MOTILAL OSWAL MOSt mid-cap Research

SECTOR: MISCELLANEOUS

Mayur Uniquoters

STOCK INFO.	BLOOMBERG
BSE Sensex:27,347	MUNI:IN
S&P CNX:8,277	REUTERS CODE MAYU.NS

(INR CRORES)

Y/E MARCH	FY15E	FY16E	FY17E
Revenue	544	661	816
EBITDA	108	143	180
EBITDA Margin	19.9%	21.6%	22.1%
NP (Adj.)	65	87	110
EPS (Adj.)	13.9	18.9	23.9
EPS Growth	14%	35%	27%
BV/share	62	75	91
Core ROE (%)	32	27	29
Core ROCE (%)	42	43	45
P/E (x)	32.3	23.9	18.9
P/BV (x)	7.4	6.1	5.1

KEY FINANCIALS	
Diluted Shares (cr)	4.6
Market Cap. (Rs cr)	2129
Market Cap. (US$ m)	355
Past 3 yrs Sales Growth (%)	24%
Past 3 yrs NP Growth (%)	31%

STOCK DATA	
52-W High/Low Range (INR)	485/161
Major Shareholders (as of December 2014)	
Promoter	66.4
Non Promoter Corp Holding	14.0
Public & Others	19.6
Average Daily Turnover(6 months)	
Volume	48774
Value (Rs cr)	2.1
1/6/12 Month Rel. Performance (%)	5/5/131
1/6/12 Month Abs. Performance (%)	5/15/161

Maximum Buy Price :INR480

14 January 2015 — **Buy**

Initiating Coverage — INR450

We recommend a BUY on Mayur Uniquoters with a target of INR 600 - valuing the company at 25x FY17E EPS.

Creating multiple moats: Over the years, Mayur has successfully created its moat within a competitive industry and is working towards widening it: (i) Mayur is a professionally run company investing in R&D with a focus on value added products while the other 5-6 organized players have languished much like the unorganized sector. Mayur's focus on quality has enabled the company to command premium pricing (5% over peers) in the domestic market allowing the company to command higher margins. With a view to focus on value added products, Mayur has developed a marketing team by setting up a subsidiary in US and hiring experienced personnel for targeting the developed markets. (ii) Mayur is the only company from India and among the only 2 in Asia to cater to the US auto OEM requirements which requires adherence to stringent quality norms and a seeding phase of over three years. (iii) Mayur enjoys economies of scale, as its capacity is 2x that of the next largest player. (iv) Mayur possesses strong leadership / visionary management, scalable business, above average industry growth, core ROE of 30% and strong cash flows.

Exports to double in three years: Over the last 4 years, Mayur has acquired clients such as Ford and Chrysler in the US and is currently in discussions with Mercedes, BMW, Toyota and GM. The top 6-7 auto OEMs in US purchase synthetic leather worth INR5b each annually which translates into an addressable market of INR30b. The auto OEM market in the US is tough to crack but rewarding. The realization earned by Mayur from US auto OEMs is >3x than that offered by domestic OEMs (INR470/mtr vs INR130/mtr). Similarly Mayur is also working on expanding in US and EU for general exports and expects over 100% growth over the next couple of years from this segment. Overall exports are expected to double by FY17E and constitute 28% of sales from its current contribution of 21%.

Valuations & View: Given the robust revenue visibility with global OEM clients coming on board, improving realizations with rise in share of exports and visionary top management; we believe Mayur can sustain 25% CAGR in profits over FY14-17E and beyond along with core ROE of 30%. We value the business at 25x FY17E EPS (PE/G of 1x) and recommend a BUY rating on the stock with a target price of INR600/share.

