Mayur Uniquoters Limited

December 06, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	10.80 (Reduced from 18.56)	CARE AA; Stable	Reaffirmed
Long-term / Short-term bank facilities	67.00 (Enhanced from 60.00)	CARE AA; Stable/ CARE A1+	Reaffirmed
Short-term bank facilities	20.00	CARE A1+	Reaffirmed

[1]Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to 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, established and reputed clientele and product approvals from leading domestic and global automotive original equipment manufacturers (OEMs) with strong entry barriers. Ratings also factor MUL's presence in OEM and automotive replacement market, the footwear and furnishing segments, and its focus on high-margin products in domestic and export markets, supported by its product development capabilities and backward integration, enabling the company to generate healthy profitability margins. Ratings further continue to consider MUL's financial risk profile marked by comfortable leverage, and strong debt coverage indicators on account of 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 in FY24 (refers to April 01 to March 31) and H1FY25 year-over-year (y-o-y) and the expectation of further growth in FY25-FY27, supported by an increase in demand from auto OEMs and ramp-up of poly urethane (PU) operations.

However, rating strengths are tempered by MUL's exposure to raw material price volatility and foreign currency fluctuation risk, continued elongated working capital cycle, and presence in highly fragmented and competitive artificial leather industry, especially in the lower value-added segment of the market. Ratings also take cognisance of continued under-utilisation of PU coated fabric capacity due to delay in the ramp-up of operations which restricts its profitability and return ratios to an extent.

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, while maintaining its return on capital employed (ROCE) of 25% from core operations, 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 and 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 MUL's consolidated financials including its subsidiaries, as its subsidiaries are primarily set-up for undertaking marketing and distribution of MUL's products in different foreign geographies. Being MUL's marketing arm, 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 and strong entry barriers should enable it to sustain its financial risk profile over the medium term.

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

Detailed description of key rating drivers:

Key strengths

Vast experience of promoters in the artificial/synthetic leather industry

Suresh Kumar Poddar, Chairman, Managing Director, and Chief Executive Officer (CEO) of MUL, has over four decades of experience in trading and manufacturing artificial leather. He manages the company's overall operations, 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 and 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, the son of Suresh Poddar, was expected to join MUL's board. However, he does not hold a board position at present but is involved in the business operations.

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 over 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, and inner linings among others), furnishing (sofa, chair, and cushion cover among others), and fashion items (apparel, bag and belts among others).

Strong and reputed clientele across diverse end-user industries with strong entry barriers

MUL has a strong and diversified clientele across industries and caters 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, and Baggit among others and shares long-standing relationships with most 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, stringent quality-control measures and adherence to delivery schedule, MUL is one of the few approved vendors in Asia by global automotive OEMs, including Ford (the US), Chrysler (the US), Mercedes Benz (South Africa) and BMW. In FY24, MUL derived 31% of its consolidated revenue from exports (FY23: 29%) mainly from the US which is expected to 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 two to three years before supplies start. Hence, the entry barrier is high in such 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 considering its focus on in-house product development and innovation, adequate backward integration, and focus on high-margin products (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 grew in the last couple of years supported by a recovery in demand from the footwear and the automotive industries. Capacity utilisation has been improving over the years and is further expected to improve in the medium term with the addition of new clients and/or models and an improvement in demand from the end-user industries. With the improvement in capacity utilisation, moderation in raw material prices and a better product mix, CARE Ratings expects the company's operating profitability (PBILDT) margin to remain healthy over 22% in the medium term.

Continued growth in the scale of operations with healthy profitability in FY24 and H1FY25

MUL's TOI on a consolidated level has grown at compound annual growth rate (CAGR) of 6% in the last five years ended FY24 and grew by 3% in FY24 over FY23. Growth in sales in FY24 were supported by increase in sales volume which was partially off-set by decline in average sales realisation followed by decline in raw material cost. Growth in sales volume, favourable product mix and cost control led to improvement in PBILDT margin by 181 bps to 20.45% in FY24 (FY23: 18.64%). Profit after tax (PAT) also rose to ₹122 crore in FY24 from ₹101 crore reported in FY23. With improved scale of operations and profitability margin, the company's gross cash accruals (GCA) also grew to ₹151 crore in FY24 (FY23: ₹124 crore).

Despite healthy profitability, the company's ROCE remained at 19% in FY24, as MUL's liquid investment portfolio constituted 25-30% of its total capital employed, which generated low returns, and thus impacted the company's overall return indicators.

In H1FY25, MUL's TOI on a consolidated level, grew by 6% on a y-o-y basis with an improvement in PBILDT margin by 283 bps to 26.22% (H1FY24: 23.39%). With increase in share of margin lucrative automotive export, revenue is expected to grow with improvement in profitability margin. Moreover, retailing of PVC fabric is also expected to support growth in coming years. MUL entered the retail furnishing business (~40% of synthetic leather market) under brand name "Texture and Hues" through its wholly owned subsidiary, 'Mayur TecFab Private Limited'. The company has plan to build dealership network of 1,000 dealers of which the company has already over 700 dealers as on November 2024.

