Mayur Uniquoters Limited

January 03, 2018

Ratings

Facilities	Amount* (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	16.15 (reduced from Rs.29.19 crore)	**CARE AA; Stable [Double A; Outlook: Stable]**	**Reaffirmed**
Short-term Bank Facilities	35.00 (reduced from Rs.53 crore)	**CARE A1+ [A One Plus]**	**Reaffirmed**
Long-term/ Short-term Bank Facilities	65.00 (enhanced from Rs.55 crore)	**CARE AA; Stable / CARE A1+ [Double A; Outlook: Stable / A One Plus]**	**Reaffirmed**
Total Facilities	**116.15 (Rupees One Hundred Sixteen crore and Fifteen lakh only)**		

**Details of instruments/facilities in Annexure-I*

Detailed Rationale & Key Rating Drivers

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

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

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

Detailed description of the key rating drivers

Key Rating Strengths:

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

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

In-house product development, adequate backward integration and focus on high margin products has enabled MUL to consistently report healthy operating profit margins: Over the years, MUL has consistently generated healthy operating profit margins in an otherwise fragmented and unorganized synthetic leather industry on account of its focus on in-house product development / innovation, adequate backward integration and focus on high margin products (both in domestic and export market). During last three years-ended FY17, the management has made conscious efforts to increase its focus on high margin products catering to Automotive, Replacement Market and Lifestyle products (Furniture & Apparel). During FY17, footwear segment contributed 38% of its total sales as compared to 46% during FY16. Contribution in total sales from other segments has increased during FY17.

Healthy PBILDT margin despite moderation in the total operating income; healthy liquidity and strong debt coverage indicators; albeit with working capital intensive operations: Though TOI registered marginal decline by 5% during FY17 on a y-o-y basis as MUL's domestic footwear segment was hit by demonetization, its PBILDT margins continued to remain healthy at 27.54% during FY17 on account of 9% growth in exports where the average sales realization is relatively higher than the realization in domestic market.

MUL had unencumbered liquid investments of Rs.118.93 crore as on March 31, 2017 exceeding total debt of the company resulting in a zero net debt position for the company. Low debt levels coupled with healthy profitability continued to result in strong debt coverage indicators during FY17. MUL's working capital intensity has increased over last three years as reflected from elongation in operating cycle from 52 days during FY15 to 96 days during FY17. It was on account of increase in collection period due to increase in exports sales to USA. However, working capital requirements are met mostly through internal accruals resulting in almost nil utilization of working capital limits for the trailing 12 months ending November 2017. Further, cash flow from operations continued to remain healthy during FY17.

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

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

Key rating weaknesses:

Exposure to volatility in raw material prices and foreign exchange rate fluctuations: Almost 80% of MUL's raw materials are derivatives of crude oil; hence the prices of its raw materials vary with the fluctuation in international crude oil prices. MUL enters in to medium term contracts with its suppliers to mitigate any large volatility in raw material prices. MUL is also exposed to foreign exchange rate fluctuations on the back of its large imports which was 45% of its total raw material requirement during FY17. However, forex risk is largely mitigated through natural hedge available by way of exports.

Large-size planned green-field capex: MUL has planned to foray into manufacturing of PU coated fabric by setting-up a green-field manufacturing capacity at Gwalior with an estimated cost of Rs.140 crore which is envisaged to be largely funded through available liquid investments and internal accruals. It is proposed to be completed by March 2019 in a phase-wise manner. In the medium term, MUL also has plans to set up a PVC leather plant with capacity of one million linear meters at Mysore (Karnataka) to save the lead time and logistic costs, South India being a prominent location of MUL's footwear customers. However, this capex is currently on hold. MUL's ability to complete the planned capex within envisaged time and cost parameters and subsequently generate envisaged returns from the same shall be crucial from credit perspective.

Analytical Approach: Standalone

Applicable Criteria:

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

Rating Methodology - Manufacturing Companies

Financial Ratios - Non financial sector

About the company

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

Artificial leather is used as a substitute for the costlier natural/genuine leather and has wide application across industries like automotive, footwear, furnishing and fashion items. MUL has two manufacturing facilities located near Jaipur having aggregate of six coating lines to manufacture artificial leather along with backward integration for manufacturing of knitted fabric. Further, during FY16, MUL had setup a wholly owned subsidiary, Mayur Uniquoters Corp., in Texas, USA as a marketing/trading arm to facilitate exports to its growing customer base from the automotive industry in USA. MUL, over the years, has also registered itself as ISO 9001:2000 organization and has been awarded with various excellence awards.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	518.63	490.90
PBILDT	141.57	135.19
PAT	82.51	80.68
Overall gearing (times)	0.10	0.06
Interest coverage (times)	51.13	58.56

A: Audited

Based on published unaudited results for H1FY18, MUL reported total operating income (TOI) of Rs.285.35 crore (H1FY17: Rs.256.86 crore) with profit after tax (PAT) of Rs.48.19 crore (H1FY17: Rs.45.80 crore).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-II

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

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over nearly two decades; it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporate to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	June 2020	6.67	CARE AA; Stable
Fund-based - LT-Bank Overdraft	-	-	-	2.00	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	35.00	CARE A1+
Fund-based - LT/ ST-Cash Credit	-	-	-	20.00	CARE AA; Stable / CARE A1+
Fund-based/Non-fund-based-Long Term	-	-	-	7.48	CARE AA; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	45.00	CARE AA; Stable / CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	6.67	CARE AA; Stable	-	1)CARE AA (30-Sep-16)	1)CARE AA- (15-Sep-15) 2)CARE AA- (29-Apr-15)	1)CARE AA- (08-Oct-14)
2.	Fund-based - LT-Bank Overdraft	LT	2.00	CARE AA; Stable	-	1)CARE AA (30-Sep-16)	1)CARE AA- (15-Sep-15) 2)CARE AA- (29-Apr-15)	1)CARE AA- (08-Oct-14)
3.	Non-fund-based - ST-BG/LC	ST	35.00	CARE A1+	-	1)CARE A1+ (30-Sep-16)	1)CARE A1+ (15-Sep-15) 2)CARE A1+ (29-Apr-15)	1)CARE A1+ (08-Oct-14)
4.	Fund-based - LT/ ST-Cash Credit	LT/ST	20.00	CARE AA; Stable / CARE A1+	-	1)CARE AA / CARE A1+ (30-Sep-16)	1)CARE AA- / CARE A1+ (15-Sep-15) 2)CARE AA- / CARE A1+ (29-Apr-15)	1)CARE AA- / CARE A1+ (08-Oct-14)
5.	Fund-based/Non-fund-based-Long Term	LT	7.48	CARE AA; Stable	-	1)CARE AA (30-Sep-16)	1)CARE AA- (15-Sep-15) 2)CARE AA- (29-Apr-15)	1)CARE AA- (08-Oct-14)
6.	Fund-based/Non-fund-based-LT/ST	LT/ST	45.00	CARE AA; Stable / CARE A1+	-	1)CARE AA / CARE A1+ (30-Sep-16)	1)CARE AA- / CARE A1+ (15-Sep-15) 2)CARE AA- / CARE A1+ (29-Apr-15)	1)CARE AA- / CARE A1+ (08-Oct-14)

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