

Estimate change

TP change

Rating change


Bloomberg	MRF IN
Equity Shares (m)	4
M.Cap.(INRb)/(USD\$)	291.3 / 3.8
52-Week Range (INR)	87580 / 62945
1, 6, 12 Rel. Per (%)	10/-2/-22
12M Avg Val (INR M)	989

Financials & valuations (INR b)

INR b	FY22	FY23E	FY24E
Sales	193.2	213.4	231.9
EBITDA	20.5	23.9	31.8
Adj. PAT	6.7	8.2	13.6
EPS (INR)	1,578	1,945	3,203
EPS Growth (%)	-47.6	23.3	64.7
BV/Share (INR)	33,094	34,879	37,903

Ratios

RoE (%)	4.9	5.7	8.8
RoCE (%)	5.3	6.0	8.6
Payout (%)	9.5	8.2	5.6

Valuations

P/E (x)	43.5	35.3	21.4
P/BV (x)	2.1	2.0	1.8
Div. Yield (%)	0.2	0.2	0.3
FCF yield (%)	-7.8	1.8	3.4

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	28.0	27.9	27.8
DII	11.7	12.9	14.3
FII	15.5	14.6	13.5
Others	44.8	44.6	44.4

FII Includes depository receipts

CMP: INR68,674
TP: INR69,000
Neutral
Beat led by strong revenue growth
RM costs headwinds to persist in 1HFY23

- MRF's 4QFY22 performance was driven by strong revenue growth, while RM cost inflation continued to impact margin. The industry is taking gradual price increases to dilute the impact of severe cost inflation.
- We raise our FY23/FY24 EPS by ~6%/3% to factor in price hikes in the Replacement market. We maintain our **Neutral** rating with a TP of INR69,000 per share.

Margin impacted due to RM cost, but offset by operating leverage

- Revenue grew 10% YoY and 8% QoQ to INR52b, while EBITDA/adjusted PAT fell 29%/51% to INR5.3b/INR1.57b in 4QFY22. Revenue grew 19% YoY, whereas EBITDA/PAT fell 30%/48% in FY22.
- Revenue growth in 4QFY22 was a tad weaker than CEAT (13% YoY).
- Gross margin fell 130bp QoQ (6.4pp YoY) to 32.1% (est. 32.4%). The decline in gross margin for CEAT was a less steep on a QoQ basis (CEAT: -50bp QoQ and -8.5pp YoY) due to commodity cost inflation.
- EBITDA fell by 29% YoY (+9% QoQ) to INR5.3b (est. INR4.7b). EBITDA margin declined by 5.6pp YoY (flat QoQ) to 10.1% (est. 9.5%) due to RM costs, which were offset by operating leverage. CEAT performed better (up 4.2pp YoY and 1.6pp QoQ).
- PAT declined by 51% YoY and 7% QoQ to INR1.57b (est. INR1.4b).
- Exports grew 33% to INR17.8b in FY22.
- FCF stood at a negative INR22.8b (v/s a positive INR34.7b in FY21) due to a weak CFO, which came in at a negative INR5.8b (v/s a positive INR43.2b), and higher capex of INR17b (v/s INR8.5b).
- The company declared a final dividend of INR144/share. The total dividend for FY22 stands at INR150/share.
- **Management commentary:** Despite its best efforts, the management has been unable to fully recover the increase in raw material cost. The latter is at an unprecedented level. The market conditions, after the lifting of COVID-related lockdown restrictions, are also unfavorable to absorb such frequent price rises. MRF will do its best to recover the cost increases in coming months. Operations were also adversely impacted by the uncertainties posed by the pandemic in the early part of FY22, issues connected with the availability of raw materials, and also challenges posed by the Russia-Ukraine war.

Valuation and view

- The pricing environment for the industry seems to be stable with all players raising prices to pass-on substantial cost inflation. While cost inflation is likely to sustain in 1Q, we expect margin to start recovering in the later part of FY23 (assuming stable commodity prices).
- Current valuations, at 35.3x/21.4x FY23E/FY24E EPS, fairly capture the changing competitive dynamics for MRF. We maintain our Neutral rating, valuing it at 20x Jun'24E EPS (v/s 21.5x/14.5x its five/10-year average P/E) to arrive at our TP of INR69,000/share.

