

Estimate change

TP change

Rating change



Bloomberg	MRF IN
Equity Shares (m)	4
M.Cap.(INRb)/(USDb)	402.6 / 4.9
52-Week Range (INR)	95954 / 62945
1, 6, 12 Rel. Per (%)	10/24/19
12M Avg Val (INR M)	906

Financials & valuations (INR b)

INR b	FY22	FY23E	FY24E
Sales	193.2	228.2	252.5
EBITDA	20.5	21.2	35.4
Adj. PAT	6.7	6.3	15.7
EPS (INR)	1,578	1,491	3,699
EPS Growth (%)	-47.6	-5.5	148.0
BV/Share (INR)	33,094	34,425	37,944

Ratios

RoE (%)	4.9	4.4	10.2
RoCE (%)	5.3	4.9	9.9
Payout (%)	9.5	10.7	4.9

Valuations

P/E (x)	60.1	63.6	25.7
P/BV (x)	2.9	2.8	2.5
Div. Yield (%)	0.2	0.2	0.2
FCF yield (%)	-5.7	-2.1	2.4

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	27.9	27.9	27.8
DII	12.5	12.5	13.0
FII	16.5	16.1	14.8
Others	43.2	43.6	44.4

FII Includes depository receipts

CMP: INR94,918
TP: INR86,575 (-9%)
Neutral
Below estimates; performance adversely impacted by higher costs

Commodity cost expected to soften in 2HFY23

- MRF's 2QFY23 performance was adversely impacted due to RM cost pressures despite good beat on revenues. The industry is taking gradual price increases to dilute the impact of severe cost inflation.
- While we reduce our FY23E EPS by 19% to account for high RM costs, we maintain our **Neutral** rating with a TP of INR86,575 (~20x Dec-24 EPS).

Margins negatively impacted due to higher RM costs

- 2QFY23 revenues grew 18% YoY to INR57.2b (v/s est. INR54.1b) while EBITDA/adj. PAT declined 9%/32% YoY to INR4.7b/INR1.24b, respectively. 1HFY23 revenues grew 26% YoY but EBITDA/adj.PAT declined 5%/31% YoY.
- 2QFY23 revenue growth was similar to that of CEAT.
- Gross margin declined 580bp YoY (down 180bp QoQ) to 29.7% (v/s estimated 32.8%). On the other hand, CEAT reported gross margin expansion of 80bp QoQ (down 4.4pp YoY) to 32.5%.
- EBITDA declined 9% YoY to INR4.7b (v/s est. INR5.4b) in 2QFY23. EBITDA margin declined 240bp YoY to 8.2% (v/s est.10%) due to higher RM costs, partially offset by lower 'other expenses'. Margins for CEAT were lower at 7% (down 200bp YoY).
- PAT declined 32% YoY to INR1.24b (v/s est.INR1.5b) in 2QFY23.
- The company declared an interim dividend of INR3 (for FY23).
- 1HFY23 CFO improved to INR8.5b (v/s negative INR8.6b in 1HFY22) due to improvement in working capital. Further, FCFF improved but was still negative at INR4.9b (v/s negative INR14.3b) as improvement in operating performance was offset by substantially higher capex of INR13.4b (v/s INR5.8b in 1HFY22).

Valuation and view

- The pricing environment for the industry seems to be stable with all the players raising prices to pass-on substantial cost inflation. While cost inflation has peaked out 2QFY23, we expect margin to start recovering from 2HFY23 (assuming stable commodity prices).
- Current valuations at 63.6x/25.7x FY23E/FY24E EPS, respectively, fairly capture the changing competitive dynamics for MRF. We reiterate our **Neutral** rating, valuing it at 20x Dec'24E EPS (v/s 21.4x for 10-year average P/E) to arrive at our TP of INR86,575.

