

28 November 2017

## Mayur Uniquoters – BUY

**CMP** : 459  
**Target Price** : 552  
**Upside** : 20%+  
**Stop Loss** : 399 (closing basis)

### Investment Thesis

Recently, the stock price of Mayur Uniquoters Ltd. (Mayur Uniquoters) corrected by ~6% from 52-week high of Rs.479 despite reporting good set of numbers in the recent quarters.

In the organized segment of the domestic synthetic leather industry, Mayur Uniquoters has the largest installed capacity with product finding application in footwear, automobile, furnishing and apparels among others. It has total installed capacity of 3.05mn meters per month spread across Jaitpura and Dhodsar near Jaipur, Rajasthan. The company has backward integrated operation to manufacture synthetic knitted fabrics, which is the largest input value-wise after chemicals such as PU and PVC resins. Knitted fabric manufactured at Dhodsar plant is consumed primarily as captive consumption. Mayur Uniquoters commands leadership in India's organized PVC synthetic leather market. In the organized space, it competes with players such as Jasch Industries, Responsive Industries, Fenoplast, Prabhat Industries, Polynova, and Marvel Vinyls. Mayur Uniquoters has the largest installed capacity with product application across different user industries. The company supplies to all major organized players in India's footwear and auto OEM market.

India is the world's second-largest footwear maker after China. The local footwear market is dominated by unorganized players who account for nearly 70-75% of the total market, with only 10-12 organized players contributing the rest. Mayur Uniquoters offers products for various parts of footwear such as shoe uppers, show lining and insoles. These products find application in formal shoes and boots, sports shoes, sandals, slippers, and high-end women's footwear. Mayur Uniquoters is a major supplier to leading footwear manufacturers such as Bata, Relaxo, Paragon, Liberty, Action, and VKC Group.

### Financials

- During the past 5 years, revenue of Mayur Uniquoters grew at a CAGR of 8.8% while PAT grew at a CAGR of 19.3% in the same period.

Consol. (Rs.Mn.)	FY15	FY16	FY17	FY18E	FY19E
Revenue	5,063	5,110	4,848	5,575	6,411
EBITDA	1,018	1,354	1,302	1,497	1,722
% growth	9.2	33.0	-3.8	15.0	15.0
PAT	659	825	807	924	1,053
EPS (INR)	15.2	17.8	17.6	20.2	23.0
P/E (x)	29.8	25.4	25.7	22.4	19.7
RoE (%)	29.5%	24.1%	20.5%	21.4%	22.3%

- Mayur Uniquoters has reported revenue growth of 8.9% YoY in Q1FY18 to Rs.1409mn, led by 9% YoY volume growth. It reported healthy ~34% YoY and ~20% YoY increase in domestic auto segment and exports sales, respectively.

### Stock Data

Market Cap (INR MN)	20,714
Market Cap (\$ MN)	317.20
Shares O/S (in MN)	45.80
Avg. Volume (3 month)	68,000
52-Week Range (Rs.)	479 / 311

### Shareholding Pattern

Promoters	61.19%
FIIIs	8.70%
Institutions	6.32%
Others (incl. body corporate)	23.79%

Performance (%)	1M	6M	1Yr
Absolute	9.5%	16.3%	18.8%
BSE 500	-0.2%	7.6%	29.9%

### Key Ratios

Div Yield	0.2%
TTM PE	25.0x
ROE	20.7%
TTM EPS (INR)	18.1/-

- EBITDA of Mayur Uniquoters for the quarter came in at Rs.406mn, up by 4.9% YoY due to 7.9% decline in employee expenses. However, EBITDA margin declined by 110bps YoY to 28.8% in Q1FY18 as 12.2% higher raw material cost has weighed on EBITDA margin.
- Mayur Uniquoters' net profit declined by 4.2% YoY to Rs.182mn as increase in depreciation was offset by lower interest outgo in Q1FY18.

## Key Business Highlights

- Mayur Uniquoters is a market leader in production of artificial leather/foam leather and other substitutes of leather. Its products are used in segments, such as footwear, furnishings, automotive OEMs, automotive replacement market and automotive exports.
- Mayur Uniquoters sells its products to OEMs and other manufacturers and wholesalers in India. It also exports to various countries, including the United States and the United Kingdom.
- Mayur Uniquoters offers products for various parts of footwear, such as shoe uppers, shoe lining and insoles. It offers products, which are used in upholstery for sofas, chairs, cushion-covers and bean bags.

