

BUY

TP: Rs 605 | ▲ 15%

MAYUR UNIQUOTERS

| Textiles

| 05 August 2021

Demand trends improving; upgrade to BUY

- Standalone Q1 revenue tripled YoY as volumes surged 217% aided by a low base
- Operating margin stood at 18.6% with EBITDA of Rs 237mn vs. a Rs 5mn loss in Q1FY21
- We roll over to a revised Jun'22 TP of Rs 605 (vs. Rs 560) and upgrade from ADD to BUY on healthy upside potential

Arun Baid

researchreport@bobcaps.in

Strong topline growth off a soft base: MUNI reported standalone Q1FY22 revenue growth of 234% YoY to Rs 1.3bn as volumes increased 217% aided by a weak lockdown-hit base quarter. Per management, Q1 started off strong but tapered down with the resurgence of the pandemic. PU plant volumes picked up during the quarter and are expected to fare better going ahead. Management is targeting PU sales of Rs 250mn-260mn in FY22 and revenue of Rs 1bn from this segment over the next three years. The company aims to double overall revenue over the next 3-4 years.

Demand outlook improving: According to management, April was the best month in the company's history, but May and June were challenging due to the pandemic. Demand has improved in July and the order book for August looks healthy. Offtake from export OEMs is likely to increase as clients expect chip availability to improve from Q2. Footwear demand from the domestic market should also gather pace as the country unlocks. Management believes the remainder of FY22 would be healthy provided the pandemic does not resurface.

Operating margin healthy: MUNI reported a standalone operating margin of 18.6% and EBITDA of Rs 237mn in Q1 (vs. a loss of Rs 5mn in the year-ago quarter). Gross margin declined 500bps QoQ due to higher raw material prices. Management indicated that the company has hiked prices during the quarter which should take operating margin back to ~24% levels as sales normalise. Also, higher exports which have better margins should aid profitability.

Upgrade to BUY: We marginally increase our FY22/FY23 PAT estimates by 2%/3% and roll forward to a revised Jun'22 TP of Rs 605 (vs. Rs 560). Our target one-year forward P/E multiple remains unchanged at 20x, in line with the stock's five-year average. We continue to like MUNI given its strong growth prospects and robust balance sheet. Valuations look attractive at 18.2x FY23E EPS and offer healthy upside potential – upgrade from ADD to BUY.

Key changes

Target	Rating
▲	▲

Ticker/Price	MUNI IN/Rs 524
Market cap	US\$ 314.9mn
Free float	38%
3M ADV	US\$ 0.8mn
52wk high/low	Rs 546/Rs 218
Promoter/FPI/DII	62%/1%/37%

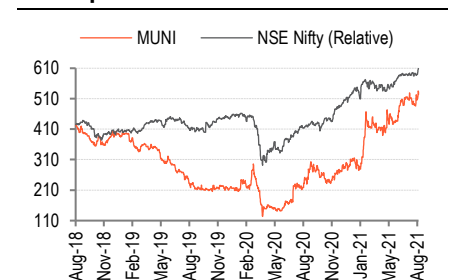
Source: NSE | Price as of 5 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	5,127	6,411	7,444
EBITDA (Rs mn)	1,252	1,472	1,778
Adj. net profit (Rs mn)	934	1,051	1,280
Adj. EPS (Rs)	20.9	23.6	28.7
Consensus EPS (Rs)	20.9	25.5	32.9
Adj. ROAE (%)	15.6	15.9	17.3
Adj. P/E (x)	25.0	22.2	18.2
EV/EBITDA (x)	17.2	14.6	11.9
Adj. EPS growth (%)	42.7	12.5	21.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Standalone quarterly performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenues	1,269	381	233.6	1,888	(32.8)
Raw material consumed	751	217	246.3	1,023	(26.6)
% of sales	59.2	57.0	217bps	54.2	498bps
Employee expense	99	78	27.2	93	7.0
% of sales	7.8	20.5	(1,266bps)	4.9	290bps
Other expense	183	90	102.4	226	(19.1)
% of sales	14.4	23.8	(934bps)	12.0	243bps
Total expenditure	1,033	385	168.2	1,342	(23.0)
EBITDA	237	(5)	(5,284.6)	547	(56.7)
[EBITDA margin (%)]	18.6	(1.2)	1,983bps	28.9	(1,031bps)
Depreciation	50.6	34	49.2	51	(0.3)
Other income	57.8	55	5.1	49	16.9
Interest cost	6.3	4.9	29.6	20.0	(68.5)
PBT	237	12	1,937.4	525	(54.8)
Taxes	57	4	1,513.9	134	(57.7)
Effective tax rate (%)	23.8	30.1	(626bps)	25.5	(163bps)
APAT	181	8	2,119.8	391	(53.8)