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Standalone quarterly earnings

(INR m)

Y/E March	FY21				FY22				FY21	FY22	FY22E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
Net Sales	24,306	41,864	45,668	47,377	41,277	48,317	48,299	52,003	1,59,214	1,89,895	49,760
YoY Change (%)	-44.9	6.0	13.9	30.7	69.8	15.4	5.8	9.8	-0.4	19.3	5.0
Total Expenditure	20,991	33,319	36,036	39,921	36,405	43,194	43,442	46,728	1,30,267	1,69,769	45,038
EBITDA	3,315	8,544	9,631	7,456	4,872	5,122	4,856	5,275	28,947	20,126	4,721
Margin (%)	13.6	20.4	21.1	15.7	11.8	10.6	10.1	10.1	18.2	10.6	9.5
Depreciation	2,730	2,839	2,831	2,970	3,007	2,958	2,946	3,103	11,369	12,014	2,989
Interest	737	528	638	745	621	566	628	656	2,647	2,470	670
Other Income	430	443	634	565	924	887	690	649	2,072	3,149	817
PBT before EO expense	279	5,620	6,797	4,306	2,168	2,485	1,973	2,165	17,003	8,791	1,880
Extra-Ord. expense	0	0	0	0	0	0	0	0	0	0	0
PBT	279	5,620	6,797	4,306	2,168	2,485	1,973	2,165	17,003	8,791	1,880
Tax	108	1,590	1,680	1,134	555	652	514	598	4,512	2,318	491
Rate (%)	38.8	28.3	24.7	26.3	25.6	26.2	26.1	27.6	26.5	26.4	26.1
Minority Interest and Profit & Loss of Asso. Cos.	0	0	0	0	0	0	0	0	0	0	0
Reported PAT	171	4,030	5,117	3,173	1,613	1,834	1,458.3	1,568	12,490	6,473	1,389
Adj. PAT	171	4,030	5,117	3,173	1,613	1,834	1,458.3	1,568	12,490	6,473	1,389
YoY Change (%)	-93.6	82.9	116.3	-52.6	845.8	-54.5	-71.5	-50.6	-10.5	-48.2	-56.2
Margin (%)	0.7	9.6	11.2	6.7	3.9	3.8	3.0	3.0	7.8	3.4	2.8

E: MOFSL estimates

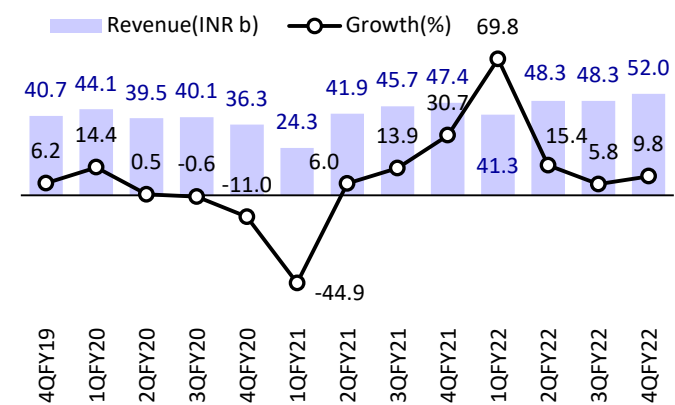
Key performance indicators

RM Cost (as a percentage of sales)	60.0	55.7	55.2	61.5	62.1	64.5	66.6	67.9	58.0	65.4	67.6
Staff Cost (as a percentage of sales)	12.7	8.0	8.6	7.4	8.6	7.8	7.7	7.1	8.7	7.8	7.5
Other cost (as a percentage of sales)	13.6	15.9	15.1	15.3	17.5	17.1	15.6	14.9	15.1	16.2	15.4
Gross Margin (%)	40.0	44.3	44.8	38.5	37.9	35.5	33.4	32.1	100.0	100.0	32.4
EBITDA Margin (%)	13.6	20.4	21.1	15.7	11.8	10.6	10.1	10.1	18.2	10.6	9.5