Standalone - Quarterly Earning Model

(INR Million)

Y/E March	FY22				FY23E				FY22	FY23E	FY23E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE
Net Sales	41,277	48,317	48,299	52,003	55,989	57,190	56,992	58,023	1,89,895	2,28,195	54,114
YoY Change (%)	69.8	15.4	5.8	9.8	35.6	18.4	18.0	11.6	19.3	20.2	12.0
Total Expenditure	36,405	43,194	43,442	46,728	51,207	52,517	51,499	51,756	1,69,769	2,06,978	48,728
EBITDA	4,872	5,122	4,856	5,275	4,783	4,673	5,493	6,268	20,126	21,217	5,386
Margins (%)	11.8	10.6	10.1	10.1	8.5	8.2	9.6	10.8	10.6	9.3	10.0
Depreciation	3,007	2,958	2,946	3,103	2,969	3,083	3,125	3,188	12,014	12,366	3,200
Interest	621	566	628	656	635	704	650	629	2,470	2,618	650
Other Income	924	887	690	649	341	764	600	607	3,149	2,312	450
PBT before EO expense	2,168	2,485	1,973	2,165	1,519	1,650	2,318	3,058	8,791	8,545	1,986
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0
PBT	2,168	2,485	1,973	2,165	1,519	1,650	2,318	3,058	8,791	8,545	1,986
Tax	555	652	514	598	395	410	603	814	2,318	2,222	516
Rate (%)	25.6	26.2	26.1	27.6	26.0	24.9	26.0	26.6	26.4	26.0	26.0
Minority Interest & Profit/Loss of Asso. Cos.	0	0	0	0	0	0	0	0	0	0	0
Reported PAT	1,613	1,834	1,458.3	1,568	1,123	1,240	1,715.1	2,244	6,473	6,323	1,470
Adj PAT	1,613	1,834	1,458.3	1,568	1,123	1,240	1,715.1	2,244	6,473	6,323	1,470
YoY Change (%)	845.8	-54.5	-71.5	-50.6	-30.4	-32.4	17.6	43.2	-48.2	-2.3	-19.8
Margins (%)	3.9	3.8	3.0	3.0	2.0	2.2	3.0	3.9	3.4	2.8	2.7

E: MOFSL Estimates

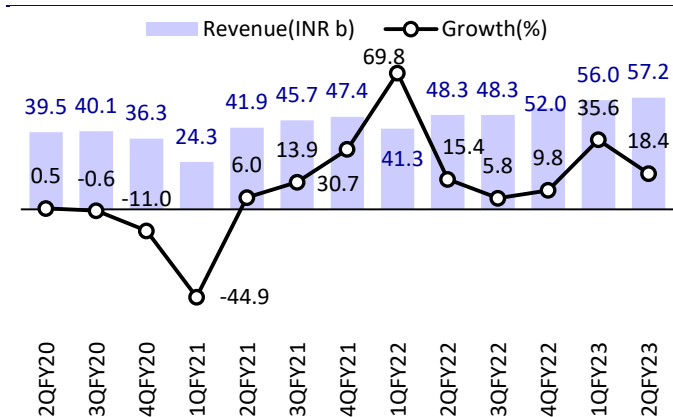
Key Performance Indicators

RM Cost(% of sales)	62.1	64.5	66.6	67.9	68.5	70.3	68.0	66.7	65.4	68.4	67.2
Staff Cost(% of sales)	8.6	7.8	7.7	7.1	6.5	6.8	6.9	6.9	7.8	6.8	6.8
Other costs(% of sales)	17.5	17.1	15.6	14.9	16.4	14.7	15.5	15.6	16.2	15.5	16.0
Gross Margin(%)	37.9	35.5	33.4	32.1	31.5	29.7	32.0	33.3	100.0	100.0	32.8
EBITDA Margin(%)	11.8	10.6	10.1	10.1	8.5	8.2	9.6	10.8	10.6	9.3	10.0

