Mayur Uniquoters Limited

January 07, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities – Term Loan	1.32 (reduced from Rs.6.67 crore)	**CARE AA; Stable [Double A; Outlook: Stable]**	**Reaffirmed**
Long-term Bank Facilities - Bank Overdraft	-	**-**	**Withdrawn**
Long-term Bank Facilities – Fund based/ Non-fund based	-	**-**	**Withdrawn**
Short-term Bank Facilities	20.00 (reduced from Rs.35 crore)	**CARE A1+ [A One Plus]**	**Reaffirmed**
Long-term/ Short-term Bank Facilities	50.00 (reduced from Rs.65 crore)	**CARE AA; Stable / CARE A1+ [Double A; Outlook: Stable / A One Plus]**	**Reaffirmed**
Total Facilities	**71.32 (Rupees Seventy One Crore and Thirty Two Lakhs only)**		

Details of facilities in Annexure-1

The ratings on some of the bank facilities above have been withdrawn by CARE on receipt of confirmation from the banker about their full repayment and no dues against them.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Mayur Uniquoters Limited (MUL) continue to derive strength from over four decades of experience of its promoter in the artificial leather industry, MUL's strong market position in the organized segment of the Polyvinyl Chloride (PVC) coated fabric segment, wide product portfolio with diverse applications, product approvals from leading domestic & global automobile Original Equipment Manufacturers (OEMs) and its established clientele in the footwear segment. The ratings also factor revenue diversification with increasing proportion of income being contributed from automotive, replacement market and furnishing segments and company's focus on high margin products in both the domestic and export markets supported by its product development capabilities and backward integration enabling the company to consistently report healthy profit margins. The ratings further continue to factor the healthy liquidity, comfortable leverage and strong debt coverage indicators of MUL on account of very low net debt levels and healthy cash flow generation. The ratings further take cognizance of MUL's decision of setting aside brown field project at Mysore for manufacturing of PVC coated fabric.

The above rating strengths are, however, tempered by its exposure to raw material price volatility (majority of them being derivatives of crude oil) and foreign currency fluctuation risk, working capital intensive operations and its presence in a highly fragmented and competitive artificial leather industry especially in the lower value added segment of the market. The ratings also take cognizance of the planned capex by MUL to foray in to Polyurethane (PU) coated fabric at Gwalior and expansion by way of setting up new coating line for manufacturing of PVC at existing Dhodsar plant.

The ability of MUL to successfully implement its planned capex for manufacturing PU-coated fabric and expansion at its existing Dhodsar plant within envisaged cost parameters and generate envisaged returns thereof, significantly grow its scale of operations by tapping newer markets and further diversify its revenue stream while maintaining its healthy profitability and efficiently managing working capital requirements would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Leader in artificial/synthetic leather industry along with strong and reputed client base: MUL owns the largest installed capacity for manufacturing of synthetic leather in domestic organized segment with capacity of 366 lakh linear meters per annum (LLMPA) and is in the process to expand its capacities by adding seventh coating line at Dhodsar with which the total capacities will increase from 366 LLMPA to 426 LLMPA. MUL manufactures more than 400 variants of artificial leather from PVC polymer which finds application in footwear (shoes/sandals insole and uppers), automotive (seat upholstery and inner linings), furniture & fashion items (apparel). MUL has a strong and diversified client base across industries like Bata, Relaxo, VKC, Paragon, Maruti Suzuki, Mahindra & Mahindra, Baggit, etc. and shares long standing relationship with most of its clientele. Owing to consistency in its product quality, stringent quality control measures and adherence to delivery schedule, MUL is also one of the very few approved vendors in Asia by global automotive OEMs [such as Ford (USA) and Chrysler (USA)].

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

In-house product development, adequate backward integration and focus on high margin products has enabled MUL to consistently report healthy operating profit margins: Over the years, MUL has consistently generated healthy operating profit margins in an otherwise fragmented and unorganized synthetic leather industry on account of its focus on in-house product development / innovation, adequate backward integration and focus on high margin products (both in domestic and export market). During last four years ended FY18, the management has made conscious efforts to increase its focus on high margin products catering to Automotive, Replacement Market and Lifestyle products (Furniture & Apparel) as against relatively low margin products like Footwear. Contribution of footwear segment in total sales gradually reduced from 46% during FY16 to 38% during FY18 and H1FY19.

