



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	■	↔	■

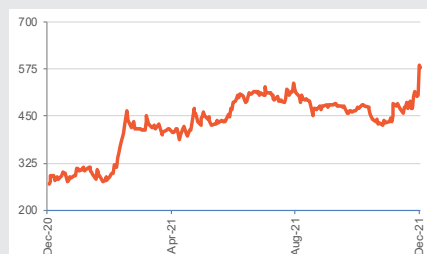
Company details

Market cap:	Rs. 2,733 cr
52-week high/low:	Rs. 546 / 254
NSE volume: (No of shares)	1.09 lakh
BSE code:	522249
NSE code:	MAYURUNIQ
Free float: (No of shares)	1.8 cr

Shareholding (%)

Promoters	59.9
FII	1.5
DII	4.8
Others	33.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	33.2	20.8	22.9	113.9
Relative to Sensex	36.0	19.9	9.5	82.1

Sharekhan Research, Bloomberg

Mayur Uniquoters Ltd

Set to benefit from easing supply constraints

Automobiles	Sharekhan code: MAYURUNIQ		
Reco/View: Buy	↔	CMP: Rs. 613	Price Target: Rs. 737
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We maintain Buy on Mayur Uniquoters Limited (MUL) with a revised PT of Rs. 737, owing to recovery in the automotive segment, improving footwear business outlook, and margin expansion.
- MUL likely to benefit from easing chips shortage situation, as its key clients' production is expected to improve going forward.
- Management continues to remain positive on the outlook, led by robust order book and commissioning of the new PU unit.
- The stock is trading below its historical average multiples at P/E multiple of 18.3x and EV/EBITDA multiple of 11.7x its FY2023 estimates.

Mayur Uniquoters Limited (MUL) is expected to benefit from easing supply constraints due to chips/semi-conductor shortage faced by auto original equipment manufacturers (OEMs) globally, including India. The company has strong business from the passenger vehicle (PV) segment both in India and international businesses. The company's key PV clients, viz. General Motors, Toyota, BMW, Mercedes Benz, Maruti Suzuki, and Tata Motors, are likely to increase their production level gradually after 50-70% production cuts in the past few months. Management expects the chip shortage issue to normalise by Q4FY2022-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 recovery in the footwear business, given its strong and established relationship with Indian and global OEMs. We expect margins to improve back to their normal levels to 23-25%, as volume picks up in FY2023E. 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.

- MUL to benefit from easing chips shortage situation:** MUL is expected to benefit from easing supply constraints due to chips/semi-conductor shortage faced by auto OEMs globally, including India. Leading global suppliers of chips are witnessing increased inventories for the first time in the past three quarters, despite increasing demand for auto chips. This implies easing of chips shortage situation globally, though the market is expected to remain dynamic. We expect PV production to resume to normal levels from the current 15-35% production cuts going forward.
- Management continues to remain positive and maintain its guidance:** The company's management continues to remain positive on the outlook, led by robust order book and commissioning of the new PU unit. The company had guided revenue of Rs. 600 crore and EBITDA margin of 20-21% in FY2022E, during the Q2 conference call. Rising competition and new model launches in the PV segment would help the company grow strongly going forward.
- Robust earnings growth:** Propelled by strong outlook for auto and footwear segments, we expect MUL's earnings to grow at a robust 31% CAGR over FY2021-FY2023E, driven by a 27% revenue CAGR and a 60 bps improvement in EBITDA margin to 25% in FY2023E from 24.4% in FY2021.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 737: 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 margin is expected to remain firm, driven by backward integration, cost reductions, and operating leverage benefits. We have maintained our estimates, considering 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 a 27% revenue CAGR and a 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 an 18.3x and EV/EBITDA multiple of 11.7x its FY2023 estimates. We retain our Buy rating on the stock with a revised PT of Rs. 737.

