Mayur Uniquoters Limited

October 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	47.54 (Enhanced from Rs.43.81 crore)	**CARE AA; Stable [Double A; Outlook: Stable]**	Reaffirmed
Long-term / Short-term Bank Facilities	97.50 (Enhanced from Rs.60.00 crore)	**CARE AA; Stable/ CARE A1+ [Double A; Outlook: Stable/ A One Plus]**	Reaffirmed
Short-term Bank Facilities	20.00	**CARE A1+ [A One Plus]**	Reaffirmed
Total Facilities	**165.04 (Rupees one hundred sixty five crore and four lakh only)**		

Details of facilities in Annexure-1

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 industry applications, product approvals from leading domestic and global automotive Original Equipment Manufacturers (OEMs) along with its established and reputed clientele across industries. The ratings also factor revenue diversification across the automotive industry, auto replacement market, footwear and furnishing segments along with company's focus on high-margin products in both domestic and export markets supported by its product development capabilities and backward integration enabling the company to generate healthy profitability margins. The ratings further continue to take into account MUL's strong liquidity, comfortable leverage and strong debt coverage indicators on account of very low debt level and healthy cash flow generation. CARE Ratings also takes cognizance of improvement in its profitability during FY21 (refers to the period April 1 to March 31) and Q1FY22 on a y-o-y basis despite adverse impact of Covid-19 pandemic during the period.

The above rating strengths are, however, tempered by MUL's exposure to raw material price volatility and foreign currency fluctuation risk, increasing working capital intensity of its 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 saleability risk associated with its recently commissioned green-field Poly Urethane (PU) coated fabric project where ramp-up of operations is expected to be gradual; and delay in implementation of its forward integration project.

Rating Sensitivities

Positive Factors – Factors that could lead to positive rating action/upgrade:

- Significant increase in its total operating income (TOI) to beyond Rs.1,200 crore through greater geographical and product diversification along with sustained improvement in its ROCE over 25% while maintaining its healthy PBILDT margin and comfortable leverage and debt coverage indicators.
- Contraction in its gross working capital cycle to less than 90 days on sustained basis.

Negative Factors – Factors that could lead to negative rating action/downgrade:

- Decline in PBILDT margin below 20% on a sustained basis along with moderation in its debt coverage indicators.
- Deterioration in the overall gearing beyond 0.50 times on a gross debt basis.
- Negative cash flow from operations on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

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 the 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

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

Maintenance (TPM) and R&D initiatives in the company. Moreover, Mr Arun Kumar Bhagaria, Executive Director, has similar experience of over a decade and is actively involved in managing the business.

Leader in the organised segment of the domestic artificial/synthetic leather industry
MUL has the largest installed capacity for manufacturing of synthetic leather in the domestic organized segment with a capacity of 426 lakh linear meters per annum (LLMPA) of PVC coated fabric and 60 LLMPA of PU coated fabric post recent addition of seventh coating line of PVC coated fabric. MUL manufactures more than 400 variants of artificial leather from PVC polymer which find application in footwear (shoes/sandals in-sole and uppers), automotive (seat upholstery, door trims, steering wheel covers, inner linings etc.), furnishing (sofa, chair, cushion cover etc.) and fashion items (apparel, bag, belts etc.).

