

Estimate change



TP change



Rating change



Bloomberg	MRF IN
Equity Shares (m)	4
M.Cap.(INRb)/(USDb)	372 / 4.7
52-Week Range (INR)	89333 / 62945
1, 6, 12 Rel. Per (%)	7/24/2
12M Avg Val (INR M)	889

#### Financials & valuations (INR b)

INR b	FY22	FY23E	FY24E
Sales	193.2	221.3	241.2
EBITDA	20.5	23.9	34.5
Adj. PAT	6.7	7.8	15.2
EPS (INR)	1,578	1,851	3,575
EPS Growth (%)	-47.6	17.3	93.1
BV/Share (INR)	33,094	34,785	38,180
<b>Ratios</b>			
RoE (%)	4.9	5.5	9.8
RoCE (%)	5.3	5.8	9.5
Payout (%)	9.5	8.6	5.0
<b>Valuations</b>			
P/E (x)	55.6	47.4	24.5
P/BV (x)	2.7	2.5	2.3
Div. Yield (%)	0.2	0.2	0.2
FCF yield (%)	-6.1	1.2	3.3

#### Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	27.9	28.0	27.8
DII	12.5	11.7	13.7
FII	16.1	15.5	14.1
Others	43.6	44.8	44.5

FII Includes depository receipts

**CMP: INR87,712**

**TP: INR80,000 (-9%)**

**Neutral**

## Below our estimate; impacted by cost pressure and MTM losses

### Commodity cost inflation expected to taper in 2HFY23

- MRF's 1QFY23 revenue was a beat, but margin was impacted due to cost pressures (RM cost pressure and higher other expenses). Lower other income impacted PAT. The industry is taking gradual price increases to dilute the impact of severe cost inflation.
- We reduce our FY23 EPS estimate by 5.5% to account for margin pressure and upgrade out FY24 EPS estimate by ~12% to factor in lower commodity costs, in turn improving margin. We maintain our **Neutral** rating with a TP of INR80,000.

### Margin impacted due to RM and higher other expenses

- Revenue grew 36% YoY to INR56b (est. INR52.4b) in 1QFY23, while EBITDA/adjusted PAT fell 2%/30% YoY to INR4.8b/INR1.1b.
- MRF's revenue growth in 1QFY23 was weaker than that of CEAT (up 48% YoY).
- Gross margin declined by 70bp QoQ and 6.5pp YoY to 31.5% (est. 32%). The gross margin decline for CEAT was steeper on a QoQ basis (down 1.8pp QoQ and 7.2pp YoY) due to commodity cost inflation.
- EBITDA declined by 2% YoY to INR4.8b (est. INR5.2b). EBITDA margin fell 3.3pp YoY to 8.5% (est. 9.9%) due to higher RM cost and higher than estimated other expenses. CEAT performance was on similar lines, down 2.9pp YoY.
- Lower other income (expected due to MTM loss) led to a 30% YoY decline in PAT to INR1.1b (est. INR1.4b).

### Valuation and view

- The pricing environment for the industry seems stable, with all players raising prices to pass-on the substantial cost inflation. While cost inflation is expected to sustain in 1HFY23, we expect margin to start recovering in the later part of FY23, assuming stable commodity prices.
- Valuations, at 47.4x/24.5x FY23E/FY24E EPS, fairly capture the changing competitive dynamics for MRF. We maintain our Neutral rating, valuing it at 20x Sep'24E EPS (v/s 20.1x/14.5x its five/10-year average P/E) to arrive at our TP of INR80,000/share.

