

ADD

TP: Rs 270 | ▲ 7%

MAYUR UNIQUOTERS

| Textiles

| 14 August 2020

Tepid quarter, upside limited; downgrade to ADD

Mayur Uniquoters' (MUNI) Q1FY21 volumes nosedived 74% YoY as the lockdown hit demand, leading to a standalone revenue decline of 70% and an operating margin loss of Rs 5mn. Management expects Q2 to post ~60% of normal sales and is hopeful of a return to pre-Covid levels in Q4FY21. We maintain estimates and roll forward to a Sep'21 TP of Rs 270 (from Rs 250). The ~22% rally in stock price since July caps upside potential – downgrade from BUY to ADD.

Arun Baid

research@bobcaps.in

Revenue shrinks due to lockdown: MUNI reported a 70% YoY drop in standalone revenue to Rs 381mn owing to a 74% reduction in volumes. Revenue declined across segments as the lockdown sapped demand. Management expects QoQ improvement and is targeting ~60% of YoY revenues in Q2 followed by a return to normal levels in Q4. Revenues would be driven by the automotive segment in the near term as the footwear business still lags. MUNI has received approval to supply to Volkswagen India from Q3FY21. Supplies to Mercedes, South Africa, are expected to start from Q4FY21/Q1FY22.

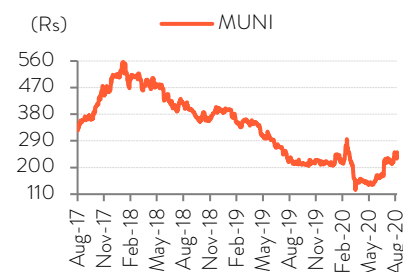
Operating margins decline: MUNI reported a standalone EBITDA loss of Rs 5mn due to negative operating leverage as sales plummeted during the Covid-19 lockdown. However, it reported PBT of Rs 12mn primarily aided by higher other income (+50% YoY). The company expects margins to increase going ahead due to cost control initiatives and better sales.

Downgrade to ADD: MUNI's operational performance is likely to improve sequentially along with unlocking of the economy. We maintain estimates and roll over to a new Sep'21 TP of Rs 270 (earlier Rs 250), retaining our target one-year forward P/E of 15x. Downgrade from BUY to ADD on limited upside potential at current valuations of 15.3x FY22E EPS.

Ticker/Price	MUNI IN/Rs 252
Market cap	US\$ 152.1mn
Shares o/s	45mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 305/Rs 119
Promoter/FPI/DII	61%/7%/31%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	5,913	5,280	3,685	5,617	6,261
EBITDA (Rs mn)	1,292	1,039	551	1,107	1,295
Adj. net profit (Rs mn)	727	798	328	744	871
Adj. EPS (Rs)	16.0	17.6	7.2	16.4	19.2
Adj. EPS growth (%)	(19.7)	9.8	(58.9)	127.2	17.0
Adj. ROAE (%)	15.0	14.6	5.6	11.9	12.8
Adj. P/E (x)	15.7	14.3	34.8	15.3	13.1
EV/EBITDA (x)	7.6	9.2	17.2	8.3	6.9

Source: Company, BOBCAPS Research

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FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenues	389	1,274	(69.4)	1,311	(70.3)
Raw material consumed	220	822	(73.2)	677	(67.5)
% of sales	57.8	64.1	(630bps)	48.5	928bps
Employee expense	80	84	(4.8)	93	(13.1)
% of sales	21.1	6.6	1,456bps	6.6	1,450bps
Other expense	103	193	(46.8)	216	(52.4)
% of sales	27.0	15.0	1,193bps	15.5	1,149bps
Total expenditure	403	1,099	(63.3)	985	(59.1)
EBITDA	(14)	174	(108.1)	326	(104.3)
% of sales	(3.6)	13.7	(1,729bps)	24.9	(2,847bps)
Depreciation	34	43	(21.4)	50	(32.6)
Other income	55	37	50.9	61	(9.5)
Interest cost	5	2	136.1	9	(41.6)
PBT	2	165	(98.6)	328	(99.3)
Taxes	1	68	(98.0)	80	(98.3)
Effective tax rate (%)	59.8	41.1	1,871bps	24.3	3,552bps
PAT	1	97	(99.0)	248	(99.6)