Strong and reputed clientele across diverse end-user industry with strong entry barriers
MUL has a diversified clientele across various industries and caters to the synthetic leather requirements of reputed players like Maruti Suzuki, Tata Motors, Mahindra & Mahindra, MG Motors, Honda Motorcycles, Bata, Relaxo, VKC, Paragon, Baggit, etc. and shares long standing relationship with most of its clientele. Generally, MUL sells its products to the approved vendors of the OEMs which in turn supply the products to OEMs. Owing to consistency in its product quality, stringent quality-control measures and adherence to delivery schedule, MUL is one of the very few approved vendors in Asia by global automotive OEMs [such as Ford (USA) and Chrysler (USA)]. MUL has also entered the European luxury car segment and it has started supplying to approved vendors of Mercedes Benz (Daimler) from Q1FY22 for its South African plant. MUL has set-up its 100% subsidiary named Mayur Uniquoters SA (Pty) Ltd, South Africa to facilitate exports to Mercedes Benz. It has also received product approval from BMW for its upcoming new car model. As informed by the company management, MUL is expected to start supply to BMW in FY23. Moreover, Volkswagen India, which used to import fabric from Germany, has started to buy synthetic leather fabric from MUL. Presently, MUL derives 25-30% of its consolidated revenue from export market mainly from the US which is expected to further increase as the supply to Mercedes and BMW contributes meaningfully to its sales.
Getting product approval from major global automobile OEMs is a time-consuming and costly process which takes around 2-3 years before supplies start whereas the cost involved includes expenditure towards product development, sampling, testing and payment to the representatives of such OEMs. Hence, the entry barrier is very high in such type of business as switching/ changing of supplier by OEMs till discontinuation of a car model is rare once product is approved.

In-house product development, adequate backward integration and focus on high-margin products enable MUL to report healthy operating profit margins
Over the years, MUL has 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 markets). MUL has sufficient capacity to produce knitted fabrics used in the automotive exports which results in cost efficiency, better quality control and consistency in supply which increases customer stickiness. During the past few years, MUL has consciously curtailed sales to the low-margin north Indian footwear market which also entailed a longer credit period of around six months. Consequently, contribution of footwear segment in its total sales had gradually reduced from 46% during FY16 to 36% during FY19; albeit the same increased to 40% during FY21 largely due to decline in sales towards automobile exports and replacement market due to subdued demand from these segments. Accordingly, the production of artificial leather has witnessed a declining trend over last two years ended FY21 leading to decline in capacity utilisation. Furthermore, with addition of its seventh line, the capacity utilization is expected to remain sub-optimal in near term, however, expected to gradually improve in the medium term with addition of new clients along with improvement in demand from end-user industries. With improvement in capacity utilisation along with better product mix, the operating profitability (PBILDT) margin of the company is expected to remain healthy in the range of 22-24% in the medium term.

Improved profitability and cash accruals during FY21 on a y-o-y basis despite adverse impact of Covid-19
TOI of MUL on a consolidated level declined marginally by 4% during FY21 on y-o-y basis as revenue during Q1FY21 was significantly impacted by disruptions on account of nationwide lockdown to counter the outbreak of first wave of Covid-19 pandemic. Post relaxation in lock-down, MUL witnessed a gradual recovery in revenue and profitability on quarter-on-quarter basis while revenue and profitability improved significantly in H2FY21 on y-o-y basis supported by recovery in demand from end-user industries. During FY21, PBILDT margin improved by 409 bps largely due to inventory gain in H2FY21 coupled with cost-cutting steps implemented by MUL to tide over the impact of Covid-19 pandemic. PAT margin improved in line with improvement in PBIDLT margin. Moreover, despite healthy profitability, ROCE of the company remained at 19% in FY21 as MUL’s liquid investment portfolio constituted 25%-30% of its total capital employed which generate low returns and thus impact overall return indicators of the company. Furthermore, MUL had generated healthy Gross Cash Accruals of Rs.108.35 crore during FY21 as against Rs.93.64 crore during FY20.