**Standalone - Quarterly Earning Model**

(INR M)

Y/E March	FY22				FY23E				FY22	FY23E	FY23E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE
<b>Net Sales</b>	<b>41,277</b>	<b>48,317</b>	<b>48,299</b>	<b>52,003</b>	<b>55,989</b>	<b>54,114</b>	<b>55,060</b>	<b>56,138</b>	<b>1,89,895</b>	<b>2,21,302</b>	<b>52,422</b>
YoY Change (%)	69.8	15.4	5.8	9.8	35.6	12.0	14.0	8.0	19.3	16.5	27.0
Total Expenditure	36,405	43,194	43,442	46,728	51,207	48,728	48,821	48,608	1,69,769	1,97,363	47,232
<b>EBITDA</b>	<b>4,872</b>	<b>5,122</b>	<b>4,856</b>	<b>5,275</b>	<b>4,783</b>	<b>5,386</b>	<b>6,240</b>	<b>7,530</b>	<b>20,126</b>	<b>23,939</b>	<b>5,190</b>
Margins (%)	11.8	10.6	10.1	10.1	8.5	10.0	11.3	13.4	10.6	10.8	9.9
Depreciation	3,007	2,958	2,946	3,103	2,969	3,200	3,225	3,275	12,014	12,670	3,150
Interest	621	566	628	656	635	650	650	683	2,470	2,618	650
Other Income	924	887	690	649	341	450	550	615	3,149	1,955	500
<b>PBT before EO expense</b>	<b>2,168</b>	<b>2,485</b>	<b>1,973</b>	<b>2,165</b>	<b>1,519</b>	<b>1,986</b>	<b>2,915</b>	<b>4,187</b>	<b>8,791</b>	<b>10,607</b>	<b>1,890</b>
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0
<b>PBT</b>	<b>2,168</b>	<b>2,485</b>	<b>1,973</b>	<b>2,165</b>	<b>1,519</b>	<b>1,986</b>	<b>2,915</b>	<b>4,187</b>	<b>8,791</b>	<b>10,607</b>	<b>1,890</b>
Tax	555	652	514	598	395	516	758	1,088	2,318	2,758	491
Rate (%)	25.6	26.2	26.1	27.6	26.0	26.0	26.0	26.0	26.4	26.0	26.0
Minority Interest & Profit/Loss of Asso. Cos.	0	0	0	0	0	0	0	0	0	0	0
<b>Reported PAT</b>	<b>1,613</b>	<b>1,834</b>	<b>1,458.3</b>	<b>1,568</b>	<b>1,123</b>	<b>1,470</b>	<b>2,156.7</b>	<b>3,098</b>	<b>6,473</b>	<b>7,849</b>	<b>1,399</b>
<b>Adj PAT</b>	<b>1,613</b>	<b>1,834</b>	<b>1,458.3</b>	<b>1,568</b>	<b>1,123</b>	<b>1,470</b>	<b>2,156.7</b>	<b>3,098</b>	<b>6,473</b>	<b>7,849</b>	<b>1,399</b>
YoY Change (%)	845.8	-54.5	-71.5	-50.6	-30.4	-19.8	47.9	97.6	-48.2	21.3	-13.3
Margins (%)	3.9	3.8	3.0	3.0	2.0	2.7	3.9	5.5	3.4	3.5	2.7