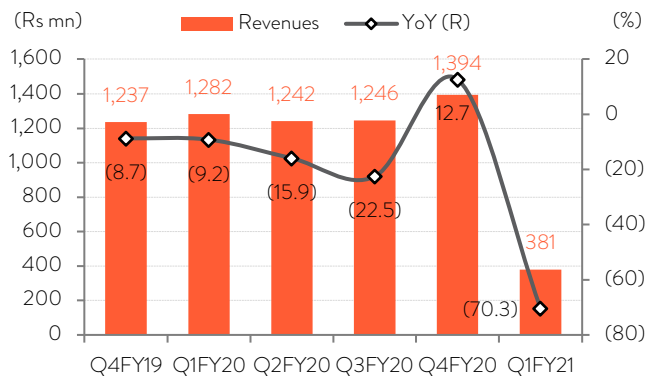
Source: Company, BOBCAPS Research

FIG 2 – STANDALONE QUARTERLY PERFORMANCE

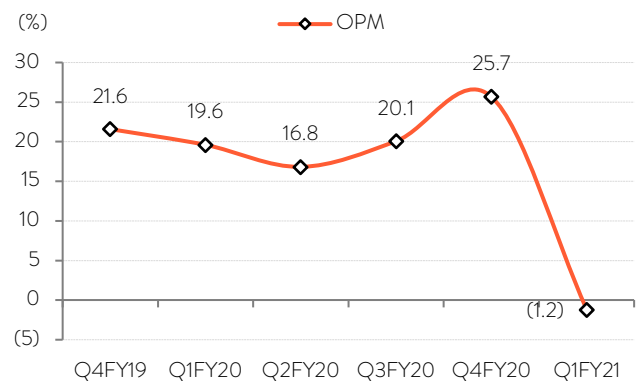
(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenues	381	1,282	(70.3)	1,394	(72.7)
Raw material consumed	217	790	(72.5)	760	(71.5)
% of sales	57.0	61.6	(462bps)	54.5	245bps
Employee expense	90	81	11.2	90	0.5
% of sales	23.8	6.3	1,741bps	6.4	1,731bps
Other expense	78	160	(51.2)	186	(58.1)
% of sales	20.5	12.4	801bps	13.3	713bps
Total expenditure	385	1,031	(62.6)	1,036	(62.8)
EBITDA	(5)	251	(101.8)	358	(101.3)
% of sales	(1.2)	19.6	(2,081bps)	25.7	(2,689bps)
Depreciation	34	43	(21.5)	50	(32.6)
Other income	55	37	50.0	57	(4.3)
Interest cost	5	2	157.0	8	(42.5)
PBT	12	243	(95.2)	357	(96.7)
Taxes	4	84	(95.8)	91	(96.1)
Effective tax rate (%)	30.1	34.7	(462bps)	25.5	458bps
APAT	8	159	(94.9)	266	(96.9)

Source: Company, BOBCAPS Research

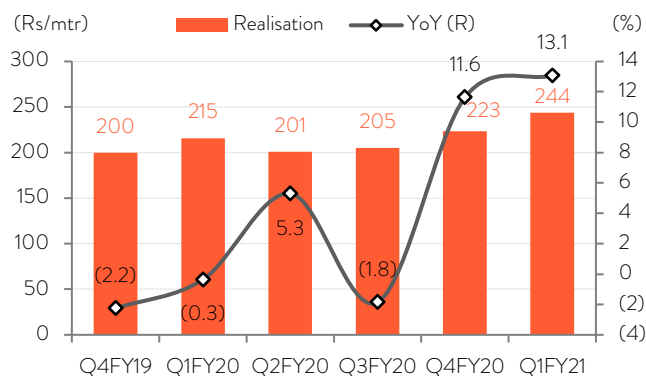
STANDALONE QUARTERLY TRENDS

FIG 3 – REVENUES


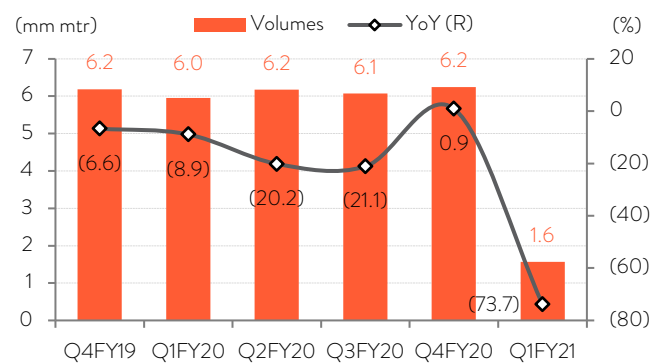
Source: Company, BOBCAPS Research

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 had no sales in April whereas May saw minimal demand due to the lockdown. However, June saw much better traction followed by further improvement in July.
- Management expects Q2FY21 to recover to ~60% of YoY sales and is hopeful of normalisation in sales trend by Q4FY21. The company believes it will retrace to FY20 revenue levels in FY22.
- The automotive business has seen better traction than the footwear segment. MUNI believes auto segment demand will continue to recover faster than footwear till Diwali (i.e. mid-November).
- The company is now an approved vendor for Volkswagen India and will start supplies from Q3FY21, with potential annual sales of Rs 120mn-150mn.
- MUNI is also in talks with BMW for material supply and is awaiting approval.

