



“Mayur Uniquoters Limited
Q3 FY2020 Earnings Conference Call”

February 13, 2020



ANALYST:

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to the Mayur Uniquoters Limited Q3 FY2020 Earnings Conference Call hosted by Monarch Network Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anubhav Rawat from Monarch Network Capital Limited. Thank you and over to you Sir!

Anubhav Rawat: Thank you. Good evening everyone. On behalf of Monarch Network Capital, I welcome you all to Q3 FY2020 Earnings Conference Call of Mayur Uniquoters Limited. We are pleased to host the senior management team of the company. Today, we have with us Mr. Suresh Kumar Poddar – Chairman and Managing Director of the company and Mr. Vinod Kumar Sharma – CFO of the company. We will start the call with initial comments about the results and outlook of the company and then we will open the floor for question and answers. Now, I would request Mr. Suresh Kumar Poddar, Managing Director of the company to give his opening comments. Over to you, Sir!

Suresh Kumar Poddar: Good evening everybody and good luck to all of you. Now, we start reading the results, my CFO will read it.

Vinod Kumar Sharma: Thank you. Good evening investors and analysts. Ladies and gentlemen, it is a great pleasure to be here to share with you the performance of Mayur. Thanks for giving your precious time to join Mayur Uniquoters Limited Q3 FY2020 conference call. Mayur Uniquoters Limited being a leader in the synthetic leather industry and an organized player has been able to leverage the emerging opportunity and deliver exemplary performance in past years both in national and international business markets. The current market scenario of automotive industry has affected our Q3 performance also and since revenue decreased by 22.52% as compared to previous years quarter mainly because of the fall in India car market in last 8 years and sluggish demand in our footwear market.

However, we have observed a small raise in the automotive market from December month and in other segments also and we are now expecting a good sales volume due to increased demand in automotive market and its impact can also be seen from the industry performance in the current quarter of FY2020 that is in Q4. As your company has been with a good track record of being an investor friendly company as it is committed to drive value creation for all the shareholders, now I am glad to tell you that the board of

directors of your company have declared interim dividend of Rs.1.5 paise that 30% for Q3 of financial year 2019-2020.

Now, I will like to start with financial highlights for Q3 FY2020 under review. We will reply to your queries after our review on the financial results. Your company has achieved revenue from operations on standalone basis amounting to Rs.124.61 Crores, which is a little increase by 33.33% as compared to last quarter and net profit after tax PAT amounting to Rs.18.19 Crores. From the figures it is showing a decline of 9.13%, but in fact if we consider the absolute figures of tax provision in last quarter, there is an increase of 13% over the last quarter.

Also the revenue from operation on consolidated basis is Rs.138.61 Crores, which is 5.88% increase as compared to last quarter and PAT amounting to Rs.23.29 Crores, which is increased by 6.28% over the last quarter. However, the endeavor of Mayur is to be the preferred supplier for leading OEM especially is US and European regions and we are glad to update that your company has already approved by Mercedes Benz for supply to their South Africa plant and product supply is expected to start for their new models from Q4 of next financial year 2021.

Moreover, our product approval from BMW is also under progress. Also in FY2021, we are expecting a very good and high volume in both exports markets and domestic markets and export markets we expect 20% to 25% increase and domestic markets we expected 10% to 15% in coming quarter for automotives. Now, I will update on our capex plan. PU plant, most of the project construction activities are completed with the commissioning of weight and dry lines of PU plant, we have done trial run of PU plant on December month and also started commercial operation last month.

A small supply orders also started from the plant. Now, expecting production stabilization of the plant within next 2 months for regular and large quantity of supply orders. While pursuing our business interest, Mayur Uniquoters have also been endeavoring to fulfill our response towards the society and our corporate social response program the company has adopted many schools for education of children. Your company has worked on education especially for the girls and under privilege child education, various health care institute especially child skilled development, water for all school area, distribution of books, bag, box, blankets and most importantly family planning and family welfare schemes.

The Government of Rajasthan has recognized this initiative on various platforms and appreciated our activity. I am thankful to all the investors for their valuable time to become a part of this conference call and with this positive note, I would like to conclude

and request you all to open forum for your question and before that I will request that due to time constraint, we need to end this call by 6 or 6:10 p.m. sharp, we therefore request you to kindly avoid the repeated questions during the call and considering competition we will not discuss volume data, please avoid volume related query, if any one wants they can send us mail, we will reply to your mail. Thank you. Now, we open for questions and answer.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Nitin Dharmavat from Aurum Capital. Please go ahead.

Nitin Dharmavat: Thank you for the opportunity. My question is related with raw material, so is there any dependency that we have on Chinese market for any of her raw materials, just wanted to know that first?