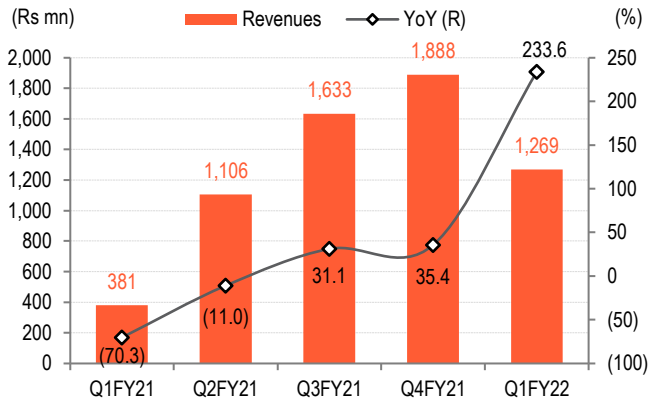
Source: Company, BOBCAPS Research

Fig 2 – Consolidated quarterly performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenues	1,181	389	203.7	1,784	(33.8)
Raw material consumed	699	220	217.6	903	(22.6)
% of sales	55.1	57.8	(277bps)	47.8	722bps
Employee expense	104	80	29.3	98	6.4
% of sales	8.2	21.1	(1,295bps)	5.2	302bps
Other expense	202	103	97.0	258	(21.6)
% of sales	15.9	27.0	(1,104bps)	13.6	227bps
Total expenditure	1,005	403	149.3	1,259	(20.2)
EBITDA	176	(14)	(1,355.4)	525	(66.4)
% of sales	14.9	(3.6)	1,854bps	29.4	(1,449bps)
Depreciation	50.6	34	49.1	51	(0.6)
Other income	57.8	55	4.5	51	13.3
Interest cost	6.8	5	35.0	20	(66.8)
PBT	177	2	7,550.6	504	(64.9)
Taxes	37	1	2,559.4	122	(69.7)
Effective tax rate (%)	20.8	59.8	(3,904bps)	24.1	(330bps)
APAT	140	1	14,988.9	383	(63.4)
Add/(Less): extraordinary items	0.0	0.0	NA	(36)	(100)
RPAT	140	1	14,988.9	347	(59.6)

