Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Mayur Uniquoters Ltd

Robust Q2; growth prospects look bright

Automobiles	Sharekhan code: MAYURUNIQ
Reco/View: Buy ↔	CMP: Rs. 477 / Price Target: Rs. 670 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Company details

Market cap:	Rs. 2,126 cr
52-week high/low:	Rs. 546 / 254
NSE volume: (No of shares)	98,075
BSE code:	522249
NSE code:	MAYURUNIQ
Free float: (No of shares)	1.7 cr

Shareholding (%)

Promoters	59.9
FII	1.5
DII	4.8
Others	33.9

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-0.2	-4.0	7.4	77.9
Relative to Sensex	3.3	-11.3	-15.1	41.1

Sharekhan Research, Bloomberg

Summary

- Q2FY22 results beat expectations, led by higher sales, price hikes and operating leverage benefits, partially mitigated by increased raw material prices.
- The management expects sales to be strong in the medium term, as it expects shortage of semiconductor chips to normalise by Q4FY22 end.
- Stock is trading below its historical average multiples at P/E multiple of 14.2x and EV/EBITDA multiple of 8.6x its FY2023 estimates.
- We maintain a Buy on Mayur Uniquoters Limited (MUL) with an unchanged PT of Rs. 670, owing to positive business outlook and margin expansion.

Mayur Uniquoters Limited's (MUL's) Q2FY22 results beat our expectations, led by higher sales, price hikes and operating leverage benefits, partially mitigated by increased raw material prices. Net revenues were up by 55.9% y-o-y and 65.9% q-o-q to Rs. 196 crore, led by a strong recovery in sales in both domestic and export markets. EBITDA margin improved 570 bps q-o-q to 20.6% in Q2FY22, driven by price hikes to OEMs and operating leverage benefits, though raw material prices continue to rise and partially mitigate the improvement in EBITDA margins. As a result, EBITDA and PAT grew by 60.7% y-o-y and 47.9% y-o-y to Rs. 60.7 crore and Rs. 47.9 crore respectively in Q2FY22. The management was optimistic about the outlook and is witnessing improvement in chips shortage issue from October 2021 onwards. The management expects the chip shortage issue to normalise by Q4FY22-end. The company has started supplies to Mercedes SA, Volkswagen, and BMW; and production is expected to ramp-up from Q4FY2022. The company is getting strong demand from the US, led by improving economic activities and stimulus packages. We expect MUL to benefit from robust demand in the automotive segment and a recovery in the footwear business, given its strong and established relationship with Indian and global OEMs. MUL is well positioned to benefit from recovery in the automotive business and footwear segment going forward, driven by new orders. We expect margins to improve back to their normal levels to 23-25%, as volume picks up in FY23E. We have maintained our earnings estimates for FY2022E and FY2023E and expect MUL's earnings to post a robust 31% CAGR over FY2021-FY2023E. Given strong business growth prospects, we retain our Buy rating on the stock.

Key positives

- A strong pick-up in domestic as well as export volumes in Q2FY22 led to a 55.9% y-o-y improvement in sales.
- The company has been to pass on costs to its clients, but with a lag of one quarter. EBITDA margin improved 570 bps q-o-q to 20.6% in Q2FY22, driven by price hikes to OEMs and operating leverage benefits

Key negatives

- Gross margins declined by 250 bps q-o-q to 38.3% in Q2, led by a rise in raw material prices.
- Chips shortage impacted automotive sales of ~Rs. 30 crore. One of its clients, Mercedes has fallen short of earlier scheduled order due to chips shortage (15k-20k metres/ month from earlier expectations of 40,000 metres/ month)

Management Commentary

- Chip shortage issues are improving from October 2021 and the management expects the shortage situation shall normalised by Q4FY22.
- The company has guided FY22E revenues of Rs. 600 crore and EBITDA margin of 20-21%. Revenues from the PU plant is expected to be Rs. 20 crore in FY22E and Rs. 40 crore in FY23E.
- MUL is expecting orders from its new clients to improve substantially going forward.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 670: MUL expects domestic demand to improve going forward, while exports are expected to stay robust. The company has already started supplying to its new clients and expects volumes to improve significantly in the medium term. EBITDA margins are expected to remain firm, driven by backward integration, cost reductions, and operating leverage benefits. We have maintained estimates, considering a strong recovery in offtake since the start of this month. We expect MUL's earnings to post a 31% CAGR during FY2021-FY2023E, driven by an 18% revenue CAGR and 60 bps expansion in EBITDA margin to 25% in FY2023E from 24.4% in FY2021. The stock is trading below historical average multiples at a P/E multiple of 14.2x and EV/EBITDA multiple of 8.6x its FY2023 estimates. We retain a Buy rating on the stock with an unchanged price target (PT) of Rs. 670.

