Mayur Uniquoters Limited

December 30, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	24.72 (reduced from Rs.45.32 crore)	**CARE AA; Stable [Double A; Outlook: Stable]**	Reaffirmed
Short-term Bank Facilities	20.00	**CARE A1+ [A One Plus]**	Reaffirmed
Long-term/ Short-term Bank Facilities	70.00	**CARE AA; Stable/ CARE A1+ [Double A; Outlook: Stable/ A One Plus]**	Reaffirmed
Total Facilities	**114.72 (Rupees One Hundred Fourteen Crore and Seventy Two 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 & global automotive Original Equipment Manufacturers (OEMs) along with its established and reputed clientele across industries. The ratings also factor revenue diversification with increasing share of revenue 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 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.

The above rating strengths are, however, tempered by MUL's exposure to raw material price volatility 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 moderation in operating profitability margin during H1FY20 (refers to period April 1 to March 31) and some delay in implementation of its green-field and brown-field expansion projects.

Rating Sensitivities

Positive Factors:

- 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 PBILDT margin and ROCE over 25% while maintaining its comfortable leverage and debt coverage indicators.
- Contraction in its gross working capital cycle to less than 90 days on sustained basis.

Negative Factors:

- Decline in PBILDT margin below 20% on a sustained basis along with moderation in its debt coverage indicators
- Deterioration in 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 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.

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

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) and is in the process to expand its capacity by adding its seventh coating line at Dhodsar post which its total capacity would increase to 426 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)].

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 markets). Over the past few years, the management has made conscious efforts to increase focus on high margin products catering to Automotive, Replacement Market and Lifestyle products (Furniture & Apparel) as against relatively low margin products like Footwear. Contribution of footwear segment in total sales has gradually reduced from 46% during FY16 to 36% during FY19 and 33% during H1FY20.

Healthy operating profitability despite some moderation during H1FY20

Total operating income (TOI) of MUL registered 5% y-o-y growth during FY19 driven by 22% growth in domestic automotive sector and 20% growth in the replacement market which was, however, partially offset by 10% decline in revenue from automotive export. The PBILDT margin of MUL declined by 293 bps to 24.95% mainly on account of increase in raw material prices being derivative of crude oil which company was unable to completely pass on to the customers coupled with decline in export sales which fetches relatively higher operating margin and testing charges for new product supply to Mercedes. Despite moderation in operating profitability margin, MUL had healthy Gross Cash Accruals of Rs.104.13 crore during FY19 as against Rs.110.49 crore during FY18.

During H1FY20, TOI of MUL declined by 13% on Y-o-Y basis due to subdued demand from domestic automotive, footwear and replacement market which contributed around 70% of its total sales during last two years ended FY19. However, automotive export grew by 13% during H1FY20 on Y-o-Y basis with MUL's increasing focus on export market. Moreover, PBILDT margin declined by 512 bps on Y-o-Y on the back of lower sales volume coupled with decline in average sales realization. Despite moderation in operating profitability during H1FY20, it continued to remain healthy at above 20%. Moreover, decline in PAT margin was restricted to 138 bps due to lower interest cost apart from lower tax rate during H1FY20.

Comfortable capital structure and strong debt coverage indicators

Capital structure of the company continues to remain comfortable marked by overall gearing ratio of 0.10 times as on March 31, 2019 backed by high net worth base and low debt level. Increase in total debt as on March 31, 2019 was largely due to term loan drawal for ongoing green field and brown field projects. Moreover, debt coverage indicators marked by PBILDT interest coverage and total debt to GCA continued to remain strong during FY19 backed by low debt levels and healthy profitability.

Liquidity: Strong

MUL's working capital intensity has increased over last few years on account of increase in collection period due to increase in export sales to USA and increase in credit period in footwear segment. Despite elongated operating cycle of 103 days during FY19, liquidity of the company remains strong with current ratio of 5.20 times as on March 31, 2019, and almost nil utilization of fund-based working capital limits for the past 12 months ended October 2019. The company manages entire incremental working capital requirements through healthy internal cash generation. MUL had healthy cash flow from operations of Rs.75.12 crore during FY19. Further, MUL had unencumbered liquid investments of Rs.162.88 crore as on March 31, 2019 exceeding total debt of the company resulting in a zero net debt position for the company.

Key Rating Weaknesses

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 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 48% of its total raw material requirement during FY19. However, forex risk is partly mitigated through natural hedge available by way of exports.

