Mayur Uniquoters Limited

December 23, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	43.81 (enhanced from Rs.24.72 crore)	**CARE AA; Stable [Double A; Outlook: Stable]**	Reaffirmed
Long-term/ Short-term Bank Facilities	60.00 (reduced from Rs.70.00 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 Facilities	**123.81 (Rupees One Hundred Twenty-Three Crore and Eighty-One Lakhs Only)**		

Details of facilities/instruments 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 across automotive industry, auto replacement market, footwear and furnishing segments along with company's focus on high margin products in both 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, increasing working capital intensity of its 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 its revenue and operating profitability margin during FY20 (refers to period April 1 to March 31) and H1FY21 due to competitive pressure and nation-wide lockdown arising from Covid-19 pandemic respectively, saleability risk associated with recently commissioned green-field Poly Urethane (PU) coated fabric project where ramp-up of operations is expected to be gradual and delay in implementation of its brown-field PVC coated fabric expansion project.

<u>Rating Sensitivities</u>

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

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

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.

Leader in the organised segment of the domestic artificial/synthetic leather industry along with strong and reputed clientele

MUL has the largest installed capacity for manufacturing of synthetic leather in domestic organized segment with capacity of 366 lakh linear meters per annum (LLMPA) of PVC coated fabric and 60 LLMPA of PU coated fabric; and the company is in the process to expand its PVC coated fabric capacity by adding its seventh coating line at Dhodsar plant post which its total capacity for PVC coated fabric 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 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 relationship with most of its clientele. Generally, MUL sells its products to the 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 also one of the very few approved vendors in Asia by global automotive OEMs [such as Ford (USA) and Chrysler (USA)]. MUL is also trying to enter the European and other export automotive OEM markets by targeting reputed customers and has received product approval from Mercedes Benz (Daimler) and BMW for their specific new car models. As articulated by the company management, MUL is expected to start supplying to Mercedes Benz by the end of Q4FY21 while supply to BMW is expected to start in FY23. MUL has already set-up its 100% subsidiary named Mayur Uniquoters SA (Pty) Ltd, South Africa which will develop logistics to facilitate exports to Mercedes Benz. Moreover, Volkswagen India, which used to import fabric from Germany, is expected to buy synthetic leather from MUL from Q4FY21.

Getting product approval from major global automobile OEMs is a time consuming and costly process which takes around 2-3 years before supplies start whereas the cost involved includes expenditure towards product development, sampling, testing and payment to the representatives of such OEMs. Hence, the entry barrier is very high in such type of business as switching/ changing of supplier by OEMs is rare once product is approved.

In-house product development, adequate backward integration and focus on high margin products has enabled MUL to report healthy operating profit margins

Over the years, MUL has 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). MUL has sufficient capacity to manufacture knitted fabrics used in automotive exports which results in cost efficiency, better quality control and consistency in supply. During the past few years, MUL's management has made conscious efforts to focus on high margin products catering to automotive segment, replacement market and lifestyle products (furniture & apparel) as against relatively low margin products like footwear. Contribution of footwear segment in its total sales has gradually reduced from 46% during FY16 to 36% during FY19 mainly on account of relatively lower profitability and longer credit period (5-6 months) in footwear industry; albeit the same increased to 39% during FY20 largely due to decline in sales from automobile exports and replacement market due to subdued demand in those segments.

Healthy operating profitability and cash accruals despite some moderation during FY20

Total Operating Income (TOI) of MUL on a consolidated level declined by 11% during FY20 as compared to FY19 mainly on account of lower sales volume in domestic replacement market and automotive export market due to subdued demand. The automotive replacement segment of MUL which grew at CAGR of 23% over past four years ended FY19 was affected most during FY20. Moreover, automotive export which grew by about 40% during FY18 on y-o-y basis, declined by 10% and 17% during FY19 and FY20 respectively. Exports are, however, expected to gradually increase from FY22 as MUL starts supplying to vendors approved by Mercedes and BMW. PBILDT margin declined by 219 bps during FY20 largely due to impact of operating leverage due to decline in sales coupled with lower share of automobile fabric exports which fetches relatively higher operating margin; albeit it continued to remain healthy at 22.34%. Further, PAT margin remained largely stable during FY20 at 14.61% due to lower tax rate. Furthermore, MUL had healthy Gross Cash Accruals of Rs.93.64 crore during FY20 as against Rs.105.61 crore during FY19.

Comfortable capital structure and strong debt coverage indicators

Capital structure of the company on a consolidated level continued to remain comfortable marked by overall gearing ratio of 0.08 times as on March 31, 2020. The board of directors of MUL, in its meeting held on November 10, 2020, has approved the buyback of upto 7,50,000 equity shares of the company at Rs.400 per share aggregating to around Rs.30 crore (Rs.37 crore including share buyback tax @ 20%). Due to proposed buyback of equity shares during FY21, the net worth of the company is expected to decline to that extent compared to March 31, 2020. However, despite reduction in net worth, the capital structure of the company is expected to remain very comfortable due to its relatively low reliance on debt on the back of healthy cash flow generation. Moreover, debt coverage indicators marked by PBILDT interest coverage and total debt to GCA continued to remain strong during FY20 backed by low debt levels and healthy profitability.

