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VALUE PICK

CHASING VALUE, NOT PRICES

September 2020

Company Name	:	**MAYUR UNIQUOTERS LTD.**
BSE Code	:	**522249**
Time Duration	:	**2 year**
CMP	:	**₹270.65 (as on 10 Sept, 2020)**
Target Price	:	**₹370**

Value Pick for the month of August 2020 is MayurUniquoters Limited. It is one of the prominent market leaders and the largest producers of synthetic/artificial leather. The company is the largest manufacturer of artificial leather/PVC vinyl, which uses 'release paper transfer coating technology' in India. The company's product finds application in shoes, garments, luggage, sports goods, and upholstery and is also, 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 per cent of revenue), while the footwear segment contributes 35 per cent to sales. The company follows the OEM-based model with the original equipment manufacturer (OEM) contributing 75 per cent to the revenue. The domestic segment contributes about 80 per cent to the revenue, while the rest is contributed by exports.

Lower crude oil prices to aid profitability

Crude oil prices have corrected a lot in recent periods. The key raw material for the company is crude derivative and the soft crude price is expected to lower the raw material cost, which in turn, would boost the margins. Owing to the weak global demand on account of COVID-19, crude oil prices are expected to remain under pressure in the near term. In the last few quarters (except Q1FY21 which was hit by the COVID-19 pandemic), the company had been witnessing margin improvement, and going forward with the unlocking of lockdown, the economic activities are expected to pick up, which would lift the company's profitability in the coming years.

Polyurethane (PU) to act as the next growth leg

The company has started commercial production of its PU plant at the beginning of this year and it is in a process of adding new customers for its PU business. The company will also supply PU products and provide services to its existing clients. 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. In India, nearly 90 per cent of the PU imports are from China. If the government introduces import curbs, as has been done in other sectors, the company will be a significant beneficiary. Further, the PU segment's sales are expected to be high margin for the company. Increased sales of PU products would improve the product mix and enhance the company's margins, which in turn, would lead to higher profitability for the company.

Well-poised to grow in the long-term

MayurUniquoters is working with almost all the auto OEMs in India except for 2-3 companies. The company has got approval from Volkswagen India for its products. Here, it has replaced German imports. The company is in the final stage of getting approval from BMW. After approval from Mercedes, the path is clearer for other EU OEMs. The company is expected to outperform the artificial leather industry, driven by new client addition in the automotive segment. It has recently added three to four new domestic clients viz. Hyundai India, Kia Motors, and MG Motors, which will enable it to outgrow the industry. The company has also secured orders from Mercedes for supply to its South African plant, which would commence from Q1FY2022. Furthermore, the company is in negotiations with the domestic market leader Hero MotoCorp and is hopeful of receiving orders in the next three to four months.

Financial performance

The company has lost sales in April and May 2020 due to the regional lockdowns and weak order inflow. It is gradually returning to normalcy as the lockdown restrictions have eased and also, started receiving export orders. The manufacturing facilities are currently operating at utilisation rates of 65 per cent. Based on the current order flows and deal pipeline, the management expects to ramp-up the capacity levels to 70-75 per cent in the coming quarters.

In the first quarter of FY21, the company's net sales were down by nearly 70 per cent YoY to Rs 38.05 crore. In terms of EBITDA, it reported a loss of Rs 0.5 crore as against EBITDA of Rs 25.14 crore in the corresponding quarter of the previous year. Due to other income, the company posted a net profit of Rs 0.8 crore as against Rs 25.14 crore in Q1FY20.

Valuation and outlook

With the commencement of the PU plant, the company is likely to witness healthy growth in the long-term as the companies will start to look for alternatives to China. With the recent addition

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of new clients, its revenue is expected to grow in the long-run. By the end of this fiscal year, the management is expecting demand to be 100 per cent of the normal levels. The company has a strong liquidity position as it holds around Rs 174 crore of cash, bank balance, and short-term investment, which is nearly 14 per cent of its Mcap. Notably, the company has been generating strong cash flow and pays regular dividends. At the current price, it offers a dividend yield of 1.5 per cent. The company has strong return ratios (ROCE= 18.5 per cent, ROE= 14.5 per cent). We believe that the company is well-placed to ride on these short-term challenges with no debt and a strong liquidity position. The stock is currently available at attractive P/E of 17.6x as compared to five year median P/E of 20x. Considering all these, we recommend a BUY on the stock with a target of Rs 370, representing a potential upside of 37 per cent.

Inc/Exp Statement (Standalone)

Description	202003	201903	201803	201703	201603
Net Sales	516.46	573.43	552.22	476.7	511.02
Total Income	535.62	595.15	565.41	488.14	518.52
Total Expenditure	409.66	446.16	407.15	349.27	377.34
PBIDT	125.95	148.99	158.27	138.86	141.18
PAT	80.64	87.17	94.1	82.08	82.51
Dividend %	80	65	28	20	70
Adj. EPS(Rs)	17.79	19.23	20.76	17.93	17.19

Quarter On Quarter (Standalone)

Particulars	202006	202003	Q on Q Var %	201906	Y on Y Var %
Net Sales	38.05	139.44	-72.71	128.2	-70.32
Total Expenditure	38.51	103.61	-62.83	103.06	-62.63
PBIDT (Excl OI)	-0.46	35.82	-101.27	25.14	-101.81
PAT	0.81	26.58	-96.94	15.86	-94.87
PBIDTM% (Excl OI)	-1.2	25.69	-104.67	19.61	-106.12
PBIDTM%	13.24	29.81	-55.59	22.47	-41.08
PATM%	2.14	19.06	-88.77	12.37	-82.7
Adj. EPS(Rs)	0.18	5.86	-96.93	3.5	-94.86