

BUY

TP: Rs 250 | ▲ 21%

MAYUR UNIQUOTERS

| Textiles

| 30 June 2020

Margin expansion aided by exports

Mayur Uniquoters' (MUNI) Q4FY20 standalone revenue increased 13% YoY, aided by 58% growth in exports. Standalone operating margins expanded 407bps YoY to 25.7% as gross margins swelled due to an increase in high-margin exports – this yielded EBITDA/PBT growth of 34%/31% YoY. Management stated that sales have improved in June but the demand environment remains uncertain. We cut FY21/FY22 earnings 63%/31% to bake in the Covid impact. Maintain BUY with a revised Mar'21 TP of Rs 250 (earlier Rs 355).

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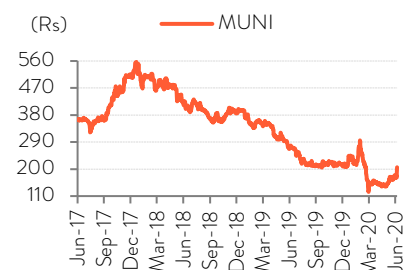
Revenue growth led by exports: MUNI reported standalone revenue growth of 13% YoY to Rs 1.4bn, with volumes increasing ~1%. Revenue growth for the quarter was aided by exports (+58% YoY, wherein automotive OEM exports grew 76%) and the footwear segment (+4% YoY). As per management, sales improved in June over May, and July could be stronger based on customer feedback. The new PU plant began commercial production from Jan'20 and is likely to see demand pick up from Q3FY20.

Ticker/Price	MUNI IN/Rs 206
Market cap	US\$ 123.3mn
Shares o/s	45mn
3M ADV	US\$ 0.1mn
52wk high/low	Rs 305/Rs 119
Promoter/FPI/DII	61%/8%/31%

Source: NSE

Healthy operating margins: MUNI reported standalone operating margin expansion of 407bps aided by higher gross margins (+620bps), which offset a rise in employee cost (+200bps). EBITDA/PBT thus grew 34%/31% YoY. Gross margins expanded due to higher sales of value-added items and also high-margin exports. Employee cost increased as a percentage of sales on account of negative operating leverage. As per the company, recent cost control initiatives should help shield margins in this tough demand environment.

STOCK PERFORMANCE



Source: NSE

Maintain BUY: MUNI's operational results have been better than estimates, but given near-term demand headwinds due to the pandemic, we cut PAT forecasts for FY21/FY22 by 63%/31%. Maintain BUY with a revised Mar'21 TP of Rs 250 (earlier Rs 355), set at an unchanged 15x one-year forward P/E.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	5,700	5,913	5,280	3,685	5,617
EBITDA (Rs mn)	1,500	1,292	1,039	551	1,107
Adj. net profit (Rs mn)	905	727	798	328	744
Adj. EPS (Rs)	20.0	16.0	17.6	7.2	16.4
Adj. EPS growth (%)	21.9	(19.7)	9.8	(58.9)	127.2
Adj. ROAE (%)	21.7	15.0	14.6	5.6	11.9
Adj. P/E (x)	10.3	12.8	11.7	28.5	12.5
EV/EBITDA (x)	5.5	6.0	7.2	13.4	6.4

