

Quarter marginally disappoints but outlook is intact

MRF revenue grew 15.8% YoY in Q4FY18 to ₹ 39bn, which was lower than our estimates of ₹ 40 bn. Profitability was also marginally lower than estimates. We believe that recent price hikes taken by MRF will enable margin restoration / expansion in coming quarters. MRF has an incomparable moat over its competitors and strong brand recall which will keep MRF ahead of its competitors. With strong presence across segments and volume outlook looking robust, we expect MRF to further strengthen its leadership position. Any adverse movement in raw material prices should be negated through price hikes. We rollover valuation to FY20E EPS. We reiterate our Accumulate recommendation with a target price of ₹ 87,285.

Volume Growth looking strong

Momentum witnessed in the OEM sales in FY18 is expected to continue in FY19. CV constitutes highest value share and this segment is the highest growing segment amongst automobile sales. Strong CV sales reflects higher movement of CVs on road and this will percolate in replacement demand. With threat of Chinese tyre declining and lower levels of retreading, players in the CV tyre space in India will be a natural beneficiary. Replacement segment offers higher realizations as well as higher margins. Outlook of the personal mobility segment (2W and 4W) also looks encouraging with volume growth expectation of 8% - 10%.

Thrust on distribution expansion

MRF projects for higher agrarian and rural growth on the back of good monsoon and infrastructure push by the government. MRF is gaining more visibility in rural areas and trying to penetrate further in its already existing strong distribution channel. Our channel check suggests that MRF has increased its marketing push in urban areas to capture higher share in personal mobility segment.

Raw Material – Ability to pass through Brand power

MRF has over the years developed a brand perception on quality and reach that it can take price hikes to not only negate any increase in input cost but to expand margins. There can be a lag in passing on the prices but over a period of time, MRF will protect / expand margins through its brand power.

Q4FY18 Result (₹ Mn)

Particulars	Q4FY18	Q4FY17	YoY(%)	Q3FY18	QoQ(%)
Net Sales	38,654	33,384	15.8	37,988	1.8
Total Raw Mat	22,872	19,975	14.5	22,191	3.1
Total Operating Cost	3,794	28,157	12.9	30,956	2.7
EBIDTA	6,860	5,228	31.2	7,032	(2.4)
Interest	648	615	5.4	577	12.4
Other Income	794	654	21.4	448	77.0
Depreciation	1,867	1,622	15.1	1,778	5.0
PBT	5,139	3,644	41.0	5,125	0.3
Tax	1,685	777	117.0	1,720	(2.0)
Net Profit	3,453	2,868	20.4	3,405	1.4
EPS (in ₹)	814.4	676.3	20.4	803.1	1.4
Gross Margin (%)	40.8	40.2		41.6	
OPM (%)	17.7	15.7		18.5	
Tax Rate (%)	32.8	21.3		33.6	
NPM (%)	8.9	8.6		9.0	

CMP	₹ 75,510
Target / Upside	₹ 87,285/ 16%
BSE Sensex	35,216
NSE Nifty	10,718

Scrip Details

Equity / FV	₹ 42 mn/₹ 10/-
Market Cap	₹ 320bn
	USD 4.8bn
52-week High/Low	₹ 81,473/61,110
Avg. Volume (no)	9,191
NSE Symbol	MRF
Bloomberg Code	MRF IN

Shareholding Pattern Mar'18(%)

Promoters	27.5
MF/Banks/FIs	13.3
FIIIs	8.2
Public / Others	51.0

Valuation (x)

	FY18E	FY19E	FY20E
P/E	29.3	18.4	15.6
EV/EBITDA	15.0	9.7	7.9
ROE	12.0	16.6	18.1
ROCE	15.9	21.7	23.6

Estimates (₹ mn)

	FY18E	FY19E	FY20E
Net Sales	148,219	166,897	185,256
EBITDA	22,699	33,500	38,971
PAT	10,923	17,354	20,561
EPS	2,576	4,093	4,849

