

**ADD**

TP: Rs 560 | ▲ 10%

**MAYUR UNIQUOTERS**

| Textiles

| 13 June 2021

## Stellar quarter; recent rally caps upside – downgrade to ADD

- MUNI's standalone Q4FY21 revenue grew 35% YoY as volumes increased 26% aided by a low base
- Operating margin expanded 325bps YoY to 28.9% with gross margin up 36bps and employee/other expenses declining 155bps/135bps YoY
- We raise FY22/FY23 PAT 8%/12% on better margin guidance and revise our TP to Rs 560 (vs. Rs 495), but move from BUY to ADD on limited upside

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**Strong topline growth aided by volumes:** MUNI reported standalone revenue growth of 35% YoY to Rs 1.9bn in Q4 as volumes increased 26% aided by a lockdown-hit base quarter. This was the best-ever reported quarter for the company with exports growing 23%, domestic auto OEM sales 35%, auto replacement 44% and footwear 70% YoY. FY21 revenue dipped 3% as volumes declined 9% YoY. The PU plant is yet to see traction as its commissioning in Mar'20 was followed by Covid-related lockdowns that dampened the footwear market.

**Supplies to Mercedes have begun:** Per management, MUNI saw good demand traction till Apr'21 from both the auto and footwear segments, but lockdowns across markets ate into sales in May and June. The company is hopeful of better demand post unlocking from Q2. MUNI has started supplies to Mercedes, South Africa, largely from Q1FY22 and expects business to ramp up further from Q3. BMW has also approved its products and supplies should start from Q1FY23. The export automotive OEM market has seen some pressure in Q1 due to a shortage of chips in the US, which MUNI's customers expect will normalise by July-August.

**Operating margin up 325bps YoY:** Operating margin expanded 325bps YoY to 28.9% with gross margin up 36bps and employee/other expenses declining 155bps/135bps YoY. EBITDA/PBT grew 53%/47% YoY. Gross margin increased due to a better product mix whereas other expenses and employee cost declined as a percentage of sales due to operating leverage. For FY21, MUNI has reported a 335bps rise in operating margin to 24% and EBITDA/PBT growth of 13%/12%. Management believes ~24% margins are sustainable due to a rising share of higher margin customers in the sales mix.

**Downgrade to ADD on capped upside:** We raise FY22/FY23 PAT 8%/12% to factor in above-expected margin guidance and increase our Mar'22 TP to Rs 560 (vs. Rs 495). We continue to value MUNI at 20x FY23E P/E, on par with the five-year average. Although we like the company for its growth prospects and strong balance sheet, we see limited upside in the wake of a 26% run-up in stock price over the past four months (current valuations at 18.2x FY23E). We thus downgrade the stock from BUY to ADD.

### Key changes

Target	Rating
▲	▼

Ticker/Price	MUNI IN/Rs 508
Market cap	US\$ 309.6mn
Free float	38%
3M ADV	US\$ 0.9mn
52wk high/low	Rs 532/Rs 157
Promoter/FPI/DII	62%/1%/37%

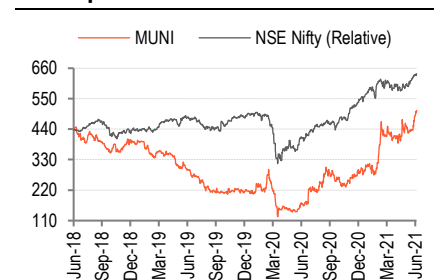
Source: NSE | Price as of 11 Jun 2021

### Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	5,127	6,230	7,176
EBITDA (Rs mn)	1,252	1,439	1,720
Adj. net profit (Rs mn)	934	1,033	1,243
Adj. EPS (Rs)	20.9	23.2	27.9
Cons. EPS (Rs)	17.8	25.7	31.8
Adj. ROAE (%)	15.6	15.7	16.8
Adj. P/E (x)	24.2	21.9	18.2
EV/EBITDA (x)	16.6	14.4	11.8
Adj. EPS growth (%)	42.7	10.6	20.3