Liquidity: Strong
Despite some elongation in its operating cycle, MUL's liquidity remains strong with current ratio of 4.54 times as on March 31, 2020, and low utilization of fund-based working capital limits at 32% for the trailing 12 months ended September 2020. Moreover, MUL had healthy cash flow from operations of Rs.80.39 crore during FY20 (FY19: Rs.73.39 crore). Further, MUL had unencumbered liquid investments and cash and bank balance aggregating Rs.185.16 crore as on March 31, 2020 significantly exceeding total debt of the company resulting in a zero net debt position for the company. As on September 30, 2020, unencumbered liquid investments and cash and bank balance stood at Rs.188.85 crore. Having strong liquidity, MUL had not opted for moratorium on debt servicing of any of its bank facilities the option for which was available as a Covid-19 relief measure as per RBI's policy. Furthermore, despite proposed buyback of equity shares aggregating up to Rs.30 crore (Rs.37 crore including share buyback tax @ 20%), MUL's liquidity is expected to remain strong due to strong generation of cash flow from operations.

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. Moreover, MUL being market leader has bargaining power to pass on increase in raw material prices to its customers resulting into relatively steady gross margin of around 40% during last 3 years ended FY20. MUL is also exposed to foreign exchange rate fluctuations on the back of its large imports which was 49% of its total raw material requirement during FY20. However, forex risk is partly mitigated through natural hedge available by way of exports.

Elongation in working capital cycle
MUL's operations remain working capital intensive as the company maintains two months of raw material inventory for smooth production due to lead time involved in import of some of the raw materials. Moreover, export sales entail lead time of around two months which also leads to higher requirement of inventory. Furthermore, the company extends credit period of around 30-90 days to its customers. Operating cycle of MUL which has been gradually increasing, further elongated from 100 days during FY19 to 127 days during FY20 largely due to higher inventory holding including raw materials and finished goods which the company could not dispatch to USA on account of Covid-19 pandemic.

Saleability risk associated with recently commissioned green-field PU coated fabric project and delay in commissioning of its PVC coated fabric from previously envisaged timelines
MUL has forayed into manufacturing of PU coated fabric by setting up a green-field project at Morena district near Gwalior, Madhya Pradesh. Under Phase-I, MUL has installed 1 coating line (consists 1 wet and 1 dry line) with capacity to produce 60 LLMPA of PU fabric. MUL had incurred capex of Rs.96 crore as against earlier estimated cost of Rs.85 crore due to certain changes in scope of project. The company has constructed building and other peripheral infrastructure for 4 coating lines considering the future expansion plans. MUL has availed term loan of Rs.20 crore as against envisaged term loan of Rs.25 crore for machineries to avail Technology Upgradation Fund Scheme (TUFS) benefit. MUL started commercial production from Phase-I of PU plant in January 2020.
As compared to PVC coated fabric, PU coated fabric has closer resemblance to natural leather with better realizations of product. PU coated fabric finds application across similar industries like footwear, fashion accessories, furnishing and automotive upholstery. Presently, majority of PU coated fabric is currently being imported from China with presence of very few domestic manufacturers with limited capacity. MUL foresees this as a cross selling opportunity to its existing customers. The government has increased import duty on PU material to 22%, thus reducing the price gap between imports and domestic manufacturing. During H1FY21, MUL earned very small revenue from its PU plant as operations of the plant was affected due to Covid-19 pandemic. Product sampling is underway at the PU plant and production is expected to gradually ramp up over the next 6 to 12 months. Due to 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 could be impacted for some time. Thereby, early stabilization of the PU project remains 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 second phase of the project after stabilization of the first phase.
MUL is also setting up seventh coating line at its existing unit (near Jaipur) for manufacturing of PVC leather with value added machineries at an estimated cost of Rs.42 crore which is being funded through term loan of Rs.25 crore and balance through internal accruals. Earlier, MUL was expecting completion of this project by March 2020; however, due to Covid-19 pandemic and delay in Mercedes's plan to source PVC fabric for its new car model, the project implementation got delayed. Till November 15, 2020, MUL had incurred cost of around Rs.6 crore and has received the PVC coating line at

its plant. Moreover, other value-added machines are expected to be delivered at the project site in April 2021 and the company now expects completion of this PVC fabric expansion project by June 2021. Installed capacity for production of PVC coated fabric will increase by 60 LLMPA, once this coating line becomes operational. MUL is setting up this new coating line mainly to meet supplies for Mercedes Benz.

Subdued financial performance during Q1FY21 due to nation-wide lockdown arising from Covid-19 pandemic; however, recovery in performance during Q2FY21

With national lockdown imposed by the Government of India to contain the spread of Covid-19 pandemic, MUL had shut down its manufacturing units from March 24, 2020 and resumed its operations gradually with partial relaxations received in early May. Sales and capacity utilization during Q1FY21 remained lower than normal level due to limited availability of manpower, restrictions due to compliance with government guidelines related to social distancing and staff strength. However, sales have started picking-up post relaxation in lockdown backed by pickup in demand from automotive segment. Further, MUL has taken various steps for cost reduction like salary cut of employees at higher position, reduction in travelling cost which resulted into lower expenses.

