Mayur Uniquoters Limited

October 31, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	30.49 (Reduced from ₹47.54 crore)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Long-term/ Short-term bank facilities	60.00 (Reduced from ₹97.50 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 bank facilities	**110.49 (₹One hundred ten crore and forty-nine lakh only)**		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Mayur Uniquoters Limited (MUL) continue to derive strength from the 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, the 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 strong liquidity, comfortable leverage, and strong debt coverage indicators on account of the low debt levels and healthy cash flow generation. CARE Ratings Limited (CARE Ratings) also takes cognisance of the growth in sales volume during FY22 (refers to the period from April 1 to March 31) and Q1FY23 on a y-o-y basis and the expectation of further growth during FY23-FY25, backed by an increase in supply to the recently approved models of the OEMs and ramp-up of its 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 newly commissioned greenfield PU coated fabric project, where the ramp-up of operations is expected to be gradual.

Rating sensitivities

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

- 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) over 25%, 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 – Factors that could lead to negative rating action/downgrade:

- Decline in the PBILDT margin below 20% 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.

Detailed description of the key rating drivers

<u>Key rating strengths</u>

Vast experience of the promoters in the artificial/synthetic leather industry with emphasis on research and development (R&D) activities for product development: 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

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

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. 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, has rejoined the company and is expected to take a position on the board in the near to medium term.

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 a 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 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, ie, Ford (the US), Chrysler (the US), and Mercedes Benz (South Africa). MUL has set up its 100% subsidiary, Mayur Uniquoters SA (Pty) Ltd, South Africa, to facilitate exports to approved vendors of Mercedes Benz for its South African plant. 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 Q4FY23. Moreover, Volkswagen India, which used to import fabric from Germany, has started to buy synthetic leather fabric from MUL. MUL has also received approvals from a few domestic OEMs for their upcoming new car models.
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, whereas the costs involved include expenditure towards product development, sampling, testing, and payment to the representatives of such OEMs. 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 enable MUL to report healthy operating profit margins: 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. 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. This, coupled with lower demand from the automotive segment, the production of artificial leather witnessed a declining trend over the last three years ended FY21, albeit the same increased during FY22 and Q1FY23, 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 end-user industries. With the improvement in capacity utilisation along with a better product mix, the operating profitability (PBILDT) margin of the company is expected to remain healthy, in the range of 21-22% in the medium term.

Growth in the scale of operations with healthy profitability during FY22: The TOI of MUL, on a consolidated level, grew by 29% during FY22 on a year-on-year basis due to the increase in average sales realisation along with a 7% volume growth, supported by a recovery in demand from end-user industries. Moreover, the PBILDT margin declined from 24.69% in FY21 (supported by inventory gain in H2FY21) to 19.94% in FY22 due to higher input prices, which the company could not immediately pass on to customers. The profit-after-tax (PAT) margin declined in line with a decline in the PBIDLT margin. Moreover, despite healthy profitability, the ROCE of the company remained at 18% in FY22, as MUL's liquid investment portfolio constituted 25-30% of its total capital employed, which generated low returns, and thus, impacted the overall return indicators of the company. Furthermore, MUL had generated healthy gross cash accruals (GCA) of ₹115.13 crore during FY22 as against ₹108.35 crore during FY21.
During Q1FY23, the TOI of MUL registered a growth of 65% on a y-o-y basis on lower base and a growth of 21% on a q-o-q basis, supported by a recovery in demand from the footwear and automotive industries. The PBILDT margin stood at 19.21% in Q1FY23 (Q1FY22: 18.90%), which was impacted by an unfavourable product mix, apart from inventory loss.

Automotive exports, which was declining over the last four years ended FY22, is expected to grow from FY23, with expected recovery in demand from the existing OEMs coupled with the supply to BMW (expected to start in Q4FY23). Moreover, the automotive replacement segment, which was affected over the last three years ended FY22, is also expected to grow with an expected increase in domestic demand. Furthermore, retailing of PVC fabric is also expected to support growth in coming years.

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, 2022, backed by its healthy capital base of ₹707 crore as on even date. In April 2022, the company bought back equity shares worth ₹50 crore (including buyback tax of ₹9 crore). Consequently, the net worth of the company is expected to decline to that extent compared to March 31, 2022. However, despite a reduction in the net worth, 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 FY22, backed by low debt levels and healthy profitability.