Key Risks

MUL's exposure to raw-material price volatility and foreign currency fluctuation risk are the biggest risks. Any movement can affect its margins.

Valuation (Consolidated) Rs cr

Particulars	FY20	FY21	FY22E	FY23E
Net sales	513	686	824	922
Growth (%)	(2.9)	33.8	20.1	12.0
EBIDTA	125	168	206	234
OPM (%)	24.4	24.5	25.0	25.3
PAT (Rs cr)	90	124	153	173
Growth (%)	12.5	37.9	23.9	12.8
FD EPS (Rs)	19.6	27.0	33.5	37.8
P/E (x)	24.3	17.6	14.2	12.6
P/BV (x)	3.4	2.9	2.5	2.1
EV/EBITDA (x)	15.3	11.0	8.6	7.2
RoE (%)	13.8	16.2	17.3	17.0
RoCE (%)	20.6	24.0	25.7	25.4

Source: Company; Sharekhan estimates

Key Conference call takeaways

- **Q2FY22 results beat expectations:** Q2FY22 results beat our expectations, led by higher sales, price hikes and operating leverage benefits, partially mitigated by increased raw-material prices. Net revenues were up by 55.9% y-o-y and 65.9% q-o-q to Rs. 196 crore, led by strong recovery in sales in both domestic and export markets. However, the company faced shortage of during the quarter and loss revenues of ~Rs. 30 crore. EBITDA margins improved 570 bps q-o-q to 20.6% in Q2FY22, driven by price hikes to OEMs and operating leverage benefits, though raw material prices continued to rise and partially impacted the improvement in EBITDA margins. The gross margins saw a decline of 250 bps q-o-q to 38.3% in Q2. As a result, EBITDA and PAT grew by 60.7% y-o-y and 47.9% y-o-y to Rs. 60.7 crore and Rs. 47.9 crore respectively in Q2FY22.

- **Positive outlook:** The management was optimistic about the outlook and is witnessing improvement in chips shortage issue from October 2021 onwards. The management expects semiconductor chip shortage to normalise by the end of Q4FY22. The company has started supplies to Mercedes SA, Volkswagen, and BMW and production is expected to ramp up from Q4FY2022. The company is getting strong demand from the US, led by improving economic activities and stimulus packages. The company has guided FY22E revenues of Rs. 600 crore and EBITDA margins of 20-21%. The revenues from PU plant is expected to be Rs. 20 crore in FY22E and Rs. 40 crore in FY23E. MUL is expecting orders from new clients to improve substantially going forward.

- **Strong demand:** The management is witnessing strong demand from the automotive segment, both in India and export businesses. During Q3, the company had received a contract from Volkswagen India, the supply of which commenced from May 2021. The company has started supplies to Mercedes SA, Volkswagen, and BMW and production is expected to ramp up from Q4FY2022. Volumes are currently lower but are expected to improve to 30,000-40,000 metres per month. In exports, MUL had received orders from Mercedes Benz and BMW. The company has started supplying to Mercedes Benz (~Rs. 3 crore per month), which is expected to improve substantially going forward. Order from BMW is expected to commence from early 2022. With ramp up in the polyurethane (PU segment) segment, MUL expects strong recovery in FY2022E and FY2023E.

- **Backward integration, cost-control measures to result in margin improvement:** MUL is focussing on enhancing backward integration. As per MUL, backward integration would not only reduce costs but also provide better control on raw-material quality. MUL is planning to carry out foam lamination in house. Moreover, the company stated it is working on producing micro fibres in house. Lastly, MUL would also manufacture chemicals used in polyurethane. Moreover, MUL has initiated cost-control measures such as reduction in travelling and administrative expenses. MUL is also optimising manpower costs. Overall, MUL stated it is targeting about 15% reduction in fixed costs. We expect MUL's margins to remain sustainable at 24-25% in the medium term.

