

14 August 2020

Mayur Uniquoters

Brighter outlook driving a re-rating; retaining a Buy

Rating: **Buy**

Target Price: ₹337

Share Price: ₹251

Mayur's Q1 was weak as demand rose only in Jun. Demand in domestic auto/footwear will recover only gradually and exports would do better in FY21. While the near term outlook is muted, we are positive on Mayur for the long term on the improving outlook: 1) good traction in the recently commissioned PU plant, 2) talks of curbing imports of leather goods from China and 3) robust export opportunity through customer additions. After a 20% run-up in the price of the scrip since our last update ~45 days ago, at ~10x FY22e P/E, we still believe good scope exists for a re-rating. Thus, we maintain a Buy, with a target of ₹337 (14x FY22e P/E), earlier ₹283 (12x FY22e P/E).

Weak Q1. Almost no sales in Apr/May and recovery only in Jun led to a 70% y/y decline in revenues. Both domestic sales and exports were hit during Q1. Poor sales also hurt the EBITDA (₹5m loss) while other income and lower depreciation aided PAT to ₹8m. High inventories at end-Mar were cleared. Cost-reduction measures will help Mayur keep margins up.

Exports to revive on customers added. Export revival since Q3 FY20 is a positive and would provide a cushion in FY21. Supply to Mercedes SA could start by Q1 FY22 while approval from BMW is in advance stage.

PU plant progressing well; curbs on imports from China, game changer. Since the start of the PU plant (Jan'20), Mayur has been working on various types of samples for customers. While the auto/footwear sector would recover gradually, talk of import curbs on leather goods from China could lead to a faster ramp-up at the PU plant and throw up huge long-term opportunities.

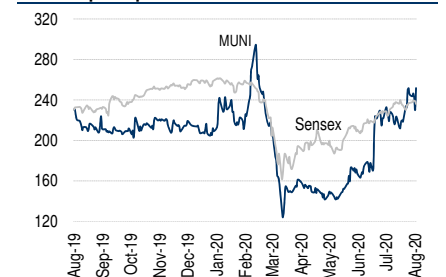
Improving outlook to support a re-rating. As the concerns regarding the PU plant and exports are behind (reasons for a de-rating over the last two years), at ~10x FY22e P/E, we believe in good scope for a re-rating given improving prospects. Its net-cash status and FCF generation ability even in the downturn are other positives. While the near-term outlook is challenging, we are positive on Mayur in the long run. **Risks:** Volatile RM prices, keen competition.

Key data	MUNI IN / MAYU.BO
52-week high / low	₹898 / 403
Sensex / Nifty	37877 / 11178
3-m average volume	\$5.3m
Market cap	₹151bn / \$2016.5m
Shares outstanding	182m

Shareholding pattern (%)	Jun'20	Mar'20	Dec'19
Promoters	61.4	61.4	61.4
- of which, Pledged	-	-	-
Free float	38.5	38.5	38.6
- Foreign institutions	7.1	7.6	12.0
- Domestic institutions	3.7	4.7	4.7
- Public	27.7	26.3	21.9

Estimates revision (%)	FY21e	FY22e
Sales	(8)	2
EBITDA	(6)	5
PAT	(6)	2

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (₹ m)	5,522	5,734	5,138	4,211	6,702
Net profit (₹ m)	941	872	780	657	1,091
EPS (₹)	20.8	19.2	17.2	14.5	24.1
PE (x)	12.1	13.1	14.6	17.3	10.4
EV / EBITDA (x)	6.7	7.5	9.2	9.7	5.5
PBV (x)	2.5	2.2	2.0	1.8	1.6
RoE (%)	20.8	16.7	13.3	10.2	14.8
RoCE (%)	20.5	16.0	12.8	10.0	14.4
Dividend yield (%)	0.6	1.3	2.0	1.0	1.2
Net debt / equity (x)	-0.4	-0.4	-0.3	-0.5	-0.5

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations (stand.)