Source: Company, BOBCAPS Research

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FIG 1 – STANDALONE QUARTERLY PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Total revenues	1,394	1,237	12.7	1,246	11.9	5,165	5,734	(9.9)
Total raw material consumed	760	751	1.2	732	3.8	3,060	3,516	(13.0)
% of sales	54.5	60.7	(619bps)	58.8	(424bps)	59.2	61.3	(208bps)
Employee expense	90	55	64.7	78	15.5	324	290	11.9
% of sales	6.4	4.4	204bps	6.2	20bps	6.3	5.0	122bps
Other expense	186	164	13.4	186	0.1	713	653	9.1
% of sales	13.3	13.2	8bps	14.9	(158bps)	13.8	11.4	240bps
Total expenditure	1,036	970	6.8	996	4.0	4,096	4,459	(8.1)
EBITDA	358	267	33.9	250	43.2	1069	1275	(16.2)
% of sales	25.7	21.6	407bps	20.1	561bps	20.7	22.2	(154bps)
Depreciation	50.3	46	8.3	46	8.2	184.2	180	2.2
Other income	57.4	46	24.1	45	27.3	190.8	215	(11.1)
Interest cost	8.4	(4.5)	NA	5.0	70.5	16.7	8.4	99.5
PBT	357	272	31.3	244	46.4	1059	1301	(18.6)
Taxes	91	74	23.2	62	46.9	252	423	(40.3)
Effective tax rate (%)	25.5	27.2	(168bps)	25.4	10bps	23.8	32.5	(865bps)
APAT	266	198	34.3	182	46.2	806	879	(8.2)
Add/(Less): extraordinary items	0	0	NA	0	NA	0	7	NA
RPAT	266	198	34.3	182	46.2	806	872	(7.5)

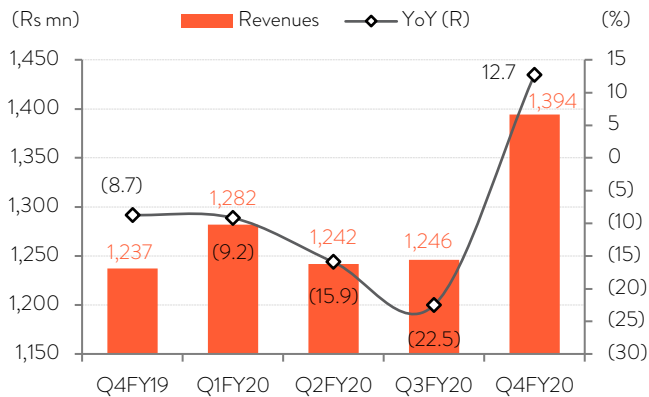
Source: Company, BOBCAPS Research

FIG 2 – CONSOLIDATED QUARTERLY PERFORMANCE

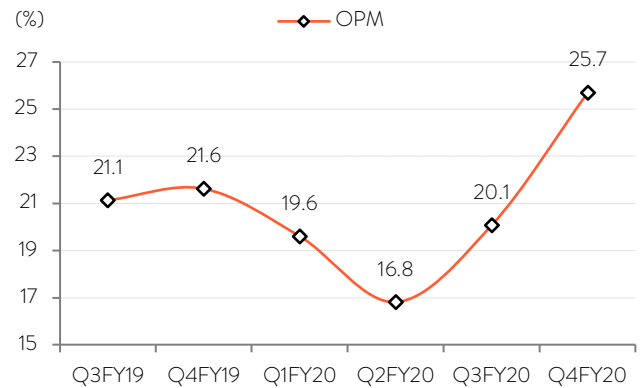
(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Total revenues	1,311	1,278	2.6	1,386	(5.4)	5,280	5,913	(10.7)
Total raw material consumed	677	755	(10.4)	782	(13.4)	3,077	3,581	(14.1)
% of sales	48.5	61.0	(1250bps)	56.0	(751bps)	59.6	62.5	(288bps)
Employee expense	93	57	63.8	81	14.9	336	296	13.6
% of sales	6.6	4.6	207bps	5.8	86bps	6.5	5.2	135bps
Other expense	216	184	17.0	214	0.9	828	742	11.6
% of sales	15.5	14.9	57bps	15.3	14bps	16.0	12.9	309bps
Total expenditure	985	996	(1.1)	1,076	(8.4)	4,241	4,619	(8.2)
EBITDA	326	281	15.8	310	5.0	1039	1293	(19.6)
% of sales	24.9	22.0	284bps	22.4	247bps	19.7	21.9	(219bps)
Depreciation	50.3	46	8.3	47	8.2	184.4	180	2.2
Other income	61.1	48	27.2	48	27.5	198.1	217	(8.6)
Interest cost	8.6	(4)	(299.0)	5	70.3	17.4	9	101.1
PBT	328	287	14.2	307	7.0	1036	1321	(21.6)
Taxes	80	75	6.8	74	8.2	238	425	(44.1)
Effective tax rate (%)	24.3	26.0	(169bps)	24.0	28bps	23.0	32.2	(922bps)
APAT	248	213	16.8	233	6.6	798	896	(11.0)
Add/(Less): extraordinary items	0.0	(0.1)	NM	0	NM	0	0	NM
RPAT	248	213	16.8	233	6.6	798	896	(11.0)