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

### Stock performance



Source: NSE



**Fig 1 – Standalone quarterly performance**

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Revenues</b>	<b>1,888</b>	<b>1,394</b>	<b>35.4</b>	<b>1,633</b>	<b>15.6</b>	<b>5,008</b>	<b>5,165</b>	<b>(3.0)</b>
Raw material consumed	1,023	760	34.5	901	13.5	2,806	3,060	(8.3)
% of sales	54.2	54.5	(36bps)	55.2	(100bps)	56.0	59.2	(320bps)
Employee expense	93	90	2.9	84	10.2	337	324	4.1
% of sales	4.9	6.4	(155bps)	5.1	(24bps)	6.7	6.3	46bps
Other expense	226	186	21.7	203	11.3	660	713	(7.3)
% of sales	12.0	13.3	(135bps)	12.4	(46bps)	13.2	13.8	(61bps)
Total expenditure	1,342	1,036	29.5	1,188	12.9	3,804	4,096	(7.1)
<b>EBITDA</b>	<b>547</b>	<b>358</b>	<b>52.6</b>	<b>445</b>	<b>22.9</b>	<b>1,204</b>	<b>1,069</b>	<b>12.7</b>
% of sales	28.9	25.7	326bps	27.2	171bps	24.0	20.7	335bps
Depreciation	51	50	0.9	49	2.7	184	184	(0.1)
Other income	49	57	(13.9)	61	(19.3)	196	191	2.7
Interest cost	20	8	136.6	2	1,031.4	34	17	105.4
<b>PBT</b>	<b>525</b>	<b>357</b>	<b>47.2</b>	<b>455</b>	<b>15.5</b>	<b>1,182</b>	<b>1,059</b>	<b>11.6</b>
Taxes	134	91	46.9	108	23.5	291	252	15.6
Effective tax rate (%)	25.5	25.5	(5bps)	23.8	166bps	24.7	23.8	84bps
<b>RPAT</b>	<b>391</b>	<b>266</b>	<b>47.3</b>	<b>347</b>	<b>13.0</b>	<b>890</b>	<b>806</b>	<b>10.4</b>

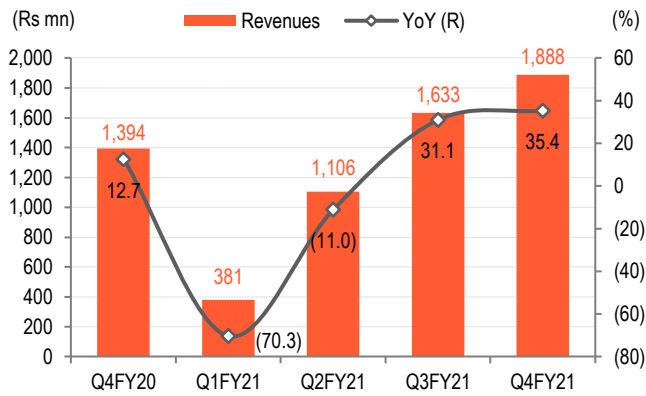
Source: Company, BOBCAPS Research

**Fig 2 – Consolidated quarterly performance**

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Revenues</b>	<b>1,784</b>	<b>1,311</b>	<b>36.0</b>	<b>1,697</b>	<b>5.1</b>	<b>5,127</b>	<b>5,280</b>	<b>(2.9)</b>
Raw material consumed	903	677	33.5	921	(1.9)	2,759	3,077	(10.3)
% of sales	47.8	48.5	(71bps)	56.4	(856bps)	55.1	59.6	(448bps)
Employee expense	98	93	5.5	86	13.3	352	336	4.5
% of sales	5.2	6.6	(147bps)	5.3	(10bps)	7.0	6.5	51bps
Other expense	258	216	19.5	237	8.9	764	828	(7.7)
% of sales	13.6	15.5	(182bps)	14.5	(85bps)	15.3	16.0	(77bps)
Total expenditure	1,259	985	27.8	1,244	1.2	3,875	4,241	(8.6)
<b>EBITDA</b>	<b>525</b>	<b>326</b>	<b>61.0</b>	<b>453</b>	<b>15.9</b>	<b>1,252</b>	<b>1,039</b>	<b>20.5</b>
% of sales	29.4	24.9	456bps	26.7	273bps	24.4	19.7	474bps
Depreciation	51	50	1.2	49	3.0	184	184	0.0
Other income	51	61	(16.6)	61	(16.5)	199	198	0.3
Interest cost	20	9	137.2	2	934.9	35	17	102.2
<b>PBT</b>	<b>504</b>	<b>328</b>	<b>53.7</b>	<b>463</b>	<b>9.0</b>	<b>1,231</b>	<b>1,036</b>	<b>18.9</b>
Taxes	122	80	52.4	112	8.3	297	238	25.1
Effective tax rate (%)	24.1	24.3	(22bps)	24.3	(18bps)	24.2	23.0	120bps
<b>APAT</b>	<b>383</b>	<b>248</b>	<b>54.2</b>	<b>350</b>	<b>9.3</b>	<b>934</b>	<b>798</b>	<b>17.0</b>
Add/(Less): extraordinary items	(36.2)	0.0	NM	0	NM	(36)	0	NM
<b>RPAT</b>	<b>347</b>	<b>248</b>	<b>39.6</b>	<b>350</b>	<b>(1.0)</b>	<b>897</b>	<b>798</b>	<b>12.5</b>