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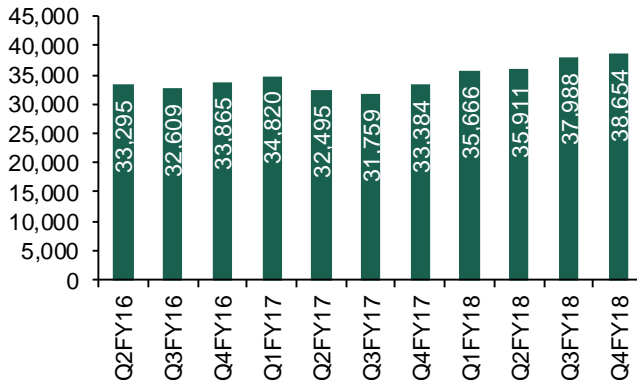
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Valuation

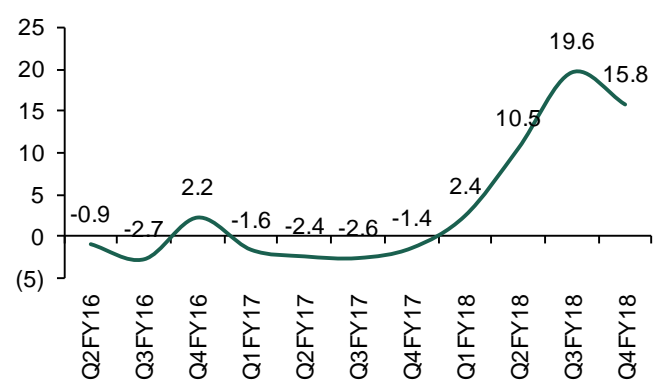
MRF is well poised to play the growth of the Tyre industry in India. With balance sheet getting stronger, we believe that PER can be sustained / expand. We rollover valuation to FY20 E EPS. We reiterate our Accumulate recommendation with a target price of ₹ 87,285.

Exhibit 1: Net Sales (₹ mn)



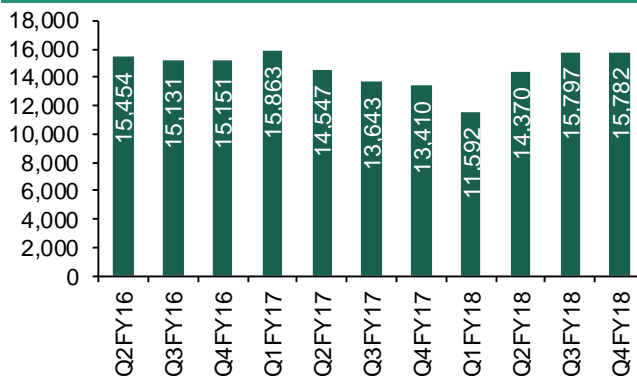
Source: Company, DART

Exhibit 2: Revenue Growth (YoY %)



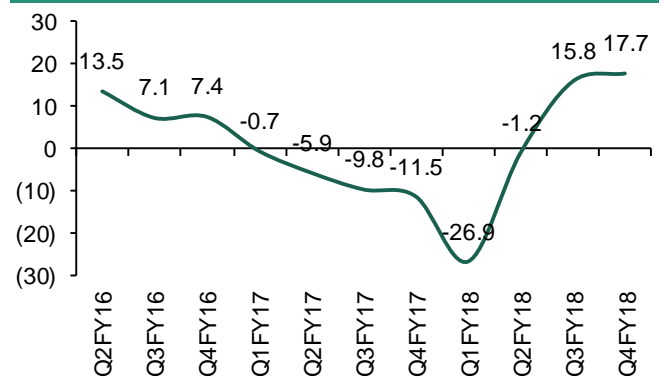
Source: Company, DART

Exhibit 3: Gross Profit (₹ mn)