E: MOFSL estimates

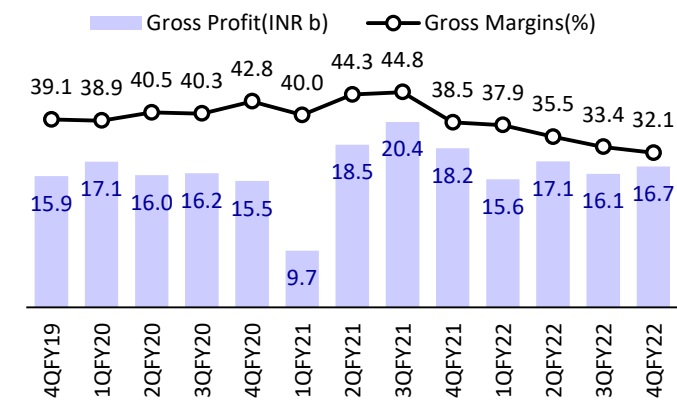
Key exhibits

Exhibit 1: Revenue trend



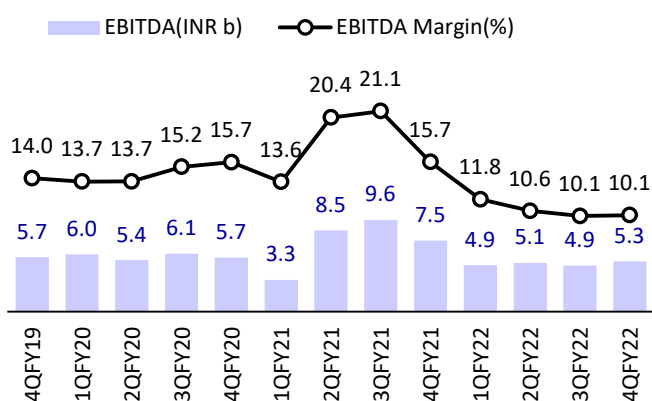
Source: MOFSL, Company

Exhibit 2: Trend in gross margin



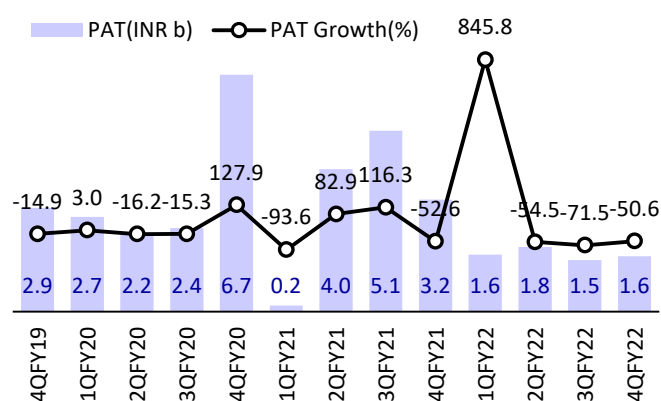
Source: MOFSL, Company

Exhibit 3: EBITDA and EBITDA margin trend



Source: MOFSL, Company

Exhibit 4: PAT and PAT growth trend



Source: MOFSL, Company

Valuation and view

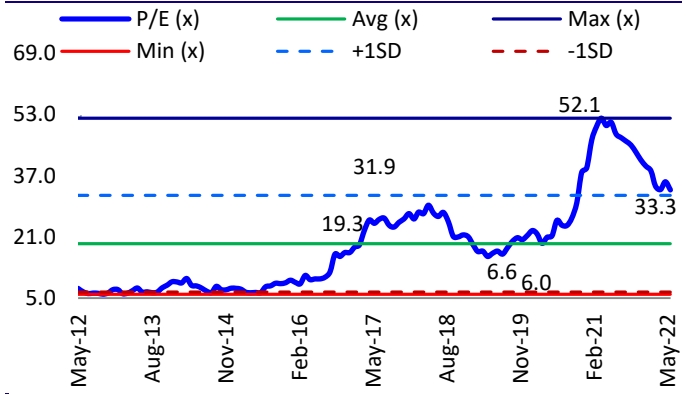
- **Well-diversified presence with a leadership across major segments:** MRF’s leadership across major segments of T&B, 2Ws, and PCR led to the creation of a strong brand and pricing power. It enjoys market leadership in 2W, TBB, and Agri tyres, and is among the top three players in PCR and TBR. This has resulted in MRF having the highest profitability and superior ratios.
- **Dilution in competitive positioning:** Aggressive competition in the recent past has dethroned MRF from the top spot in the PCR and T&B space, and resulted in an overall market share loss. With new capacity coming in, MRF should be able to defend its market position. Higher exposure to the TBB segment, which is expected to see muted growth, makes it vulnerable to the trend of radialization in the T&B segment. We see ~10% revenue CAGR over FY22-24 on the back of an expected recovery in Replacement demand.
