

Revenue disappoints

MRF posted weak topline growth of 8.1% YoY at ₹ 38.6 bn for the quarter ended Q1FY19 along with gross and EBITDA margins of 39.8% and 15.4% respectively. The gross and EBITDA margins for the quarter Q1FY19 improved by 735 bps and 773 bps respectively on an unfavorable period of Q1FY18. We believe the pressure in the top line growth for MRF was due to the increasing intensity of competition in the tyre space where realizations per unit would have declined and unfavorable product mix due to increasing demand from the CV segment. The stock has corrected nearly 10% in the last 1 month and hence we reiterate our Accumulate rating with a target price of ₹ 81,712.

Product mix / realizations to improve

We believe that MRF has relied on the strategy to keep its focus in all categories rather than being over dependent on any one segment like CV. As of now, CV segment growth is the highest as of now and this segment comes with lower margin profile as compared to 2W and 4W tyres. However, MRF will take steps to improve realization in this segment through product innovation and new launches.

Competition to be negated by brand equity

With all the major player currently in the capex mode and capacity building in the domestic market, the competition intensity in the sector is expected to intensify. However, we feel that MRF will ride on its brand equity and get back to top line growth with higher margin profile. Interesting thing will be to watch how the other key players react especially in the CV segment on pricing front.

Valuation

MRF is expected to bounce back on the revenue growth front with new product offerings and increased marketing efforts. Although lower top-line growth is expected to put some pressure on the stock, the higher comparative margins will help protect the downside. Leadership position in the high margins segments will enable MRF to protect valuations. We reiterate our Accumulate rating with a target price of ₹ 81,712.

Q1FY19 Result (₹ Mn)

Particulars	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Net Sales	38,556	35,666	8.1	38,654	(0.3)
Total Raw Mat	23,192	24,074	(3.7)	22,872	1.4
Total Operating Cost	32,602	32,916	(1.0)	31,794	2.5
EBIDTA	5,953	2,750	116.5	6,860	(13.2)
Interest	631	627	0.6	648	(2.7)
Other Income	516	892	(42.1)	794	(34.9)
Depreciation	1,867	1,669	11.9	1,867	0.0
PBT	3,971	1,346	195.0	5,139	(22.7)
Tax	1,364	281	385.6	1,685	(19.1)
Net Profit	2,607	1,065	144.8	3,453	(24.5)
EPS (in ₹)	615.0	251.3	144.8	814.4	(24.5)
Gross Margin (%)	39.8	32.5		40.8	
OPM (%)	15.4	7.7		17.7	
Tax Rate (%)	34.3	20.9		32.8	
NPM (%)	6.8	3.0		8.9	

CMP	₹ 74,346
Target / Upside	₹ 81,712/10%
BSE Sensex	37,869
NSE Nifty	11,430

Script Details

Equity / FV	₹ 42mn/₹ 10/-
Market Cap	₹ 315bn
	USD 4.6bn
52-week High/Low	₹ 81,423/61,110
Avg. Volume (no)	7,556
NSE Symbol	MRF
Bloomberg Code	MRF IN

Shareholding Pattern June'18(%)

Promoters	27.6
MF/Banks/FIs	13.8
FIIIs	7.8
Public / Others	50.8

Valuation (x)

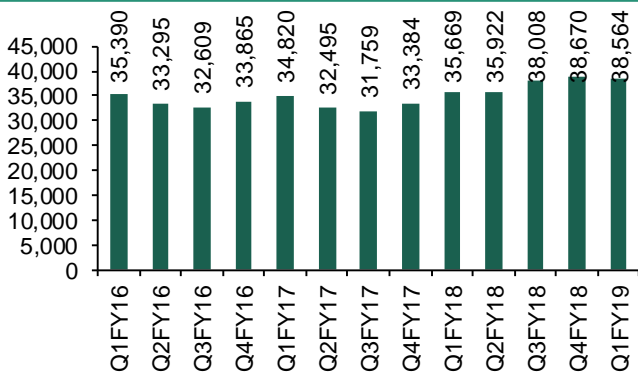
	FY18	FY19E	FY20E
P/E	28.9	20.5	16.4
EV/EBITDA	14.5	10.9	8.7
ROE	12.0	14.9	17.2
ROCE	16.3	19.6	22.6

Estimates (₹ mn)