## Valuation

- Domestic synthetic leather industry, which is currently valuing at Rs.50,000mn, is highly fragmented in nature as only 50% of the total market comes from organized sector. On the back of cost effectiveness of synthetic leather (~70-80% cheaper than natural leather), environmental and ethic issues in manufacturing natural leather, synthetic leather industry has gained tremendous momentum in India. As a result, currently, synthetic leather accounts for 80% of the total leather product manufacturing in India. Better technology and innovation has given synthetic leather a similar look and feel as natural leather and it is rapidly finding replacement in many industries. Mayur Uniquoters being biggest player in the domestic synthetic leather industry with ~50% market share is well placed to cater the growing demand.
- With growing demand for footwear in India, Mayur Uniquoters has successfully expanded its PVC leather capacity from 1.40mn meters per month in FY10 to 3.05mn meters per month in FY17. Mayur Uniquoters is further expanding its PVC leather capacity by 0.10mn meters per month at the Mysore facility, since major footwear companies such as Bata and VKC Group are situated down south. Further, numerous international brands are using PU leather in garments, footwears and ladies' purses and bags are coming to India to resource their products, which will lead to a rise in demand for PU. Keeping its growth strategy in mind, Mayur Uniquoters is in the process of setting up a PU leather plant at Gwalior, Madhya Pradesh of 0.7mn meters per month. For incremental capacity expansion, it would incur capex worth Rs.1,500mn over FY17-FY19. We believe this incremental project will aid substantial volume growth FY19E onwards.
- With largest manufacturers of synthetic leather in India and installed capacity of 3.05mn meters per month, domestic synthetic leather industry is highly fragmented, major supplier to leading footwear manufacturers and further expanding its PVC leather capacity, we value Mayur Uniquoters at 24.00x FY19E EPS of Rs.23.00 to arrive at target price of Rs.552.00, an upside of ~22%.

## Risk & Concern

- Any delay in commissioning of new PU/PVC project may impact volume growth of Mayur Uniquoters.
- Inability to pass on rise in raw material prices may adversely impact operating margin of the company.
- Any increase in competition from unorganized players as well threat from Chinese imports may deter growth momentum of the company in the years to come.

## Graphs & Charts

Figure 1: Net Sales Trend

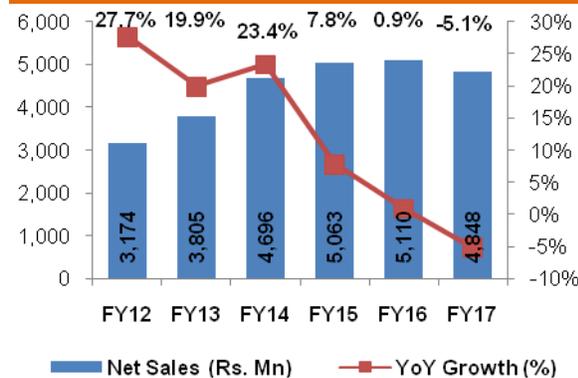


Figure 2: EBITDA & EBITDA Margin Trend

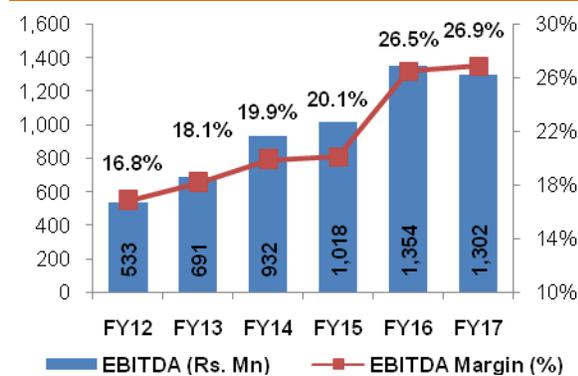
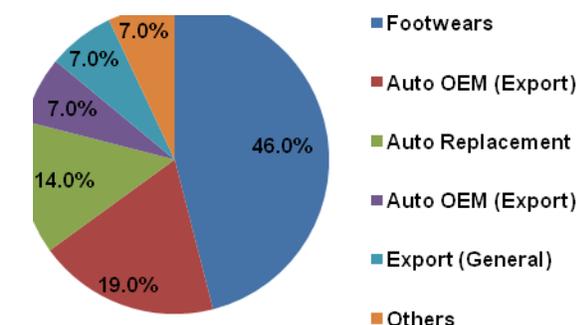


Figure 3: PAT Trend



Figure 4: Segment-wise Revenue (FY17)



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