- **Margin expansion by FY24E:** The recent capex resulted in lower capacity utilization and will keep margin and RoE under check over FY21-23E. We expect EBITDA to grow by ~25% CAGR over FY22-24, with margin expanding by ~310bp to 13.7%. We expect ~42% PAT CAGR over FY22-24.
- **Steep valuations do not factor in downside risk:** MRF’s competitive positioning within the sector has weakened over the past few years, which is also reflected in the dilution of pricing power in the PCR and TBR segment. This, coupled with the impact of capex carried out over the last three years, has resulted in a substantial dilution in its superior return ratios. Current valuations, at 35.3x/21.4x FY23E/FY24E EPS, fairly capture the changing competitive dynamics for MRF. We maintain our Neutral rating, valuing it at 20x Jun’24E EPS (v/s 21.5x/14.5x its five/10-year average P/E) to arrive at our TP of INR69,000/share.

Exhibit 5: Revisions to our estimates

(INR m)	FY23E			FY24E		
	Revised	Old	Change (%)	Revised	Old	Change (%)
Net Sales	2,13,406	2,04,645	4.3	2,31,880	2,20,341	5.2
EBITDA	23,917	22,487	6.4	31,826	30,285	5.1
EBITDA (%)	11.2	11.0	20bp	13.7	13.7	0bp
Adj. PAT	8,248	7,794	5.8	13,582	13,158	3.2
EPS (INR)	1945	1838	5.8	3203	3103	3.2

