Mayur Uniquoters Limited

November 13, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	18.56 (Reduced from 30.49)	CARE AA; Stable	Reaffirmed
Long-term/ Short-term bank facilities	60.00	CARE AA; Stable/ CARE A1+	Reaffirmed
Short-term bank facilities	20.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and 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 organised segment of polyvinyl chloride (PVC) coated fabric, 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 end-use industries. The ratings also factor in the revenue diversification across the automotive industry, the auto replacement market, the footwear and furnishing segments, along with the 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 generate healthy profitability margins. The ratings further continue to consider MUL's financial risk profile marked by comfortable leverage, and strong debt coverage indicators on account of the low debt levels and healthy cash flow generation and its strong liquidity. CARE Ratings Limited (CARE Ratings) also takes cognisance of the growth in sales volume during FY23 (refers to the period from April 1 to March 31) and Q1FY24 on a y-o-y basis and the expectation of further growth during FY24-FY26, supported by an increase in supply to auto OEMs and ramp-up of poly urethane (PU) operations.

The above rating strengths are, however, tempered by MUL's exposure to raw material price volatility and foreign currency fluctuation risk, continued elongated working capital cycle, 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 cognisance of the under-utilisation of the greenfield PU coated fabric project due to delay in the ramp-up of operations which restricts its profitability and return ratios.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant increase in its total operating income (TOI) to beyond ₹1,200 crore through greater geographical and product diversification along with sustained improvement in its return on capital employed (ROCE) of 25% from core operations, while maintaining its healthy profit before interest, lease rentals, depreciation and taxation (PBILDT) margin and comfortable leverage and debt coverage indicators.
- Contraction in its gross working capital cycle to less than 90 days on a sustained basis.

Negative factors

- Decline in the PBILDT margin below 18% on a sustained basis along with moderation in its debt coverage indicators.
- Deterioration in the overall gearing beyond 0.50x on a gross debt basis.
- Negative cash flow from operations on a sustained basis.

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-6**.

Outlook: Stable

Stable outlook reflects that MUL is likely to maintain its market position which coupled with strong and reputed clientele across a diverse end-user industry with strong entry barriers should enable it to sustain its financial risk profile over the medium term.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers:

Key strengths

Vast experience of the promoters in the artificial/synthetic leather industry

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, and 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 research & development (R&D) initiatives in the company. Moreover, Arun Kumar Bhagaria, Executive Director, has a similar experience of over a decade and is actively involved in managing the business. Manav Poddar, son of Suresh Poddar, was supposed to take a position on the board of MUL, however, there is no concrete decision yet.

Leader in the organised segment of the domestic artificial/synthetic leather industry

MUL has the largest installed capacity for manufacturing synthetic leather in the domestic organised segment with a capacity of 486 lakh linear metres per annum (LLMPA) of PVC-coated fabric and 50 LLMPA of PU coated. MUL manufactures more than 400 variants of artificial leather from PVC polymer, which finds application in footwear (shoes and 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 industries 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, Kia Motors, Volkswagen India, Hyundai, Honda Motorcycles, Bata, Relaxo, VKC, Paragon, Baggit, etc., and shares long-standing relationships with most of its clientele. Generally, MUL sells its products to approved vendors of the OEMs, which in turn, supply the products to OEMs. Owing to consistency in its product quality, the stringent quality-control measures and the adherence to the delivery schedule, MUL is one of the few approved vendors in Asia by global automotive OEMs, i.e., Ford (the US), Chrysler (the US), and Mercedes Benz (South Africa). 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 the supply to BMW in Q4FY24.

Getting product approval from major global automobile OEMs is a time-consuming and costly process, which takes around two to three years before supplies start. Hence, the entry barrier is high in such a type of business, as switching and changing of suppliers by OEMs until the discontinuation of a car model is rare once the product is approved.