E: MOFSL Estimates

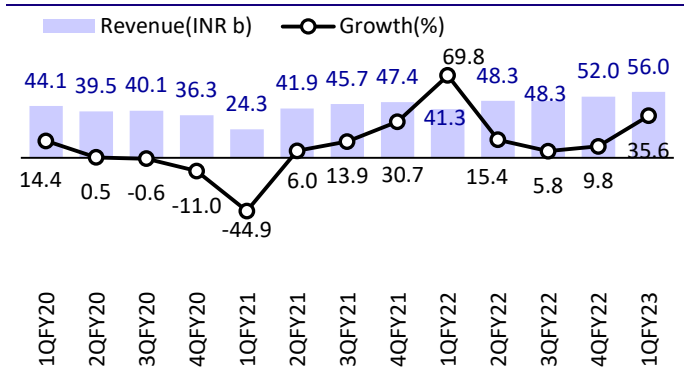
**Key Performance Indicators**

RM Cost(% of sales)	62.1	64.5	66.6	67.9	68.5	67.2	65.7	63.8	65.4	66.3	68.0
Staff Cost(% of sales)	8.6	7.8	7.7	7.1	6.5	6.8	7.0	6.8	7.8	6.8	7.1
Other costs(% of sales)	17.5	17.1	15.6	14.9	16.4	16.0	16.0	16.0	16.2	16.1	15.0
Gross Margin(%)	37.9	35.5	33.4	32.1	31.5	32.8	34.3	36.2	100.0	100.0	32.0
EBITDA Margin(%)	11.8	10.6	10.1	10.1	8.5	10.0	11.3	13.4	10.6	10.8	9.9