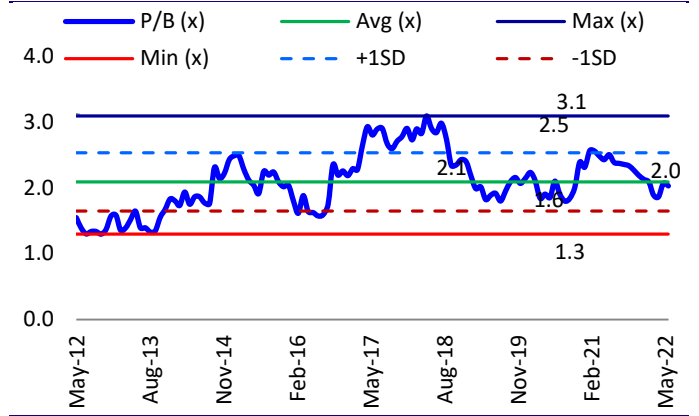
Source: Company, MOFSL

Exhibit 6: One-year forward P/E



Source: MOFSL, Company

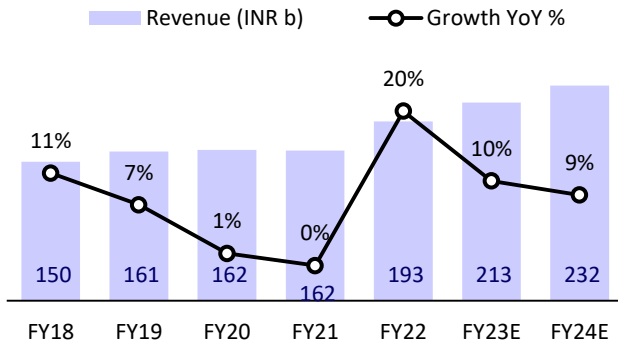
Exhibit 7: One-year forward P/B band



Source: MOFSL, Company

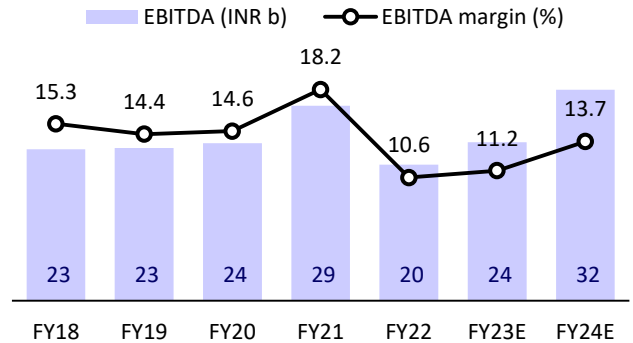
Story in charts

Exhibit 8: Revenue and growth trend



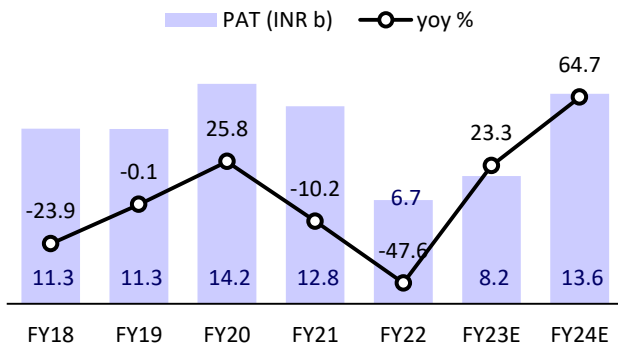
Source: MOFSL, Company

Exhibit 9: Expect EBITDA to grow by ~25% CAGR over FY22-24, margin to improve by 310bp to 13.7%



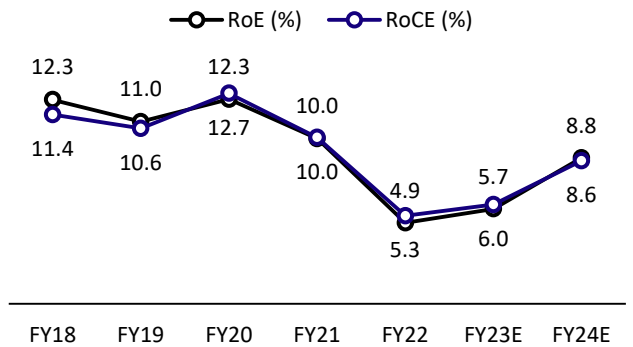
Source: MOFSL, Company

Exhibit 10: Expect 42% PAT CAGR over FY22-24



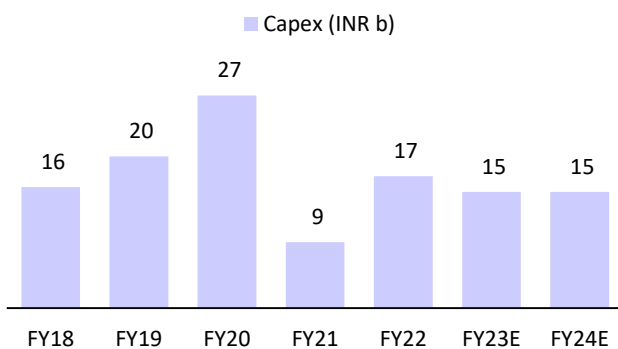
Source: MOFSL, Company

Exhibit 11: Capital efficiency to remain weak



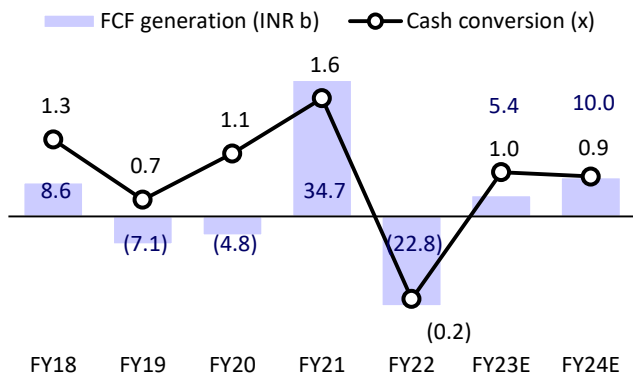
Source: MOFSL, Company

Exhibit 12: Expect capex spends over FY22-24 to be largely towards a ramp-up in capacity