In-house product development, adequate backward integration, and focus on high-margin products

Over the years, MUL has generated healthy operating profit margins in an otherwise fragmented and unorganised synthetic leather industry on account of its focus on in-house product development and innovation, adequate backward integration, and focus on high-margin products (both, in the domestic and export markets). MUL has sufficient capacity to produce knitted fabrics used in automotive exports, which apart from other value-added processes (printing, embossing, lamination), results in cost efficiency, better quality control, and consistency in supply, which increases customer stickiness. The production of artificial leather witnessed growth during FY22 and FY23 supported by a recovery in demand from the footwear and the automotive industries. The capacity utilisation is expected to gradually improve in the medium term with the addition of new clients and/or models along with an improvement in demand from the end-user industries. With the improvement in capacity utilisation, moderation in raw material prices along with a better product mix, CARE Ratings expects operating profitability (PBILDT) margin of the company to remain healthy over 20% in the medium term.

Growth in the scale of operations with healthy profitability during FY23 and Q1FY24

After registering a healthy growth of over 25% in TOI during FY22, TOI of MUL grew further by 18% during FY23 on a year-on-year basis supported by 14% volume growth. The PBILDT margin although declined from 19.94% in FY22 to 18.64% in FY23 due to higher input costs apart from operating loss from PU business, it continued to remain healthy. Profit-after-tax (PAT) margin also continued to remain healthy at 13.31% in FY23 (FY22: 14.23%). Furthermore, MUL had generated healthy gross cash accruals (GCA) of ₹125 crore during FY23 as against ₹ 115 crore during FY22.

Despite healthy profitability, the ROCE of the company remained at 18% in FY23, as MUL's liquid investment portfolio constituted 25-30% of its total capital employed, which generated low returns, apart from under-utilisation of investment of PU assets impacted the return indicators of the company.

During Q1FY24, the TOI of MUL remained largely stable on a y-o-y basis with improvement in PBILDT margin to 22.73% (Q1FY23: 19.21%). With the on-going recovery in demand from the end-user industries coupled with supply to BMW and other new models where product is approved, revenue is expected to grow in H2FY24. Moreover, retailing of PVC fabric is also expected to support growth in the medium term. MUL has started retail furnishing business under the brand name "Texture and

Hues". The company has plans to build dealership network of 1,000 dealers across India by September 2024 out of which the company already has over 300 dealers as on date. CARE Ratings expects TOI to grow at around 10-15% over FY24-FY26.

Comfortable capital structure and strong debt coverage indicators

The capital structure of the company, on a consolidated level, continued to remain comfortable, marked by an overall gearing ratio of 0.07x as on March 31, 2023, backed by its healthy capital base of ₹753 crore as on even date. 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 the absence of any major debt-funded capex. Moreover, the debt coverage indicators marked by PBILDT interest coverage and total debt to GCA continued to remain strong during FY23, backed by low debt levels and healthy profitability. Debt coverage indicators are expected to remain strong due to healthy profitability and cash accruals.

Liquidity: Strong

Despite an elongated operating cycle, MUL's liquidity remains strong with a current ratio of 5.84x as on March 31, 2023, and nil utilisation of fund-based working capital limits for the trailing 12 months ended August 2023. Furthermore, MUL had unencumbered liquid investments and a cash and bank balance aggregating to ₹197 crore as on March 31, 2023, significantly exceeding total debt of the company, resulting in a zero net debt position for the company. MUL's liquidity is expected to remain strong in the near term, backed by the strong generation of cash flow from operations and relatively lower capex.

Key weaknesses

Continued elongated working capital cycle restricted operating cash flow

MUL's operations remain working capital intensive marked by operating cycle of 160 days in FY23 due to continued high inventory holding. The company maintains around three months of raw material inventory for smooth production due to the lead time involved in the import of some of the raw materials. Moreover, export sales entail a lead time of around two months along with one month of finished goods inventory, which also leads to a higher requirement for inventory. Furthermore, the company extends a credit period of around 30-90 days to its customers. With increase in automotive exports, the operating cycle is expected to remain elongated in the near to medium term. As informed by the management, manufacturing plant near client location can reduce working capital requirement. The company is contemplating capacity expansion of PVC fabric through greenfield project in Mexico to cater its existing and prospective clients in USA. MUL has identified the land parcel for the same. However, the project is yet to be approved by the Board. Management also informed that project implementation is expected to take two years once it starts.

