

BUY

TP: Rs 495 | ▲ 23%

MAYUR UNIQUOTERS

| Textiles

| 15 February 2021

All-round beat – upgrade to BUY

Mayur Uniquoters' (MUNI) Q3FY21 standalone revenue swelled 31% YoY to a record Rs 1.6bn. Operating margins expanded 715bps YoY to 27.2% backed by higher gross margins and lower expenditure, aiding above-estimated EBITDA/PBT growth of 78%/87%. Auto segment demand has revived in Q3 and management expects similar trends in Q4. We raise FY21-FY23 EBITDA by 13-30% due to the swift revival in user segments, reset our target P/E to 20x (vs. 15x), and move from ADD to BUY. On rollover, our Mar'22 TP rises to Rs 495 (vs. Rs 300).

Arun Baid

research@bobcaps.in

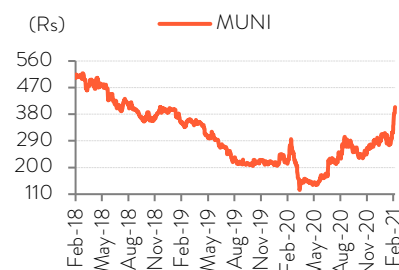
Strong revenue growth: MUNI reported its best-ever standalone quarterly sales of Rs 1.6bn (+31% YoY), with volumes up 28% YoY. Per management, demand from the automotive segment has been improving from September. Footwear sales have also started to ramp up from November, growing 23% YoY in Q3. The company expects to begin supply to Mercedes-South Africa and also to Volkswagen India from Q1FY22. Its PU plant has begun to scale up and the company is targeting Rs 1bn revenues over the next few years.

Ticker/Price	MUNI IN/Rs 404
Market cap	US\$ 247.7mn
Shares o/s	45mn
3M ADV	US\$ 0.6mn
52wk high/low	Rs 439/Rs 119
Promoter/FPI/DII	61%/5%/34%

Source: NSE

Operating margins surge: MUNI reported 715bps YoY expansion in standalone EBITDA margins to 27.2% due to higher gross margins (+360bps) and lower other expense (-245bps) and employee cost (-110bps), resulting in EBITDA growth of 78% YoY. Gross margin expansion stemmed from a better product mix and lower raw material cost while other expenses declined as a percentage of sales due to operating leverage. Per management, recent price hikes across segments should offset higher input prices and thus protect margins.

STOCK PERFORMANCE



Source: NSE

Upgrade to BUY: We increase our FY21-FY23 PAT by 21-47% due to the faster recovery in end-user verticals than expected. In light of the improving demand outlook, we also raise our target P/E to 20x (from 15x), in line with the five-year average. Upgrade to BUY from ADD with a revised TP of Rs 495.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	5,913	5,280	4,866	6,124	7,031
EBITDA (Rs mn)	1,292	1,039	1,057	1,345	1,554
Adj. net profit (Rs mn)	731	655	763	956	1,107
Adj. EPS (Rs)	16.1	14.4	17.1	21.5	24.8
Adj. EPS growth (%)	(19.2)	(10.5)	18.6	25.3	15.8
Adj. ROAE (%)	15.1	12.0	13.0	15.1	15.7
Adj. P/E (x)	25.0	28.0	23.6	18.8	16.2
EV/EBITDA (x)	12.7	15.6	15.2	11.9	10.1