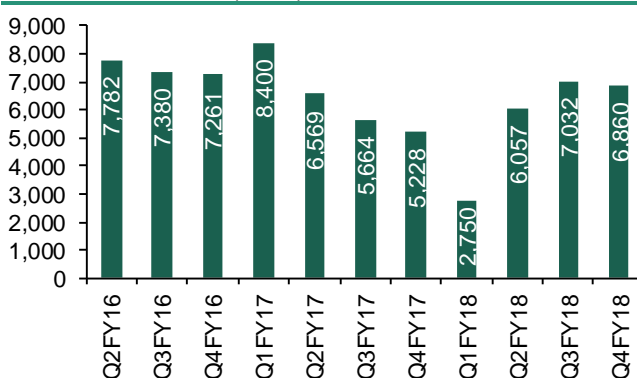
Source: Company, DART

Exhibit 4: Gross Profit Growth (YoY %)



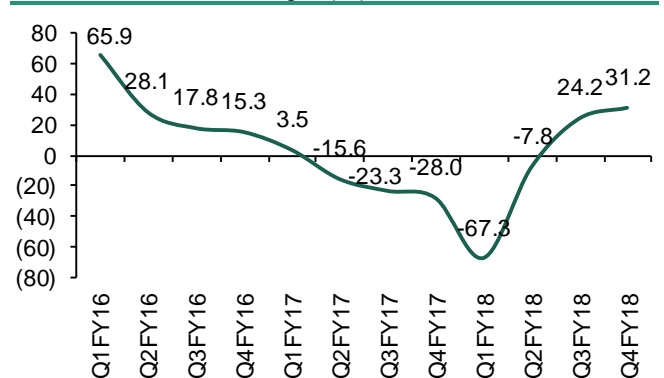
Source: Company, DART

Exhibit 5: EBITDA (₹ mn)



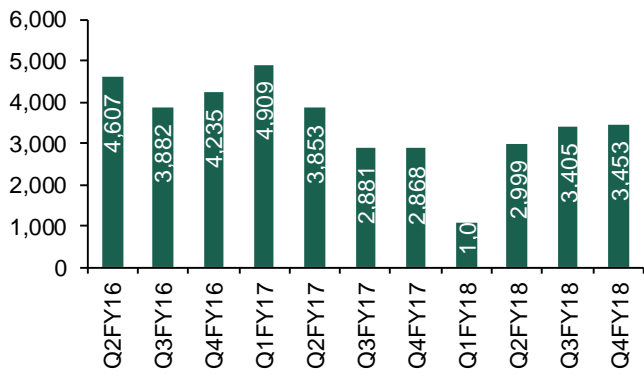
Source: Company, DART

Exhibit 6: EBITDA Margin (%)



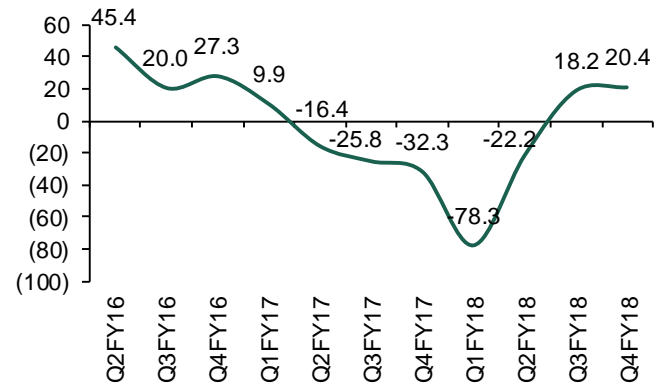
Source: Company, DART

Exhibit 7: Net Profit (₹ mn)



Source: Company, DART

Exhibit 8: Net Profit Margin (%)