E: MOFSL Estimates

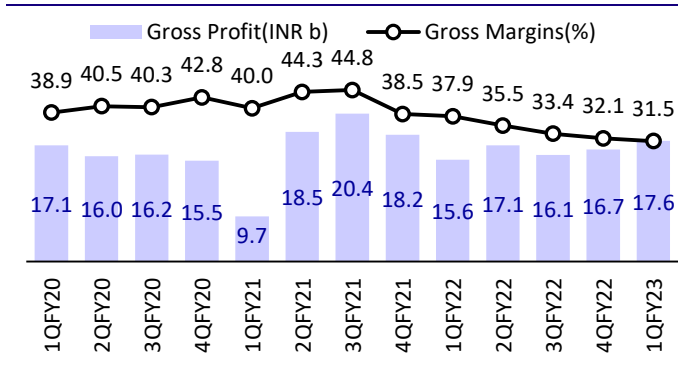
**Key exhibits**

**Exhibit 1: Revenue trend**



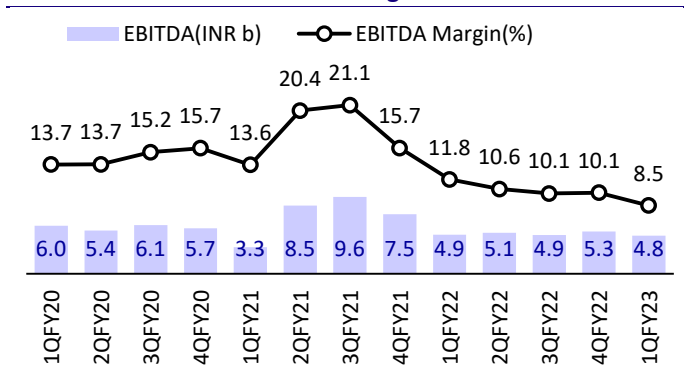
Source: MOFSL, Company

**Exhibit 2: Trend in gross margin**



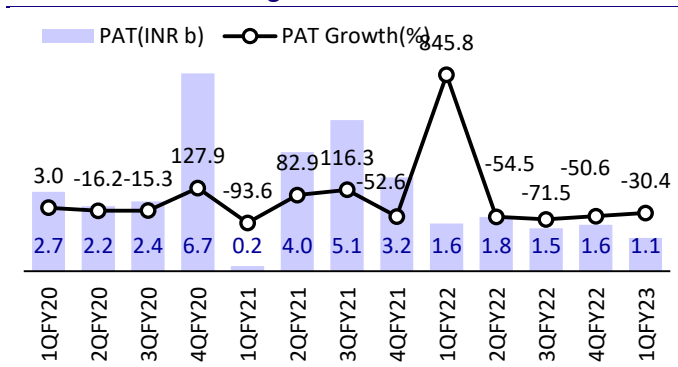
Source: MOFSL, Company

**Exhibit 3: EBITDA and EBITDA margin trend**



Source: MOFSL, Company

**Exhibit 4: PAT and PAT growth trend**



Source: MOFSL, Company

**Valuation and view**

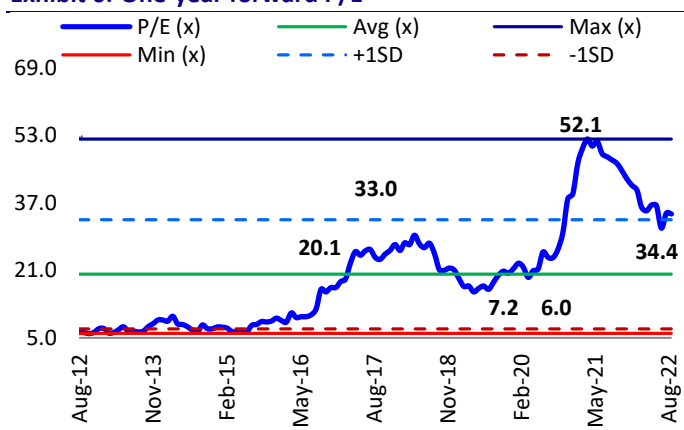
- **Well diversified presence, with leadership across major segments:** MRF’s leadership across major segments of T&B, 2Ws, and PCR has led to the creation of a strong brand and pricing power. It enjoys market leadership in 2W, TBB, and Agri tyres, and is among the top three players in PCR and TBR. This 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 expect ~10% revenue CAGR over FY22-25E due to expected recovery in the Replacement demand.