Suresh Kumar Poddar: So far our PVC leather cloth is concerned we are not dependent. Because all PVC we are buying from Western countries and fabric we are producing on our side. We are not dependent at all.

Nitin Dharmavat: Got it and you mentioned about some green shoot that you saw in demand in the month of December, so how is January going right now and especially the export market, how is it happening now and within domestic, how is the footwear market is there for us?

Suresh Kumar Poddar: As I told you that December is good, January also looked good and hopefully, this quarter should be better and demand is picking up and also our automotive demand is picking up because they have started producing big quantity, but because of our approval of 3, 4 new suppliers that is why our sale is increasing and hopefully, the market has started reviving and that will also help us and we hope for a good result in the future.

Nitin Dharmavat: Got it, Thank you so much.

Moderator: Thank you. The next question is from the line of Chintan Seth from Sameeksha Capital. Please go ahead.

Chintan Seth: Thank you for the opportunity, Sir and heartening to see that we are maintaining our margins and revenues at tough times, if I look at you commentary you are more focused in exposing auto and footwear continue to see pressures as you have rightly mentioned in the previous calls as well, now if I look at historically we are currently 30% of our volume is coming from footwears and we are trying hard in exploring other segments like exports, OEM and replacement, still this is a very large chunk, which is not growing, how

do you see incremental revenue or demand from auto and exports will replace this footwear volumes?

Suresh Kumar Poddar: If you go 5 years back on the footwear business was about more than 45%, which has come down to 30% and still the sales has been increasing and profits are increasing, whenever you sell it is very important to have a good margin as well as security of the money. After demonetization, the market position is not very good, so we are very strict to supply those who are good pay master and we are getting good results from them. December and January, we had improvement in footwear segment also and now, we hope that including footwear, automotive will also increase and now today's scenario, automotive sales in expected to grow more than footwear for the reason I told you, still automotive, you know we are dealing with the models, which has got high quality and high price, so our endeavor is now to start making good quality, which we have been doing and technical products that is why we started this new plant, which will be smooth from may be middle of March and there also we are planning to go for good material, which is technically strong and we want to create an impression that we do not need to go to China, we are here to support you and our OEM manufacturers of footwear, they are not in PU because they were worried that if there is any quality complain they will caught, so with our product, because just recently there was a footwear exhibition in China, we have displayed our PU material and everybody liked and I am very particular about quality, not a single meter should go back because I want to create a good name of Mayur in the beginning, no matter if the sales is less, but actually it will pick up because there is a huge import from China, I am not worried about sale that much, one thing how we are able to make a good profit and also the sales has started increase.

Chintan Seth: Initial trials and samples you created you are satisfied with the product output right from the plant?

Suresh Kumar Poddar: Of course, I have got four to five Chinese working, they are the best people from China, that is why my cost is more, I do not want to take any chance, I want to make a perfect material.

Chintan Seth: You have mentioned that initial small orders you have already started sample orders, we have started supplying so any ballpark number you can guide in terms of how do you see FY2021 for PU in terms of either what will be our revenue or utilization will also go?

Suresh Kumar Poddar: You see, this is very difficult to predict, but I can tell you for sure that within 2 years' time, I will try my best to use all the 3 shift of first machine and if the things move and I am sure it will move, you have order next clients within a year's time and we are working

hard to introduce in automotive industry also the PU material, if that happens the price is unimaginable.

Chintan Seth: Right, all the best and I will join the queue for few questions. Thank you.

Moderator: Thank you. The next question is from the line of Raj Desai from Prospero Tree. Please go ahead.

Raj Desai: Thank you for the opportunity. Sir, can you tell me what will be the cost for quarter for new the plant?

Suresh Kumar Poddar: It is not possible to tell you right now, I do not remember, I do not have everything in fingers. Whatever you asking me please send me a note, I will send you by mail, I remember what is the cost the water although it is much cheaper, this much I can tell you.

Raj Desai: The technical staff are going to come from China for the machine training, so what is the status on that?

Suresh Kumar Poddar: That I have already spoken 4, 5 Chinese are here already last 2 months and they will be here for another 2 years to train my people and to understand the technology, to understand the recipes all those.

Raj Desai: Any particular impact that we would be getting on this Coronavirus any impact, anything which we can take an opportunity on this?

Suresh Kumar Poddar: How will there be opportunity, this Coronavirus, I think even Mr. Modi or Mr. Trump do not know, what is going to happen. Let us pray to God that everything happens good because I have heard in TV that they are saying by April it should go off, so let us hope so and in the mean time, I have started ordering my material in West also, not to stop my production, I am taking that extra care.

Raj Desai: Sir, can you please provide me the segment revenue mix for this current quarter?

Suresh Kumar Poddar: Next coming quarter?

Raj Desai: No, this current quarter segmental wise?

Suresh Kumar Poddar: You want Q3?