Source: Company, BOBCAPS Research

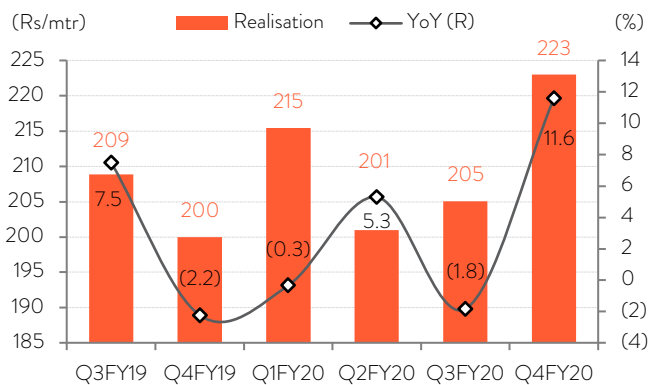
STANDALONE QUARTERLY TRENDS

FIG 3 – REVENUES


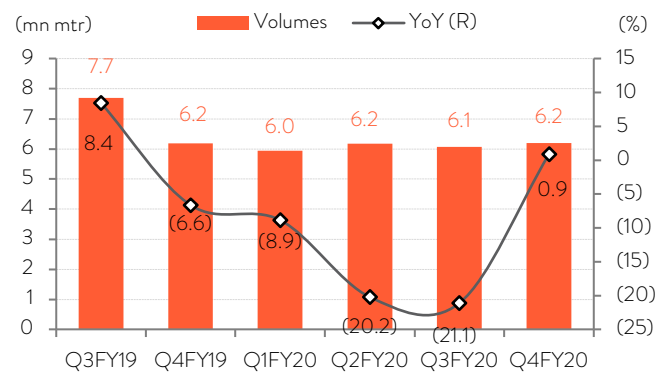
Source: Company, BOBCAPS Research

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 saw good demand from automotive OEM exporters in Q4FY20 which aided better realisations and margins. Demand from auto OEM exporters has resumed from June; July sales could improve further.
- The company has undertaken various cost control initiatives including employee cost rationalisation which should provide some cushion to margins in a falling demand environment.
- Receivables that had risen due to the lockdown have now started to reduce. The company has received ~Rs 750mn from outstanding debtors since April.
- Supply to Mercedes will now begin in Q1FY22, a three-month delay due to Covid-19.

- The company is in advanced talks to supply PVC leather cloth to Hero MotoCorp.
- PVC volumes declined 10-11% in FY20.
- OEMs expect the domestic automotive segment to normalise by Q3, but management believes this is unlikely.
- Footwear demand has begun only from South India, whereas North India remains lacklustre.
- The PU plant is expected to ramp-up from Q3 when demand improves. This facility does not have significant dependence on China for raw materials.
- MUNI has started to manufacture fabric at the PU plant; in the next 1-2 years, PU resin will be made locally as well. Specialist hires will enable the company to expand its product range.
- Duty on PU products from China is now 22% vs. 11% earlier, making the company's products more competitive.

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.