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Net revenues	5,522	5,734	5,138	4,211	6,702
Growth (%)	15.8	3.8	-10.4	-18.0	59.1
Direct costs	3,240	3,516	3,060	2,488	4,037
SG&A	832	943	1,036	869	1,213
EBITDA	1,451	1,275	1,042	854	1,452
EBITDA margins (%)	26.3	22.2	20.3	20.3	21.7
- Depreciation	171	180	184	169	220
Other income	132	215	191	220	240
Interest expenses	14	8	17	20	8
PBT	1,398	1,301	1,032	885	1,464
Effective tax rate (%)	32.7	33.0	24.4	25.8	25.5
+ Associates / (Minorities)	-	-	-	-	-
Net income	941	872	780	657	1,091
Adjusted income	941	872	780	657	1,091
WANS	45	45	45	45	45
FDEPS (₹ / sh)	20.8	19.2	17.2	14.5	24.1
FDEPS growth (%)	15.4	(7.4)	(10.5)	(15.8)	66.0
Gross margins (%)	41.3	38.7	40.5	40.9	39.8

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	227	227	227	227	227
Net worth	4,535	5,230	5,872	6,411	7,366
Debt (incl. pref.)	19	192	261	281	241
Minority interest	-	-	-	-	-
DTL / (Assets)	77	66	40	20	15
Capital employed	4,630	5,488	6,173	6,712	7,622
Net tangible assets	1,311	1,241	1,508	1,839	1,919
Net intangible assets	9	4	3	3	3
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	19	393	393	43	38
Investments (strategic)	1	69	69	69	69
Investments (financial)	1,562	1,869	1,652	3,152	3,552
Current assets (ex cash)	2,187	2,481	2,902	2,054	2,912
Cash	256	192	524	310	183
Current liabilities	715	761	880	759	1,055
Working capital	1,472	1,720	2,022	1,295	1,857
Capital deployed	4,630	5,488	6,173	6,712	7,622
Contingent liabilities	-	-	-	-	-

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
EBIT (excl. other income)	1,280	1,095	858	685	1,232
+ Non-cash items	171	180	184	169	220
Oper. prof. before WC	1,451	1,275	1,042	854	1,452
- Incr. / (decr.) in WC	172	131	232	(717)	557
Others incl. taxes	457	557	350	246	406
Operating cash-flow	821	587	460	1,325	489
- Capex (tang. + intang.)	191	478	452	150	295
Free cash-flow	631	109	9	1,175	194
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	76	177	272	118	136
+ Equity raised	(2)	-	-	-	-
+ Debt raised	(48)	173	69	20	(40)
- Fin investments	322	375	(217)	1,500	400
- Misc. (CFI + CFF)	129	(206)	(309)	(208)	(255)
Net cash-flow	53	(64)	332	(215)	(127)

Source: Company, Anand Rathi Research

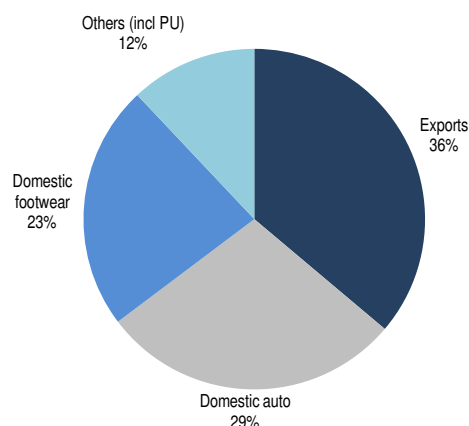
Fig 4 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	12.1	13.1	14.6	17.3	10.4
EV / EBITDA (x)	6.7	7.5	9.2	9.7	5.5
EV / Sales (x)	1.8	1.7	1.9	2.0	1.2
P/B (x)	2.5	2.2	2.0	1.8	1.6
RoE (%)	20.8	16.7	13.3	10.2	14.8
RoCE (%) - after tax	20.5	16.0	12.8	10.0	14.4
Fixed asset T/O (x)	23.1	18.1	14.5	11.1	15.8
DPS (₹ / sh)	1.4	3.3	5.0	2.6	3.0
Dividend yield (%)	0.6	1.3	2.0	1.0	1.2
Div. payout (%) - incl. DDT	6.7	16.9	29.0	17.9	12.5
Net debt / equity (x)	-0.4	-0.4	-0.3	-0.5	-0.5
Receivables (days)	88	76	98	75	75
Inventory (days)	47	61	76	65	60
Payables (days)	38	36	41	40	40
CFO : PAT %	87.3	67.3	59.0	201.6	44.9