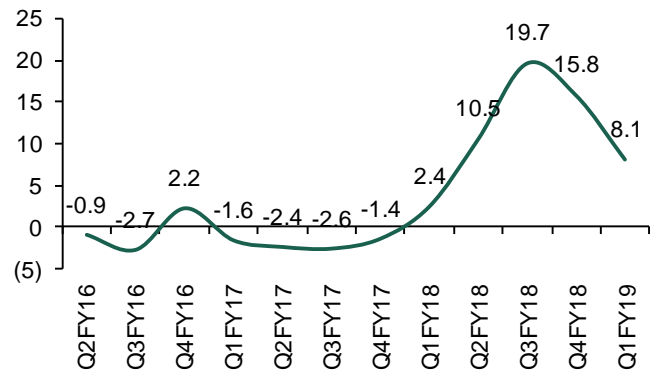
	FY18	FY19E	FY20E
Net Sales	147,291	164,523	185,911
EBITDA	22,699	29,297	35,428
PAT	118,290	127,941	144,250
EPS (₹)	2,576	3,632	4,540

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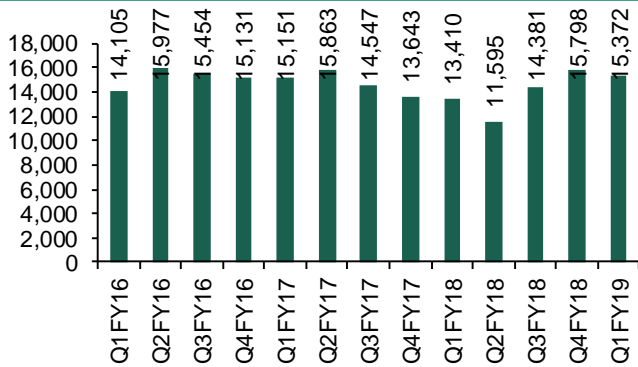
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Exhibit 1: Net Sales (₹ mn)


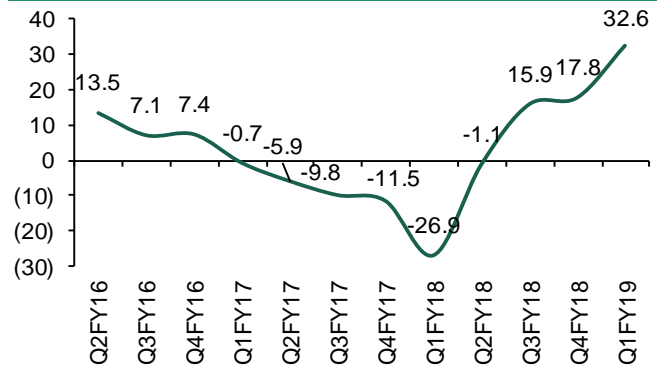
Source: Company, DART

Exhibit 2: Revenue Growth (YoY %)


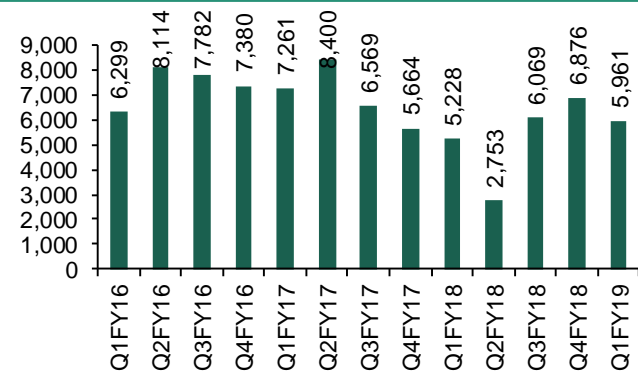
Source: Company, DART

Exhibit 3: Gross Profit (₹ mn)


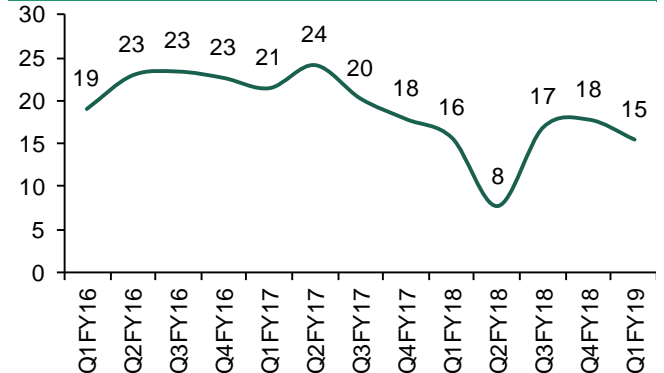
Source: Company, DART

Exhibit 4: Gross Profit Growth (YoY %)