The increasing working capital requirement has adversely impacted its operating cash flow, which remained at around ₹319 crore (cumulative for the last five years ended FY23), as against a cumulative PBIDLT of ₹657 crore and a cumulative GCA of ₹547 crore over the same period. However, despite the relatively low cash flow from operations, MUL's reliance on external debt has remained low as the majority of its incremental working capital requirements are being funded by internal accruals.

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 fluctuations 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 a market leader has the bargaining power to pass on the increase in raw material prices to its customers, resulting in a relatively steady gross margin of around 40% during the last five years ended FY23. Furthermore, MUL is also exposed to foreign exchange rate fluctuations on the back of its large imports, which was 47% of its total raw material requirement during FY23. However, the forex risk is partly mitigated through the natural hedge available by way of exports.

Under-utilisation of the newly commissioned greenfield PU-coated fabric project restricted profitability and return ratio

MUL has forayed into the manufacturing of PU-coated fabric by setting up one coating line (consisting of one wet and one dry line) under Phase-I with a capacity to produce 50 LLMPA of PU fabric. The company has constructed a building and other peripheral infrastructure for four coating lines, considering the future expansion plans. As compared to PVC-coated fabric, PU-coated fabric has a closer resemblance to natural leather, with better realisations of the product. PU-coated fabric finds applications across similar industries like footwear, fashion accessories, furnishing, and automotive upholstery. At present, more than 90% of the PU-coated fabric is being imported from China, with the presence of a few domestic manufacturers with limited capacity. MUL foresees this as a cross-selling opportunity to its existing PVC fabric customers. Despite imposition of an anti-dumping duty (ADD) by the Central Government, the capacity utilisation from PU continues to remain below 20%. MUL is planning to tie up with some of the global footwear players to increase capacity utilisation with long-term revenue visibility. With gradual approval from customers, revenue from the PU business is expected to gradually reach ₹100 crore in the medium term. Due to the envisaged gradual ramp-up of its operations coupled with competition from Chinese imports in its PU segment, its blended PBILDT margin could be impacted in the near-term. Thereby, the early stabilisation and ramp-up of the PU project remain 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 a second phase of the project after stabilisation of the first phase.

Industry outlook

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. Elevated inflation along with de-stocking by footwear manufacturer amidst Bureau of Indian Standard (BIS) implementation by Government of India has been impacting demand from the footwear industry. However, recovery in demand is expected in H2FY24 with the onset of the festive and wedding seasons coupled with re-stocking by footwear manufacturers. Sales of automobiles which declined over past three years ended FY22 on y-o-y basis mainly due to COVID-19 pandemic and subsequent lockdown, higher cost of vehicle post implementation of BS-VI norms, reduced disposable income and semiconductor shortage, it grew by 20% in FY23 over FY22 aided by the pent-up demand, growing preference for personal mobility and stable semiconductor supplies.
Demand of passenger vehicles is expected to grow in the medium term supported by rising per capita income, currently low vehicle penetration, development of infrastructure etc. Furthermore, the replacement demand for synthetic leather from automotive segment is also expected to support the overall growth in automotive segment. Moreover, demand from the footwear market is expected to remain robust in the medium to long term due to the 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 organised players, especially in the footwear segment and replacement market. However, MUL has an edge over its competitors by virtue of being the largest player in the domestic market, having a backward integration facility and being an approved vendor of leading automotive OEMs, which insulates the company from industry downturns to some extent.