Healthy PBILDT margin on the back of growth in total operating income and strong debt coverage indicators: Total operating income (TOI) registered growth of 16% during FY18 as compared to FY17 driven by 40% growth in the automobile sector followed by 34% growth in the replacement market and 15% growth in the footwear segment. However, PBILDT margins of the company continued to remain stable at 28% during FY18. Further, MUL witnessed marginal growth of 6% in TOI during H1FY19 as compared to H1FY18 on account of impact of IND AS on revenue recognition on exports to its subsidiary. PBILDT margins though declined to 26% during H1FY19 as compared to 28% during H1FY18 mainly on account of increase in raw material prices being derivative of crude, it continued to remain healthy and superior as compared to its domestic competitors. Low debt levels coupled with healthy profitability continued to result in strong debt coverage indicators during FY18.

Vast experience of the promoters in artificial/synthetic leather industry with emphasis on R&D activities for product development: Mr. Suresh Kumar Poddar, Chairman, Managing Director and Chief Executive Officer (CEO) of MUL, has more than four decades of experience in the trading and manufacturing of artificial leather. He looks after overall operations of the company including production, marketing & strategy and has been directly associated with the successful implementation of inventory management and other cost reduction techniques like Total Quality Management (TQM), Total Productive Maintenance (TPM) and R&D initiatives in the company. Also, Mr. Arun Kumar Bhagaria, Executive Director, has similar experience of around a decade and is actively involved in managing the business.

Favorable outlook for artificial leather driven by growing demand from its key end-user industries; albeit competition exists in the lower value-added segment: Artificial leather mainly finds application across segments like footwear, automotive interiors, furnishing, auto-replacement market and fashion accessories. There is growing awareness and acceptability for artificial leather products across these industries as compared to genuine leather, being a cheaper alternative with good aesthetic quality. MUL faces competition from cheap import substitutes and from smaller organized players especially in footwear and replacement market. However, MUL has edge over its competitors by virtue of being the largest player in the domestic market, having backward integration facility and being approved vendor of leading automobile OEMs.

Cancellation of previously envisaged brown-field project for setting up of PVC leather manufacturing plant at Mysore: MUL had earlier planned to set up a PVC leather manufacturing plant with capacity of 0.10 million linear meters at Mysore (Karnataka) to save on lead time and logistic costs, South India being a prominent location of MUL's footwear customers. However, MUL has now set aside the said project at Mysore due to non-feasibility of the project at project location on account of slopy terrain.

Liquidity analysis; strong liquidity despite working capital intensive operations: MUL's working capital intensity has increased over last four years as reflected from elongation in operating cycle from 52 days during FY15 to 91 days during FY18. It was on account of increase in collection period due to increase in export sales to USA and increase in credit period in footwear segment. However, working capital requirements are met mostly through healthy internal cash generation resulting in almost nil utilization of fund-based working capital limits for the trailing 12 months ending November 2018. Further, cash flow from operations continued to remain healthy during FY18. MUL also had unencumbered liquid investments of Rs.148.86 crore as on March 31, 2018 exceeding total debt of the company resulting in a zero net debt position for the company.

<u>Key Rating Weaknesses</u>

Exposure to volatility in raw material prices and foreign exchange rate fluctuations: Almost 80% of MUL's raw materials are derivatives of crude oil; hence the prices of its raw materials vary with the fluctuation in international crude oil prices. MUL enters in to medium term contracts with its suppliers to mitigate any large volatility in raw material prices. MUL is also exposed to foreign exchange rate fluctuations on the back of its large imports which was 43% of its total raw material requirement during FY18. However, forex risk is partly mitigated through natural hedge available by way of exports.

Ongoing and planned capex: MUL had planned to foray into manufacturing of PU coated fabric by setting-up a green-field manufacturing capacity at Gwalior with an estimated cost of Rs.85 crore which is envisaged to be largely funded through available liquid investments and internal accruals and is expected to achieve commercial operations date (COD) by June, 2019. MUL shall also commence second phase of the project after stabilization of first phase.
MUL is also in the process of setting up seventh coating line at its existing unit for manufacturing of PVC leather with estimated cost of Rs.25 crore. Installed capacity of MUL for production of PVC coated fabric will be increased by 60 LLMPA, once this coating line becomes operational which is expected by end of March, 2019. MUL is setting up this new coating line mainly to meet supplies for Mercedes Benz.

