

7 June 2021

MRF

Strong demand, supply constraints eased; maintaining a Buy

Rating: Buy

Target Price: Rs96,217

Share Price: Rs82,392

We continue to be positive with regard to the outlook for MRF across segments. We expect the demand momentum to continue as we are experiencing unlocking of lockdowns starting today in the South and in some parts of the country. We expect Q2 FY22 demand to grow strongly with expected normal operations at MRF. We expect revenue to grow 25% y/y in FY22. We continue to be positive on the stock, with a Buy rating at a target price of Rs96,217 (20x FY23e).

Recovery in OEMs and replacements. We expect OEMs and replacements to grow strong in FY22. While we saw 31% y/y (4% q/q) growth in Q4 FY21 to Rs47.3bn, we expect growth to be strong in FY22. We believe that production constraints have been addressed and plants have started running from mid-May'21. Hence, we are of the view that demand for tyres will be addressed. Accordingly, we expect strong, 25%, growth in FY22, and 12% in FY23.

Channel-check takeaways. Our channel checks indicate that the company has raised prices: in Mar, Apr, and May, by 1-2% cumulatively. Also, we understand that supply issues with regard to rubber availability have eased for MRF. Therefore we believe that production will continue unhindered. Our channel checks also indicate that demand for tyres across segments remains strong; therefore we expect strong overall growth, led by the replacement category.

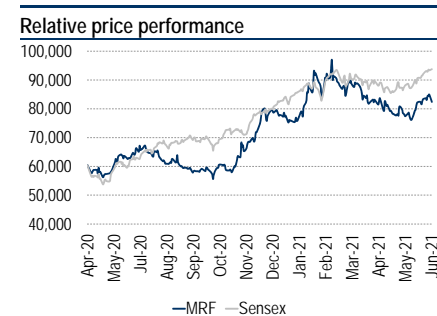
Valuation. We expect an 18% revenue CAGR over FY21-23, and 28% in earnings, leading to an EPS of Rs4,811. We maintain our Buy rating at a TP of Rs96,217 (20x FY23e).

Risks. Higher rubber costs; low volume growth

Key data	MRF IN / MRF.BO
52-week high / low	Rs98600 / 55300
Sensex / Nifty	52329 / 15752
3-m average volume	\$26.3m
Market cap	Rs349bn / \$4799.8m
Shares outstanding	4m

Shareholding pattern (%)	Mar'21	Dec'20	Sep'20
Promoters	27.8	27.8	27.9
- of which Pledged	-	-	-
Free float	72.2	72.2	72.1
- Foreign institutions	13.5	12.7	7.4
- Domestic institutions	14.3	15.2	18.2
- Public	44.4	44.3	46.5

Estimates revision (%)	FY22	FY23
Sales	1.6	1.6
EBITDA	1.6	1.6
EPS	-1.7	-8.2



Source: Bloomberg

Key financials (YE Mar)	FY19	FY20	FY21	FY22e	FY23e
Sales (Rs m)	158,370	159,911	159,214	199,017	222,899
Net profit (Rs m)	10,969	13,950	12,490	17,163	20,398
EPS (Rs)	2,587	3,290	2,946	4,048	4,811
P/E (x)	31.8	25.0	28.0	20.4	17.1
EV / EBITDA (x)	14.6	14.5	10.3	8.6	7.4
P/BV (x)	3.3	2.9	2.7	2.4	2.1
RoE (%)	10.8	12.3	9.9	12.2	12.9
RoCE (%)	10.6	12.7	10.3	12.4	12.9
Dividend yield (%)	0.1	0.1	0.2	0.1	0.1
Net debt/equity (x)	-0.2	-0.1	-0.4	-0.4	-0.4

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rsm)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Net revenues	158,370	159,911	159,214	199,017	222,899
<i>Growth (%)</i>	6.8	1.0	-0.4	25.0	12.0
Raw material cost	96,417	95,089	92,288	113,440	127,052
Employee + other expense	39,499	41,585	37,979	51,744	57,731
EBITDA	22,455	23,237	28,947	33,833	38,116
<i>EBITDA margins (%)</i>	14.2	14.5	18.2	17.0	17.1
- Depreciation	8,063	9,806	11,369	13,299	14,424
Other income	4,175	3,305	2,072	4,588	5,581
Interest expenses	2,478	2,743	2,647	2,217	2,050
Extraordinary items	-	-	-	-	-
PBT	16,089	13,993	17,002	22,905	27,223
<i>Effective tax rate (%)</i>	32	0.31	27	25	25
+ Associates / (Minorities)					
Net income	10,969	13,950	12,490	17,163	20,398
Adjusted income	10,969	13,950	12,490	17,163	20,398
WANS	4.2	4.2	4.2	4.2	4.2
FDEPS (Rs / sh)	2,587	3,290	2,946	4,048	4,811