Source: Company, DART

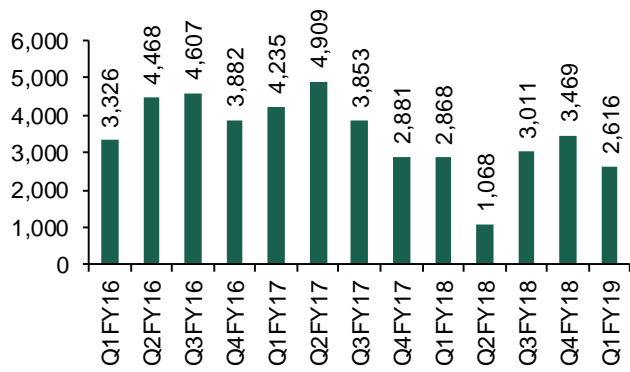
Exhibit 5: EBITDA (₹ mn)


Source: Company, DART

Exhibit 6: EBITDA Margin (%)


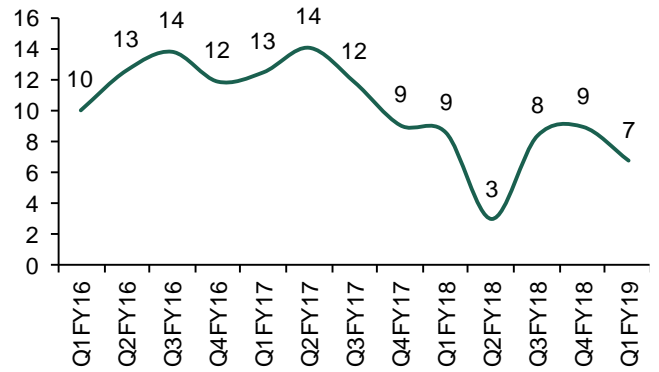
Source: Company, DART

Exhibit 7: Net Profit (₹ mn)



Source: Company, DART

Exhibit 8: Net Profit Margin (%)



Source: Company, DART

Income Statement (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
Net Sales	131,865	147,291	164,523	185,911
Other Operating Rev	657	929	975	1,024
Total Income	132,522	148,219	165,498	186,935
Total Expenditure	106,598	125,520	136,201	151,507
Cost of Material Consumed	74,994	90,679	96,082	106,899
Employees Benefit Exp.	9,831	10,747	11,821	13,003
Other Expenses	21,772	24,095	28,298	31,605
EBIDTA (Excl. OI)	25,924	22,699	29,297	35,428
EBIDTA (Incl. OI)	29,210	25,524	32,179	38,367
Other Income	3,286	2,825	2,881	2,939
Interest	2,455	2,452	1,807	1,517
Depreciation	6,092	7,053	8,054	8,954
PBT & EO Items	20,664	16,019	22,318	27,895
Tax	6,153	5,096	6,919	8,647
Net Profit	14,511	10,923	15,400	19,248

Balance Sheet (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
Sources of Funds				
Equity Capital	42	42	42	42
Securities Premium	94	94	94	94
Other Reserves	85,308	95,905	110,809	129,312
Net Worth	85,444	96,042	110,945	129,449
Secured Loans	11,011	7,865	5,898	5,309
Unsecured Loans	7,383	8,193	6,145	5,530
Loan Funds	18,394	16,058	12,043	10,839
Deferred Tax Liability	5,012	6,190	4,952	3,962
Total Capital Employed	108,850	118,290	127,941	144,250
Applications of Funds				
Gross Block	67,131	79,490	89,490	99,490
Less: Acc. Depreciation	12,256	18,737	26,791	35,746
Net Block	54,876	60,753	62,699	63,745
Capital Work in Progress	8,470	10,788	4,500	5,500
Investments	37,169	45,168	47,878	50,751
Current Assets, Loans & Advances				
Inventories	23,929	21,721	27,946	30,561
Sundry Debtors	19,600	21,359	23,439	25,467
Cash and Bank Balance	2,744	1,394	8,038	18,708
Loans and Advances	81	49	52	54
Other Current Assets	2,383	1,785	1,607	1,446
<i>sub total</i>	<i>48,737</i>	<i>46,308</i>	<i>61,081</i>	<i>76,236</i>
Less: Current Liabilities & Provisions				
Current Liabilities	37,820	41,772	45,114	48,723
Provisions	2,581	2,956	3,103	3,259
<i>sub total</i>	<i>40,402</i>	<i>44,728</i>	<i>48,218</i>	<i>51,982</i>
Net Current Assets	8,336	1,580	12,864	24,254
Total Assets	108,850	118,290	127,941	144,250