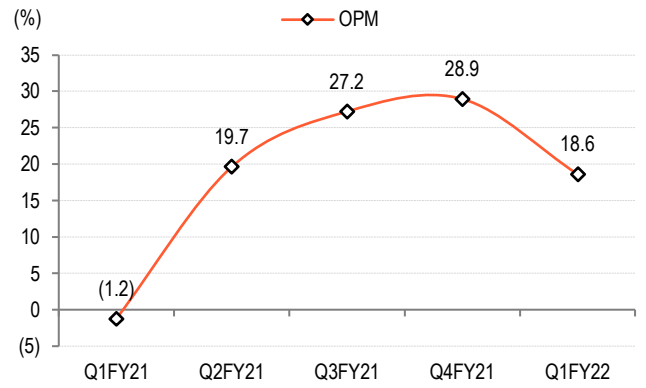
Source: Company, BOBCAPS Research

Fig 3 – Standalone revenue



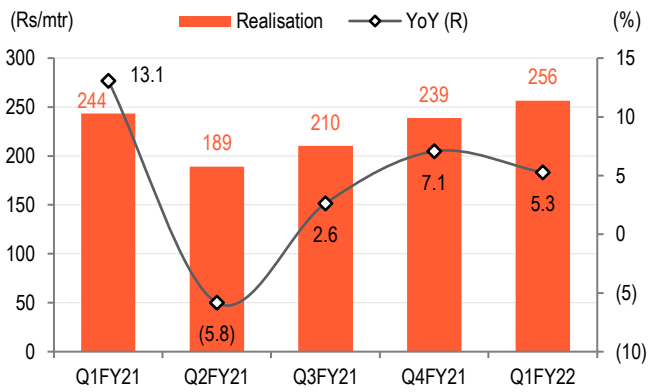
Source: Company, BOBCAPS Research

Fig 4 – Standalone operating margin



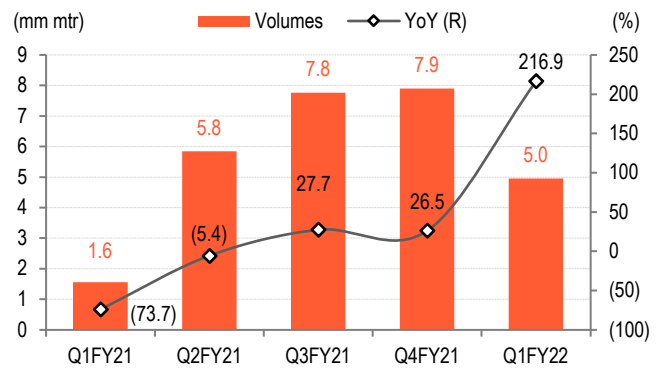
Source: Company, BOBCAPS Research

Fig 5 – Realisations



Source: Company, BOBCAPS Research

Fig 6 – Volumes



Source: Company, BOBCAPS Research

Earnings call highlights

- Demand trends were strong pre-lockdown till April while May and June have been soft, thus impacting the Q1FY22 topline.
- Demand has improved in the month of July and MUNI expects the current order book to drive healthy sales in August.
- Management believes EBITDA margin will revert to ~24% in remaining FY22 due to price hikes effected and a pickup in exports which have better margins.
- Export OEM demand has been affected due to chip availability issues. Client feedback indicates that the situation should improve over the next few months.
- Exports to Mercedes, South Africa, are set to ramp up every month.
- MUNI has commissioned its seventh PVC line at the end of July, which has a wider width and is thus more cost efficient.
- The PU plant is making losses of Rs 9mn a month as demand is yet to pick up. Management expects PU sales of Rs 250mn-260mn in FY22 and is targeting at least Rs 1bn in sales from the segment over the next three years.
- Management aims to double overall revenue over the next 3-4 years while maintaining profitability.
- MUNI is in advanced discussions with automotive OEMs for the supply of PU leather and is hopeful of a positive response.
- Maintenance capex will total Rs 250mn-300mn in FY22.

Valuation methodology

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

We marginally increase our FY22/FY23 PAT estimates by 2%/3% and roll forward to a revised Jun'22 TP of Rs 605 (vs. Rs 560). Our target one-year forward P/E multiple remains at 20x, in line with the stock's five-year average. MUNI has demand tailwinds in the auto segment due to the increased preference for personal mobility post pandemic, even as footwear demand is likely to revive as markets unlock. Valuations look attractive at 18.2x FY23E EPS and offer healthy upside potential – upgrade from ADD to BUY.