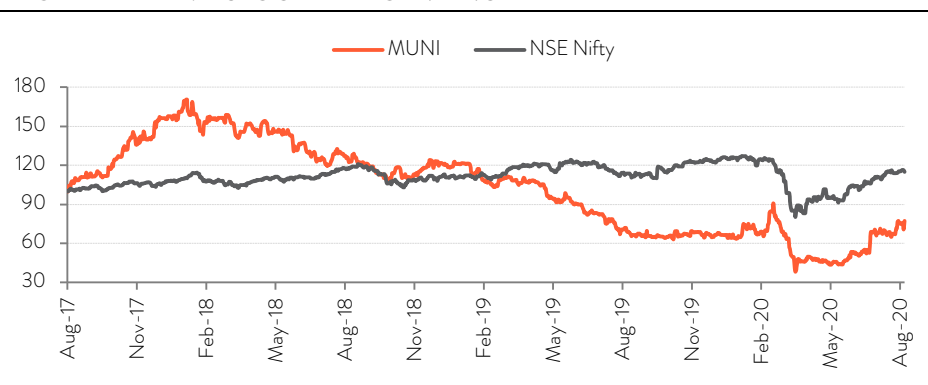
- Supply to Mercedes, South Africa, will begin in Q4FY21/Q1FY22.
- Product sampling is underway at the new PU plant and production will be ramped up from September to ~0.1mn mtr per month – this can yield monthly revenue of ~Rs 20mn.
- In India, ~90% of PU imports are from China. If the government introduces import curbs, as has been done in other sectors, the company will be a significant beneficiary.
- Recent cost control initiatives should provide some cushion to margins in a falling demand environment.

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 maintain estimates and roll over to a new Sep'21 TP of Rs 270 (earlier Rs 250), retaining our target one-year forward P/E of 15x. The stock has run up ~22% since [our last report on 30 June](#) – current valuations of 15.3x FY22E EPS leave limited upside, driving our rating downgrade from BUY to ADD.

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 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)	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue	5,913	5,280	3,685	5,617	6,261
EBITDA	1,292	1,039	551	1,107	1,295
Depreciation	(180)	(184)	(247)	(287)	(325)
EBIT	1,112	855	304	820	970
Net interest income/(expenses)	(9)	(17)	(20)	(10)	(8)
Other income/(expenses)	42	198	154	186	203
Exceptional items	0	0	0	0	0
EBT	1,145	1,036	438	995	1,164
Income taxes	(418)	(238)	(110)	(251)	(293)
Extraordinary items	169	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	896	798	328	744	871
Adjustments	(169)	0	0	0	0
Adjusted net profit	727	798	328	744	871

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Accounts payables	592	610	454	646	720
Other current liabilities	151	222	102	161	177
Provisions	30	76	18	28	31
Debt funds	217	261	200	100	70
Other liabilities	32	16	19	23	29
Equity capital	226	227	227	227	227
Reserves & surplus	4,953	5,547	5,776	6,298	6,907
Shareholders' fund	5,179	5,774	6,003	6,524	7,134
Total liabilities and equities	6,201	6,960	6,797	7,483	8,161
Cash and cash eq.	203	586	254	45	96
Accounts receivables	890	970	757	985	1,098
Inventories	1,229	1,351	989	1,339	1,492
Other current assets	337	359	252	308	343
Investments	1,870	1,652	2,450	2,500	2,900
Net fixed assets	1,242	1,644	1,697	1,910	1,835
CWIP	393	393	393	393	393
Intangible assets	38	3	3	3	3
Total assets	6,201	6,960	6,797	7,483	8,161

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Net income + Depreciation	1,076	982	575	1,032	1,195
Interest expenses	9	17	20	10	8
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(276)	(88)	350	(368)	(203)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	809	911	945	674	1,001
Capital expenditures	(498)	(494)	(300)	(500)	(250)
Change in investments	(308)	218	(798)	(50)	(400)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(806)	(276)	(1,098)	(550)	(650)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	159	44	(61)	(100)	(30)
Interest expenses	(9)	(17)	(20)	(10)	(8)
Dividends paid	(177)	(178)	(98)	(223)	(261)
Other financing cash flows	(56)	(101)	0	0	0
Cash flow from financing	(83)	(252)	(180)	(333)	(300)
Changes in cash and cash eq.	(80)	384	(332)	(209)	51
Closing cash and cash eq.	203	586	254	45	96