Tax note: Refer page 3

Fig 3 – Cash-flow statement (Rsm)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
PBT	16,089	13,993	17,002	22,905	27,223
+ Non-cash items	8,063	9,806	11,369	13,299	14,424
Oper.prof. before WC	24,152	23,799	28,372	36,204	41,647
- Incr./ (decr.) in WC	-8,020	7,222	25,303	-13,159	-16,590
Others incl. taxes	3,300	43	4,512	5,742	6,825
Operating cash-flow	12,832	30,978	49,162	17,302	18,232
- Capex (tang. +intang.)	18,228	33,937	9,454	10,000	10,000
Free cash-flow	-5,397	-2,959	39,709	7,302	8,232
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	254	509	636	486	577
+ Equity raised	-	-	-	-	-
+ Debt raised	1,640	-5,024	-5,125	-	-1,284
- Fin investments	-2,981	-23,082	43,360	5,500	5,500
- Misc. (CFI + CFF)	-237	4,123	603	-109	-0
Net cash-flow	-793	10,468	-10,015	1,426	871

Source: Company, AnandRathi Research

Fig 5 – Price movement


Source: Bloomberg

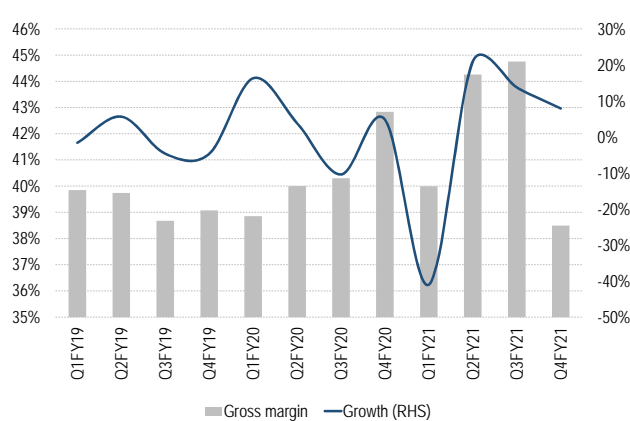
Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Share capital	42	42	42	42	42
Networth	106,533	120,044	131,789	148,575	168,395
Total debt (incl. Pref.)	18,675	13,651	8,526	8,526	7,242
Minority interest	-	-	-	-	-
DTL/(Assets)	8,471	4,278	3,785	3,785	3,785
Capital employed	133,679	137,973	144,099	160,885	179,422
Net tangible assets	67,513	88,207	93,668	95,380	90,956
Net intangible assets	162	285	243	243	243
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	14,032	17,346	10,010	5,000	5,000
Investments (strategic)					
Investments (financial)	38,484	15,402	58,762	64,262	69,762
Current assets (ex cash)	61,485	59,233	58,859	69,972	77,427
Cash	601	11,069	1,053	2,479	3,350
Current liabilities	48,598	53,568	78,496	76,451	67,315
Working capital	12,887	5,665	-19,638	-6,479	10,112
Capital deployed	133,679	137,973	144,099	160,885	179,422

Fig 4 – Ratio analysis

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
P/E (x)	31.8	25.0	28.0	20.4	17.1
EV / EBITDA (x)	14.6	14.5	10.3	8.6	7.4
EV / Sales (x)	2.1	2.1	1.9	1.5	1.3
P/B (x)	3.3	2.9	2.7	2.4	2.1
RoE (%)	10.8	12.3	9.9	12.2	12.9
RoCE (%) - after tax	10.6	12.7	10.3	12.4	12.9
RoIC (%) - after tax	10.7	13.3	10.8	12.5	13.2
DPS (Rs / sh)	48.0	100.0	150.0	95.5	113.5
Dividend yield (%)	0.1	0.1	0.2	0.1	0.1
Dividend payout (%) - incl. DDT	2.3	3.6	5.1	2.8	2.8
Net debt / equity (x)	-0.2	-0.1	-0.4	-0.4	-0.4
Receivables (days)	54	52	51	52	52
Inventory (days)	112	110	114	110	110
Payables (days)	88	90	168	130	90
CFO : PAT %	117.0	222.1	393.6	100.8	89.4

Source: Company, AnandRathi Research

Fig 6 – Gross margin vs. rubber price


Source: Company

Note: The company has decided to exercise the option permitted u/s 115BAA of The Income- tax Act, 1961. Hence, the FY20 tax rate is lower.