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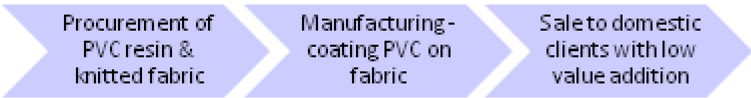
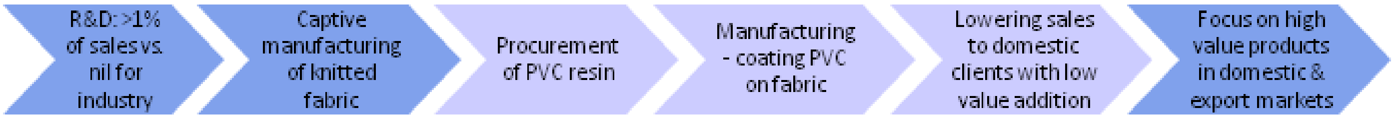
Robust profitability owing to attractive strategic positioning vis-à-vis industry: Although the industry structure for synthetic leather manufacturers stands poor, Mayur has strategically differentiated itself by focusing on higher value products/markets by investing in R&D, backward integration into manufacture of quality knitted fabrics, establishing global marketing & distribution to cater to high end export markets. Thus, Mayur has been able to consistently deliver ROE of >30% over the last 5 years.

Industry Value Chain



Mayur's Value Chain



Focus on value added products within the domestic market: Over the last 6 years, Mayur has consciously reduced its dependence on domestic auto OEMs from 21% of sales then, to 8% now as they demand low quality leather and offer very low realizations and margins. Even within domestic OEMs, Mayur has been focusing on clients requiring higher value products for high end vehicles viz. M&M, Ford and GM where realisations are much higher than those offered by OEMs that cater to the mass market. Earlier Mayur was directly involved with OEMs and wholesalers, but now the company is expanding its presence in the domestic market through distributors as well which will help in achieving better margins. The company recently appointed one distributor in Delhi and is planning to add 3 more distributors in Sothern, Eastern and Western parts of India. Thus, even on the domestic side, the management is gunning for growth opportunities only in segments that offer superior profitability.

Margin expansion to continue with rising exports, backward integration and decline in crude oil: Realisation from OEM exports is INR470/mtr and about INR185/mtr for general exports, while the realization from domestic OEMs is merely INR130/mtr. Thus the company has been reducing its supply to domestic OEM customers such as Maruti. As a result, higher contribution from export market is resulting in a rise in average realizations. Knitted fabric is the first layer of synthetic leathers on which the PVC rests, which constitutes 18% of total sales. Earlier, due to lower quality of knitted fabric the company witnessed high level of rejections (9%) in export markets. Consequently, the company started in-house manufacturing of knitted-fabric which helped bring down its rejection rate to just 2%. 80% of the knitting requirement is currently produced captively and the management is targeting to increase it to 100% over the next couple of years. PVC chemicals constitute 65% of the raw material cost and are derived from crude oil. Although the company is largely in the B2B category, we expect Mayur to retain some of the benefits of declining raw material costs which should act as a catalyst for expansion in margins. Driven by higher export contribution, complete backward integration and falling raw material costs, we expect Mayur's EBITDA margin to expand by 220 bps to 22.1% by FY17E.

Business Mix - Industry-wise	Sales Mix	Realisation / mtr	Focus
Domestic Footwear	54%	190	=
Domestic Auto OEMs	8%	130	⬇
Domestic Auto Replacement	9%	150	⬆
Domestic Furnishing & General	7%	155	⬆
Export - Auto OEMs & Replacement	17%	470	⬆
Exports - General	5%	185	⬆
Blended	**100%**	**225**	

Segments offering high value product propositions

Mayur Uniquoters Financials & Valuation

INCOME STATEMENT (INRCR)

Y/E MARCH	FY13	FY14	FY15E	FY16E	FY17E
Revenues	**381**	**470**	**544**	**661**	**816**
Growth	20%	23%	16%	22%	23%
COGS	268	316	352	416	509
Gross Profit	**113**	**153**	**192**	**246**	**307**
GP Margin	29.6%	32.6%	35.3%	37.2%	37.7%
Employee Cost	12	18	25	31	39
Other Expenses	31	42	59	72	89
EBITDA	**69**	**93**	**108**	**143**	**180**
EBITDA Margin	18.1%	19.9%	19.9%	21.6%	22.1%
Depreciation	5	7	12	16	20
Other Income	3	2	2	2	2
PBIT	**67**	**88**	**98**	**129**	**163**
E/O. Inc/(Loss)	0	0	0	0	0
Interest Cost	2	4	3	0	0
PBT	**64**	**84**	**95**	**129**	**163**
Tax	21	27	31	41	52
Rate	32%	32%	32%	32%	32%
Adjusted PAT	**44**	**57**	**65**	**87**	**110**
Growth	31%	30%	14%	35%	27%
PAT Margin	11.5%	12.1%	11.9%	13.2%	13.5%

