: MUNI's operating performance has been better than expected; we reiterate BUY and roll forward to a Mar'21 TP of Rs 355 (from Rs 325), set at an unchanged 15x one-year forward P/E.

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)	11.4	14.2	15.0	11.6	9.6
EV/EBITDA (x)	6.2	6.8	9.0	6.3	5.2

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – STANDALONE QUARTERLY PERFORMANCE

(Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Total revenues	1,246	1,608	(22.5)	1,242	0.3	3,770	4,497	(16.2)
Total raw material consumed	732	1,008	(27.3)	777	(5.7)	2,299	2,765	(16.8)
% of sales	58.8	62.7	(390bps)	62.6	(378bps)	61.0	61.5	(50bps)
Employee expense	78	82	(5.4)	75	4.0	234	235	(0.4)
% of sales	6.2	5.1	113bps	6.0	22bps	6.2	5.2	98bps
Other expense	186	178	4.2	181	2.4	527	489	7.6
% of sales	14.9	11.1	383bps	14.6	30bps	14.0	10.9	309bps
Total expenditure	996	1,269	(21.5)	1,033	(3.6)	3,060	3,489	(12.3)
EBITDA	250	340	(26.4)	209	19.8	711	1,008	(29.5)
% of sales	20.1	21.1	(106bps)	16.8	326bps	18.8	22.4	(356bps)
Depreciation	46.5	45	3.9	44	5.0	133.9	134	0.1
Other income	45.1	47	(4.9)	52	(12.6)	133.4	168	(20.8)
Interest cost	5.0	2.8	75.5	1.4	252.5	8.2	12.9	(35.9)
PBT	244	340	(28.2)	215	13.5	702	1,029	(31.8)
Taxes	62	115	(46.2)	15	322.1	161	349	(53.8)
Effective tax rate (%)	25.4	33.9	(847bps)	6.8	1,859bps	23.0	33.9	(1,090bps)
APAT	182	225	(19.0)	200	(9.1)	541	681	(20.6)
Add/(Less): extraordinary items	0	7	NA	0	NA	0	7	NA
RPAT	182	218	(16.4)	200	(9.1)	541	674	(19.8)

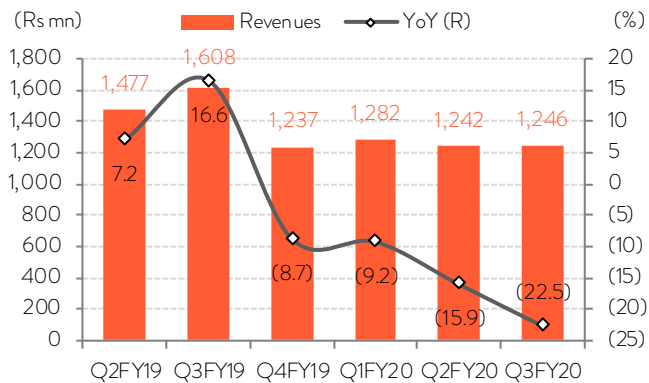
Source: Company, BOBCAPS Research

FIG 2 – CONSOLIDATED QUARTERLY PERFORMANCE

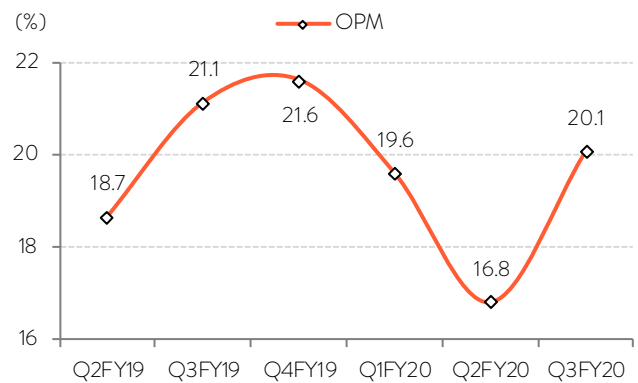
(Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Total revenues	1,386	1,623	(14.6)	1,309	5.9	3,969	4,635	(14.4)
Total raw material consumed	782	1,005	(22.2)	796	(1.8)	2,400	2,826	(15.1)
% of sales	62.7	62.5	25bps	64.1	(138bps)	63.7	62.8	81bps
Employee expense	81	84	(3.8)	79	2.5	244	240	1.8
% of sales	6.5	5.2	126bps	6.3	13bps	6.5	5.3	114bps
Other expense	214	190	12.5	205	4.1	612	558	9.8
% of sales	17.2	11.8	534bps	16.5	62bps	16.2	12.4	383bps
Total expenditure	1,076	1,278	(15.8)	1,080	(0.4)	3,256	3,623	(10.1)
EBITDA	310	344	(9.8)	229	35.5	713	1,012	(29.5)
% of sales	22.4	21.2	117bps	17.5	489bps	18.0	21.8	(386bps)
Depreciation	46.5	45	4.0	44	5.0	134.1	134	0.1
Other income	47.9	38	26.5	52	(8.5)	137.0	169	(18.8)
Interest cost	5.0	3	74.3	2	202.3	8.8	13	(32.1)
PBT	307	334	(8.3)	235	30.3	707	1,034	(31.6)
Taxes	74	123	(39.9)	16	354.4	158	350	(54.9)
Effective tax rate (%)	24.0	36.7	(1,264bps)	6.9	1,715bps	22.3	33.9	(1,156bps)
APAT	233	212	10.0	219	6.3	549	683	(19.6)