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

Fig 6 – Q1 FY21 revenue break-up (estimate)


Source: Company

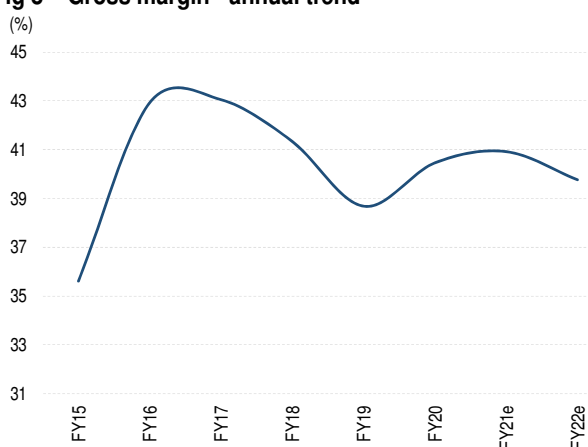
Financial Performance

Fig 7 – Financial performance (standalone)

(₹ m)	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	% Y/Y	% Q/Q	FY20	FY19	% Y/Y
Income	1,282	1,242	1,246	1,394	381	(70)	(73)	5,165	5,734	(10)
RM costs	790	777	732	760	217	(73)	(71)	3,060	3,516	(13)
Employee expenses	81	75	78	90	78	(4)	(13)	324	290	12
Other expenses	160	181	186	186	90	(43)	(51)	713	489	46
EBITDA	251	209	250	358	(5)			1,069	1,260	(15)
Depreciation	43	44	46	50	34	(21)	(33)	184	180	2
Finance costs	2	1	5	8	5	157	(42)	17	8	99
Other income	37	52	45	57	55	50	(4)	191	168	13
PBT	243	215	244	357	12	(95)	(97)	1,059	1,301	(19)
Tax	84	15	62	91	4	(96)	(96)	252	430	(41)
PAT	159	200	182	266	8	(95)	(97)	806	872	(7)
EPS	3.5	4.4	4.0	5.9	0.2	(95)	(97)	17.8	19.2	(7)
As % of income						<i>bps y/y</i>	<i>bps q/q</i>			<i>bps y/y</i>
Gross margins	38.4	37.4	41.2	45.5	43.0	462	(245)	40.8	38.7	208
Employee cost	6.3	6.0	6.2	6.4	20.5	1,412	1,401	6.3	5.0	122
Other expenses	12.4	14.6	14.9	13.3	23.8	1,131	1,043	13.8	8.5	526
EBITDA margins	19.6	16.8	20.1	25.7	(1.2)			20.7	22.0	(128)
PBT margins	19.0	17.3	19.6	25.6	3.1	(1,589)	(2,254)	20.5	21.6	(112)
Effective tax rate	34.7	6.8	25.4	25.5	30.1	(462)	458	23.8	33.0	(919)
PAT margins	12.4	16.1	14.6	19.1	2.1	(1,023)	(1,692)	15.6	15.2	41