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)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Revenues	1,633	1,246	31.1	1,106	47.7	3,120	3,770	(17.3)
Raw material consumed	901	732	23.0	666	35.4	1,783	2,299	(22.4)
% of sales	55.2	58.8	(360bps)	60.2	(500bps)	57.2	61.0	(381bps)
Employee expense	84	78	7.9	83	1.5	245	234	4.5
% of sales	5.1	6.2	(110bps)	7.5	(234bps)	7.8	6.2	163bps
Other expense	203	186	9.4	140	44.7	434	527	(17.6)
% of sales	12.4	14.9	(246bps)	12.7	(25bps)	13.9	14.0	(6bps)
Total expenditure	1,188	996	19.3	889	33.7	2,462	3,060	(19.5)
EBITDA	445	250	77.8	217	104.7	658	711	(7.4)
% of sales	27.2	20.1	716bps	19.7	759bps	21.1	18.8	224bps
Depreciation	49	46	6.2	50	(1.4)	133	134	(0.4)
Other income	61	45	35.7	30	102.3	146	133	9.8
Interest cost	2	5	(64.3)	7.7	(77.0)	14	8	73.4
PBT	455	244	86.6	190	139.6	656	702	(6.4)
Taxes	108	62	74.8	46	137.2	158	161	(2.2)
Effective tax rate (%)	23.8	25.4	(161bps)	24.1	(24bps)	24.0	23.0	105bps
APAT	347	182	90.6	144	140.4	499	541	(7.7)

Source: Company, BOBCAPS Research

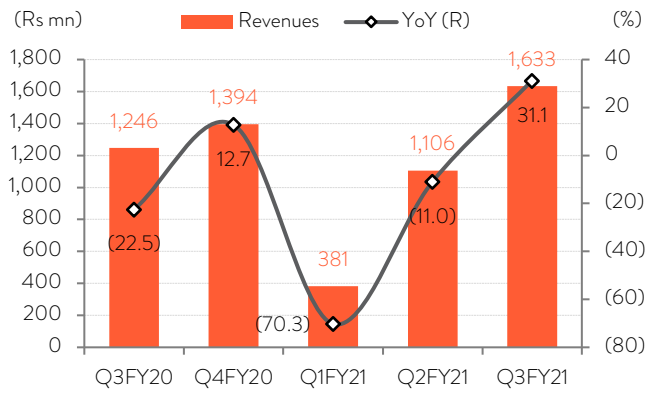
FIG 2 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Revenues	1,697	1,386	22.4	1,258	34.9	3,344	3,969	(15.8)
Raw material consumed	921	782	17.9	715	28.9	1,856	2,400	(22.7)
% of sales	56.4	62.7	(632bps)	64.6	(821bps)	59.5	63.7	(417bps)
Employee expense	86	81	7.0	87	(1.1)	254	244	4.2
% of sales	5.3	6.5	(119bps)	7.9	(261bps)	8.1	6.5	167bps
Other expense	237	214	10.8	167	41.8	506	612	(17.2)
% of sales	14.5	17.2	(266bps)	15.1	(60bps)	16.2	16.2	0bps
Total expenditure	1,244	1,076	15.6	969	28.4	2,616	3,256	(19.6)
EBITDA	453	310	46.0	289	56.9	727	713	2.0
% of sales	26.7	22.4	430bps	23.0	373bps	21.8	18.0	378bps
Depreciation	49	47	6.2	50	(1.4)	134	134	(0.4)
Other income	61	48	27.4	31	95.1	148	137	7.8
Interest cost	2	5	(61.0)	8	(75.0)	15	9	68.1
PBT	463	307	50.8	262	76.6	727	707	2.7
Taxes	112	74	52.3	62	80.3	176	158	11.3
Effective tax rate (%)	24.3	24.0	23bps	23.8	51bps	24.2	22.3	187bps
APAT	350	233	50.4	200	75.4	551	549	0.3