Source: Company, BOBCAPS Research

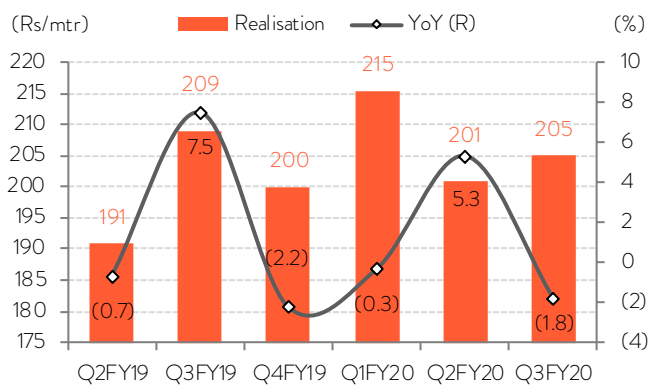
STANDALONE QUARTERLY TRENDS

FIG 3 – REVENUES


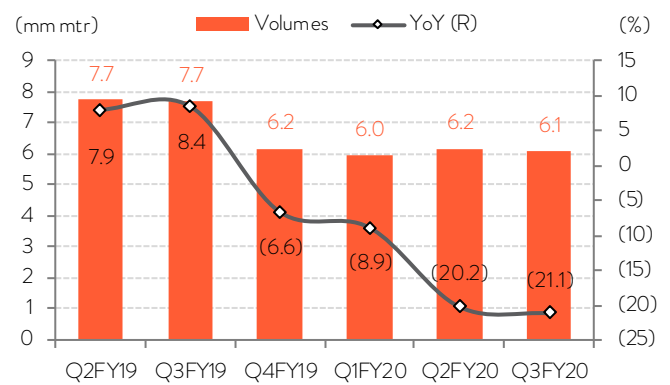
Source: Company, BOBCAPS Research

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 sustained demand pickup from Dec'19, and management expects this trend to continue in FY21 when it has guided for a 10-15% increase in automotive sales and ~20% growth in export sales.
- Auto OEM sales increased in Q3FY20 as the company started supplies to 3-4 models during the quarter. Management expects to start supplies to Mercedes Benz, Europe, from Q4FY21.
- The company has seen a 20% rise in PVC resin prices over the past six months, which accounts for 40% of raw material cost. Fabric prices have not increased during this period.
- To combat the increasing input prices, MUNI has focused on value-added products, thereby enabling it to protect margins despite a tough demand environment.

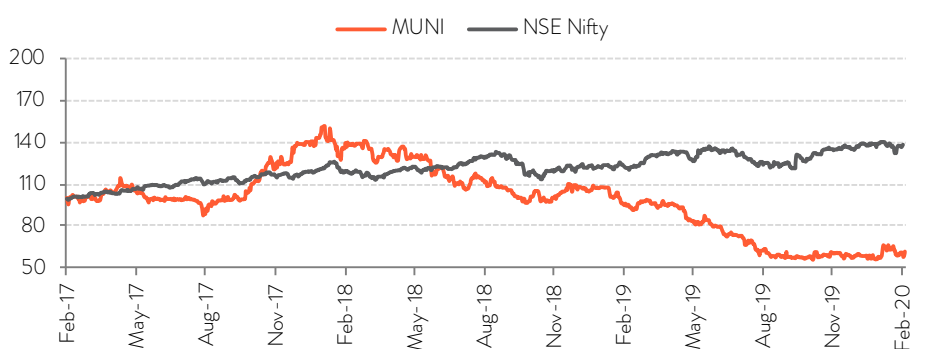
- The company does not have any significant dependence on China for the raw materials required for its PVC leather business.
- The PU plant has commenced commercial production and is likely to stabilise by end-FY20. MUNI has garnered a positive initial response for the products from this factory.
- The PU plant line will be ramped up to three shifts over the next 2-3 years, with one more PU line to be added over the next year.

