

11 November 2020

Mayur Uniquoters

Good recovery in domestic auto/exports, footwear to follow; Buy

Rating: **Buy**

Target Price: Rs356

Share Price: Rs265

Mayur's Q2 was a mixed-bag (revenue/PBT/PAT down 11%/12%/28% y/y; EBITDA margin at 19.7%). Good recovery in domestic auto/exports since Aug and healthy liquidity (~Rs2.5bn) were positives. The board approved a buyback of up to 0.75m shares at Rs400 each (record date: Nov 25). We are positive on Mayur on the brighter outlook: 1) swifter recovery in auto/exports; footwear to follow, 2) fast ramp-up at the PU plant as domestic OEMs would prefer to source locally after a 10% rise in the ADD and 3) robust export opportunity through customer additions. We maintain a Buy rating on the stock with a target of Rs356 (14x FY22e P/E), earlier Rs337. Good recovery, a healthy margin and better RoEs are keys to a re-rating.

Q2, a mixed-bag. Revenue/PBT/PAT were down 11%/12%/28% y/y; the EBITDA margin was up 283bps y/y to 19.7%. Recovery was swifter than anticipated. Lower other income impacted PBT. WC was in tight control with healthy cash position (~Rs2.5bn). A buyback of up to 0.75m shares @Rs400 each was approved; Nov 25 is fixed as the record date.

Good recovery in domestic auto/exports; footwear in slow lane. Per management, domestic auto and exports recovered swiftly since Aug while footwear, at ~60% recovery, is taking longer. Supply to VW and Mercedes SA could start by Q1 FY22 while approval from BMW is in an advanced stage.

PU plant – large import substitution, a game changer. While Covid-19 delayed the ramp-up, management sees strong demand for its PU products as domestic auto/footwear OEMs would prefer to source locally after a 10% increase in ADD on imports. Mayur's quality product and long relationship with these OEMs will throw up huge long-term opportunities.

Maintaining a Buy. 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. Net-cash status and FCFs are other positives. **Risks:** Volatile RM prices, keen competition.

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (Rs m)	5,522	5,734	5,135	4,215	7,059
Net profit (Rs m)	941	872	777	563	1,154
EPS (Rs)	20.8	19.2	17.1	12.4	25.5
PE (x)	12.8	13.8	15.5	21.3	10.4
EV / EBITDA (x)	7.1	8.0	9.8	11.4	5.8
PBV (x)	2.7	2.3	2.1	1.9	1.7
RoE (%)	20.8	16.7	13.2	8.8	15.8
RoCE (%)	20.5	16.0	12.8	8.7	15.2
Dividend yield (%)	0.5	1.2	1.9	0.4	1.9
Net debt / equity (x)	-0.4	-0.4	-0.3	-0.5	-0.4

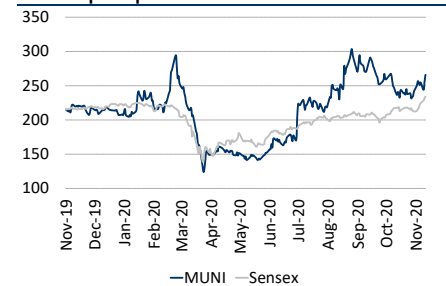
Source: Company, Anand Rathi Research

Key data	MUNI IN / MAYU.BO
52-week high / low	Rs310 / 118
Sensex / Nifty	43594 / 12749
3-m average volume	\$0.5m
Market cap	Rs12bn / \$162m
Shares outstanding	45m

Shareholding pattern (%)	Sep'20	Jun'20	Mar'20
Promoters	61.5	61.5	61.5
- of which, Pledged	-	-	-
Free float	38.5	38.5	38.5
- Foreign institutions	5.1	7.1	7.6
- Domestic institutions	3.6	3.7	4.7
- Public	29.8	27.7	26.3

Estimates revision (%)	FY21e	FY22e
Sales	0	5
EBITDA	(9)	7
PAT	(14)	6

Relative price performance



Source: Bloomberg

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Research AnalystDevanshi Kapadia
Research Associate

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Quick Glance – Financials and Valuations (Stand.)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Net revenues	5,522	5,734	5,135	4,215	7,059
Growth (%)	15.8	3.8	-10.4	-17.9	67.5
Direct costs	3,240	3,516	3,060	2,528	4,235
SG&A	832	943	1,036	907	1,267
EBITDA	1,451	1,275	1,039	779	1,556
EBITDA margins (%)	26.3	22.2	20.2	18.5	22.1
- Depreciation	171	180	184	184	220
Other income	132	215	191	185	220
Interest expenses	14	8	17	23	8
PBT	1,398	1,301	1,029	758	1,548
Effective tax rate (%)	32.7	33.0	24.5	25.7	25.5
+ Associates / (Minorities)	-	-	-	-	-
Net income	941	872	777	563	1,154
Adjusted income	941	872	777	563	1,154
WANS	45	45	45	45	45
FDEPS (Rs / sh)	20.8	19.2	17.1	12.4	25.5
FDEPS growth (%)	15.4	(7.4)	(10.8)	(27.5)	104.9
Gross margins (%)	41.3	38.7	40.4	40.0	40.0