- **Margin expansion by FY25E :** The recent capex, leading to lower capacity utilization, will keep margin and RoE under check over FY22-24E. We expect EBITDA to grow by ~24% CAGR over FY22-25E, with margin expanding ~470bp to 15.3%. PAT growth would be ~41% CAGR over FY22-25E
- **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 47.4x/24.5x FY23E/FY24E EPS fairly capture the changing competitive dynamics for MRF. We maintain our Neutral rating, valuing it at 20x Sep’24E EPS (v/s 20.1x/14.5x its five/10-year average P/E) to arrive at our TP of INR80,000/share.

**Exhibit 5: Revision to our estimates**

Revised forecast (Consol) (INR M)	FY23E			FY24E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	2,21,302	2,13,406	3.7	2,41,230	2,31,880	4.0
EBITDA	23,939	24,166	-0.9	34,452	31,588	9.1
EBITDA (%)	10.8	11.3	-50bp	14.3	13.6	70bp
Adj. PAT	7,849	8,303	-5.5	15,157	13,547	11.9
EPS (INR)	1851	1958	-5.5	3575	3195	11.9

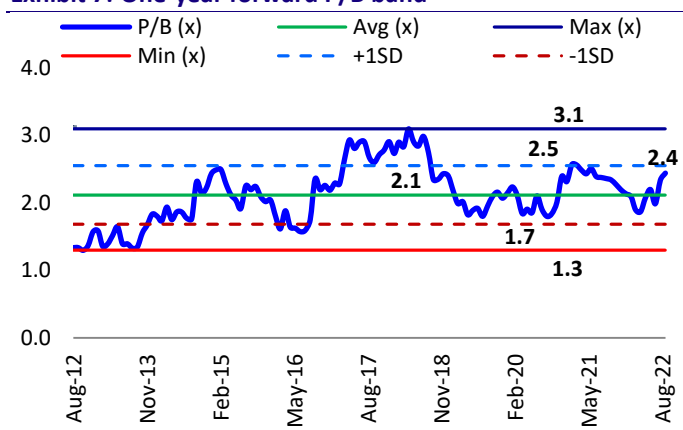
Source: Company, MOFSL

**Exhibit 6: One-year forward P/E**



Source: MOFSL, Company

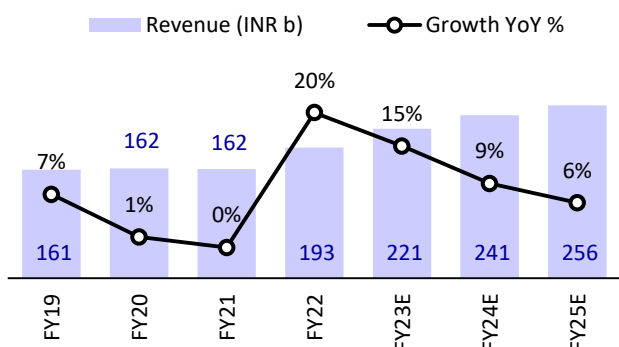
**Exhibit 7: One-year forward P/B band**