Fig 7 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenues	6,411	7,444	6,230	7,176	2.9	3.7
EBITDA	1,472	1,778	1,439	1,720	2.3	3.4
PAT	1,051	1,280	1,033	1,243	1.8	3.0

Source: BOBCAPS Research

Fig 8 – Key assumptions

Parameter	FY21	FY22E	FY23E	FY24E
PVC volume (mn mtr)	23.1	27.6	30.7	34.1
Growth (%)	(8.9)	19.5	11.2	11.3
PVC Realisation (Rs/mtr)	217.1	224.3	225.6	226.8
Growth (%)	4.5	3.3	0.6	0.5
PU Revenues (Rs mn)	100	225	525	750
Growth (%)	NA	125.0	133.3	42.9

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- **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.
- **Return of the pandemic:** If the pandemic resurfaces, revenues will be adversely affected.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	5,280	5,127	6,411	7,444	8,492
EBITDA	1,039	1,252	1,472	1,778	2,088
Depreciation	(184)	(184)	(222)	(250)	(268)
EBIT	855	1,068	1,250	1,528	1,820
Net interest inc./(exp.)	(17)	(35)	(25)	(24)	(19)
Other inc./(exp.)	55	199	180	207	254
Exceptional items	0	0	0	0	0
EBT	892	1,231	1,405	1,711	2,054
Income taxes	(238)	(297)	(354)	(431)	(518)
Extraordinary items	143	(36)	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	798	897	1,051	1,280	1,537
Adjustments	(143)	36	0	0	0
Adjusted net profit	655	934	1,051	1,280	1,537

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	610	600	755	877	1,000
Other current liabilities	129	207	235	262	307
Provisions	76	152	128	149	170
Debt funds	326	338	250	200	160
Other liabilities	45	36	29	23	18
Equity capital	227	223	223	223	223
Reserves & surplus	5,547	6,009	6,745	7,641	8,716
Shareholders' fund	5,774	6,232	6,968	7,864	8,939
Total liab. and equities	6,960	7,565	8,364	9,375	10,595
Cash and cash eq.	586	210	21	15	92
Accounts receivables	970	1,132	1,177	1,326	1,512
Inventories	1,351	1,602	1,581	1,815	2,071
Other current assets	346	467	457	489	558
Investments	1,652	2,051	2,750	3,350	4,000
Net fixed assets	1,608	1,941	2,218	2,218	2,200
CWIP	393	150	150	150	150
Intangible assets	39	3	3	3	3
Deferred tax assets, net	13	9	9	9	9
Other assets	0	0	0	0	0
Total assets	6,960	7,565	8,364	9,375	10,595

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	860	718	1,437	1,302	1,497
Capital expenditures	(494)	(274)	(500)	(250)	(250)
Change in investments	218	(399)	(699)	(600)	(650)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(276)	(673)	(1,199)	(850)	(900)
Equities issued/Others	0	(370)	0	0	0
Debt raised/repaid	108	12	(88)	(50)	(40)
Interest expenses	(17)	(35)	(25)	(24)	(19)
Dividends paid	(178)	(49)	(315)	(384)	(461)
Other financing cash flows	(114)	20	0	0	0
Cash flow from financing	(200)	(422)	(428)	(458)	(520)
Chg in cash & cash eq.	384	(376)	(189)	(6)	77
Closing cash & cash eq.	586	210	21	15	92

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	17.9	20.1	23.6	28.7	34.5
Adjusted EPS	14.7	20.9	23.6	28.7	34.5
Dividend per share	3.0	2.0	5.9	7.2	8.6
Book value per share	127.4	139.8	156.3	176.4	200.5

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	4.1	4.2	3.3	2.8	2.4
EV/EBITDA	20.7	17.2	14.6	11.9	9.8
Adjusted P/E	35.7	25.0	22.2	18.2	15.2
P/BV	4.1	3.7	3.4	3.0	2.6