Raj Desai: Yes, Sir Q3.

Suresh Kumar Poddar: Our CFO will explain this.

Vinod Kumar Sharma: You want segment wise know?

Raj Desai: Yes, Sir segment wise.

Vinod Kumar Sharma: As I already told due considering the competition, we will not discuss the volume data in detail, only I will tell you the total volume and if you wants the more detail, they can send us the mail, we will replay, okay.

Raj Desai: Okay, Sir.

Vinod Kumar Sharma: As a total volume is 6077000 millimeter and out of that 73% is domestic and remaining is exports.

Raj Desai: Sir, one more thing, in case of BMW, so any audit status on that?

Suresh Kumar Poddar: You see, we are working continuously, it may take further sometime because you know as I told many times that automotive industry is very critical, sometime they say okay, this April we will start so on so quarter, sometime it is delayed by one quarter, two quarters, sometime it is advanced by one quarter, so we are working continuously and let us hope that as soon as possible it should come out.

Raj Desai: We can expect the revenue contribution from Mercedes by Q4 FY2021, right?

Suresh Kumar Poddar: Yes.

Raj Desai: That is all from my side. Thank you very much.

Moderator: Thank you. The next question is from the line of Pankti Shah,an Individual Investor. Please go ahead.

Pankti Shah: Thank you for the opportunity. I had a couple of questions, firstly where is PU leather mainly use and how is it different from PVC leather and will it not cannibalize the PVC sales?

Suresh Kumar Poddar: Can you repeat the question?

Pankti Shah: Sir, question is, where is PU leather mainly used and how is it different from PVC leather and will it not cannibalize the PVC sales?

Suresh Kumar Poddar: One thing, the difference between PVC and PU, PU is less harmful compared to PVC number one. Number two, it is much lighter compared to PVC. Number three, it takes more process to leather compared to PVC and so far as my customers, the customers will say who same who are using PVC they are using PU also except automotive industry for which also we are trying hard how to knock them out and make this automotive product and this automotive industries are also very interested, but it is a very, very complicated and technical product, so we are working hard on this because there you can make more money.

Pankti Shah: Understood, Sir, my second question is in the consolidated numbers I do not see share of associate or any minority interest, so could be please explain that?

Vinod Kumar Sharma: As you see in MUL is having 100% share and MUC is having 68% share in Futura, so 32% is hold by other Indian company, this is the holding pattern of our subsidiaries.

Pankti Shah: Alright. Thank you so much, that is it from my end.

Moderator: Thank you. The next question is from the line of Pawan Ahluwalia from Burnham Capital. Please go ahead.

Pawan Ahluwalia: Thank you very much. I had two questions, first, in terms of our own competitor position within the domestic market, maybe 5, 10 years ago, we were clearly the only person producing synthetic leather of a certain quality and that allowed us to get a pricing premium, in the last few years several of our small competitors have significantly improved the processes, quality, etc., the marble, etc and I am just curious from the end customers standpoint, is it possible for us to command the pricing premium over them that we historically been used to commanding, are we seeing the situation where we are losing some customers, so there were customers saying to us we will say with you if you match the price, but we are declining to match that price, just curious to get your sense how our market shares evolving and how that relates to the historic premium charge and whether or not you think that is capable of being continued and second on PU, who do think the big initial set of customers will be in PU while it be the large traditional footwear customers we have, who do you expect to the get the larger orders for the PU plant?

Suresh Kumar Poddar: First of all you have asked about share, now if you go through you have named some companies just now, our competitors, please go through their balance sheet, you will find what kind of a effort they are making. You see there was the time say we talk about 15 years back if you are the owner company, two generations are working because there was less technology available, availability of the money was less, now everything is available

and everything is in open, so today also like if you talk about automotive, most of the material is sold by me, which has got a good technical material, which is not possible here to produce by local people and so our concern is that how do I compete with them, so I am not going to compete with them, I am competing with the world, not India because if you find in Maruti also small cars, which is 3, lakhs, 4 lakhs or 5 lakhs, they are using very cheap material, one time I was supplying 70% of the material to Maruti, but we are continuously reduced the quality, so lot of people entered, but the world is very big, we are very small and I am very confident that as I am making a technical products I will keep on making and I will keep on getting the business, like people are selling \$1.5, \$1.6, country like UAE I am selling more than \$3, so for getting this kind of business we have to spend time, right.

Pawan Ahluwalia: Right, Sir I am not concerned actually by the automotive side, I think you articulated your strategy where you make sense, I am talking more on the footwear front, is there risk over there we just get competed out of the traditional synthetic in the market because is not that much more high end stuff to be done and gradually some of the low ends as they learn how to do say synthetic leather?