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)

Particulars	Rs cr			
	FY21	FY22E	FY23E	FY24E
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)	31.3	22.7	18.3	16.2
P/BV (x)	4.3	3.7	3.2	2.8
EV/EBITDA (x)	20.3	14.8	11.7	9.9
RoE (%)	13.8	16.2	17.3	17.0
RoCE (%)	20.6	24.0	25.7	25.4

Source: Company; Sharekhan estimates

MUL to benefit from easing chips shortage situation: MUL is expected to benefit from easing supply constraints due to chips/semi-conductor shortage faced by auto OEMs globally, including India. The company has strong business from the segment both in India and international businesses. The company's key PV clients, viz., General Motors, Toyota, BMW, Mercedes Benz, Maruti Suzuki, and Tata Motors, are likely to increase their production level gradually after 50-70% production cuts in the past few months. Management expects the chip shortage issue to normalise by Q4FY2022-end. Leading global suppliers of chips such as Renesas Electronics (Japan), NXP Semiconductors (Dutch supplier), Infineon Technologies (Germany), STMicroelectronics (Switzerland), and Texas Instruments (U.S.) are witnessing increased inventories for the first time in three quarters, despite increasing demand for auto chips. This implies easing of chips shortage situation globally, though the market is expected to remain dynamic. We expect production to resume to normal levels from the current 15-35% production cuts. During Q2FY2022, net revenue increased 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, while it suffered revenue loss of Rs. 30 crore due to chips shortage. One of its clients, Mercedes, has fallen short of earlier scheduled order due to chips shortage (15k-20k metres/month from earlier expectations of 40K metres/month) in Q2FY2022.

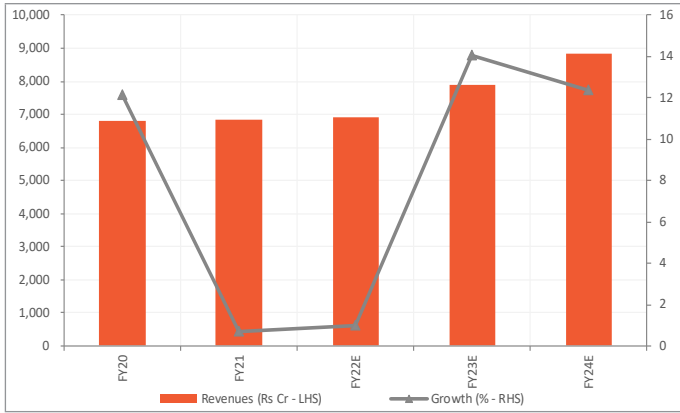
Management continues to remain positive and maintain its guidance: The company's management continues to remain positive on the outlook, led by robust order book and commissioning of new polyurethane (PU) unit. Management expects semiconductor chip shortage to normalise by the end of Q4FY2022. The company 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 had guided revenue of Rs. 600 crore and EBITDA margin of 20-21% in FY2022E during the Q2 conference call. Revenue from the PU plant is expected to be Rs. 20 crore in FY2022E and Rs. 40 crore in FY2023E. MUL is expecting orders from new clients to improve substantially going forward. Rising competition and new model launches in the PV segment would help the company to grow strongly going forward.

Strong demand: 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. MUL expects strong recovery in FY2022E and FY2023E with ramp up in the PU segment.

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. Propelled by strong outlook for auto and footwear segments, we expect MUL's earnings to post a robust 31% CAGR over FY2021-FY2023E, driven by a 27% revenue CAGR and a 60 bps improvement in EBITDA margin to 25% in FY2023E from 24.4% in FY2021.