Result highlights

Fig 7 – Quarterly performance

(Rs m)	Q2FY19	Q3FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21
Net sales/Income from operations	39,282	40,338	40,735	44,095	39,476	40,089	36,252	24,306	41,864	45,668	47,377
YY (%)	9.4	6.2	5.4	14.4	0.5	(0.6)	(11.0)	(44.9)	6.0	13.9	30.7
Q/Q (%)	1.9	2.7	1.0	8.2	(10.5)	1.6	(9.6)	(33.0)	72.2	9.1	3.7
(Incr.) / Decr. in stock and WIP	(2,431)	(2,448)	(1,093)	873	-664.4	804.4	(721)	3,521	815	(1,063)	320
Consumption of R.M & components	26,102	27,185	25,910	26,090	24,134	23,128	21,446	11,064	22,519	26,292	28,819
% of sales	60.3	61.3	60.9	61.1	59.5	59.7	57.2	60.0	55.7	55.2	61.5
YY (%)	9.9	11.5	8.5	16.3	-0.9	-3.2	-16.5	-45.9	-0.6	5.4	40.6
Q/Q (%)	2.1	4.5	0.3	8.6	-13.0	2.0	-13.4	-29.6	60.0	8.1	15.5
Gross margins (%)	39.7	38.7	39.1	38.9	40.5	40.3	42.8	40.0	44.3	44.8	38.5
Staff costs	2,881	2,979	2,864	3,085	3,299	3,379	3,441	3,098	3,331	3,929	3,521
% of sales	7.3	7.4	7.0	7.0	8.4	8.4	9.5	12.7	8.0	8.6	7.4
YY (%)	6.9	7.6	5.3	13.5	14.5	13.4	20.2	0.4	0.9	16.3	2.3
Q/Q (%)	6.0	3.4	-3.9	7.7	7.0	2.4	1.8	-10.0	7.5	18.0	-10.4
Other expenditure	6,919	7,104	7,342	8,020	7,298	6,674	6,387	3,309	6,654	6,877	7,261
% of sales	17.6	17.6	18.0	18.2	18.5	16.6	17.6	13.6	15.9	15.1	15.3
YY (%)	23.2	18.4	18.4	19.8	5.5	-6.0	-13.0	-58.7	-8.8	3.0	13.7
Q/Q (%)	3.4	2.7	3.4	9.2	-9.0	-8.5	-4.3	-48.2	101.1	3.4	5.6
Total expenditure	33,472	34,819	35,022	38,067	34,068	33,987	30,553	20,991	33,319	36,036	39,921
Operating profit	5,810	5,518	5,712	6,028	5,408	6,102	5,699	3,315	8,544	9,632	7,455
YY (%)	(4.1)	(21.5)	(16.7)	1.3	(6.9)	10.6	(0.2)	(45.0)	58.0	57.8	30.8
Q/Q (%)	(2.4)	(5.0)	3.5	5.5	(10.3)	12.8	(6.6)	(41.8)	157.7	12.7	(22.6)
OPM (%)	14.8	13.7	14.0	13.7	13.7	15.2	15.7	13.6	20.4	21.1	15.7
Other income	767	1,258	1,095	1,049	948	733.4	575	430	443	634	565
Interest	643	631	573	682	664.9	704.4	692	737	528	638	745
Depreciation	1,998	2,052	2,146	2,280	2,372	2,490	2,665	2,730	2,839	2,831	2,970
Profit before exceptional items and tax	3,937	4,093	4,088	4,115	3,319	3,641	2,918	279	5,620	6,797	4,306
Profit before tax	3,937	4,093	4,088	4,115	3,319	3,641	2,918	279	5,620	6,797	4,306
Less: Provision for taxation	1,306	1,300	1,150	1,430	1,115	1,275	(3,777)	109	1,590	1,680	1,134
Tax rate (%)	33.2	31.8	28.1	34.7	33.6	35.0	(129.4)	38.9	28.3	24.7	26.3
Profit after tax	2,630	2,793	2,938	2,685	2,204	2,366	6,695	171	4,030	5,117	3,172
YY (%)	(12.3)	(18.0)	(14.9)	3.0	(16.2)	(15.3)	127.8	(93.7)	82.9	116.3	(52.6)
Q/Q (%)	0.9	6.2	5.2	(8.6)	(17.9)	7.4	182.9	(97.5)	2,263.8	27.0	(38.0)
EPS(Rs)	620.4	658.6	693.0	633.3	519.7	558.1	1,578.9	40.21	950.54	1,206.89	748.2

Source: Company

Note: The company has decided to exercise the option permitted u/s 115BAA of The Income-tax Act, 1961. Hence, the FY20 tax rate is lower.