Environment, social, and governance (ESG) risks

Parameter	Compliance and action by the company
Environment	• MUL is certified with ISO 14001:2015 (environmental management systems) and ISO 45001:2018 (occupational health and safety management systems) for integrated management system implementation. • MUL works towards energy efficiency including use of energy efficient equipment, use of renewable energy sources, and reduce greenhouse gas emissions by adopting practices like reduce, reuse, recycle, advanced technology, and by planting trees (6,000 in FY23 and cumulatively 17,000 trees) within the premises and in nearby areas. • Hazardous waste is disposed through a government-approved recycler.
Social	• MUL is a signatory to the UN Global Compact (UNGC) network and supports its principles on human rights, labour, environment, and anti-corruption. • MUL has a supplier sustainability policy to ensure that it deals with suppliers who share its values regarding sustainability and has a process to follow up supplier sustainability work.
Governance	• MUL's board of directors consists of over 50% independent directors (four out of six). • There are separate codes of conduct for board members and senior management personnel. • Various policies, including the whistle-blower policy, anti-bribery policy, and vigilance committee are in place, in line with the requirement.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Consumer durables	Consumer durables	Leather and leather products

Incorporated in 1992 with commencement of operations in 1994 at Jaipur, Rajasthan, MUL (CIN: L18101RJ1992PLC006952) is in the business of manufacturing PVC-coated fabric and PU coated fabric, commonly known as artificial/synthetic leather. MUL is promoted by Suresh Kumar Poddar, Chairman, Managing Director and CEO, who has more than four decades of experience in the trading and manufacturing of artificial leather.

MUL has two manufacturing facilities located near Jaipur (one facility each at Jaitpura and another at Dhodsar) having an aggregate of seven coating lines (four at Jaitpura and three at Dhodsar) to manufacture artificial leather along with backward integration for manufacturing of knitted fabric. MUL has also forayed into the 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, the US, as a marketing and 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 and trading arm to facilitate exports to Mercedes Benz's plant in South Africa. In May 2022, MUL had setup a wholly-owned subsidiary, Mayur Techfab Private Limited, for the retailing of PVC fabrics. MUL is an ISO 9001:2000 organisation and has been awarded with various excellence awards.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	663	783	209
PBILDT	132	146	48
PAT	94	101	31
Overall gearing (times)	0.07	0.07	NA
Interest coverage (times)	55.55	59.54	68.86

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	30/06/2027	18.56	CARE AA; Stable
Fund-based - LT/ ST-cash Credit	-	-	-	-	5.00	CARE AA; Stable/ CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	55.00	CARE AA; Stable/ CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	-	20.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term loan	LT	18.56	CARE AA; Stable	-	1)CARE AA; Stable (31-Oct-22)	1)CARE AA; Stable (07-Oct-21)	1)CARE AA; Stable (23-Dec-20)
2	Non-fund-based - ST-BG/LC	ST	20.00	CARE A1+	-	1)CARE A1+ (31-Oct-22)	1)CARE A1+ (07-Oct-21)	1)CARE A1+ (23-Dec-20)
3	Fund-based - LT/ ST-Cash credit	LT/ ST*	5.00	CARE AA; Stable/ CARE A1+	-	1)CARE AA; Stable/ CARE A1+ (31-Oct-22)	1)CARE AA; Stable/ CARE A1+ (07-Oct-21)	1)CARE AA; Stable/ CARE A1+ (23-Dec-20)
4	Fund-based/Non-fund-based-LT/ST	LT/ ST*	55.00	CARE AA; Stable/ CARE A1+	-	1)CARE AA; Stable/ CARE A1+ (31-Oct-22)	1)CARE AA; Stable/ CARE A1+ (07-Oct-21)	1)CARE AA; Stable/ CARE A1+ (23-Dec-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

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: Lender details

To view the lender-wise details of bank facilities please click here

Annexure-6: List of subsidiaries consolidated

Sr. No	Name of the Company	Relationship with MUL	% of holding by MUL as on March 31, 2023
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%
4.	Mayur Techfab Private Limited	Wholly-owned subsidiary	100%

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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