Results (Consolidated) Rs cr

Particulars	Q2FY22	Q2FY21	%YoY	Q1FY22	%QoQ
Revenues	196.0	125.8	55.9	118.1	65.9
Total operating expenses	155.7	96.9	60.7	100.5	54.9
EBIDTA	40.4	28.9	60.7	17.6	128.8
Depreciation	5.2	5.0	4.0	5.1	3.0
Interest	0.6	0.8	-25.7	0.7	-13.5
Other Income	4.3	3.1	36.0	5.8	-26.3
PBT	38.8	26.2	48.2	17.7	119.6
Tax	9.3	6.2	49.3	3.7	152.7
Reported PAT	29.5	20.0	47.9	14.0	110.9
Adjusted PAT	29.5	20.0	47.9	14.0	110.9
Adjusted EPS	6.6	4.4	50.4	3.1	110.9

Source: Company; Sharekhan Research

Key ratios (onsolidated) Rs cr

Particulars	Q2FY22	Q2FY21	YoY (bps)	Q1FY22	QoQ (bps)
Gross margin (%)	38.3	43.2	(490)	40.8	(250)
EBIDTA margin (%)	20.6	23.0	(240)	14.9	570
EBIT margin (%)	17.9	19.0	(100)	10.6	730
Net profit margin (%)	15.1	15.9	(80)	11.9	320
Effective tax rate (%)	23.9	23.8	20	20.8	310

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector outlook – Strong growth expected on back of improved business outlook

Synthetic leather substitutes natural leather. Usage of synthetic leather is expected to continue to increase on account of non-requirement of any real animal hides. Increasing importance and awareness about animal rights set by several organisations and stringent laws are leading to a shift towards artificial leather. Moreover, synthetic leather is cost-effective as compared to natural leather costing about one-sixth of the price. Moreover, it offers superior properties such as high gloss finish, durability, strength, and UV resistance and easy maintenance. The Indian global synthetic leather market size is estimated at 730 million square metres and is estimated to clock a strong 7.5% CAGR from 2019 to 2025. Business outlook for the automotive segment is improving with normalisation of economic activities. Automotive demand is witnessing strong recovery in two-wheeler and four-wheeler segments, aided by pent-up demand and increased personal mobility transport. The footwear segment is also recovering on a sequential basis and is expected to improve as the economy normalises.

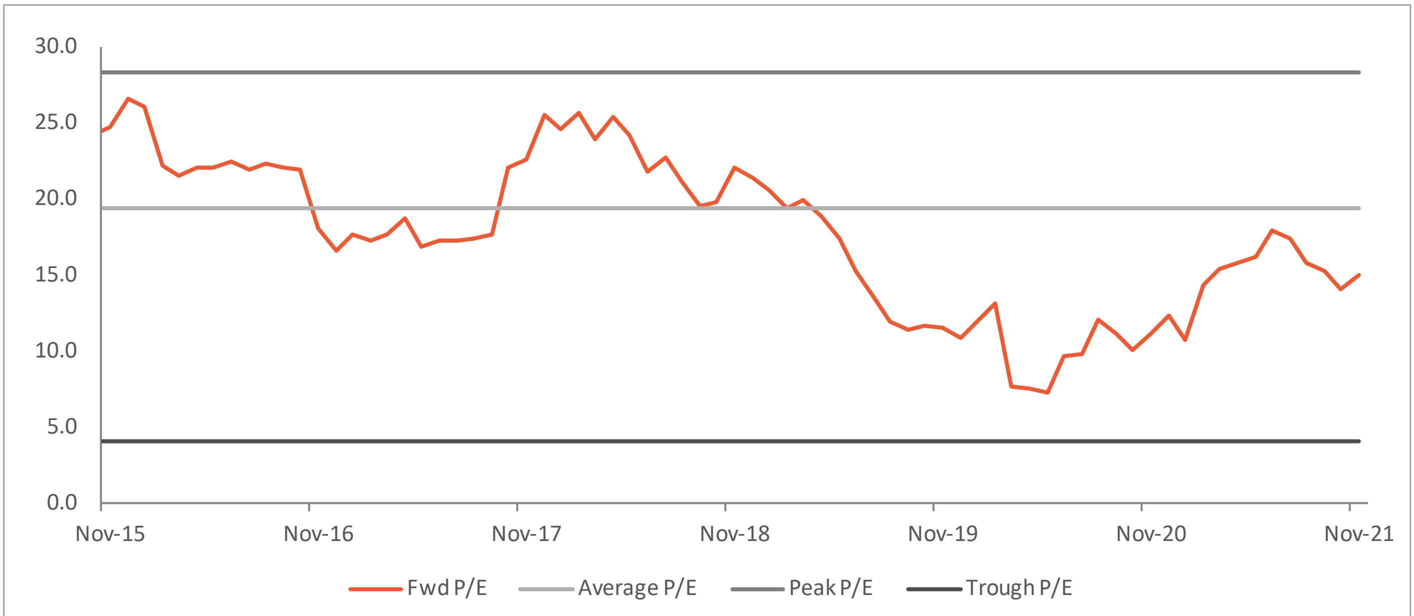
■ Company outlook – Strong earnings growth