Source: MOFSL, Company

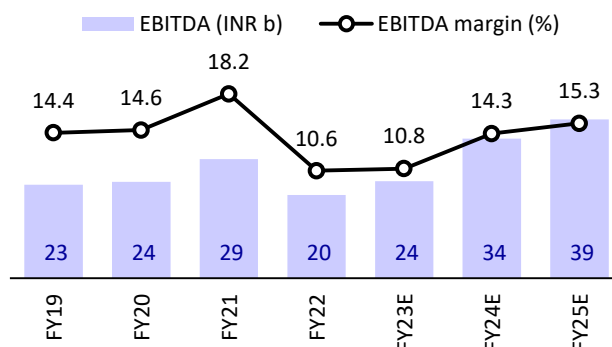
## Story in charts

**Exhibit 8: Revenue and growth trend**



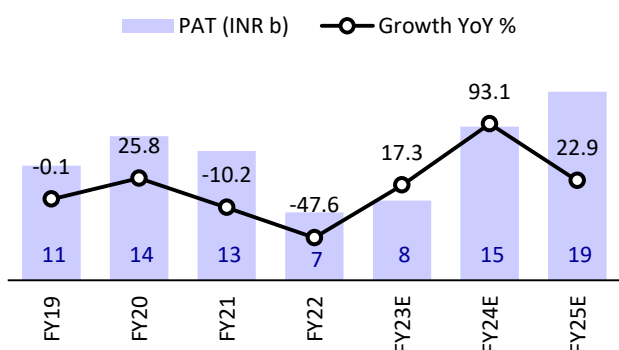
Source: MOFSL, Company

**Exhibit 9: Expect EBITDA to grow ~24% CAGR over FY22-25E, margin to improve by 4.7pp to 15.3%**



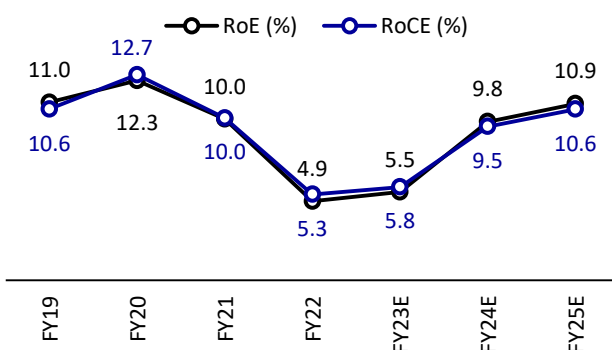
Source: MOFSL, Company

**Exhibit 10: Expect 41% PAT CAGR over FY22-25E**



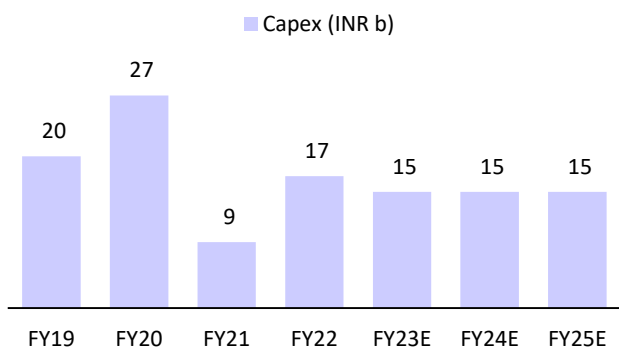
Source: MOFSL, Company

**Exhibit 11: Capital efficiency to improve steadily**



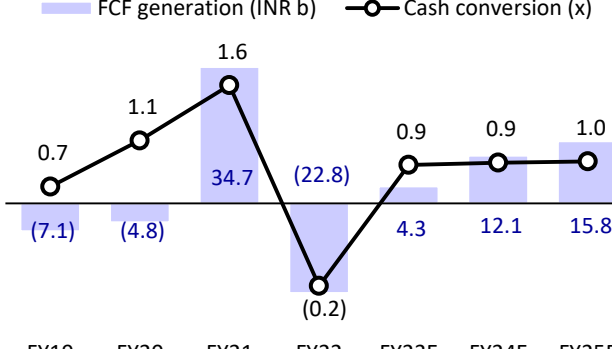
Source: MOFSL, Company

**Exhibit 12: Capex spending over FY22-24E should be largely towards a ramp up in capacity**



Source: MOFSL, Company

**Exhibit 13: FCF generation to be consistently positive**



Source: MOFSL, Company

## Financials and valuations

### Consolidated - Income Statement

	INR m							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Total Income from Operations</b>	<b>1,49,544</b>	<b>1,60,625</b>	<b>1,62,394</b>	<b>1,61,632</b>	<b>1,93,167</b>	<b>2,21,302</b>	<b>2,41,230</b>	<b>2,56,112</b>
Change (%)	11.5	7.4	1.1	-0.5	19.5	14.6	9.0	6.2
<b>EBITDA</b>	<b>22,818</b>	<b>23,054</b>	<b>23,740</b>	<b>29,423</b>	<b>20,498</b>	<b>23,939</b>	<b>34,452</b>	<b>39,170</b>
EBITDA Margin (%)	15.3	14.4	14.6	18.2	10.6	10.8	14.3	15.3
Depreciation	7,067	8,076	9,823	11,408	12,051	12,670	14,030	15,230
<b>EBIT</b>	<b>15,751</b>	<b>14,978</b>	<b>13,917</b>	<b>18,016</b>	<b>8,447</b>	<b>11,269</b>	<b>20,422</b>	<b>23,940</b>
EBIT Margin (%)	10.5	9.3	8.6	11.1	4.4	5.1	8.5	9.3
Int. and Finance Charges	2,531	2,673	2,928	2,747	2,538	2,618	2,218	1,818
Other Income	3,307	4,217	3,354	2,099	3,170	1,955	2,278	3,044
<b>PBT bef. EO Exp.</b>	<b>16,527</b>	<b>16,522</b>	<b>14,343</b>	<b>17,368</b>	<b>9,079</b>	<b>10,607</b>	<b>20,482</b>	<b>25,166</b>
EO Items	0	0	0	0	0	0	0	0
<b>PBT after EO Exp.</b>	<b>16,527</b>	<b>16,522</b>	<b>14,343</b>	<b>17,368</b>	<b>9,079</b>	<b>10,607</b>	<b>20,482</b>	<b>25,166</b>
Tax Rate (%)	31.5	31.6	0.8	26.5	26.3	26.0	26.0	26.0
<b>Reported PAT</b>	<b>11,316</b>	<b>11,306</b>	<b>14,226</b>	<b>12,771</b>	<b>6,692</b>	<b>7,849</b>	<b>15,157</b>	<b>18,623</b>
<b>Adjusted PAT</b>	<b>11,316</b>	<b>11,306</b>	<b>14,226</b>	<b>12,771</b>	<b>6,692</b>	<b>7,849</b>	<b>15,157</b>	<b>18,623</b>
Change (%)	-23.9	-0.1	25.8	-10.2	-47.6	17.3	93.1	22.9