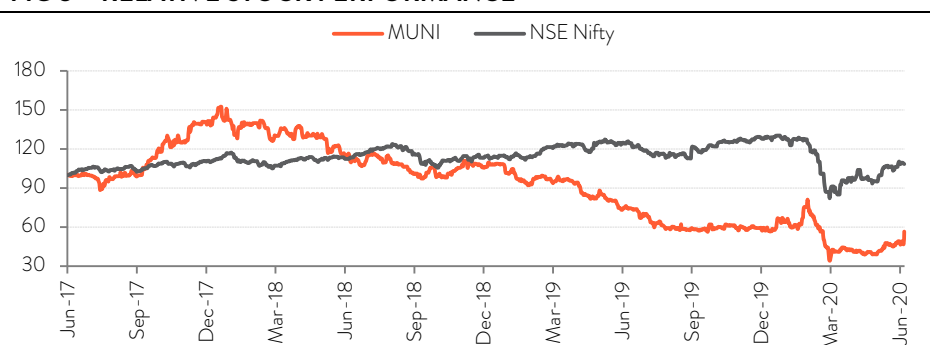
We scale back our earnings estimates for FY21/FY22 by 63%/31% to bake in the Covid-19 impact and accordingly reduce our Mar'21 target price to Rs 250 (Rs 355 earlier). We continue to value the stock at an unchanged 15x FY22E P/E multiple. Maintain BUY.

FIG 7 – REVISED ESTIMATES

(Rs mn)	New		Old		% Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenues	3,685	5,617	6,718	7,808	(45.2)	(28.1)
EBITDA	551	1107	1,337	1,577	(58.8)	(29.8)
PAT	328	744	891	1,078	(63.2)	(30.9)

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 increase/decrease in crude prices can hurt the company's 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)	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue	5,700	5,913	5,280	3,685	5,617
EBITDA	1,500	1,292	1,039	551	1,107
Depreciation	(171)	(180)	(184)	(247)	(287)
EBIT	1,329	1,112	855	304	820
Net interest income/(expenses)	(14)	(9)	(17)	(20)	(10)
Other income/(expenses)	67	42	198	154	186
Exceptional items	0	0	0	0	0
EBT	1,382	1,145	1,036	438	995
Income taxes	(477)	(418)	(238)	(110)	(251)
Extraordinary items	64	169	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	969	896	798	328	744
Adjustments	(64)	(169)	0	0	0
Adjusted net profit	905	727	798	328	744

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	610	592	610	454	646
Other current liabilities	77	151	222	102	161
Provisions	29	30	76	18	28
Debt funds	59	217	261	200	100
Other liabilities	52	32	16	19	23
Equity capital	226	226	227	227	227
Reserves & surplus	4,270	4,953	5,547	5,776	6,298
Shareholders' fund	4,496	5,179	5,774	6,003	6,524
Total liabilities and equities	5,322	6,201	6,960	6,797	7,483
Cash and cash eq.	283	203	586	254	45
Accounts receivables	1,031	890	970	757	985
Inventories	965	1,229	1,351	989	1,339
Other current assets	127	337	359	252	308
Investments	1,562	1,870	1,652	2,450	2,500
Net fixed assets	1,313	1,242	1,644	1,697	1,910
CWIP	19	393	393	393	393
Intangible assets	23	38	3	3	3
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	5,322	6,201	6,960	6,797	7,483

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	1,140	1,076	982	575	1,032
Interest expenses	14	9	17	20	10
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(135)	(276)	(88)	350	(368)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	1,019	809	911	945	674
Capital expenditures	(204)	(498)	(494)	(300)	(500)
Change in investments	(365)	(308)	218	(798)	(50)
Other investing cash flows	5	0	0	0	0
Cash flow from investing	(564)	(806)	(276)	(1,098)	(550)
Equities issued/Others	(250)	0	0	0	0
Debt raised/repaid	(61)	159	44	(61)	(100)
Interest expenses	(14)	(9)	(17)	(20)	(10)
Dividends paid	(77)	(177)	(178)	(98)	(223)
Other financing cash flows	10	(56)	(101)	0	0
Cash flow from financing	(392)	(83)	(252)	(180)	(333)
Changes in cash and cash eq.	63	(80)	384	(332)	(209)
Closing cash and cash eq.	283	203	586	254	45