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	227	227	227	227	227
Net worth	4,535	5,230	5,872	6,389	7,316
Debt (incl. pref.)	19	192	261	261	261
Minority interest	-	-	-	-	-
DTL / (Assets)	77	66	40	35	30
Capital employed	4,630	5,488	6,173	6,686	7,608
Net tangible assets	1,311	1,241	1,508	1,724	1,904
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	2,852	2,952
Current assets (ex cash)	2,187	2,481	2,902	2,105	3,233
Cash	256	192	524	647	472
Current liabilities	715	761	880	759	1,065
Working capital	1,472	1,720	2,022	1,346	2,168
Capital deployed	4,630	5,488	6,173	6,686	7,608
Contingent liabilities	57	408	146	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
EBIT (excl. other income)	1,280	1,095	855	595	1,336
+ Non-cash items	171	180	184	184	220
Oper. prof. before WC	1,451	1,275	1,039	779	1,556
- Incr. / (decr.) in WC	172	131	232	-686	812
Others incl. taxes	457	557	350	233	433
Operating cash-flow	821	587	457	1,232	312
- Capex (tang. + intang.)	191	478	452	50	395
Free cash-flow	631	109	6	1,182	-83
Acquisitions					
- Div. (incl. buyback & taxes)	76	177	272	45	227
+ Equity raised	-2	-	-	-	-
+ Debt raised	-48	173	69	-	-
- Fin investments	322	375	-217	1,200	100
- Misc. (CFI + CFF)	129	(206)	(312)	(186)	(235)
Net cash-flow	53	-64	332	123	-175

Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	12.8	13.8	15.5	21.3	10.4
EV / EBITDA (x)	7.1	8.0	9.8	11.4	5.8
EV / Sales (x)	1.9	1.8	2.0	2.1	1.3
P/B (x)	2.7	2.3	2.1	1.9	1.7
RoE (%)	20.8	16.7	13.2	8.8	15.8
RoCE (%) - after tax	20.5	16.0	12.8	8.7	15.2
Fixed asset T/O (x)	23.1	18.1	14.4	9.9	17.6
DPS (Rs / sh)	1.4	3.3	5.0	1.0	5.0
Dividend yield (%)	0.5	1.2	1.9	0.4	1.9
Div. payout (%) - incl. DDT	6.7	16.9	29.2	8.0	19.6
Net debt / equity (x)	-0.4	-0.4	-0.3	-0.5	-0.4
Receivables (days)	88	76	99	75	75
Inventory (days)	47	61	76	65	65
Payables (days)	38	36	41	40	40
CFO : PAT %	87.3	67.3	58.9	218.8	27.0

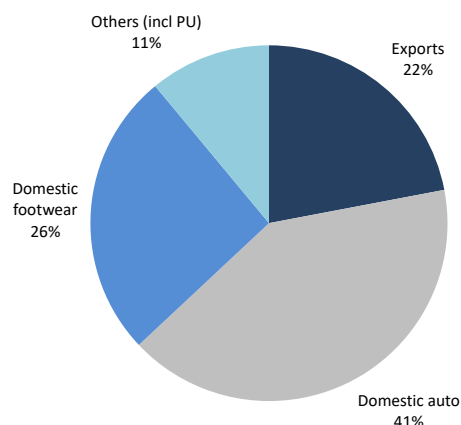
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Q2 FY21 revenue break-up (estimate)



Source: Company

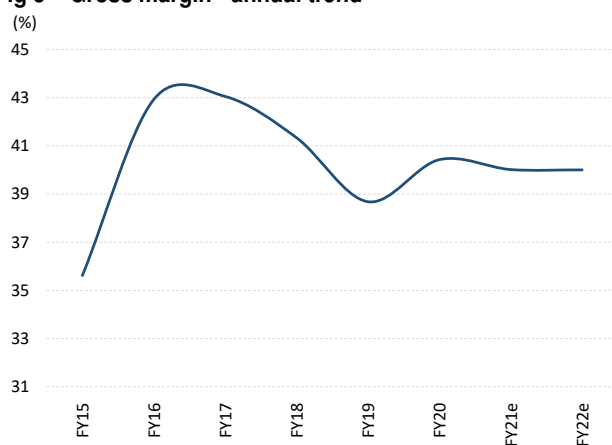
Financial Performance

Fig 7 – Financial performance (standalone)