### Consolidated - Balance Sheet

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	42	42	42	42	42	42	42	42
Total Reserves	97,340	1,08,331	1,22,105	1,34,094	1,40,275	1,47,446	1,61,839	1,79,614
<b>Net Worth</b>	<b>97,382</b>	<b>1,08,374</b>	<b>1,22,147</b>	<b>1,34,137</b>	<b>1,40,318</b>	<b>1,47,488</b>	<b>1,61,881</b>	<b>1,79,656</b>
Deferred Tax Liabilities	6,198	8,402	4,289	3,802	3,955	3,955	3,955	3,955
Total Loans	21,636	21,024	18,375	20,398	28,180	24,181	20,182	16,183
<b>Capital Employed</b>	<b>1,25,218</b>	<b>1,37,801</b>	<b>1,44,812</b>	<b>1,58,339</b>	<b>1,72,454</b>	<b>1,75,625</b>	<b>1,86,020</b>	<b>1,99,795</b>
Gross Block	79,709	94,725	1,24,267	1,40,786	1,52,874	1,67,874	1,82,874	1,97,874
Less: Accum. Deprn.	18,787	26,863	35,570	46,378	57,656	70,325	84,355	99,585
<b>Net Fixed Assets</b>	<b>60,922</b>	<b>67,862</b>	<b>88,698</b>	<b>94,408</b>	<b>95,218</b>	<b>97,549</b>	<b>98,519</b>	<b>98,289</b>
Capital WIP	10,789	14,035	17,409	10,022	12,331	12,331	12,331	12,331
<b>Total Investments</b>	<b>41,450</b>	<b>38,547</b>	<b>15,193</b>	<b>58,740</b>	<b>36,565</b>	<b>36,565</b>	<b>36,565</b>	<b>36,565</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>51,621</b>	<b>63,969</b>	<b>73,123</b>	<b>62,649</b>	<b>86,484</b>	<b>92,657</b>	<b>1,06,544</b>	<b>1,24,216</b>
Inventory	21,973	29,932	29,052	29,388	41,297	42,194	44,207	46,380
Account Receivables	21,499	23,827	22,994	22,543	23,327	26,724	29,131	30,928
Cash and Bank Balance	2,337	1,045	11,811	1,694	1,804	762	8,160	20,317
Loans and Advances	5,812	9,164	9,266	9,024	20,056	22,977	25,046	26,592
<b>Curr. Liability &amp; Prov.</b>	<b>39,567</b>	<b>46,612</b>	<b>49,611</b>	<b>67,480</b>	<b>58,144</b>	<b>63,475</b>	<b>67,938</b>	<b>71,604</b>
Account Payables	15,685	17,094	19,053	34,414	20,568	21,015	22,017	23,099
Other Current Liabilities	20,924	26,235	27,097	28,915	33,541	38,426	41,886	44,470
Provisions	2,958	3,284	3,461	4,150	4,035	4,035	4,035	4,035
<b>Net Current Assets</b>	<b>12,054</b>	<b>17,357</b>	<b>23,512</b>	<b>-4,831</b>	<b>28,340</b>	<b>29,182</b>	<b>38,606</b>	<b>52,611</b>
<b>Appl. of Funds</b>	<b>1,25,218</b>	<b>1,37,801</b>	<b>1,44,812</b>	<b>1,58,339</b>	<b>1,72,454</b>	<b>1,75,625</b>	<b>1,86,020</b>	<b>1,99,795</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>2,669</b>	<b>2,667</b>	<b>3,355</b>	<b>3,012</b>	<b>1,578</b>	<b>1,851</b>	<b>3,575</b>	<b>4,392</b>
Cash EPS	4,336	4,571	5,672	5,702	4,420	4,839	6,884	7,984
BV/Share	22,967	25,560	28,808	31,636	33,094	34,785	38,180	42,372
FCF per share	2,032	-1,676	-1,126	8,191	-5,384	1,014	2,854	3,721
DPS	60	60	65	150	150	160	180	200
Payout (%)	2.7	2.7	2.3	5.0	9.5	8.6	5.0	4.6
<b>Valuation (x)</b>								
P/E	32.9	32.9	26.1	29.1	55.6	47.4	24.5	20.0
P/BV	3.8	3.4	3.0	2.8	2.7	2.5	2.3	2.1
EV/Sales	2.3	2.2	2.2	2.1	1.9	1.6	1.4	1.3
EV/EBITDA	15.3	15.3	15.3	11.3	17.6	15.0	10.1	8.5
Dividend Yield (%)	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
<b>Return Ratios (%)</b>								
RoE	12.3	11.0	12.3	10.0	4.9	5.5	9.8	10.9
RoCE	11.4	10.6	12.7	10.0	5.3	5.8	9.5	10.6
ROIC	15.4	13.2	15.0	14.1	5.9	6.7	11.9	13.7
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	1.9	1.7	1.3	1.1	1.3	1.3	1.3	1.3
Asset Turnover (x)	1.2	1.2	1.1	1.0	1.1	1.3	1.3	1.3
Working Cap. Turnover (Days)	24	37	26	-15	50	47	46	46
<b>Leverage Ratio (x)</b>								
Current Ratio	1.3	1.4	1.5	0.9	1.5	1.5	1.6	1.7
Interest Cover Ratio	6.2	5.6	4.8	6.6	3.3	4.3	9.2	13.2
Net Debt:Equity (x)	-0.2	-0.2	-0.1	-0.3	-0.1	-0.1	-0.2	-0.2