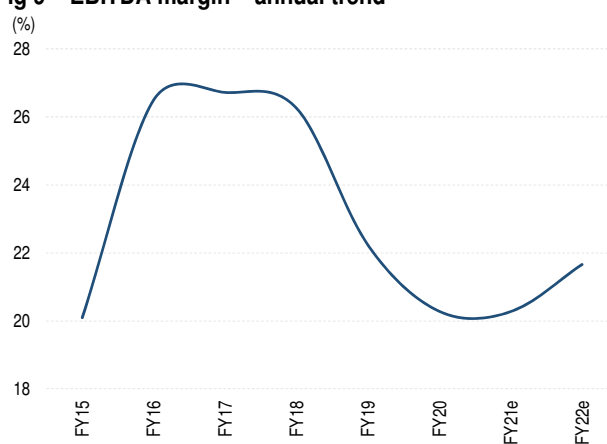
Source: Company, Anand Rathi Research

Fig 8 – Gross margin - annual trend



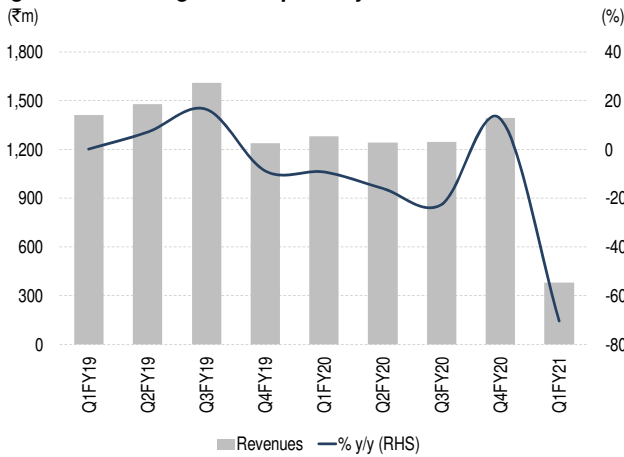
Source: Company, Anand Rathi Research

Fig 9 – EBITDA margin – annual trend



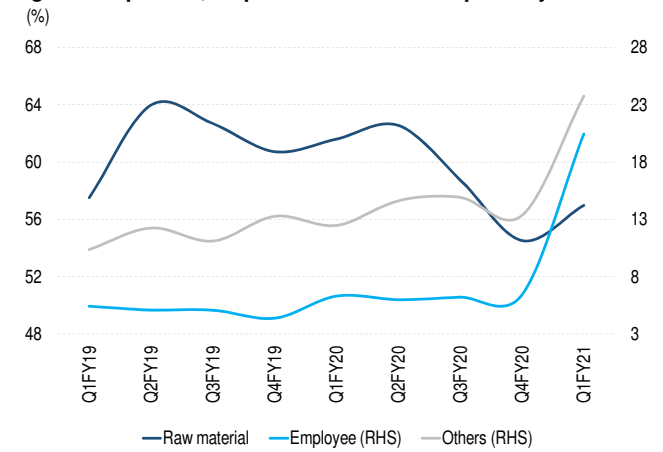
Source: Company, Anand Rathi Research

Fig 10 – Revenue growth – quarterly trend



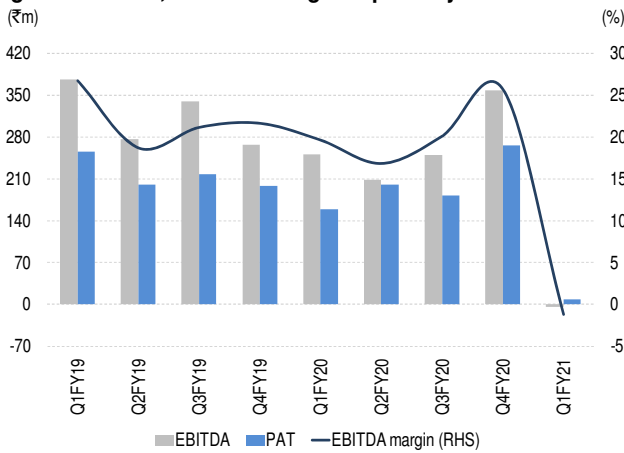
Source: Company, Anand Rathi Research

Fig 11 – Expenses, as percent of income – quarterly trend



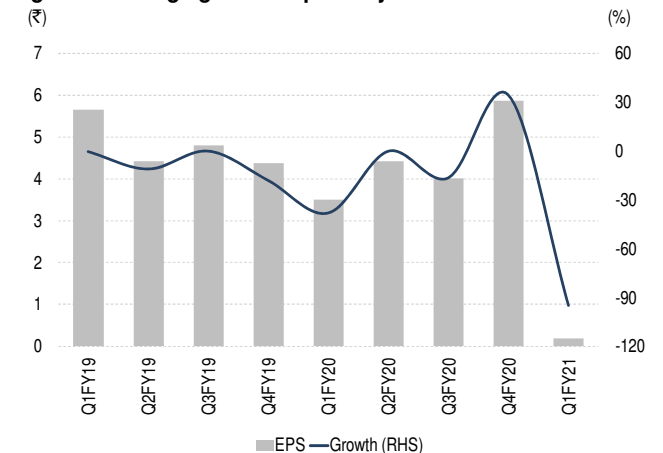
Source: Company, Anand Rathi Research

Fig 12 – EBITDA, PAT and margin – quarterly trends



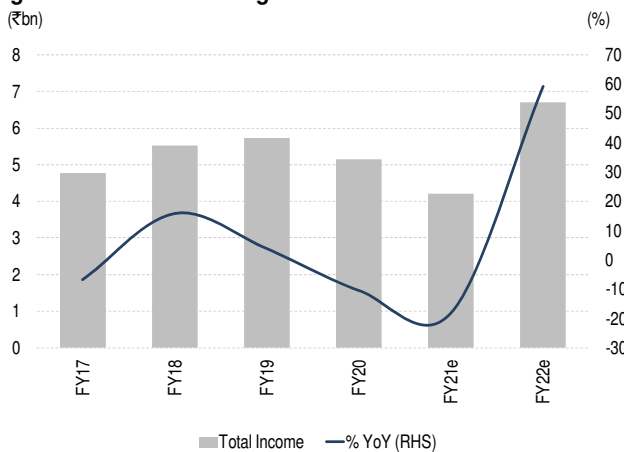
Source: Company, Anand Rathi Research

Fig 13 – Earnings growth – quarterly trend