Expectation of recovery in performance from Q2FY22 post impact of second wave of Covid-19 during Q1FY22
The second wave of Covid-19 had put on hold the recovery of sales witnessed earlier during H2FY21 as sales were affected from the month of May 2021 onwards. During Q1FY22, TOI of MUL registered growth of 179% on y-o-y basis on lower base; albeit de-growth of 32% on q-o-q basis due to impact of second wave of Covid-19. The PBILDT margin during Q1FY22 remained lower on q-o-q basis due to lower sales volume coupled with higher input prices which the company could not immediately pass on to customers. MUL has increased price of its products in India and for general exports while it is expected to increase price for automotive export from Q3FY22 if higher input costs persist. MUL witnessed recovery in sales volume from July 2021. However, the continuation of recovery depends upon the occurrence and impact of third wave of Covid-19, if any.
The automotive replacement segment which was affected over past two years ended FY21 is also expected to grow with expected increase in domestic demand. Moreover, automotive export which was declining over past three years ended FY21 is expected to grow from FY22 with expected recovery in demand from the existing OEMs coupled with supply to vendors approved by Mercedes Benz (already started) and BMW (expected to start in FY23).

Comfortable capital structure and strong debt coverage indicators
Capital structure of the company on a consolidated level continued to remain comfortable marked by overall gearing ratio of 0.09 times as on March 31, 2021, backed by its healthy capital base of Rs.623 crore as on even date. During FY21, the company bought back the equity shares worth Rs.37 crore (including buyback tax of Rs.7 crore). The capital structure of the company is expected to remain comfortable due to its relatively low reliance on debt on the back of healthy cash flow generation and absence of any major debt funded capex. Moreover, debt coverage indicators marked by PBILDT interest coverage and total debt to GCA continued to remain strong during FY21 backed by low debt levels and healthy profitability.

Liquidity: Strong
Despite elongation in its operating cycle, MUL’s liquidity remains strong with current ratio of 4.09 times as on March 31, 2021 and low utilization of fund-based working capital limits at 50% for the trailing 12 months ended July 2021. Moreover, MUL had generated healthy cash flow from operations of Rs.66 crore during FY21 (FY20: Rs.80 crore). Further, MUL had unencumbered liquid investments and cash and bank balance aggregating Rs.155 crore as on March 31, 2021 significantly exceeding total debt of the company resulting in a zero net debt position for the company. As on June 30, 2021, MUL had unencumbered liquid investments of Rs.122 crore. MUL’s liquidity is expected to remain strong backed by strong generation of cash flow from operations and lower capex.

Key Rating Weaknesses
Elongation in working capital cycle
MUL’s operations remain working capital intensive as the company maintains two-three months of raw material inventory for smooth production due to lead time involved in import of some of the raw materials. Moreover, export sales entail lead time of around two months which also leads to higher requirement of inventory. Furthermore, the company extends credit period of around 30-90 days to its customers. The operating cycle of MUL which has been gradually increasing, further elongated from 127 days during FY20 to 161 days during FY21 largely due to higher inventory holding. MUL increased raw material sourcing towards March 31, 2021 to get benefit of relatively lower raw material prices which coupled with higher finished good inventory in its marketing subsidiaries resulted in higher inventory holding at a consolidated level. There was demand disruption in automotive segment due to second wave of Covid-19 in the US as well as curtailed production by auto OEM due to shortage of silicon chips, resulting in higher inventory for MUL.

Exposure to volatility in raw material prices and foreign currency 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 into medium-term contracts with its suppliers to mitigate any large volatility in raw material prices. Moreover, MUL being market leader has bargaining power to pass on increase in raw material prices to its customers resulting in relatively steady gross margin of around 40% during last 3 years ended FY21. MUL has taken a price increase in Q1FY22 due to rising raw material prices and freight cost. Furthermore, MUL is also exposed to foreign exchange rate fluctuations on the back of its large imports which was 44% of its total raw material requirement during FY21. However, forex risk is partly mitigated through natural hedge available by way of exports.