Source: Company, DART

Income Statement

Particulars	Mar17	Mar18E	Mar19E	Mar20E
Net Sales	132,522	148,219	166,897	185,256
Total Income	132,458	148,219	166,897	185,256
Total Expenditure	106,598	125,520	133,397	146,285
Total Cost of Mat. Cons.	74,995	90,679	94,798	104,484
Employees Expenses	9,831	10,747	11,896	13,086
Other Expenses	21,772	24,095	26,704	28,715
EBIDTA (Excl. OI)	25,924	22,699	33,500	38,971
EBIDTA (Incl. OI)	29,210	25,524	36,381	41,910
Other Income	3,286	2,825	2,881	2,939
Interest	2,455	2,452	2,458	2,301
Depreciation	6,092	7,053	8,022	8,922
PBT & EO Items	20,664	16,019	25,901	30,687
PBT	20,664	16,019	25,901	30,687
Tax	6,153	5,096	8,547	10,127
Net Profit	14,511	10,923	17,354	20,561

Balance Sheet

Particulars	Mar17	Mar18E	Mar19E	Mar20E
Sources of Funds				
Equity Capital	42	42	42	42
Securities Premium	94	94	94	94
Other Reserves	85,308	95,905	112,515	132,208
Net Worth	85,444	96,042	112,652	132,344
Secured Loans	11,147	13,774	11,371	11,485
Unsecured Loans	7,247	7,595	7,539	7,690
Loan Funds	18,394	21,369	18,911	19,175
Deferred Tax Liability	5,357	6,190	6,252	6,315
Total Capital Employed	109,195	123,601	137,815	157,834
Applications of Funds				
Gross Block	67,131	80,062	89,131	99,131
Less: Acc. Depreciation	12,256	19,309	27,331	36,253
Net Block	54,876	60,753	61,801	62,879
Capital Work in Progress	8,470	10,788	1,500	1,500
Investments	37,514	45,027	47,729	50,593
Current Assets, Loans & Advances				
Inventories	23,929	21,721	28,350	30,453
Sundry Debtors	19,600	21,359	23,777	25,378
Cash and Bank Balance	2,744	1,394	15,338	31,172
Loans and Advances	41	160	168	176
Other Current Assets	2,423	1,815	1,634	1,470
<i>sub total</i>	<i>48,737</i>	<i>46,449</i>	<i>69,267</i>	<i>88,650</i>
Less: Current Liabilities & Provisions				
Current Liabilities	37,820	36,461	39,378	42,528
Provisions	2,581	2,956	3,103	3,259
<i>sub total</i>	<i>40,401</i>	<i>39,417</i>	<i>42,482</i>	<i>45,787</i>
Net Current Assets	8,336	7,032	26,785	42,863
Total Assets	109,195	123,601	137,815	157,834

E – Estimates

Cash Flow

Particulars	Mar17	Mar18E	Mar19E	Mar20E
Profit before tax	20,664	16,019	25,901	30,687
Depreciation & w.o.	6,092	7,053	8,022	8,922
Net Interest Exp	2,455	2,452	2,458	2,301
Direct taxes paid	(6,153)	(5,096)	(8,547)	(10,127)
Change in WC (Non Cash)	(1,633)	(47)	(5,809)	(243)
Other	(3,464)	752	8	3
(A) CF from Op. Activities	17,960	21,134	22,033	31,543
Capex	(6,823)	(15,250)	219	(10,000)
Free Cash Flow	11,137	5,884	22,252	21,543
Inc./ (Dec.) in Investments	(3,557)	(7,514)	(2,702)	(2,864)
Other	(3,617)	114	54	60
(B) CF from Invst Activities	(13,998)	(22,649)	(2,428)	(12,804)
Inc./ (Dec.) in Debt	(1,717)	2,975	(2,458)	265
Interest exp net	(2,455)	(2,452)	(2,458)	(2,301)
Dividend Paid (Incl. Tax)	(496)	(298)	(744)	(868)
Other	1,716	900	0	0
(C) CF from Financing	(2,953)	1,126	(5,661)	(2,905)
Net Change in Cash	1,010	(389)	13,944	15,834
Opening Cash balances	774	1,784	1,394	15,338
Closing Cash balances	1,784	1,394	15,338	31,172