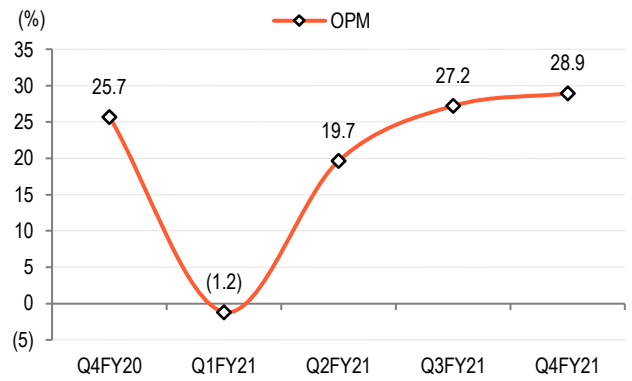
Source: Company, BOBCAPS Research

**Fig 3 – Standalone revenue**



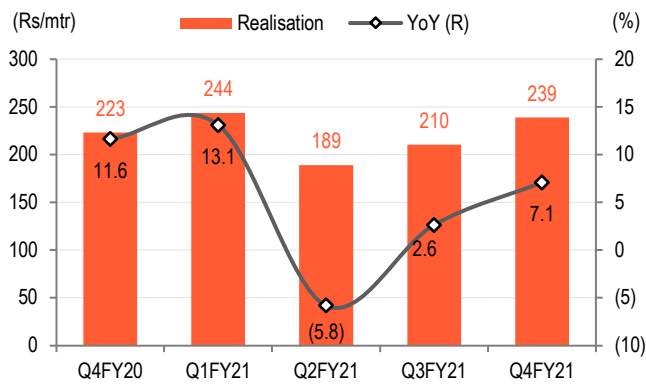
Source: Company, BOBCAPS Research

**Fig 4 – Standalone operating margin**



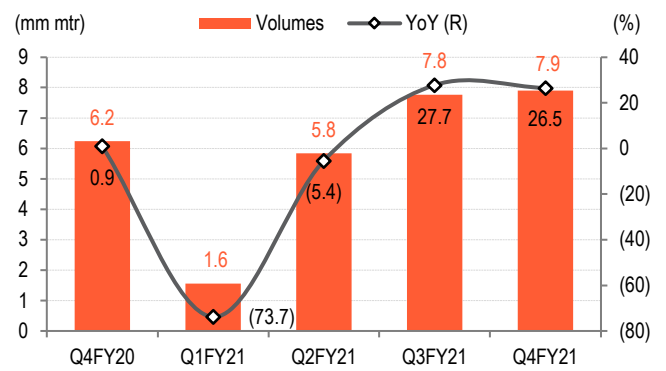
Source: Company, BOBCAPS Research

**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 Q1FY22. In footwear, South India is a major market for MUNI which has been under lockdown during the first quarter. Management is hopeful of a pick-up from Q2 as restrictions are gradually lifted.
- Management expects to maintain current EBITDA margins of ~24% due to the addition of high-margin customers.
- Export OEM demand from the US has been strong, but a chip shortage has affected Q1 sales. The company's customers expect this issue to be resolved by July-August.
- Supplies of PVC synthetic leather to Mercedes, South Africa, began from Q1FY22 and MUNI expects business to ramp up to Rs 30mn per month from Q3.
- Supplies to Volkswagen, India, have also begun in Q1FY22 and should ramp up by Q4, while those to BMW are scheduled to start from Q1FY23.
- The company is in advanced stages of discussion with Chrysler, US, for usage of PU in cars as a replacement for leather.
- Tesla has visited MUNI's plant for supplies to the domestic market but is yet to disclose its timeline for manufacturing in India.
- The company is commissioning the seventh PVC line by July-end which has wider width and is thus more cost efficient.
- MUNI has received positive customer feedback on its footwear product quality and expects PU plant traction to improve as demand gathers pace.
- Management is increasingly opting for backward integration at the PU plant in order to have better control over costs.
- The company has added management professionals at various levels and shall continue with this process.