Suresh Kumar Poddar: You see, but I will tell you, why I went in PU, that there is no so called players in India and there I want to again make the technical product to ensure people that everybody knows PU is better than PVC, but the cost is high, now even TATA and Mahindra come out through the good quality SUV they are using three times more costly material, what they are using for their normal cost, so every country upgrade himself gradually, now it is up to the manufacturer how you teach them, how you make then understand, now today if you go to the market, a sport shoe, you can get Rs.5000 to Rs.10000 and you get the shoes may be Rs.1000 to Rs.2000 also, so I am working on that class of things and automotive also I am working very hard and I hope I must achieve that and once that is achieved, the prices you cannot imagine, now what is happening, the biggest advantage with artificial leather is that automotive manufacturers are trying to go away from genuine leather. There are two reasons for that, today you will not believe I am getting many of us from leather manufacturer who are selling all over the world to automotive industry to join and have a partnership with us, so why, because their sales are going down that is reason, one is the cost is very heavy and the second reason is the environment and artificial leather is coming more closer to leather, so this is making a good chance for artificial leather to improve in future that is what I am going to do, so let us forget about these cheap materials.

Pawan Ahluwalia: Sir, the risk is that if you do not succeed in breaking the high end stuff overtime ...

Suresh Kumar Poddar: Say one thing why I will not success, why, tell me, so long I have done and my endeavor is only to go for the highly technical peoples and I have good R&D people, we just had a lady from Europe, paying huge money to her and she is making a lot of new products for that you have to invest, automatically nothing comes in the life, you have to work hard, you have to be after that and things will happen. The world is so big, and I am not worried at all, what I am producing today and what I am going to produce tomorrow is nothing, the only thing that you have to come to the expectation of the people, of the person, of the company, of the product that is what I am trying to do and I am doing it and I am very much confident that I will do it, so forget about that if it does not happen, it will happen. I am not a fool that I am investing so much of money for not getting into it, I do not want to waste my time on these small things and I am 100% confident. You will today my target is to give a tough competition to all two or three big people, big companies who are supplying to the automotive industry in a big way, I am seriously working on that and you are seeing the result. I am very, very optimistic, the sales will increase, the profitability will increase, but one has to keep the patience.

Pawan Ahluwalia: Thank you, Sir. I appreciate the answer.

Moderator: Thank you. The next question is from the line of Awanish Chandra from East India Securities. Please go ahead.

Awanish Chandra: Congratulations for improved performance. My first question is on the margin side, this time we hit more than 20% margin, is it purely on raw material or is it some product mix we have got advantage?

Suresh Kumar Poddar: So, please keep it mind, in the last 6 months PVC resin price has increased by 20%, and still are maintaining, how you make money. You make, number one with the good product, technical product where the value addition is more, so if your value addition is more, then naturally your raw material price come down, this has not come down because of the price had reduced in the market, rather it has increased, of course in fabrics there was no increase mainly increase while in PVC resin, which is 40% of our raw material, so we are continuously working on reduction in the cost by making good technical product when your technology works, compared to the price the cost of material is not that high.

Awanish Chandra: Sir, you talked about commercial products to start at PU plant, so how was the initial customer response for the product?

Suresh Kumar Poddar: Please remember, I have worried about customers response, I am working on highly technical products, but in the beginning you have to start with the normal product, which

we have started and we have started selling, you see today if Mayur goes to any supplier, nobody will say no, they will just close their eyes and buy it, but of course I have to look at the price also, so again, same thing you have to go out of way and make a different products, which has got good value addition and that is what we are trying to do here also, we are working very hard on automotive segment also, which nobody is doing, only Korean companies are doing, even we are talking to the Korean companies, that if we can have some kind of tie up, I am working on that also, you see do not think that Mayur is going to make just ordinary product for PU, of course in the beginning to stand in the market to get people used to Mayur material we have to start with the cheaper quality also, but one thing I can tell you, my endeavor is that in PU also I will work internationally as I have done in PVC leather cloth.

Awanish Chandra: Thank you very much and all the best.

Moderator: Due to time constraint, I would now like to hand the conference over to the management for closing comments.

Suresh Kumar Poddar: What I can tell to my investors that their future is good and Mayur is in the safe hands and the technical hand and as usual we will keep on doing whatever best is possible and I am not a giver you see when I think something and I do it. In the past also I have gone out of way did the things and the results came. The only thing is when you go and make something different it will take some time, but the ultimate result is there, as you can see that all the automotive plants, which are coming like MG Motors, we are 100% supplier, the price is Rs.600, so what I am trying to say that if you make the position in a high range the people will come to you automatically and we will continue on doing this and remember I am fighting not with the Indian manufacturers, my fight is with the top most manufacturers of the world for artificial leather. Thank you.

Moderator: Thank you very much. On behalf of Monarch Network Capital Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.