MUL follows the OEM-based model with OEM contributing 75% to revenue. The domestic segment contributes about 80% to revenue, while the rest is contributed by exports. MUL has gradually expanded its client base with leading OEMs in India as well globally. MUL has historically outgrown the artificial leather market and we expect the outperformance to continue. Addition of new clients in its automotive business and entry in the PU leather business provide strong growth opportunity. We expect MUL's earnings to post a 31% CAGR during FY2021-FY2023E, driven by an 18% revenue CAGR and a 60 bps rise in EBITDA margin to 25% in FY2023E from 24.4% in FY2021.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 670

MUL expects domestic demand to improve going forward, while exports are expected to remain robust going forward. The company has already started supplying to its new clients and expects volumes to improve significantly in the medium term. EBITDA margins are expected to remain firm, driven by backward integration, cost reductions, and operating leverage benefits. We have maintained estimates, considering a strong recovery in offtake from clients from start of this month. We expect MUL's earnings to post a 31% CAGR during FY2021-FY2023E, driven by an 18% revenue CAGR and 60-bps expansion in EBITDA margin to 25% in FY2023E from 24.4% in FY2021. The stock is trading below its historical average multiples at P/E multiple of 14.2x and EV/EBITDA multiple of 8.6x its FY2023 estimates. We retain our Buy rating on the stock with an unchanged price target (PT) of Rs. 670.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

MUL is the largest manufacturer of artificial leather/PVC vinyl, using the 'Release Paper Transfer Coating Technology' in India. The company's product finds application in shoes, garments, luggage, sports goods, and upholstery and is used as a substitute for real/natural leather. The company has six manufacturing plants with a capacity of 3.1 million metres per month. The automotive segment is the largest contributor (57% of revenue), while the footwear segment contributes 35% to sales. MUL follows the OEM-based model with OEM contributing 75% to revenue. The domestic segment contributes about 80% to revenue, while the rest is contributed by exports.

Investment theme

MUL has the largest installed capacity for manufacturing of synthetic leather in domestic organised segment with capacity of 366 lakh linear meters per annum (LLMPA) of PVC coated fabric and 60 LLMPA of PU coated fabric. The company is in the process to expand its PVC coated fabric capacity by adding its seventh coating line at Dhodsar plant post which its total capacity for PVC coated fabric would increase to 426 LLMPA. Given its strong capability in producing synthetic leather, it has built strong relationships with large OEMs such as Maruti Suzuki, Tata Motors, HMSI, M&M, MG Motors, Mercedes Benz, BMW, Bata, and Relaxo. MUL has quickly rebound from disruption caused by the lockdown and its key businesses are now operating at normal levels. The company has taken key initiatives to improve its margins by investing in backward integration and steps to reduce fixed costs. FY2022E and FY2023E are expected to post strong performance in sales and OPM. All-round improvement makes it a case for re-rating of the stock. Moreover, the company's healthy balance sheets and ROCE are expected to return to 25% in 2-3 years, which makes it good bet in the current challenging market.

Key Risks

- MUL's exposure to raw-material price volatility and foreign currency fluctuation risk are the biggest risks. Any movement can impact its margins

Additional Data

Key management personnel

Suresh Kumar Poddar	Chairman and Managing Director
Arun Kumar Bagaria	Executive Director
Vinod Kumar Sharma	Chief Financial Officer
Rahul Joshi	Company Secretary

Source: Company Website

Top 8 shareholders

Sr. No.	Holder Name	Holding (%)
1	Suresh Poddar	34.0
2	Manav Poddar	15.8
3	Suresh Kumar Poddar & Sons Huf	6.6
4	Puja Poddar	1.6
5	Kiran Poddar	0.5
6	Arun Kumar Bagaria	1.1
7	Dolly Bagaria	0.4
8	Idfc Sterling Value Fund	2.7

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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