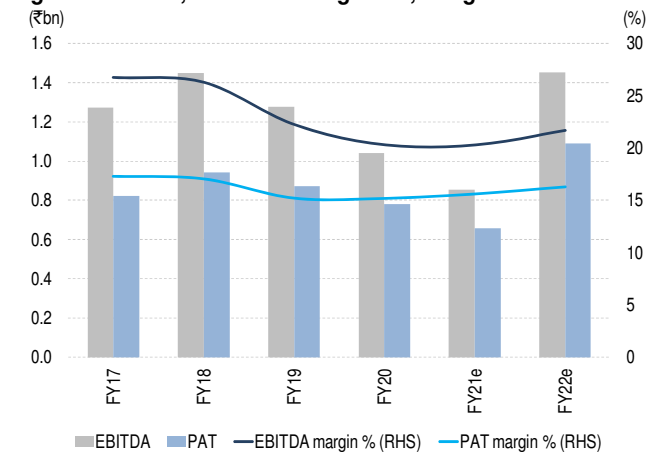
Source: Company, Anand Rathi Research

Fig 14 – Income – annual growth trend



Source: Company, Anand Rathi Research

Fig 15 – EBITDA, PAT – annual growth, margin trends



Source: Company, Anand Rathi Research

Valuation

While short-term growth challenges persist, we are keen on Mayur for its leading position in synthetic leather and FCF-generation ability even in a downturn. While most of its PVC capacities are already fully utilised, future growth depends on capacity addition. However, its foray into PU leather would bring additional revenues and support growth in coming years.

While demand has improved after opening of markets since May'20, intermittent lockdowns remain a concern. Thus, normalcy is expected to return only by Q4.