Valuations

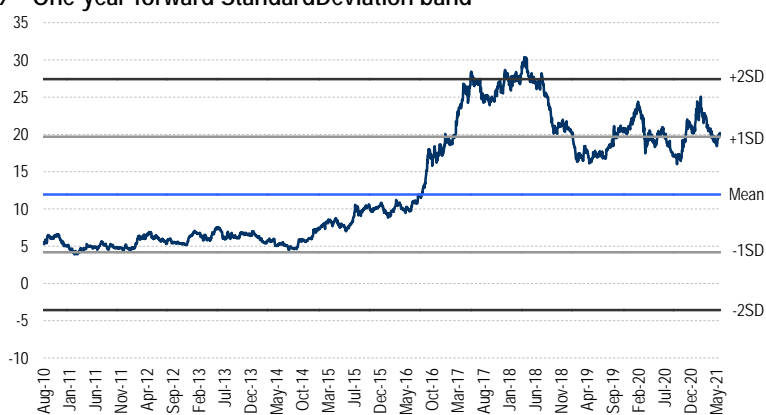
We expect an 18% CAGR in revenue over FY21-23, and 28% in earnings, leading to an EPS of Rs4,811. We maintain our Buy rating at a TP of Rs96,217 (20x FY23e).

Fig 8 – Change in estimates

(Rsm)	Old estimates		Revised Estimates		Change %	
	FY22	FY23	FY22	FY23	FY22	FY23
Revenue	195,891	219,398	199,017	222,899	1.6	1.6
EBITDA	33,302	37,517	33,833	38,116	1.6	1.6
Adj. PAT	17,467	22,222	17,163	20,398	-1.7	-8.2
EPS (Rs)	4,120	5,241	4,048	4,811	-1.7	-8.2

Source: Anand Rathi Research

Fig 9 – One-year-forward Standard Deviation band



Source: Bloomberg, Anand Rathi Research

Risks

- Higher rubber costs.
- Lower volume growth.

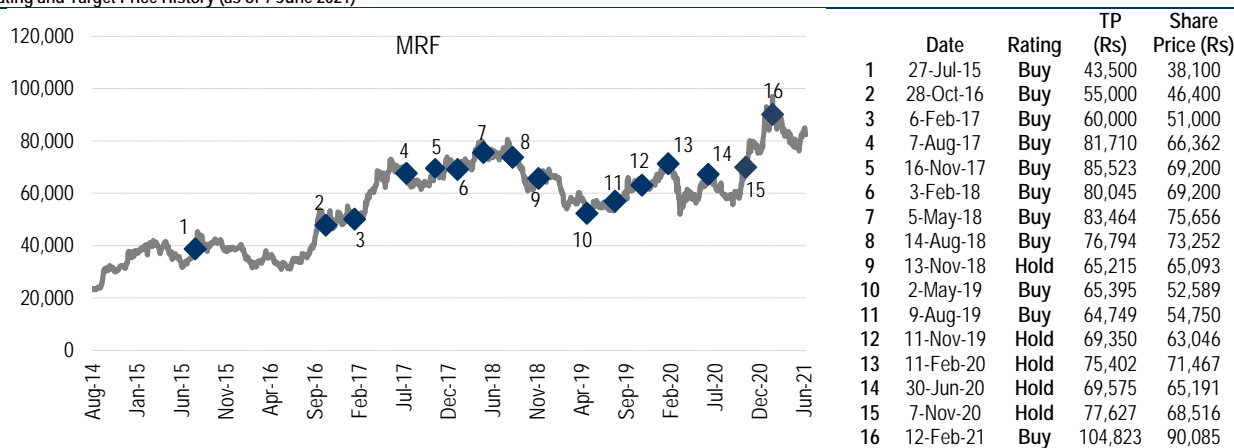
Appendix

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