Saleability risk associated with recently commissioned green-field PU coated fabric project and delay in commissioning of its forward integration project compared to earlier envisaged timelines
MUL has forayed into manufacturing of PU coated fabric by setting up one coating line (consisting of one wet and one dry line) under Phase-I with capacity to produce 60 LLMPA of PU fabric. The company has constructed building and other peripheral infrastructure for four coating lines considering the future expansion plans. As compared to PVC coated fabric, PU coated fabric has closer resemblance to natural leather with better realizations of product. PU coated fabric finds application across similar industries like footwear, fashion accessories, furnishing and automotive upholstery. Presently,

more than 90% of PU coated fabric is being imported from China with presence of very few domestic manufacturers with limited capacity. MUL foresees this as a cross-selling opportunity to its existing PVC fabric customers. Moreover, import duty of 22% on PU material reduces the price gap between imports and domestic manufacturing. Till now, MUL earned very small revenue from its PU business as its operations were affected due to Covid-19 pandemic. Product sampling is underway for its PU fabric and production is expected to gradually ramp up over the next 6 to 12 months. Management expects revenue of around Rs.25 crore from PU business in FY22 and the same is expected to gradually reach Rs.100 crore in FY24. Due to envisaged gradual ramp-up of its operations coupled with competition from Chinese imports in its PU segment where MUL is a new entrant, its blended PBILDT margin could be impacted for some time. Thereby, early stabilization and ramp-up of the PU project remains critical for aiding the growth and profitability of the company and in turn improvement in its return indicators. Furthermore, as informed by the management, MUL may also plan second phase of the project after stabilization of the first phase.
MUL is also doing expansion-cum-forward integration project by setting up seventh coating line for manufacturing of PVC leather and adding embossing and other value-added machines at its existing unit (near Jaipur) at an estimated cost of Rs.42 crore which is being funded through term loan of Rs.25 crore and balance through internal accruals. Earlier, MUL was expecting completion of this project by June 2021; however, due to second wave of Covid-19 pandemic and delay in delivery of machineries, the project implementation got delayed. Till August 31, 2021, MUL had incurred cost of Rs.9.41 crore and added seventh coating line at Dhodsar plant while company expects completion of forward integration project by March 2022. MUL is setting up this new coating line mainly to meet supplies for Mercedes Benz. Furthermore, to meet the expected increase in automotive exports, MUL has plans to add knitting machines in FY23 with total cost of around Rs.10 crore which is expected to be funded though term loan of Rs.7.5 crore and balance through internal accruals.

Impact of Covid-19 on end-user industries and outlook for artificial leather
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 natural leather, being a cheaper alternative with good aesthetic quality. However, demand from the automotive, footwear and replacement market were impacted by Covid-19 pandemic. Sales of automobiles which witnessed decline of 18% in FY20 on y-o-y basis, further declined by 14% in FY21 due to Covid-19 pandemic and subsequent lockdown, higher cost of vehicle post implementation of BS-VI norms, reduced disposable income and semi-conductor shortage. Automobile sales are expected to grow by 12%-15% in FY22 over FY21 backed by favourable progress on the vaccination rollout front, pent-up demand and upcoming festive seasons while growth would be constrained by semi-conductor shortage. Furthermore, the replacement demand for synthetic leather from automotive segment is also expected to support the overall growth in automotive segment. Demand for formal, casual, premium and school footwear has been impacted due to Covid-19 pandemic due to more time spent at home by consumers. However, it is expected to improve gradually from Q2FY22. Moreover, demand from the footwear market is expected to remain robust in medium to long term due to growing awareness and acceptability for artificial leather products and the high price differential between synthetic and natural leather.
MUL faces competition from cheaper import substitutes and from smaller organized players especially in footwear segment 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 automotive OEMs which insulates the company from industry downturns to some extent.