Source: Company, BOBCAPS Research

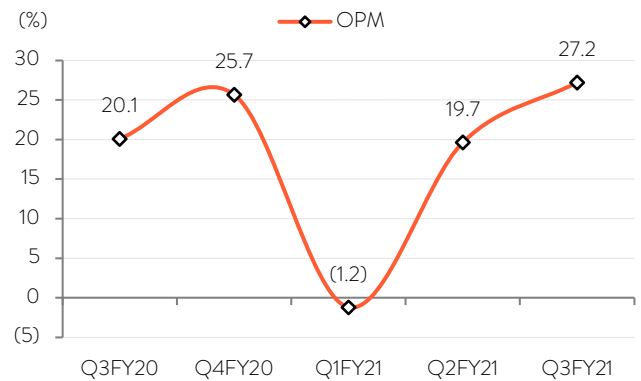
STANDALONE QUARTERLY TRENDS

FIG 3 – REVENUES



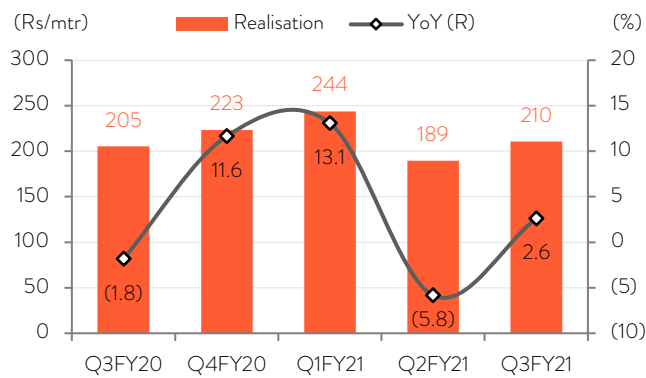
Source: Company, BOBCAPS Research

FIG 4 – OPERATING MARGINS



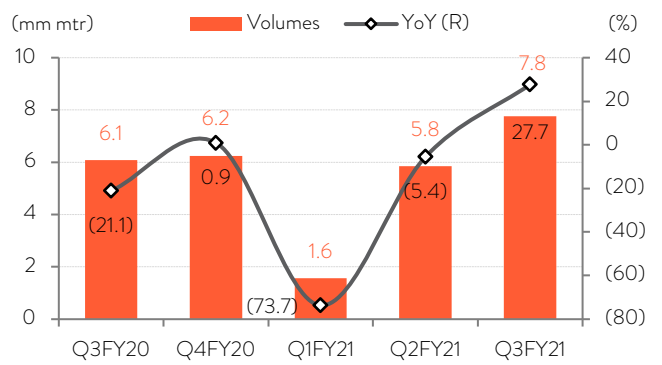
Source: Company, BOBCAPS Research

FIG 5 – REALISATIONS



Source: Company, BOBCAPS Research

FIG 6 – VOLUMES



Source: Company, BOBCAPS Research

Earnings call highlights

- MUNI has seen a sustained demand pickup from the automotive segment since September and from footwear since November.
- The company will supply to Volkswagen India and to Mercedes-South Africa from Q1FY22. It has also received approval from BMW for material supply starting 2022.
- Price increases taken in non-automotive segments will enable it to protect margins. Also, automotive suppliers have agreed to price hikes in Q4, further cushioning margins.
- Management is increasingly opting for backward integration at the PU plant in order to have better control over cost.
- The company aims to grow its automotive segment by 75-100% over the next three years and earn revenues of Rs 1bn from the PU plant over the next few years.
- MUNI is adding its seventh PVC line by end-FY21 which can produce 7.2mn meters per annum.
- The company is in talks with some other US-based automotive players for supply of artificial leather.
- Management plans to completely professionalise the company over the next few years.

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. In addition, in Jan'20 it entered the PU synthetic leather market, which is primarily import-oriented, with a plant in Madhya Pradesh.