After the 20% run-up in the stock price since our last update ~45 days ago, at ~10x FY22e P/E, we still believe good scope exists for a re-rating on the improving outlook due to good traction at the recently commissioned PU plant, talk of curbing imports of leather goods from China and robust export opportunity from customers added. While the short-term outlook is challenging, we are positive on Mayur for the long term. Thus, we maintain our Buy call, with a higher target of ₹337 (14x FY22e P/E), earlier ₹283 (12x FY22e P/E).

Fig 16 – Change in estimates

₹ m)	Original Estimates		Revised Estimates		Change (%)	
	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Revenue	4,598	6,563	4,211	6,702	(8)	2
EBITDA	907	1,385	854	1,452	(6)	5
EBITDA margins %	19.7	21.1	20.3	21.7		
PAT	702	1,070	657	1,091	(6)	2
EPS (₹)	15.5	23.6	14.5	24.1	(6)	2

Source: Anand Rathi Research

Fig 17 – One-year-forward P/E band and Standard-deviation



Source: Bloomberg, Anand Rathi Research

Risks

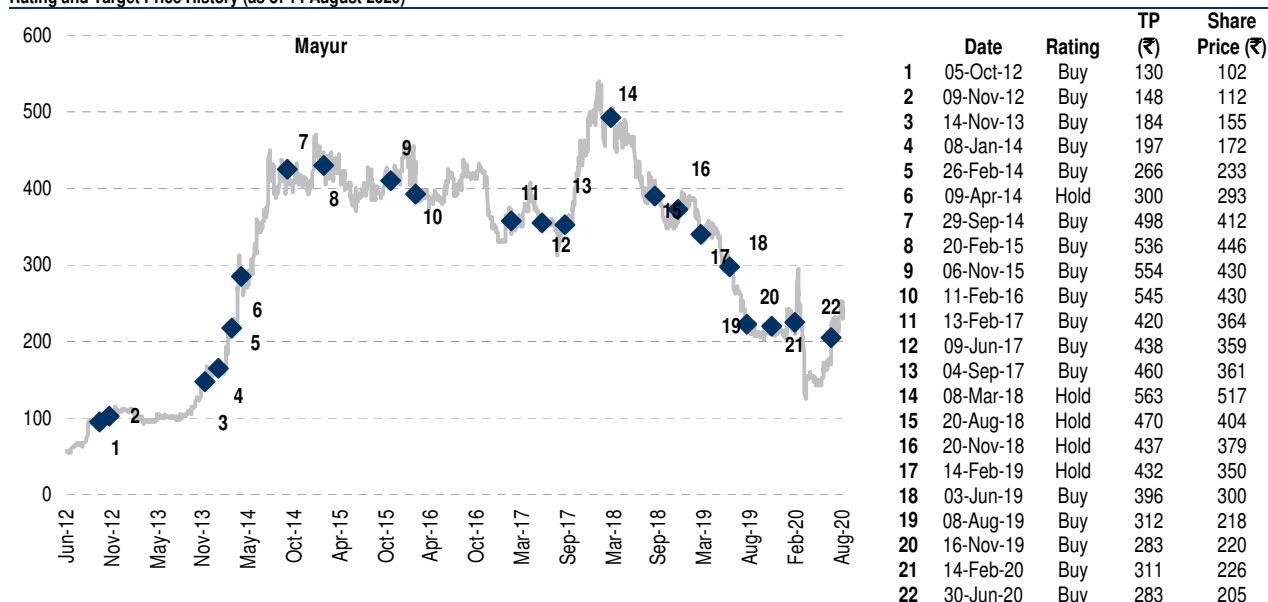
- **Volatile raw-material prices.** Release paper, knitted fabric and chemicals (PU/PVC resin) are important raw materials for Mayur. Though any fluctuations in raw material prices are fully/partially passed on to customers, short-term margins may be hit.
- **Cut-throat competition.** Mayur faces keen competition from Chinese products, especially in PU-coated fabric. Thus, competition may eat into its revenues and margins.

Appendix

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Additional information on recommended securities/instruments is available on request.

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