E – Estimates

Cash Flow (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
Profit before tax	20,664	16,019	22,318	27,895
Depreciation & w.o.	6,092	7,053	8,054	8,954
Net Interest Exp	2,455	2,452	1,807	1,517
Direct taxes paid	(6,153)	(5,096)	(6,919)	(8,647)
Change in Working Capital	(1,633)	5,405	(4,640)	(720)
Other	(3,523)	(418)	(886)	(1,050)
(A) CF from Opt. Activities	17,902	25,415	19,734	27,949
Capex	(6,823)	(8,196)	(3,712)	(11,000)
Free Cash Flow	11,078	17,219	16,023	16,949
Inc./ (Dec.) in Investments	(3,212)	(8,000)	(2,710)	(2,873)
Other	(3,904)	(3,627)	54	60
(B) CF from Invt. Activities	(13,939)	(19,822)	(6,368)	(13,813)
Inc./ (Dec.) in Debt	(1,717)	(2,336)	(4,014)	(1,204)
Interest exp net	(2,455)	(2,452)	(1,807)	(1,517)
Dividend Paid (Incl. Tax)	(496)	(298)	(496)	(744)
Other	1,716	(1,303)	0	0
(C) CF from Financing	(2,953)	(6,388)	(6,317)	(3,466)
Net Change in Cash	1,010	(796)	7,050	10,670
Opening Cash balances	774	1,784	988	8,038
Closing Cash balances	1,784	988	8,038	18,708

Important Ratios

Particulars	Mar17	Mar18	Mar19E	Mar20E
(A) Measures of Performance (%)				
Gross Margin	43.4	38.8	41.9	42.8
EBIDTA Margin (excl. O.I.)	19.6	15.3	17.7	19.0
Interest / Sales	1.9	1.7	1.1	0.8
Tax/PBT	29.8	31.8	31.0	31.0
Net Profit Margin	10.9	7.4	9.4	10.4
(B) As Percentage of Net Sales				
Cost of materials consumed	58.2	60.7	58.4	57.5
Employee Benefits Expense	7.5	16.4	17.2	17.0
Other Expenses	16.5	16.4	17.2	17.0
(C) Measures of Financial Status				
Debt / Equity (x)	0.2	0.2	0.1	0.1
Interest Coverage (x)	11.9	10.4	17.8	25.3
Avg. Cost Of Debt (%)	12.8	14.2	12.9	11.7
Debtors Period (days)	54.3	52.9	52.0	50.0
Closing stock (days)	66.2	53.8	62.0	60.0
Inventory Turnover Ratio (x)	5.5	6.8	5.9	6.1
Fixed Assets Turnover (x)	2.0	1.9	1.8	1.9
WC Turnover (x)	15.8	93.2	12.8	7.7
Non Cash WC(₹ Mn)	5,591	186	4,826	5,546
(D) Measures of Investment				
EPS (₹.)	3,422	2,576	3,632	4,540
CEPS (₹.)	4,859	4,240	5,532	6,651
DPS (₹.)	100.0	60.0	100.0	150.0
Dividend Payout (%)	2.9	2.3	2.8	3.3
Profit Ploughback (%)	97.1	97.7	97.2	96.7
Book Value (₹.)	20,152	22,651	26,166	30,530
RoANW (%)	18.5	12.0	14.9	17.2
RoACE (%)	22.7	16.3	19.6	22.6
Fixed Asset Turnover	2.4	2.4	2.6	2.9
(E) Valuation Ratios				
CMP (₹.)	74,346	74,346	74,346	74,346
P/E (x)	21.7	28.9	20.5	16.4
Market Cap. (₹. Mn.)	315,227	315,227	315,227	315,227
MCap/ Sales (x)	2.4	2.1	1.9	1.7
EV (₹. Mn.)	330,877	329,891	319,233	307,359
EV/Sales (x)	2.5	2.2	1.9	1.7
EV/EBDITA (x)	12.8	14.5	10.9	8.7
P/BV (x)	3.7	3.3	2.8	2.4
Dividend Yield (%)	0.1	0.1	0.1	0.2

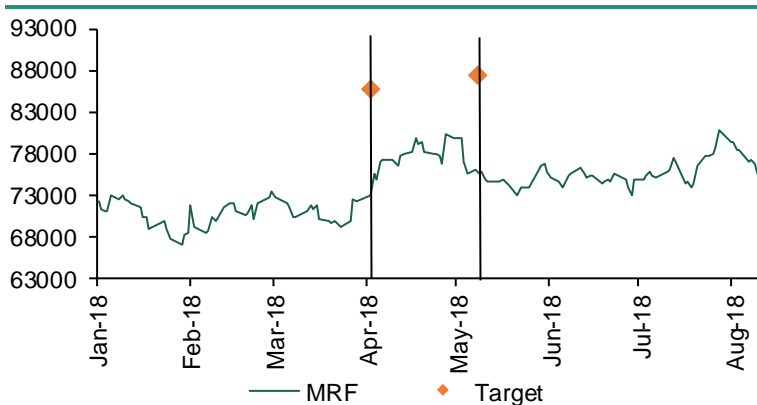
E – Estimates

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
May-18	Accumulate	87,258	75,510

* As on Recommendation Date

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