Strong financial risk profile

The company's capital structure on a consolidated level continued to remain comfortable, marked by an overall gearing ratio of 0.05x as on March 31, 2024, backed by its healthy capital base of ₹867 crore as on date. The company's capital structure is expected to remain comfortable due to its relatively low reliance on debt, on the back of healthy cash flow generation and absence of major debt-funded capex. Moreover, debt coverage indicators marked by PBILDT interest coverage and total debt to GCA continued to remain strong in FY24, 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 8.14x as on March 31, 2024, and negligible utilisation of fund-based working capital limits for the trailing 12 months ended September 2024. Further, MUL had unencumbered liquid investments and a cash and bank balance aggregating to ₹287 crore as on March 31, 2024, significantly exceeding the company's total debt, resulting in a zero net debt position for the company. MUL's liquidity is expected to remain strong, backed by the strong generation of cash flow from operations and relatively lower capex. Post buyback of equity shares worth ₹50 crore (including tax) in H1FY25, unencumbered liquid investments continued to remain high at ~₹223 crore as on September 30, 2024.

Key weaknesses

Continued elongated working capital cycle restricted operating cash flow

MUL's operations remain working capital intensive marked by operating cycle of 158 days in FY24 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 raw materials. Moreover, export sales entail a lead time of around two months and one month of finished goods inventory in overseas market, which also leads to a higher requirement for inventory. Furthermore, the company extends a credit period of ~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. However, the company is yet to finalise on the decision of its plant set up and is evaluating the impact of recently concluded USA elections. Management also informed that project implementation is expected to take two years once it starts.

Increasing working capital requirement has adversely impacted its operating cash flow, which remained at ~₹369 crore (cumulative for the last five years ended FY24), against a cumulative PBIDLT of ₹684 crore and a cumulative GCA of ₹593 crore over this period. However, despite the restricted cash flow from operations, MUL's reliance on external debt has remained low as the majority incremental working capital requirements are being funded by internal accruals.

Exposure to raw material price volatility and foreign currency exchange rate fluctuations

~80% 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 medium-term contracts with its suppliers to mitigate large raw material price volatility. 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 ~40% in the last five years ended FY24. MUL is also exposed to foreign exchange rate fluctuations, considering its large imports, which was 48% of its total raw material requirement in FY24. However, the forex risk is majorly mitigated through the natural hedge available through exports.

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

MUL has forayed in manufacturing 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 such as footwear, fashion accessories, furnishing, and automotive upholstery. At present, over 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 25% in FY24. 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 and 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.

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 has undertaken projects in Dhodsar and Singod Kalan to protect over 15,000 plants from winter damage. MUL also installed two 10-kilowatt solar panels in Dhoblai and Singod Kalan. ▪ An extensive rainwater conservation project along the Dhodsar-Badawali road now conserves over 2,00,000 litres of rainwater annually. ▪ 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. ▪ Conducted vaccination programs in remote villages, programmes for improving school infrastructure and providing scholarships.
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. ▪ Transparency in sharing of required information and consistency in adoption of accounting policies in preparation of financial statement also indicates fair governance practices.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic 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 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 over four decades of experience in the trading and manufacturing of artificial leather.

MUL has two manufacturing facilities 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 and backward integration for manufacturing knitted fabric. MUL has also forayed in manufacturing PU fabric in Monera, MP and started commercial production in January 2020. In 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 in FY20, MUL had set up a wholly-owned subsidiary, Mayur Uniquoters SA (Pty) Limited, 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 consolidated Financials (₹ crore)	FY23 (A)	FY24 (A)	H1FY25 (UA)
Total operating income	783	810	447
PBILDT	146	166	117
PAT	101	122	77
Overall gearing (times)	0.07	0.05	NA
Interest coverage (times)	59.54	64.18	118.54

A: Audited UA: Unaudited; NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Term Loan	-	-	-	30/06/2027	10.80	CARE AA; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	-	5.00	CARE AA; Stable/ CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	62.00	CARE AA; Stable/ CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	20.00	CARE A1+

LT: Long term; ST: Short term; LT/ST: Long term/Short term; BG: Bank guarantee

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	10.80	CARE AA; Stable	-	1)CARE AA; Stable (13-Nov-23)	1)CARE AA; Stable (31-Oct-22)	1)CARE AA; Stable (07-Oct-21)
2	Non-fund-based - ST-BG/LC	ST	20.00	CARE A1+	-	1)CARE A1+ (13-Nov-23)	1)CARE A1+ (31-Oct-22)	1)CARE A1+ (07-Oct-21)
3	Fund-based - LT/ ST-Cash Credit	LT/ ST	5.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (13-Nov-23)	1)CARE AA; Stable / CARE A1+ (31-Oct-22)	1)CARE AA; Stable / CARE A1+ (07-Oct-21)
4	Fund-based/Non-fund-based-LT/ST	LT/ ST	62.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (13-Nov-23)	1)CARE AA; Stable / CARE A1+ (31-Oct-22)	1)CARE AA; Stable / CARE A1+ (07-Oct-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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	Extent of consolidation	Rationale for consolidation
1.	Mayur Uniquoters Corp	Full Consolidation	Subsidiary; operational and managerial linkages
2.	Futura Textiles Inc		
3.	Mayur Uniquoters SA (Pty) Limited		
4.	Mayur Techfab Private Limited		

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

Contact us

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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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