During Q1FY21, MUL reported TOI of Rs.44.44 crore with PBILDT margin of 9.27% on a consolidated level while during Q2FY21, MUL reported TOI of Rs.128.88 crore with PBILDT margin of 24.82% which indicates recovery in its performance. Consequently, during H1FY21, MUL reported total operating income of Rs.173.32 crore with PBILDT and PAT margins of 20.83% and 11.57% respectively. Its TOI during FY21 is envisaged to be lower compared with FY20 primarily due to loss of sales during Q1FY21.

Impact of Covid-19 on end-user industries and outlook for artificial leather

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 automotive, footwear and replacement market was impacted by Covid-19 pandemic. With the implementation of BS-VI norms, manufacturing cost of automobile sector has increased to meet the new BS-VI emission norms along with the new safety norms. As auto sales has been impacted due to Covid-19 pandemic, OEMs may face challenge to completely pass on increased cost of production immediately on account of subdued market conditions which may restrict MUL's average sales realization amidst increasing raw material prices. Auto sales has picked up gradually post relaxation in lockdown as people prefer personal mobility and pick-up in demand during festive season (October and November), however, it remained low during 8MFY21 on y-o-y basis. Demand of auto sales is supported by wedding season, recovery of rural demand, higher farm income backed by higher MSPs announced and normal monsoon. However, economic slowdown and falling household savings are key risks to the pick-up of demand in industry. Demand for formal, casual, premium and school footwear has been impacted due to Covid-19 pandemic due to increased time spent at home by consumers. Moreover, recovery in demand of footwear is gradual given the relatively discretionary nature of the products in the backdrop of likely economic slowdown. However, demand from the footwear market is expected to remain robust in medium to long term due to growing awareness and acceptability for artificial leather products and the high price differential between synthetic and natural leather. 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: Consolidated; CARE 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 foreign subsidiaries. *The list of subsidiaries whose financials have been consolidated in MUL is mentioned in **Annexure-3**.*

Earlier CARE had assessed the credit profile of MUL based on its standalone financials. However, CARE has now assessed the credit profile of MUL based on its consolidated financial results as MUL's subsidiaries now contribute materially to its consolidated financial results and it is expected to further increase with envisaged increase in MUL's export revenue.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Consolidation
Financial ratios – Non-Financial Sector
CARE's methodology for 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; 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 another at Dhodsar) having aggregate of six coating lines (4 at Jaitpura and 2 at Dhodsar) to manufacture artificial leather along with backward integration for manufacturing of knitted fabric. MUL has also forayed into 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, 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.

(Rs. Crore)

Brief Financials of MUL	Consolidated		Standalone	
	FY19 (A)	FY20 (A)	FY19 (A)	FY20 (A)
Total operating income	612.23	546.06	594.43	534.51
PBILDT	150.16	121.98	148.35	124.93
PAT	89.59	79.78	87.16	80.64
Overall gearing (times)	0.10	0.08	0.10	0.08
PBILDT Interest coverage (times)	VL	VL	VL	VL

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

As per the un-audited consolidated results, MUL earned a PAT of Rs.20.06 crore on a total operating income (TOI) of Rs.173.32 crore during H1FY21 as against a PAT of Rs.31.66 crore on a TOI of Rs.267.18 crore during H1FY20.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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

Annexure-1: Details of 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	-	-	July 2026	43.81	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	-	-	-	55.00	CARE AA; Stable / CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	43.81	CARE AA; Stable	-	1)CARE AA; Stable (30-Dec-19)	1)CARE AA; Stable (28-Feb-19) 2)CARE AA; Stable (07-Jan-19)	1)CARE AA; Stable (03-Jan-18)
2.	Non-fund-based - ST-BG/LC	ST	20.00	CARE A1+	-	1)CARE A1+ (30-Dec-19)	1)CARE A1+ (28-Feb-19) 2)CARE A1+ (07-Jan-19)	1)CARE A1+ (03-Jan-18)
3.	Fund-based - LT/ ST-Cash Credit	LT/ST	5.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (30-Dec-19)	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)
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	55.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (30-Dec-19)	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)
5.	Fund-based - LT-Bank Overdraft	LT	-	-	-	-	1)Withdrawn (07-Jan-19)	1)CARE AA; Stable (03-Jan-18)
6.	Fund-based/Non-fund-based-Long Term	LT	-	-	-	-	1)Withdrawn (07-Jan-19)	1)CARE AA; Stable (03-Jan-18)

Annexure 3: List of subsidiaries of MUL getting 'consolidated'

Sr. No	Name of the company	Relationship with MUL	% shareholding of MUL as on March 31, 2020
1	Mayur Uniquoters Corp.	Wholly owned subsidiary	100%
2	Mayur Uniquoters SA (Pty) Limited	Wholly owned subsidiary	100%
3	Futura Textiles Inc.	Step down subsidiary	68.61%

Annexure 4: Complexity level of various instruments rated for this Company

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

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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