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20P	FY21E	FY22E	FY23E
Reported EPS	19.8	17.6	7.2	16.4	19.2
Adjusted EPS	16.0	17.6	7.2	16.4	19.2
Dividend per share	3.3	3.0	1.8	4.1	4.8
Book value per share	114.4	127.4	132.4	143.9	157.4

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20P	FY21E	FY22E	FY23E
EV/Sales	1.7	1.8	2.6	1.6	1.4
EV/EBITDA	7.6	9.2	17.2	8.3	6.9
Adjusted P/E	15.7	14.3	34.8	15.3	13.1
P/BV	2.2	2.0	1.9	1.7	1.6

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20P	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	63.5	77.0	74.8	74.8	74.8
Interest burden (PBT/EBIT)	103.0	121.1	144.0	121.4	120.0
EBIT margin (EBIT/Revenue)	18.8	16.2	8.3	14.6	15.5
Asset turnover (Revenue/Avg TA)	102.6	80.2	53.6	78.7	80.0
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.1	1.1
Adjusted ROAE	15.0	14.6	5.6	11.9	12.8

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	3.7	(10.7)	(30.2)	52.4	11.5
EBITDA	(13.9)	(19.6)	(46.9)	100.7	17.0
Adjusted EPS	(19.7)	9.8	(58.9)	127.2	17.0
Profitability & Return ratios (%)					
EBITDA margin	21.9	19.7	15.0	19.7	20.7
EBIT margin	18.8	16.2	8.3	14.6	15.5
Adjusted profit margin	12.3	15.1	8.9	13.3	13.9
Adjusted ROAE	15.0	14.6	5.6	11.9	12.8
ROCE	14.2	11.5	3.7	9.6	10.5
Working capital days (days)					
Receivables	59	64	86	57	61
Inventory	112	153	196	126	139
Payables	47	52	62	45	50
Ratios (x)					
Gross asset turnover	3.5	2.6	1.5	2.0	1.9
Current ratio	3.1	3.2	3.4	3.1	3.2
Net interest coverage ratio	128.4	49.1	15.2	82.0	115.5
Adjusted debt/equity	0.0	(0.1)	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%

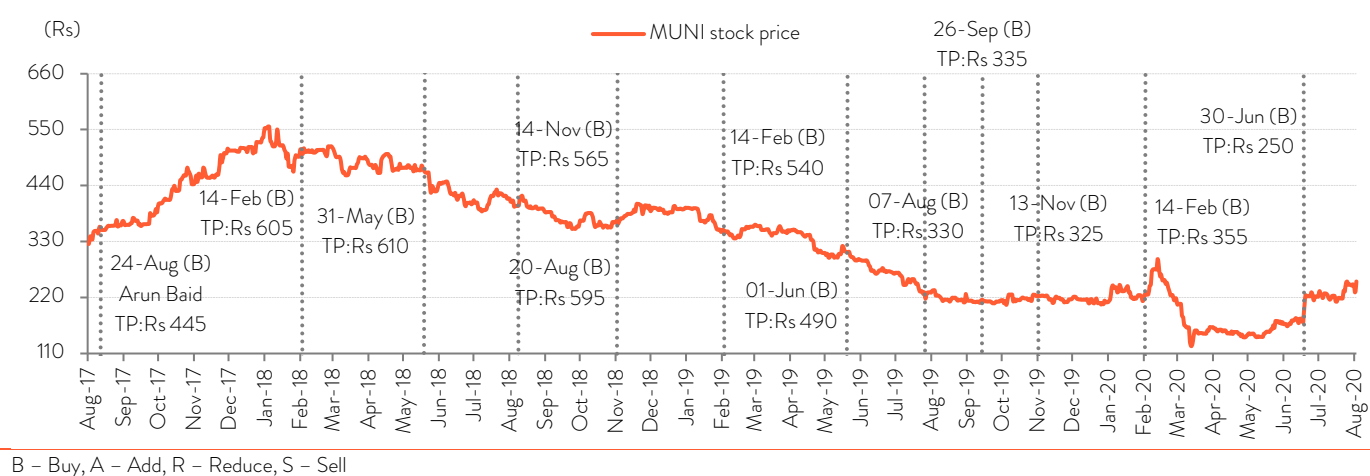
ADD – Expected return from >+5% to +15%

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)



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