### Consolidated - Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>INR m</b>								
OP/(Loss) before Tax	16,527	16,522	14,343	17,368	9,079	10,607	20,482	25,166
Depreciation	7,067	8,076	9,823	11,408	12,051	12,670	14,030	15,230
Interest & Finance Charges	2,531	2,673	2,928	2,747	2,538	2,618	2,218	1,818
Direct Taxes Paid	-4,751	-4,156	-4,418	-5,168	-2,135	-2,758	-5,325	-6,543
(Inc)/Dec in WC	5,289	-7,844	2,285	18,222	-25,088	-1,884	-2,026	-1,849
Others	-2,408	-2,742	-2,235	-1,331	-2,226	-1,955	-2,278	-3,044
<b>CF from Operating incl EO</b>	<b>24,255</b>	<b>12,529</b>	<b>22,726</b>	<b>43,246</b>	<b>-5,780</b>	<b>19,297</b>	<b>27,101</b>	<b>30,778</b>
(Inc)/Dec in FA	-15,640	-19,633	-27,499	-8,516	-17,046	-15,000	-15,000	-15,000
<b>Free Cash Flow</b>	<b>8,615</b>	<b>-7,105</b>	<b>-4,773</b>	<b>34,730</b>	<b>-22,827</b>	<b>4,297</b>	<b>12,101</b>	<b>15,778</b>
(Pur)/Sale of Investments	-5,309	5,960	25,852	-43,336	23,831	0	0	0
Others	685	-189	10	989	-5,123	1,973	2,278	3,044
<b>CF from Investments</b>	<b>-20,264</b>	<b>-13,862</b>	<b>-1,637</b>	<b>-50,862</b>	<b>1,661</b>	<b>-13,027</b>	<b>-12,722</b>	<b>-11,956</b>
Issue of Shares	0	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	-3,999
Interest Paid	-2,541	-2,702	-2,809	-2,540	-2,361	-2,618	-2,218	-1,818
Dividend Paid	-306	-307	-307	-424	-636	-678	-763	-848
Others	-354	-93	-861	-971	-965	0	0	0
<b>CF from Fin. Activity</b>	<b>-4,526</b>	<b>422</b>	<b>-10,324</b>	<b>-2,500</b>	<b>4,238</b>	<b>-7,295</b>	<b>-6,980</b>	<b>-6,665</b>
<b>Inc/Dec of Cash</b>	<b>-535</b>	<b>-911</b>	<b>10,766</b>	<b>-10,117</b>	<b>118</b>	<b>-1,025</b>	<b>7,399</b>	<b>12,157</b>
Opening Balance	2,465	1,931	1,019	11,785	1,668	1,787	762	8,160
<b>Closing Balance</b>	<b>1,931</b>	<b>1,020</b>	<b>11,785</b>	<b>1,668</b>	<b>1,787</b>	<b>762</b>	<b>8,160</b>	<b>20,317</b>



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

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