Analytical Approach: Consolidated; CARE Ratings has considered the consolidated financials of MUL along with its subsidiaries as its subsidiaries are primarily set-up for undertaking marketing and distribution of MUL's products in different foreign geographies. Being a marketing arm of MUL, there is also cash flow fungibility with its subsidiaries. *The list of subsidiaries whose financials have been consolidated in MUL is mentioned in **Annexure-3**.*

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Consolidation
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
Liquidity Analysis of Non-Financial Sector Entities

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 another at Dhodsar) having aggregate of seven coating lines (4 at Jaitpura and 3 at Dhodsar) to manufacture artificial leather along with backward integration for manufacturing of knitted fabric. MUL has also forayed into manufacturing of PU fabric and started commercial production in January 2020. During FY16, MUL had setup a wholly owned subsidiary, Mayur Uniquoters Corp., in Texas, USA as a marketing/trading arm to facilitate exports to Ford and Chrysler while during FY20, MUL had set up a wholly owned subsidiary, Mayur Uniquoters SA (Pty) Ltd, South Africa as a marketing/trading arm to facilitate exports to Mercedes Benz's plant in South Africa. MUL is an ISO 9001:2000 organization and has been awarded with various excellence awards.

(Rs. Crore)

Brief Financials of MUL	Consolidated		Standalone	
	FY20 (A)	FY21 (A)	FY20 (A)	FY21 (A)
Total operating income	546.06	526.70	534.51	514.79
PBILDT	121.98	139.22	124.93	134.43
PAT	79.78	89.75	80.64	89.04
Overall gearing (times)	0.08	0.09	0.08	0.09
PBILDT Interest coverage (times)	VL	VL	VL	VL

A: Audited; VL: Very Large number/ Very Strong

As per the un-audited consolidated results, MUL earned a PAT of Rs.14.00 crore on a TOI of Rs.123.93 crore during Q1FY22 as against a PAT of Rs.0.09 crore on a TOI of Rs.44.44 crore during Q1FY21.

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History (Last three years): Please refer Annexure-2
Covenants of rated instrument/facility: Not Applicable
Complexity level of various instruments rated for this company: Please refer Annexure-4

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 2027	47.54	CARE AA; Stable
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-LT/ST	-	-	-	92.50	CARE AA; Stable / CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	47.54	CARE AA; Stable	-	1)CARE AA; Stable (23-Dec-20)	1)CARE AA; Stable (30-Dec-19)	1)CARE AA; Stable (28-Feb-19) 2)CARE AA; Stable (07-Jan-19)
2.	Non-fund-based - ST-BG/LC	ST	20.00	CARE A1+	-	1)CARE A1+ (23-Dec-20)	1)CARE A1+ (30-Dec-19)	1)CARE A1+ (28-Feb-19) 2)CARE A1+ (07-Jan-19)
3.	Fund-based - LT/ ST-Cash Credit	LT/ ST	5.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable/ CARE A1+ (23-Dec-20)	1)CARE AA; Stable/ CARE A1+ (30-Dec-19)	1)CARE AA; Stable/ CARE A1+ (28-Feb-19) 2)CARE AA; Stable/ CARE A1+ (07-Jan-19)
4.	Fund-based/Non-fund-based-	LT/ ST	92.50	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable/ CARE A1+	1)CARE AA; Stable/ CARE A1+	1)CARE AA; Stable/ CARE A1+ (28-Feb-19) 2)CARE AA; Stable/

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
	LT/ST					(23-Dec-20)	(30-Dec-19)	CARE A1+ (07-Jan-19)
5.	Fund-based - LT-Bank Overdraft	LT	-	-	-	-	-	1)Withdrawn (07-Jan-19)
6.	Fund-based/Non-fund-based-Long Term	LT	-	-	-	-	-	1)Withdrawn (07-Jan-19)

Annexure – 3: List of subsidiaries of MUL getting 'consolidated'

Sr. No	Name of the company	Relationship with MUL	% shareholding of MUL as on March 31, 2021
1	Mayur Uniquoters Corp.	Wholly owned subsidiary	100%
2	Futura Textiles Inc.	Wholly owned subsidiary	100%
3	Mayur Uniquoters SA (Pty) Limited	Wholly owned subsidiary	100%

Annexure-4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-Cash Credit	Simple
3.	Fund-based/Non-fund-based-LT/ST	Simple
4.	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details

Click here to view Bank Lender Details

Note on complexity levels of the rated instrument: *CARE Ratings 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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