Update on green-field and brown-field projects

MUL is foraying into manufacturing of PU coated fabric by setting-up a green-field manufacturing capacity at Gwalior with estimated cost of Rs.85 crore which is largely being funded through available liquid investments and internal accruals. As on October 31, 2019, MUL had incurred cost of Rs.78.52 crore funded through term loan of Rs.19.66 crore and balance through internal accruals and available liquid investments. Earlier, MUL was expecting to achieve its commercial operations date (COD) by June, 2019 however due to delayed dispatch of machinery from China, MUL was able to start trial run only in November 2019 and achieved COD in December 2019. Moreover, as informed by the management, MUL may also plan second phase of the project after stabilization of the first phase.

MUL is also setting up seventh coating line at its existing unit for manufacturing of PVC leather with estimated cost of Rs.25 crore. Earlier, MUL was expecting to achieve its COD by March 2019 however, due to modification and up-gradation of product line in order to meet specifications for Mercedes's products, the project got delayed. Installed capacity for production of PVC coated fabric will be increased by 60 LLMPA, once this coating line becomes operational which is now expected by March 2020. MUL is setting up this new coating line mainly to meet supplies for Mercedes Benz which is expected to start from Q3FY21. Moreover, MUL has acquired 100% stake in Mayur Uniquoters SA (Pty) Ltd, South Africa which will develop logistics to facilitate exports to Mercedes Benz.

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 genuine leather, being a cheaper alternative with good aesthetic quality. However, demand from domestic automotive, footwear and replacement market has remained subdued during current financial year. During 8MFY20, automotive sales witnessed decline of 13.2% on Y-o-Y basis mainly on the back of higher ownership costs and liquidity crisis in the NBFC sector leading to high inventories. Demand is expected to pick up with pre-buying of automobiles before the implementation of BS-VI norms. However, post implementation of BS-VI norms, OEMs may face challenge to pass on increase in cost of manufacturing to meet BS-VI norms which may restrict pick up of automotive demand and may also restrict MUL's average sales realization amidst volatile raw material prices. Moreover, the footwear industry has not fully recovered from impact of demonetisation and GST. Further, 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 insulate the company from current industry scenario to some extent.

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for 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 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 Dhodsar) having aggregate of six coating lines (four at Jaitpura and two at Dhodsar) to manufacture artificial leather along with backward integration for manufacturing of knitted fabric. 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)	FY18 (A)	FY19 (A)
Total operating income (TOI)	565.57	594.43
PBILDT	157.71	148.35
PAT	94.10	87.16
Overall Gearing (times)	0.08	0.10
Interest coverage (times)	VL	VL

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

As per un-audited results, MUL earned a PAT of Rs.35.87 crore on a total operating income of Rs.261.24 crore during H1FY20 as against a PAT of Rs.45.63 crore on a total operating income of Rs.301.93 crore during H1FY19.

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

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 2025	24.72	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	-	-	-	65.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	24.72	CARE AA; Stable	-	1)CARE AA; Stable (28-Feb-19) 2)CARE AA; Stable (07-Jan-19)	1)CARE AA; Stable (03-Jan-18)	1)CARE AA (30-Sep-16)
2.	Non-fund-based - ST-BG/LC	ST	20.00	CARE A1+	-	1)CARE A1+ (28-Feb-19) 2)CARE A1+ (07-Jan-19)	1)CARE A1+ (03-Jan-18)	1)CARE A1+ (30-Sep-16)
3.	Fund-based - LT/ ST-Cash Credit	LT/ ST	5.00	CARE AA; Stable/ CARE A1+	-	1)CARE AA; Stable/ CARE A1+ (28-Feb-19) 2)CARE AA; Stable/ CARE A1+ (07-Jan-19)	1)CARE AA; Stable/ CARE A1+ (03-Jan-18)	1)CARE AA/ CARE A1+ (30-Sep-16)
4.	Fund-based/Non-fund-based-LT/ST	LT/ ST	65.00	CARE AA; Stable/ CARE A1+	-	1)CARE AA; Stable/ CARE A1+ (28-Feb-19) 2)CARE AA; Stable/ CARE A1+ (07-Jan-19)	1)CARE AA; Stable/ CARE A1+ (03-Jan-18)	1)CARE AA/ CARE A1+ (30-Sep-16)
5.	Fund-	LT	-	-	-	1)Withdrawn	1)CARE AA;	1)CARE

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
	based/Non-fund-based-Long Term					(07-Jan-19)	Stable (03-Jan-18)	AA (30-Sep-16)
6.	Fund-based - LT-Bank Overdraft	LT	-	-	-	1)Withdrawn (07-Jan-19)	1)CARE AA; Stable (03-Jan-18)	1)CARE AA (30-Sep-16)

***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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Krunal Modi
Contact no. – +91-79-4026 5614
Email ID- krunal.modi@careratings.com

Relationship Contact
Deepak Prajapati
Contact no. – +91-79-4026 5656
Email ID – deepak.prajapati@careratings.com

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