Liquidity: Strong

Despite an elongation in its operating cycle, MUL's liquidity remains strong with a current ratio of 5.63x as on March 31, 2022, and low utilisation of fund-based working capital limits at 7% for the trailing 12 months ended August 2022. Further, MUL had unencumbered liquid investments and a cash and bank balance aggregating to ₹170 crore as on March 31, 2022, significantly exceeding total debt of the company, resulting in a zero net debt position for the company. Despite the buyback of equity shares worth ₹50 crore in April 2022, the unencumbered liquid investments continued to remain high at around ₹140 crore as on September 30, 2022. MUL's liquidity is expected to remain strong, backed by the strong generation of cash flow from operations and lower capex.

Key rating weaknesses

Continued elongated working capital cycle restricted operating cash flow: MUL's operations remain working capital-intensive, as the company maintains two to 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, which also leads to a higher requirement for inventory. Furthermore, the company extends a credit period of around 30-90 days to its customers. The operating cycle of MUL continued to remain high, at 160 days in FY22 (PY: 161 days), due to higher inventory holding on the back of an increase in raw material prices along with an increase in inventory associated with the PU business.

The increasing working capital requirement has adversely impacted its operating cash flow, which remained at around ₹283 crore (cumulative for the last five years ended FY22), as against a cumulative PBIDLT of ₹663 crore and a cumulative GCA of ₹537 crore over the same period. However, despite the limited 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 three years ended FY22. Furthermore, MUL is also exposed to foreign exchange rate fluctuations on the back of its large imports, which was 56% of its total raw material requirement during FY22. 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 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. In May 2022, the Central Government imposed an anti-dumping duty (ADD) of nearly ₹40 per metre on imported PU leather, thus reducing the price gap between import and domestic manufacturing. During Q1FY23, the capacity utilisation from PU remained low, at 19%, with a revenue of nearly ₹7 crore. With the imposition of the ADD, production is expected to gradually ramp up over the next 6 to 12 months and 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 where MUL is a new entrant, its blended PBILDT margin can be impacted for some time. 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. However, demand from the automotive, footwear, and the replacement market were impacted by the COVID-19 pandemic. Sales of automobiles declined by 18%, 14%, and 6% in FY20, FY21, and FY22, respectively, on a y-o-y basis mainly due to the COVID-19 pandemic, the higher cost of vehicles post implementation of the BS-VI norms, reduced disposable income, and semi-conductor shortage. Automobile sales are expected to grow with ease in the supply of semiconductor chips coupled with the pent-up demand and upcoming festive seasons. Furthermore, the replacement demand for synthetic leather from the automotive segment is also expected to support the overall growth in the 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) assessment

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 (7,500 in FY22) 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.

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

Policy on Withdrawal of Ratings
Criteria on assigning 'outlook' and 'credit watch' to credit ratings
CARE Ratings' policy on Default Recognition
Financial ratios – non-financial sector
Criteria for short-term instruments
Rating methodology – Consolidation
Rating methodology – 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 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 – Consolidated (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (UA)	Q2FY23 (UA)
TOI	515	663	205	NA
PBILDT	127	132	39	NA
PAT	90	94	27	NA
Overall gearing (times)	0.09	0.07	NA	NA
PBILDT interest coverage (times)	44.83	55.55	106.41	NA

A: Audited, UA: Unaudited; NA: Not available.
Financials have been classified as per CARE Ratings' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of the rated instruments/facilities: Not applicable

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

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan		-	-	30/06/2027	30.49	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term loan	LT	30.49	CARE AA; Stable	-	1)CARE AA; Stable (07-Oct-21)	1)CARE AA; Stable (23-Dec-20)	1)CARE AA; Stable (30-Dec-19)
2	Non-fund-based - ST-BG/LC	ST	20.00	CARE A1+	-	1)CARE A1+ (07-Oct-21)	1)CARE A1+ (23-Dec-20)	1)CARE A1+ (30-Dec-19)

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	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	Date(s) and Rating(s) assigned in 2019-2020
3	Fund-based - LT/ ST-Cash credit	LT/ ST	5.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable/ CARE A1+ (07-Oct-21)	1)CARE AA; Stable/ CARE A1+ (23-Dec-20)	1)CARE AA; Stable/ CARE A1+ (30-Dec-19)
4	Fund-based/Non-fund-based-LT/ST	LT/ ST	55.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable/ CARE A1+ (07-Oct-21)	1)CARE AA; Stable/ CARE A1+ (23-Dec-20)	1)CARE AA; Stable/ CARE A1+ (30-Dec-19)

Annexure-3: List of subsidiaries consolidated

Sr. No	Name of the Company	Relationship with MUL	% of holding by MUL
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%

@ w.e.f. May 04, 2022

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

Sr. No.	Name of 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

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.

Annexure-5: Bank lender details for this company

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

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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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