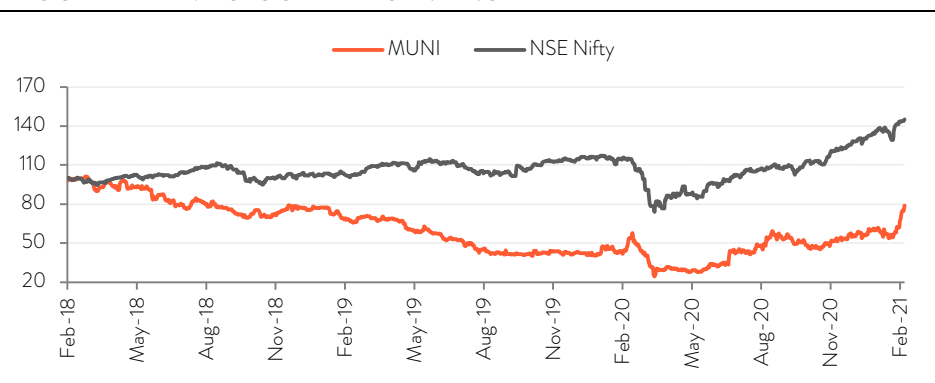
We increase our FY21/FY22/FY23 EBITDA estimates by 30%/15%/13% and PAT by 47%/22%/21% due to the faster demand recovery in end-user verticals than expected. We also raise our target P/E to 20x (from 15x), in line with the five-year average. The planned induction of professionals at senior managerial positions could lend a further impetus to valuations. Upgrade to BUY from ADD as we roll forward to a revised Mar'22 target price of Rs 495 (vs. Rs 300).

FIG 7 – REVISED ESTIMATES

(Rs mn)	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenues	4,866	6,124	7,031	4,227	5,811	6,686	15.1	5.4	5.2
EBITDA	1,057	1,345	1,554	813	1,171	1,372	30.1	14.8	13.3
PAT	763	956	1107	520	784	918	46.9	22.1	20.6

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	4,866	6,124	7,031
EBITDA	1,292	1,039	1,057	1,345	1,554
Depreciation	(180)	(184)	(185)	(229)	(259)
EBIT	1,112	855	872	1,115	1,294
Net interest income/(expenses)	(9)	(17)	(20)	(10)	(8)
Other income/(expenses)	46	55	168	173	195
EBT	1,149	892	1,020	1,279	1,481
Income taxes	(418)	(238)	(257)	(322)	(373)
Extraordinary items	165	143	0	0	0
Reported net profit	896	798	763	956	1,107
Adjustments	(165)	(143)	0	0	0
Adjusted net profit	731	655	763	956	1,107

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	592	610	600	705	809
Other current liabilities	151	129	124	173	208
Provisions	30	76	24	31	35
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	5,785	6,455	7,230
Shareholders' fund	5,179	5,774	6,008	6,677	7,453
Total liabilities and equities	6,201	6,960	6,992	7,714	8,598
Cash and cash eq.	203	586	44	86	174
Accounts receivables	890	970	907	1,074	1,233
Inventories	1,229	1,351	1,240	1,460	1,676
Other current assets	337	346	333	336	385
Investments	1,870	1,652	2,300	2,320	2,700
Net fixed assets	1,242	1,608	1,723	1,994	1,985
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	6,992	7,714	8,598

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	1,076	982	948	1,186	1,367
Interest expenses	9	17	20	10	8
Changes in working capital	(276)	(140)	111	(237)	(286)
Cash flow from operations	809	860	1,080	959	1,089
Capital expenditures	(498)	(494)	(300)	(500)	(250)
Change in investments	(308)	218	(648)	(20)	(380)
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)	(229)	(287)	(332)
Other financing cash flows	(56)	(114)	0	0	0
Cash flow from financing	(83)	(200)	(674)	(397)	(371)
Changes in cash and cash eq.	(80)	384	(543)	42	88
Closing cash and cash eq.	203	586	44	86	174

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	19.8	17.6	17.1	21.5	24.8
Adjusted EPS	16.1	14.4	17.1	21.5	24.8
Dividend per share	3.3	3.0	4.3	5.4	6.2
Book value per share	114.4	127.4	134.8	149.8	167.2

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.8	3.1	3.3	2.6	2.2
EV/EBITDA	12.7	15.6	15.2	11.9	10.1
Adjusted P/E	25.0	28.0	23.6	18.8	16.2
P/BV	3.5	3.2	3.0	2.7	2.4