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	73.4	75.8	74.8	74.8	74.8
Interest burden (PBT/EBIT)	104.4	115.3	112.4	112.0	112.9
EBIT margin (EBIT/Revenue)	16.2	20.8	19.5	20.5	21.4
Asset turnover (Rev./Avg TA)	80.2	70.6	80.5	83.9	85.0
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.2	1.2
Adjusted ROAE	12.0	15.6	15.9	17.3	18.3

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	(10.7)	(2.9)	25.0	16.1	14.1
EBITDA	(19.5)	20.5	17.6	20.8	17.5
Adjusted EPS	(10.5)	42.7	12.5	21.8	20.0
Profitability & Return ratios (%)					
EBITDA margin	19.7	24.4	23.0	23.9	24.6
EBIT margin	16.2	20.8	19.5	20.5	21.4
Adjusted profit margin	12.4	18.2	16.4	17.2	18.1
Adjusted ROAE	12.0	15.6	15.9	17.3	18.3
ROCE	10.9	12.8	13.6	15.0	15.9
Working capital days (days)					
Receivables	64	75	66	61	61
Inventory	153	195	161	148	149
Payables	52	57	50	53	53
Ratios (x)					
Gross asset turnover	2.6	2.0	2.1	2.2	2.3
Current ratio	3.3	3.0	2.6	2.6	2.7
Net interest coverage ratio	49.1	30.3	50.0	63.7	94.8
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

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

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

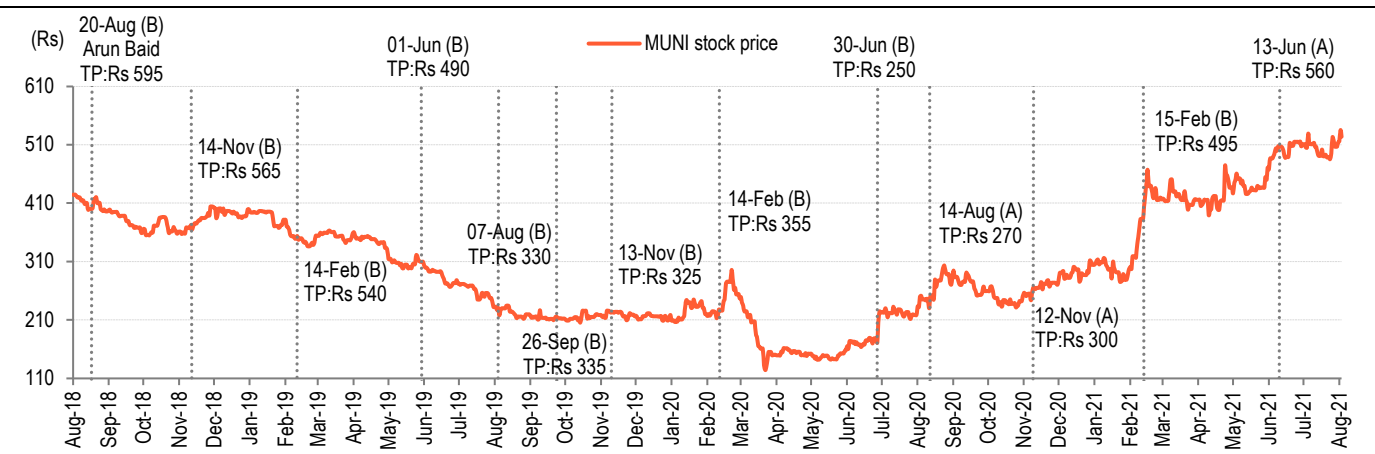
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): MAYUR UNIQUOTERS (MUNI IN)



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

Rating distribution

As of 31 July 2021, out of 98 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 41 have BUY ratings, 22 have HOLD ratings, 11 are rated ADD*, 2 are rated REDUCE* and 22 are rated SELL. None of these companies have been investment banking clients in the last 12 months. (*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

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 CIN Number: U65999MH1996GOI098009.

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.