Source: MOFSL, Company

Exhibit 13: FCF generation to remain consistently positive



Source: MOFSL, Company

Financials and valuations

Consolidated Income Statement

	INR m						
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	1,49,544	1,60,625	1,62,394	1,61,632	1,93,167	2,13,406	2,31,880
Change (%)	11.5	7.4	1.1	-0.5	19.5	10.5	8.7
EBITDA	22,818	23,054	23,740	29,423	20,498	23,917	31,826
EBITDA Margin (%)	15.3	14.4	14.6	18.2	10.6	11.2	13.7
Depreciation	7,067	8,076	9,823	11,408	12,051	12,866	14,229
EBIT	15,751	14,978	13,917	18,016	8,447	11,051	17,597
EBIT Margin (%)	10.5	9.3	8.6	11.1	4.4	5.2	7.6
Int. and Finance Charges	2,531	2,673	2,928	2,747	2,538	2,618	2,218
Other Income	3,307	4,217	3,354	2,099	3,170	2,714	2,975
PBT bef. EO Exp.	16,527	16,522	14,343	17,368	9,079	11,147	18,354
EO Items	0	0	0	0	0	0	0
PBT after EO Exp.	16,527	16,522	14,343	17,368	9,079	11,147	18,354
Tax Rate (%)	31.5	31.6	0.8	26.5	26.3	26.0	26.0
Reported PAT	11,316	11,306	14,226	12,771	6,692	8,248	13,582
Adjusted PAT	11,316	11,306	14,226	12,771	6,692	8,248	13,582
Change (%)	-23.9	-0.1	25.8	-10.2	-47.6	23.3	64.7

Consolidated Balance Sheet

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	42	42	42	42	42	42	42
Total Reserves	97,340	1,08,331	1,22,105	1,34,094	1,40,275	1,47,845	1,60,664
Net Worth	97,382	1,08,374	1,22,147	1,34,137	1,40,318	1,47,888	1,60,707
Deferred Tax Liabilities	6,198	8,402	4,289	3,802	3,955	3,955	3,955
Total Loans	21,636	21,024	18,375	20,398	28,180	24,181	20,182
Capital Employed	1,25,218	1,37,801	1,44,812	1,58,339	1,72,454	1,76,025	1,84,845
Gross Block	79,709	94,725	1,25,384	1,42,502	1,55,363	1,70,363	1,85,363
Less: Accum. Deprn.	18,787	26,863	36,687	48,094	60,145	73,011	87,240
Net Fixed Assets	60,922	67,862	88,698	94,408	95,218	97,352	98,123
Capital WIP	10,789	14,035	17,409	10,022	12,331	12,331	12,331
Total Investments	41,450	38,547	15,193	58,740	36,565	36,565	36,565
Curr. Assets, Loans, and Adv.	51,621	63,969	73,123	62,649	86,484	91,044	1,03,425
Inventory	21,973	29,932	29,052	29,388	41,297	40,510	42,769
Account Receivables	21,499	23,827	22,994	22,543	23,327	25,771	28,002
Cash and Bank Balance	2,337	1,045	11,811	1,694	1,804	2,605	8,579
Loans and Advances	5,812	9,164	9,266	9,024	20,056	22,157	24,076
Curr. Liability and Prov.	39,567	46,612	49,611	67,480	58,144	61,266	65,599
Account Payables	15,685	17,094	19,053	34,414	20,568	20,176	21,301
Other Current Liabilities	20,924	26,235	27,097	28,915	33,541	37,055	40,263
Provisions	2,958	3,284	3,461	4,150	4,035	4,035	4,035
Net Current Assets	12,054	17,357	23,512	-4,831	28,340	29,778	37,827
Appl. of Funds	1,25,218	1,37,801	1,44,812	1,58,339	1,72,454	1,76,025	1,84,845