RATIOS

Y/E MARCH	FY13	FY14	FY15E	FY16E	FY17E
Adjusted EPS (INR)	**9.4**	**12.3**	**13.9**	**18.9**	**23.9**
Book Value	55	74	62	75	91
Div Per Share	2.0	2.6	3.5	5.0	7.0
Dividend Payout	25%	25%	29%	31%	34%
Net Debt / Equity	0.0	0.1	-0.2	-0.1	-0.1
P/E	47.7	36.7	32.3	23.9	18.9
P/BV	8.4	6.2	7.4	6.1	5.1
EV/EBITDA	7.3	5.4	4.6	3.5	2.8
EV/Sales	1.3	1.1	0.9	0.8	0.6
Dividend Yield	0.4%	0.6%	0.8%	1.1%	1.5%
ROCE	46%	43%	34%	37%	39%
Core ROCE	56%	49%	42%	43%	45%
ROE	37%	35%	22%	25%	26%
Core ROE	37%	32%	27%	29%	30%
Debtor days	54	52	55	56	57
Inventory days	51	62	69	67	67
Creditor days	65	73	73	73	73
W.Cap cycle	41	42	52	51	51

BALANCE SHEET (INRCR)

Y/E MARCH	FY13	FY14	FY15E	FY16E	FY17E
Share Capital	11	11	23	23	23
Reserves	108	150	265	325	398
Networth	**118**	**161**	**288**	**348**	**421**
Loans	25	41	0	0	0
SOURCES OF FUNDS	**143**	**202**	**288**	**348**	**421**
Gross Fixed Assets	81	130	205	266	326
Less: Depreciation	26	32	44	60	80
Net Fixed Assets	**55**	**98**	**160**	**205**	**246**
Capital WIP	19	27	0	0	0
Inventories	44	64	70	83	102
Debtors	56	67	82	102	128
Cash & Investments	24	23	53	50	57
Loans & Advances	10	14	16	20	24
Other Curr Assets	4	8	9	9	10
Curr. Assets	140	176	230	263	321
Creditors and Prov.	67	92	96	116	142
Net Current Assets	**73**	**84**	**133**	**148**	**178**
Less Net Def. Tax Liab	4	6	5	5	4
APPLICATION OF FUNDS	**143**	**202**	**288**	**348**	**421**

CASH FLOW (INRCR)

Y/E MARCH	FY13	FY14	FY15E	FY16E	FY17E
EBITDA	69	93	108	143	180
Adjustments	0	-2	0	0	0
(Inc)/Dec in W.Cap	(22)	(18)	(20)	(18)	(23)
Pre Tax OCF	47	74	89	125	157
Tax Paid	(20)	(25)	(31)	(42)	(53)
CF from Operations	**27**	**49**	**58**	**83**	**104**
(Inc)/Dec in FA	(37)	(51)	(48)	(61)	(61)
Invst in Bank Deposits	4	3	0	0	0
Interest Received	3	2	2	2	2
CF from Investing act.	**(30)**	**(46)**	**(46)**	**(59)**	**(59)**
Inc/(Dec) in Sh. Prem.	0	0	82	0	0
Inc/(Dec) in Debt	16	14	(41)	0	0
Interest Paid	(2)	(4)	(3)	0	0
Divd Paid (incl Tax)	(11)	(14)	(19)	(27)	(38)
CF from Financing act.	**3**	**(4)**	**18**	**(27)**	**(38)**
Inc/(Dec) in Cash	(1)	(2)	30	(3)	7
Add: Opening Balance	31	24	23	53	50
Closing Balance	**31**	**23**	**53**	**50**	**57**

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