## 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, it entered the PU synthetic leather market which is primarily import-oriented, with a plant in Madhya Pradesh.

We raise FY22/FY23 PAT estimates by 8%/12% to factor in the above-expected margin guidance and increase our Mar'22 TP to Rs 560 (vs. Rs 495). We continue to value MUNI at 20x FY23E P/E, on par 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. However, the stock has run up 26% in the past four months and is currently trading at 18.2x FY23E EPS, thus having limited upside. We therefore downgrade our rating from BUY to ADD.

**Fig 7 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenues	6,230	7,176	6,124	7,031	1.7	2.1
EBIDTA	1,439	1,720	1,345	1,554	7.0	10.7
PAT	1,033	1,243	956	1,107	8.0	12.2

Source: BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- **Failure to run the PU plant:** Inability to operate the newly commissioned PU plant at full capacity will affect growth prospects.
- **Continued slowdown in end-user industries:** A prolonged slowdown in the key end-user industries of footwear and auto will hurt 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 weaken 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	FY21P	FY22E	FY23E
<b>Total revenue</b>	<b>5,913</b>	<b>5,280</b>	<b>5,127</b>	<b>6,230</b>	<b>7,176</b>
EBITDA	1,292	1,039	1,252	1,439	1,720
Depreciation	(180)	(184)	(184)	(222)	(250)
EBIT	1,112	855	1,068	1,216	1,470
Net interest inc./(exp.)	(9)	(17)	(35)	(10)	(8)
Other inc./(exp.)	46	55	199	174	199
Exceptional items	0	0	0	0	0
EBT	1,149	892	1,231	1,381	1,661
Income taxes	(418)	(238)	(297)	(348)	(419)
Extraordinary items	165	143	(36)	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>896</b>	<b>798</b>	<b>897</b>	<b>1,033</b>	<b>1,243</b>
Adjustments	(165)	(143)	36	0	0
<b>Adjusted net profit</b>	<b>731</b>	<b>655</b>	<b>934</b>	<b>1,033</b>	<b>1,243</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	592	610	600	734	845
Other current liabilities	151	129	207	227	252
Provisions	30	76	152	125	144
Debt funds	217	326	338	100	70
Other liabilities	32	45	36	29	23
Equity capital	226	227	223	223	223
Reserves & surplus	4,953	5,547	6,009	6,732	7,602
Shareholders' fund	5,179	5,774	6,232	6,955	7,825
<b>Total liab. and equities</b>	<b>6,201</b>	<b>6,960</b>	<b>7,565</b>	<b>8,170</b>	<b>9,159</b>
Cash and cash eq.	203	586	210	66	99
Accounts receivables	890	970	1,132	1,144	1,278
Inventories	1,229	1,351	1,602	1,536	1,750
Other current assets	337	346	467	444	472
Investments	1,870	1,652	2,051	2,600	3,180
Net fixed assets	1,242	1,608	1,941	2,218	2,218
CWIP	393	393	150	150	150
Intangible assets	38	39	3	3	3
Deferred tax assets, net	0	13	9	9	9
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>6,201</b>	<b>6,960</b>	<b>7,565</b>	<b>8,170</b>	<b>9,159</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
<b>Cash flow from operations</b>	<b>809</b>	<b>860</b>	<b>718</b>	<b>1,462</b>	<b>1,275</b>
Capital expenditures	(498)	(494)	(274)	(500)	(250)
Change in investments	(308)	218	(399)	(549)	(580)
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(806)</b>	<b>(276)</b>	<b>(673)</b>	<b>(1,049)</b>	<b>(830)</b>
Equities issued/Others	0	0	(370)	0	0
Debt raised/repaid	159	108	12	(238)	(30)
Interest expenses	(9)	(17)	(35)	(10)	(8)
Dividends paid	(174)	(178)	(49)	(310)	(373)
Other financing cash flows	(59)	(114)	20	0	0
<b>Cash flow from financing</b>	<b>(83)</b>	<b>(200)</b>	<b>(422)</b>	<b>(558)</b>	<b>(411)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(80)</b>	<b>384</b>	<b>(376)</b>	<b>(144)</b>	<b>33</b>
<b>Closing cash &amp; cash eq.</b>	<b>203</b>	<b>586</b>	<b>210</b>	<b>66</b>	<b>99</b>