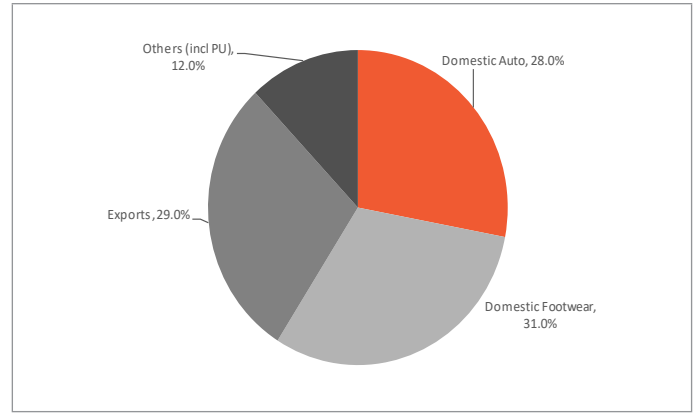
Financials in charts

Revenue and Growth trend



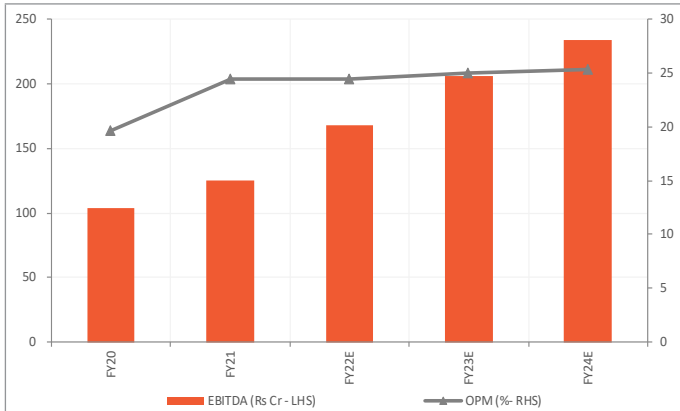
Source: Company, Sharekhan Research

Revenue Mix (%)



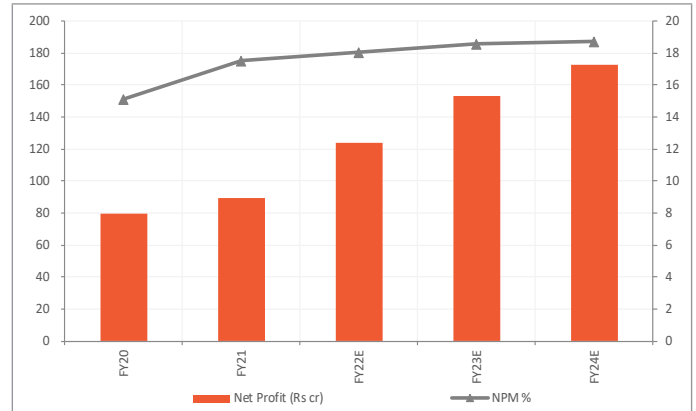
Source: Company, Sharekhan Research

EBITDA and OPM trend



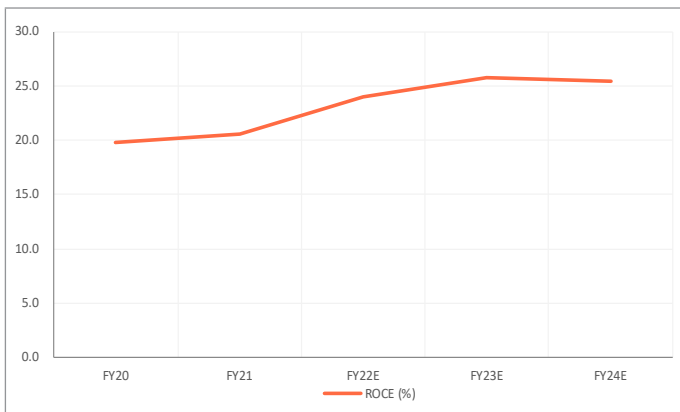
Source: Company, Sharekhan Research

Net Profit and NPM Trend



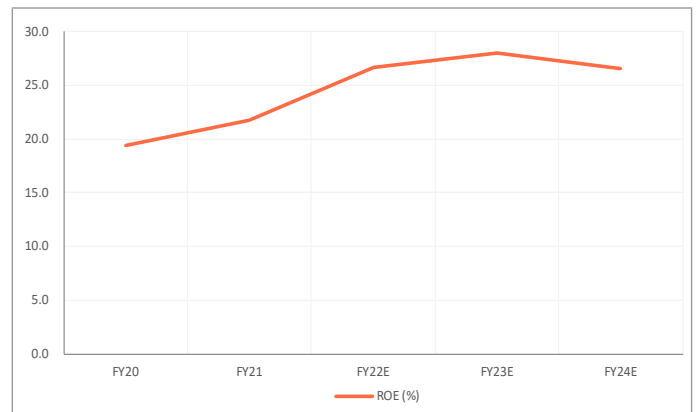
Source: Company, Sharekhan Research

ROCE Trend



Source: Company, Sharekhan Research

ROE Trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector outlook – Strong growth expected due to 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, UV resistance, and easy maintenance. The Indian global synthetic leather market size is estimated at 730 million square metres and is estimated to post 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.