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	117.0	114.6	114.4
EBIT margin (EBIT/Revenue)	18.8	16.2	17.9	18.2	18.4
Asset turnover (Revenue/Avg TA)	102.6	80.2	69.8	83.3	86.2
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.2	1.2
Adjusted ROAE	15.1	12.0	13.0	15.1	15.7

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)	(7.8)	25.9	14.8
EBITDA	(13.9)	(19.5)	1.7	27.2	15.5
Adjusted EPS	(19.2)	(10.5)	18.6	25.3	15.8
Profitability & Return ratios (%)					
EBITDA margin	21.9	19.7	21.7	22.0	22.1
EBIT margin	18.8	16.2	17.9	18.2	18.4
Adjusted profit margin	12.4	12.4	15.7	15.6	15.8
Adjusted ROAE	15.1	12.0	13.0	15.1	15.7
ROCE	14.2	10.9	10.6	12.9	13.5
Working capital days (days)					
Receivables	59	64	70	59	60
Inventory	112	153	175	142	144
Payables	47	52	58	50	50
Ratios (x)					
Gross asset turnover	3.5	2.6	2.0	2.2	2.2
Current ratio	3.1	3.3	3.0	3.2	3.3
Net interest coverage ratio	128.4	49.1	43.6	111.5	154.1
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%

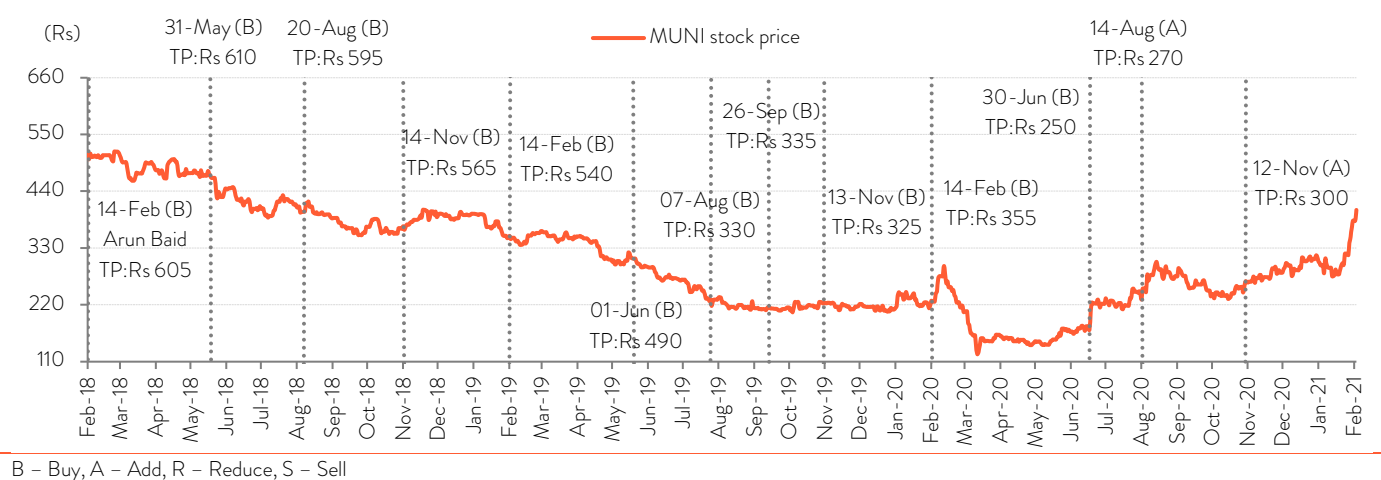
ADD – Expected return from >+5% to +15%

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)

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



Rating distribution

As of 31 January 2021, out of 88 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 41 have BUY ratings, 13 have ADD ratings, 6 are rated REDUCE and 28 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 2025. 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.