(Rs m)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	% Y/Y	% Q/Q	H1FY21	H1FY20	% Y/Y
Income	1,242	1,246	1,394	381	1,106	(11)	191	1,487	2,524	(41)
RM costs	777	732	760	217	666	(14)	207	882	1,567	(44)
Employee expenses	75	78	90	78	83	11	6	161	156	3
Other expenses	181	186	186	90	140	(23)	55	231	489	(53)
EBITDA	209	250	358	(5)	217	4	(4,863)	213	460	(54)
Depreciation	44	46	50	34	50	13	48	84	87	(4)
Finance costs	1	5	8	5	8	446	58	13	3	280
Other income	52	45	57	55	30	(41)	(45)	85	168	(49)
PBT	215	244	357	12	190	(12)	1,529	202	458	(56)
Tax	15	62	91	4	46	211	1,202	49	99	(50)
PAT	200	182	266	8	144	(28)	1,670	152	359	(58)
EPS	4.4	4.0	5.9	0.2	3.2	(28)	1,670	3.4	7.9	(58)
As % of income						bps y/y	bps q/q			bps y/y
Gross margins	37.4	41.2	45.5	43.0	39.8	238	(319)	40.6	37.9	271
Employee cost	6.0	6.2	6.4	20.5	7.5	146	(1,298)	10.8	6.2	462
Other expenses	14.6	14.9	13.3	23.8	12.7	(191)	(1,106)	15.5	19.4	(386)
EBITDA margins	16.8	20.1	25.7	(1.2)	19.7	283	2,085	14.3	18.2	(392)
PBT margins	17.3	19.6	25.6	3.1	17.2	(13)	1,410	13.6	21.3	(776)
Effective tax rate	6.8	25.4	25.5	30.1	24.1	1,722	(604)	24.4	21.6	277
PAT margins	16.1	14.6	19.1	2.1	13.0	(308)	1,089	10.2	14.2	(397)