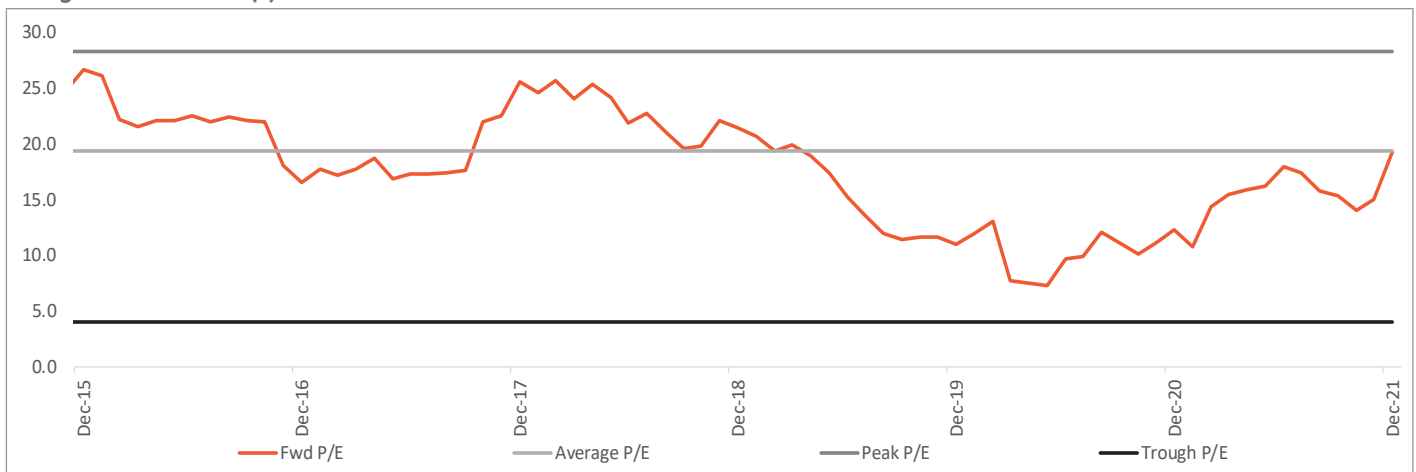
■ Company outlook – Strong earnings growth

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 27% revenue CAGR and a 60 bps rise in EBITDA margin to 25% in FY2023E from 24.4% in FY2021.

■ Valuation – Maintain Buy with a revised PT of Rs. 737

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 margin is expected to remain firm, driven by backward integration, cost reductions, and operating leverage benefits. We have maintained our estimates, considering 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 a 27% revenue CAGR and a 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 an 18.3x and EV/EBITDA multiple of 11.7x its FY2023 estimates. We retain our Buy rating on the stock with a revised PT of Rs. 737.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	Rs/Share	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Mayur Uniquoters	613	31.3	22.7	18.3	20.3	14.8	11.7	20.6	24.0	25.7
Alicon Castalloy	960	NA	23.8	13.9	18.1	9.6	6.9	5.9	19.1	26.2
Gabriel India	142	37.5	20.3	16.0	17.6	11.1	8.9	11.8	17.8	20.0

Source: Company, Sharekhan estimates

About company

MUL is the largest manufacturer of artificial leather/PVC vinyl in India. The company is operating in the automotive OEM across different continents. The company's products include PVC bonded foam, textile fabric impregnated coated covered or laminated with polyvinyl chloride (PVC), textile fabric impregnated coated covered or laminated with PVC, textile fabric impregnated coated covered or laminated with PU, non-woven whether or not impregnated coated covered or laminated, and PVC sheet flexible plain. 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 71% to revenue, while the rest 29% 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 a 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 & Managing Director
Arun Kumar Bagaria	Executive Director
Vinod Kumar Sharma	Chief Financial Officer
Rahul Joshi	Company Secretary

Source: Company Website

Top 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

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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 deteriorating 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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