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)							
EPS	2,669	2,667	3,355	3,012	1,578	1,945	3,203
Cash EPS	4,336	4,571	5,672	5,702	4,420	4,980	6,559
BV/Share	22,967	25,560	28,808	31,636	33,094	34,879	37,903
FCF per share	2,032	-1,676	-1,126	8,191	-5,384	1,269	2,354
DPS	60	60	65	150	150	160	180
Payout (%)	2.7	2.7	2.3	5.0	9.5	8.2	5.6
Valuation (x)							
P/E	25.7	25.8	20.5	22.8	43.5	35.3	21.4
P/BV	3.0	2.7	2.4	2.2	2.1	2.0	1.8
EV/Sales	1.8	1.7	1.7	1.6	1.5	1.3	1.1
EV/EBITDA	11.8	11.8	11.9	8.5	13.7	11.5	8.4
Dividend Yield (%)	0.1	0.1	0.1	0.2	0.2	0.2	0.3
Return Ratios (%)							
RoE	12.3	11.0	12.3	10.0	4.9	5.7	8.8
RoCE	11.4	10.6	12.7	10.0	5.3	6.0	8.6
RoIC	15.4	13.2	15.0	14.1	5.9	6.6	10.3
Working Capital Ratios							
Fixed Asset Turnover (x)	1.9	1.7	1.3	1.1	1.2	1.3	1.3
Asset Turnover (x)	1.2	1.2	1.1	1.0	1.1	1.2	1.3
Working Cap. Turnover (Days)	24	37	26	-15	50	46	46
Leverage Ratio (x)							
Current Ratio	1.3	1.4	1.5	0.9	1.5	1.5	1.6
Interest Coverage Ratio	6.2	5.6	4.8	6.6	3.3	4.2	7.9
Net Debt/Equity ratio (x)	-0.2	-0.2	-0.1	-0.3	-0.1	-0.1	-0.2

Consolidated Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	16,527	16,522	14,343	17,368	9,079	11,147	18,354
Depreciation	7,067	8,076	9,823	11,408	12,051	12,866	14,229
Interest and Finance Charges	2,531	2,673	2,928	2,747	2,538	2,618	2,218
Direct Taxes Paid	-4,751	-4,156	-4,418	-5,168	-2,135	-2,898	-4,772
(Inc.)/Dec. in WC	5,289	-7,844	2,285	18,222	-25,088	-637	-2,075
Others	-2,408	-2,742	-2,235	-1,331	-2,226	-2,714	-2,975
CF from Operations incl. EO	24,255	12,529	22,726	43,246	-5,780	20,382	24,979
(Inc.)/Dec. in FA	-15,640	-19,633	-27,499	-8,516	-17,046	-15,000	-15,000
Free Cash Flow	8,615	-7,105	-4,773	34,730	-22,827	5,382	9,979
(Pur.)/Sale of Investments	-5,309	5,960	25,852	-43,336	23,831	0	0
Others	685	-189	10	989	-5,123	2,731	2,975
CF from Investments	-20,264	-13,862	-1,637	-50,862	1,661	-12,269	-12,025
Issue of Shares	0	0	0	0	0	0	0
Inc./Dec. in Debt	-1,325	3,523	-6,347	1,435	8,199	-3,999	-3,999
Interest Paid	-2,541	-2,702	-2,809	-2,540	-2,361	-2,618	-2,218
Dividend Paid	-306	-307	-307	-424	-636	-678	-763
Others	-354	-93	-861	-971	-965	0	0
CF from Fin. Activity	-4,526	422	-10,324	-2,500	4,238	-7,295	-6,980
Inc./Dec. in Cash	-535	-911	10,766	-10,117	118	818	5,974
Opening Balance	2,465	1,931	1,019	11,785	1,668	1,787	2,605
Closing Balance	1,931	1,020	11,785	1,668	1,787	2,605	8,579

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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