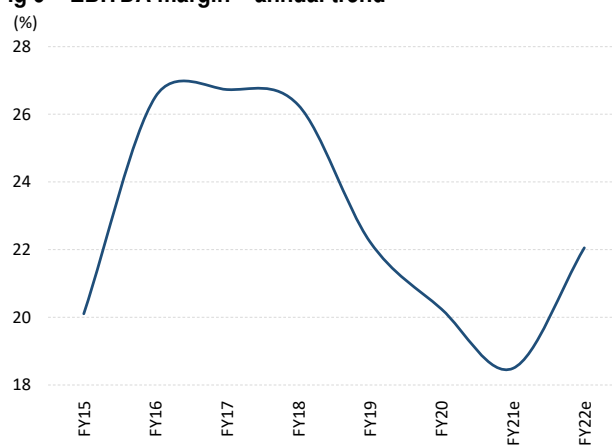
Source: Company, Anand Rathi Research

Fig 8 – Gross margin - annual trend



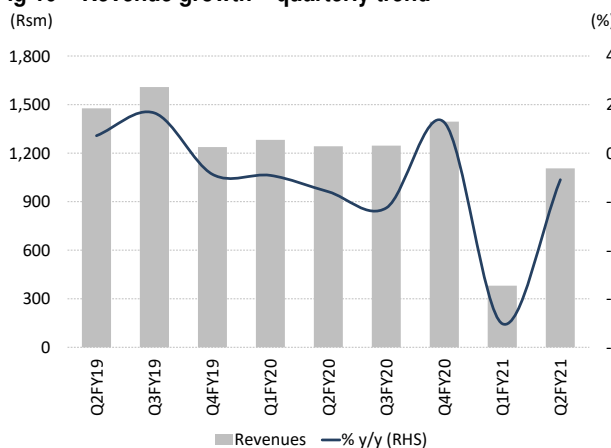
Source: Company, Anand Rathi Research

Fig 9 – EBITDA margin – annual trend



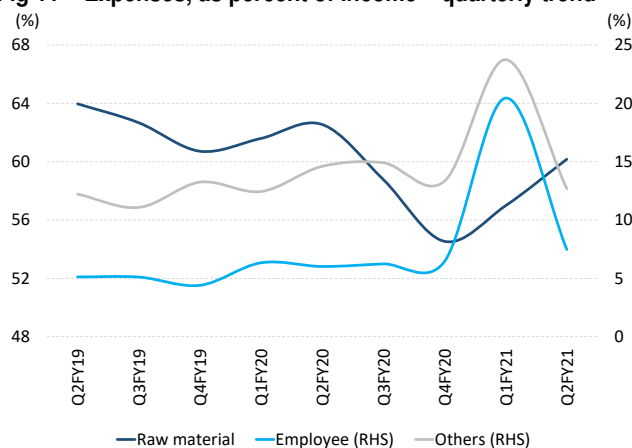
Source: Company, Anand Rathi Research

Fig 10 – Revenue growth – quarterly trend



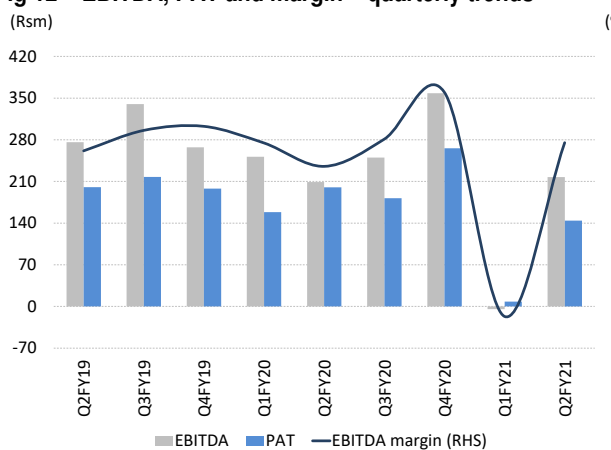
Source: Company, Anand Rathi Research

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



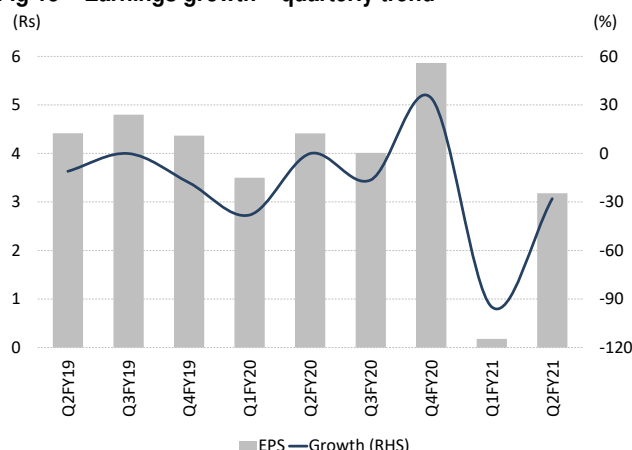
Source: Company, Anand Rathi Research

Fig 12 – EBITDA, PAT and margin – quarterly trends



Source: Company, Anand Rathi Research

Fig 13 – Earnings growth – quarterly trend



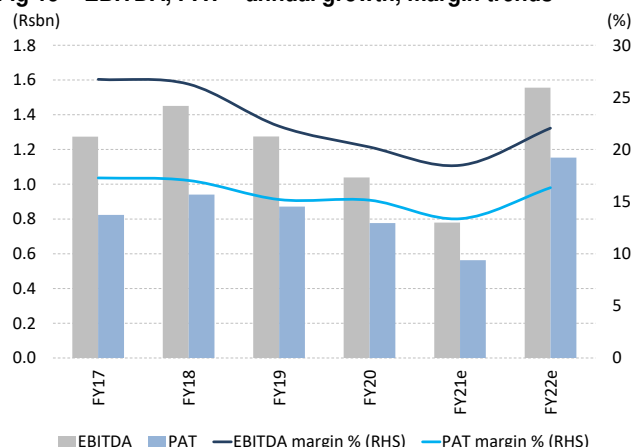
Source: Company, Anand Rathi Research

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.

After returning to growth since Aug, management expects Q3 to be a strong quarter, driven by auto/exports. Footwear recovery is in the slow lane and is expected to increase only gradually. Intermittent lockdowns in Europe and other markets are a concern, though.

We continue to like Mayur for its leading position in artificial leather, brighter outlook due to good traction at the recently commissioned PU plant, talk of curbing imports of leather goods from China and robust export opportunities from customers added. At ~10x FY22e P/E, we maintain a Buy rating with a target of Rs356 (14x FY22e P/E), earlier Rs337. Good recovery, a healthy margin and better RoEs are keys to a re-rating.

Fig 16 – Change in estimates

(Rs m)	Original Estimates		Revised Estimates		Change (%)	
	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Revenue	4,211	6,702	4,215	7,059	0	5
EBITDA	854	1,452	779	1,556	(9)	7
<i>EBITDA margins %</i>	<i>20.3</i>	<i>21.7</i>	<i>18.5</i>	<i>22.1</i>		
PAT	657	1,091	563	1,154	(14)	6
EPS (Rs)	14.5	24.1	12.4	25.5	(14)	6

Source: Anand Rathi Research

Fig 17 – One-year-forward P/E band, 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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