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	20.1	17.9	20.1	23.2	27.9
Adjusted EPS	16.4	14.7	20.9	23.2	27.9
Dividend per share	3.2	3.0	2.0	5.8	7.0
Book value per share	114.4	127.4	139.8	156.0	175.5

### Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	3.6	3.9	4.0	3.3	2.8
EV/EBITDA	16.3	20.0	16.6	14.4	11.8
Adjusted P/E	30.9	34.6	24.2	21.9	18.2
P/BV	4.4	4.0	3.6	3.3	2.9

### DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	63.6	73.4	75.8	74.8	74.8
Interest burden (PBT/EBIT)	103.4	104.4	115.3	113.5	113.0
EBIT margin (EBIT/Revenue)	18.8	16.2	20.8	19.5	20.5
Asset turnover (Rev./Avg TA)	102.6	80.2	70.6	79.2	82.8
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.2	1.2
Adjusted ROAE	15.1	12.0	15.6	15.7	16.8

### Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	3.7	(10.7)	(2.9)	21.5	15.2
EBITDA	(13.9)	(19.5)	20.5	14.9	19.6
Adjusted EPS	(19.2)	(10.5)	42.7	10.6	20.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	21.9	19.7	24.4	23.1	24.0
EBIT margin	18.8	16.2	20.8	19.5	20.5
Adjusted profit margin	12.4	12.4	18.2	16.6	17.3
Adjusted ROAE	15.1	12.0	15.6	15.7	16.8
ROCE	14.2	10.9	12.8	13.4	14.7
<b>Working capital days (days)</b>					
Receivables	59	64	75	67	62
Inventory	112	153	195	164	149
Payables	47	52	57	51	53
<b>Ratios (x)</b>					
Gross asset turnover	3.5	2.6	2.0	2.0	2.1
Current ratio	3.1	3.3	3.0	2.9	2.9
Net interest coverage ratio	128.4	49.1	30.3	121.6	175.0
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%

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

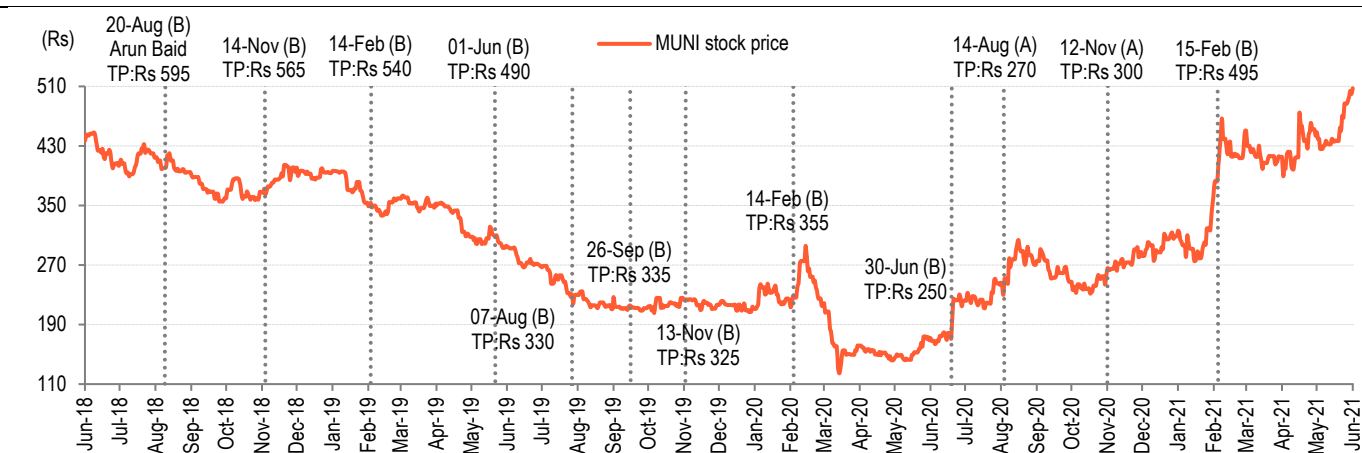
**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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, A – Add, R – Reduce, S – Sell

### Rating distribution

As of 31 May 2021, out of 95 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 47 have BUY ratings, 19 have ADD ratings, 6 are rated REDUCE and 23 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

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