Analytical approach*:* Standalone

Applicable criteria:
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[CARE's Policy on Withdrawal of Ratings]
[Rating Methodology - Manufacturing Companies]
[Financial Ratios - Non financial sector]

About the company
Incorporated in 1992 with commencement of operations in 1994 at Jaipur, Rajasthan, MUL (CIN: L18101RJ1992PLC006952) is in the business of manufacturing PVC coated fabric; commonly known as artificial/ synthetic leather. MUL is promoted by Mr. Suresh Kumar Poddar, Chairman, Managing Director and CEO, who has more than four decades of experience in trading and manufacturing of artificial leather.
MUL has two manufacturing facilities located near Jaipur (one facility each at Jaitpura and Dhodsar) having aggregate of six coating lines (four at Jaitpura and two at Dhodsar) to manufacture artificial leather along with backward integration for manufacturing of knitted fabric. Further, during FY16, MUL had setup a wholly owned subsidiary, Mayur Uniquoters Corp., in Texas, USA as a marketing/trading arm to facilitate exports to its growing customer base from the automotive industry in USA. MUL, over the years, has also registered itself as ISO 9001:2000 organization and has been awarded with various excellence awards.

Brief Financials (Rs. Crore)	FY17(A)	FY18 (A)
Total Operating Income	486.77	565.57
PBILDT	137.60	157.71
PAT	82.08	94.10
Overall Gearing (Times)	0.06	0.08
Interest Coverage (Times)	VL	VL

A: Audited; VL: Very Large
Based on published unaudited results for H1FY18, MUL reported TOI of Rs.301.93 crore (H1FY18: Rs.285.35 crore) with profit after tax (PAT) of Rs.45.63 crore (H1FY18: Rs.48.19 crore).

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	June 2020	1.32	CARE AA; Stable
Fund-based - LT-Bank Overdraft	-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	20.00	CARE A1+
Fund-based - LT/ ST-Cash Credit	-	-	-	5.00	CARE AA; Stable / CARE A1+
Fund-based/Non-fund-based-Long Term	-	-	-	0.00	Withdrawn
Fund-based/Non-fund-based-LT/ST	-	-	-	45.00	CARE AA; Stable / CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	1.32	CARE AA; Stable	-	1)CARE AA; Stable (03-Jan-18)	1)CARE AA (30-Sep-16)	1)CARE AA- (15-Sep-15) 2)CARE AA- (29-Apr-15)
2.	Fund-based - LT-Bank Overdraft	LT	-	-	-	1)CARE AA; Stable (03-Jan-18)	1)CARE AA (30-Sep-16)	1)CARE AA- (15-Sep-15) 2)CARE AA- (29-Apr-15)
3.	Non-fund-based - ST-BG/LC	ST	20.00	CARE A1+	-	1)CARE A1+ (03-Jan-18)	1)CARE A1+ (30-Sep-16)	1)CARE A1+ (15-Sep-15) 2)CARE A1+ (29-Apr-15)
4.	Fund-based - LT/ ST-Cash Credit	LT/ST	5.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (03-Jan-18)	1)CARE AA / CARE A1+ (30-Sep-16)	1)CARE AA- / CARE A1+ (15-Sep-15) 2)CARE AA- / CARE A1+ (29-Apr-15)
5.	Fund-based/Non-fund-based-Long Term	LT	-	-	-	1)CARE AA; Stable (03-Jan-18)	1)CARE AA (30-Sep-16)	1)CARE AA- (15-Sep-15) 2)CARE AA- (29-Apr-15)
6.	Fund-based/Non-fund-based-LT/ST	LT/ST	45.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (03-Jan-18)	1)CARE AA / CARE A1+ (30-Sep-16)	1)CARE AA- / CARE A1+ (15-Sep-15) 2)CARE AA- / CARE A1+ (29-Apr-15)

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