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	21.4	19.8	17.6	7.2	16.4
Adjusted EPS	20.0	16.0	17.6	7.2	16.4
Dividend per share	1.2	3.3	3.0	1.8	4.1
Book value per share	99.3	114.4	127.4	132.4	143.9

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	1.4	1.3	1.4	2.0	1.3
EV/EBITDA	5.5	6.0	7.2	13.4	6.4
Adjusted P/E	10.3	12.8	11.7	28.5	12.5
P/BV	2.1	1.8	1.6	1.6	1.4

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	65.5	63.5	77.0	74.8	74.8
Interest burden (PBT/EBIT)	104.0	103.0	121.1	144.0	121.4
EBIT margin (EBIT/Revenue)	23.3	18.8	16.2	8.3	14.6
Asset turnover (Revenue/Avg TA)	113.6	102.6	80.2	53.6	78.7
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.2	1.1
Adjusted ROAE	21.7	15.0	14.6	5.6	11.9

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Revenue	18.3	3.7	(10.7)	(30.2)	52.4
EBITDA	17.4	(13.9)	(19.6)	(46.9)	100.7
Adjusted EPS	21.9	(19.7)	9.8	(58.9)	127.2
Profitability & Return ratios (%)					
EBITDA margin	26.3	21.9	19.7	15.0	19.7
EBIT margin	23.3	18.8	16.2	8.3	14.6
Adjusted profit margin	15.9	12.3	15.1	8.9	13.3
Adjusted ROAE	21.7	15.0	14.6	5.6	11.9
ROCE	20.4	14.2	11.5	3.7	9.6
Working capital days (days)					
Receivables	64	59	64	86	57
Inventory	101	112	153	196	126
Payables	47	47	52	62	45
Ratios (x)					
Gross asset turnover	3.1	3.5	2.6	1.5	2.0
Current ratio	3.2	3.1	3.2	3.4	3.1
Net interest coverage ratio	96.9	128.4	49.1	15.2	82.0
Adjusted debt/equity	0.0	0.0	(0.1)	0.0	0.0

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

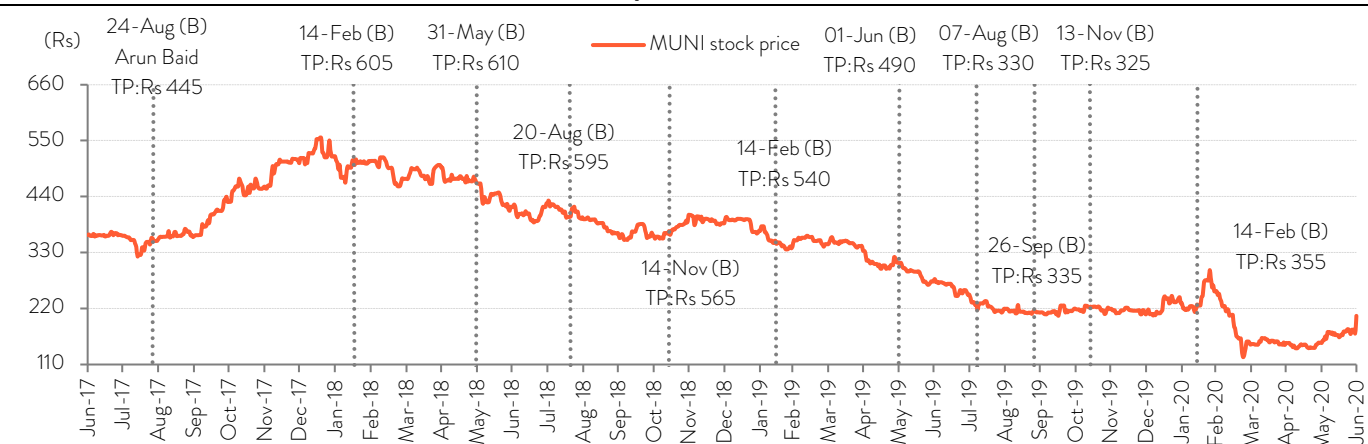
ADD – Expected return from >+5% to +15%

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)

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



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

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