Important Ratios

Particulars	Mar17	Mar18E	Mar19E	Mar20E
(A) Measures of Performance (%)				
Gross Margin	40.7	40.5	43.2	43.6
EBIDTA Margin (excl. O.I.)	19.6	15.3	20.1	21.0
Interest / Sales	1.9	1.7	1.5	1.2
Tax/PBT	29.8	31.8	33.0	33.0
Net Profit Margin	11.0	7.4	10.4	11.1
(B) As Percentage of Net Sales				
Cost of materials consumed	58.2	60.4	56.8	56.4
Employee Benefits Expense	7.5	16.3	16.0	15.5
Other Expenses	16.5	16.3	16.0	15.5
(C) Measures of Financial Status				
Debt / Equity (x)	0.2	0.2	0.2	0.1
Interest Coverage (x)	11.9	10.4	14.8	18.2
Avg. Cost Of Debt (%)	12.8	12.3	12.2	11.6
Debtors Period (days)	54.3	52.6	52.0	50.0
Closing stock (days)	66.2	53.5	62.0	60.0
Inventory Turnover Ratio (x)	5.5	6.8	5.9	6.1
Fixed Assets Turnover (x)	2.0	1.9	1.9	1.9
WC Turnover (x)	15.8	21.1	6.2	4.3
Non Cash WC(₹ Mn)	5,591.5	5,638.2	11,446.9	11,690.2
(D) Measures of Investment				
EPS (₹.)	3,422	2,576	4,093	4,849
CEPS (₹.)	4,859	4,240	5,985	6,953
DPS (₹.)	100.0	60.0	150.0	175.0
Dividend Payout (%)	2.9	2.3	3.7	3.6
Profit Ploughback (%)	97.1	97.7	96.3	96.4
Book Value (₹.)	20,151	22,651	26,568	31,213
RoANW (%)	18.5	12.0	16.6	18.1
RoACE (%)	22.6	15.9	21.7	23.6
Fixed Asset Turnover	2.4	2.4	2.7	2.9
(E) Valuation Ratios				
CMP (₹.)	75,510	75,510	75,510	75,510
P/E (x)	22.1	29.3	18.4	15.6
Market Cap. (₹. Mn.)	320,162	320,162	320,162	320,162
MCap/ Sales (x)	2.4	2.2	1.9	1.7
EV (₹. Mn.)	335,812	340,137	323,735	308,165
EV/Sales (x)	2.5	2.3	1.9	1.7
EV/EBDITA (x)	13.0	15.0	9.7	7.9
P/BV (x)	3.7	3.3	2.8	2.4
Dividend Yield (%)	0.1	0.1	0.2	0.2

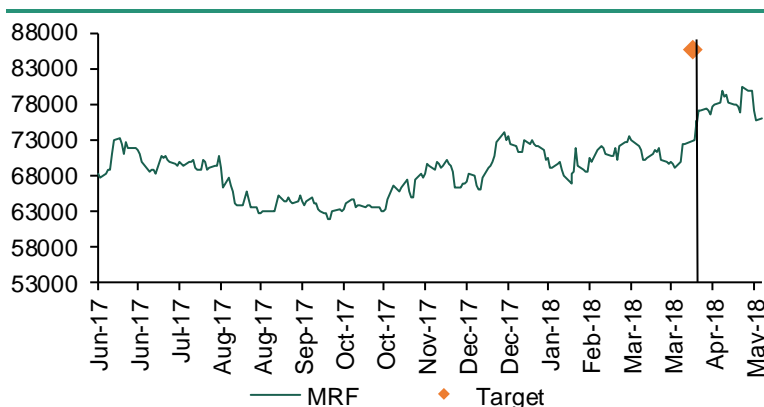
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
Apr-18	Accumulate	85,581	73,050

* As on Recommendation Date

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