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. The company has entered the PU synthetic leather market which is primarily import-oriented, with the commencement of a plant in Madhya Pradesh in Jan'20.

We maintain our estimates post the Q3FY20 results and roll valuations forward to a Mar'21 target price of Rs 355 (Rs 325 earlier), set at an unchanged 15x one-year forward P/E multiple. Maintain BUY.

FIG 7 – 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 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.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	5,700	5,913	5,399	6,723	7,816
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
Reported net profit	969	896	688	892	1,079
Adjustments	(64)	(169)	0	0	0
Adjusted net profit	905	727	688	892	1,079

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
Total liabilities and equities	5,322	6,201	6,480	7,229	8,125
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
Total assets	5,322	6,201	6,480	7,229	8,125

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
Cash flow from operations	1,019	809	1,080	964	1,136
Capital expenditures	(204)	(498)	(900)	(200)	(250)
Change in investments	(365)	(308)	70	(300)	(550)
Other investing cash flows	5	0	0	0	0
Cash flow from investing	(564)	(806)	(830)	(500)	(800)
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
Cash flow from financing	(392)	(83)	(386)	(283)	(339)
Changes in cash and cash eq.	63	(80)	(136)	181	(3)
Closing cash and cash eq.	283	203	66	248	245

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	1.5	1.6	1.3	1.1
EV/EBITDA	6.2	6.8	9.0	6.3	5.2
Adjusted P/E	11.4	14.2	15.0	11.6	9.6
P/BV	2.3	2.0	1.8	1.6	1.5

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
YoY growth (%)					
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
Profitability & Return ratios (%)					
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
Working capital days (days)					
Receivables	64	59	60	52	53
Inventory	101	112	128	103	101
Payables	47	47	47	42	43
Ratios (x)					
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%

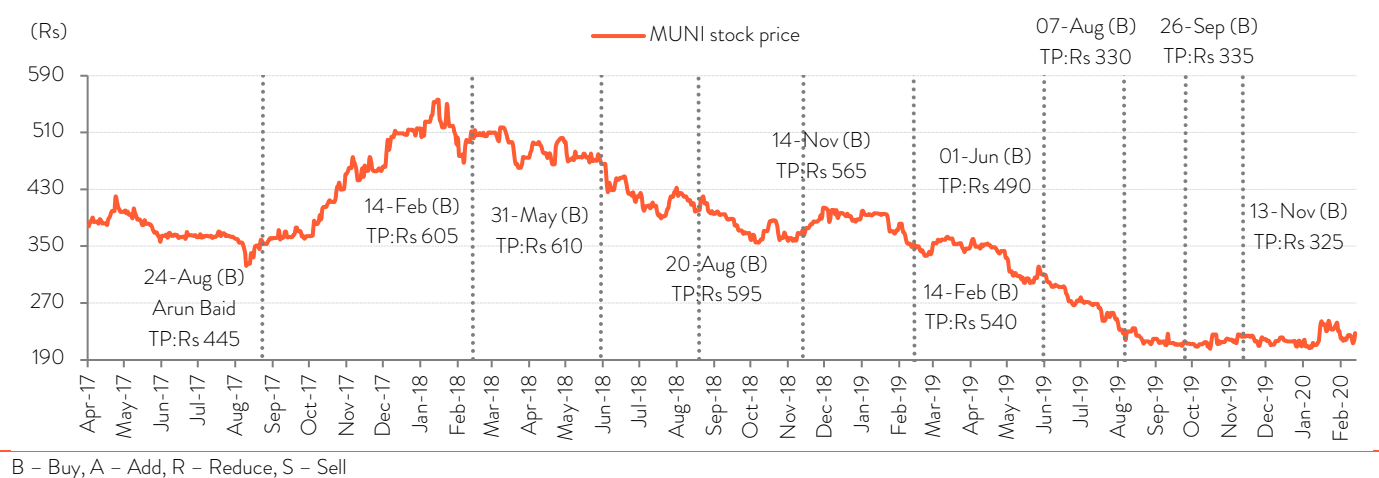
ADD – Expected return from >+5% to +15%

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)



Rating distribution

As of 31 January 2020, out of 85 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 50 have BUY ratings, 18 are rated ADD, 8 are rated REDUCE and 9 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.