E: MOFSL Estimates

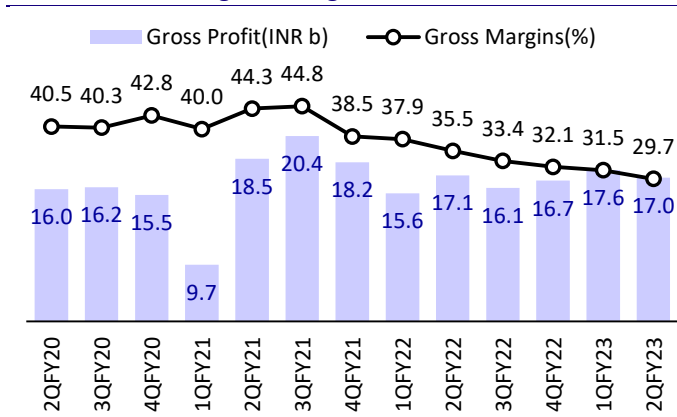
Key exhibits

Exhibit 1: Revenue trend



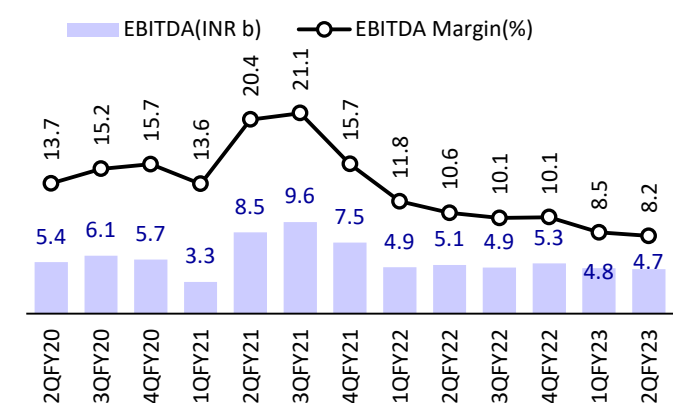
Source: MOFSL, Company

Exhibit 2: Trend in gross margin



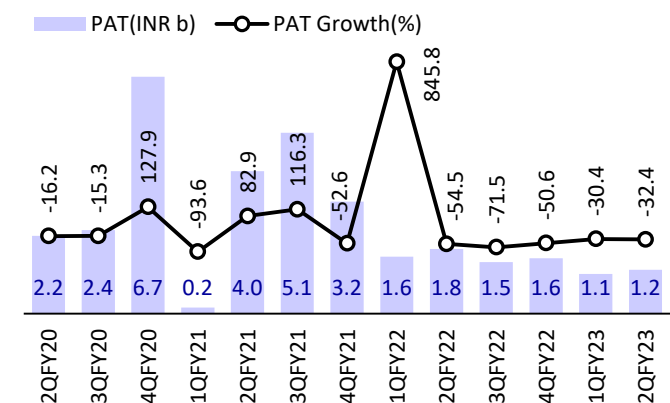
Source: MOFSL, Company

Exhibit 3: EBITDA and EBITDA margin trend



Source: MOFSL, Company

Exhibit 4: PAT and PAT growth trend



Source: MOFSL, Company

Valuation and view

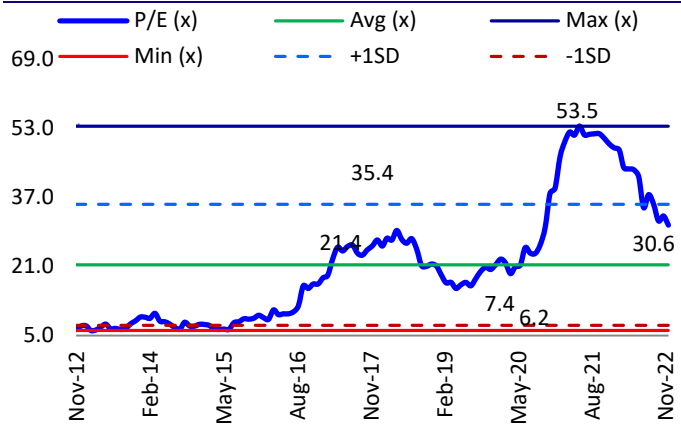
- **Well diversified presence, with leadership across major segments:** MRF's leadership across major segments of T&B, 2Ws, and PCR has led to the creation of a strong brand and pricing power. It enjoys market leadership in 2W, TBB, and Agri tyres, and is among the top three players in PCR and TBR. This 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 radicalization in the T&B segment. We expect ~12% revenue CAGR over FY22-25E, driven by 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 FY22-25E. We expect the company to register an EBITDA CAGR of ~26% over FY22-25E, with margin expanding ~430bp to 14.9%. PAT growth would be ~42% CAGR over FY22-25E
- **Steep valuations do not factor in downside risks:** 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 63.6x/25.7x FY23E/FY24E EPS fairly capture the changing competitive dynamics for MRF. We reiterate our Neutral rating, valuing it at 20x Dec'24E EPS (v/s 21.4x 10-year average P/E) to arrive at our TP of INR86,575.

Exhibit 5: Revision to our estimates

(INR M)	FY23E			FY24E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	2,28,195	2,21,302	3.1	2,52,536	2,41,230	4.7
EBITDA	21,217	23,939	-11.4	35,422	35,176	0.7
EBITDA (%)	9.3	10.8	-150bp	14.0	14.6	-60bp
Adj. PAT	6,323	7,849	-19.4	15,682	15,692	-0.1
EPS (INR)	1491	1851	-19.4	3699	3701	-0.1

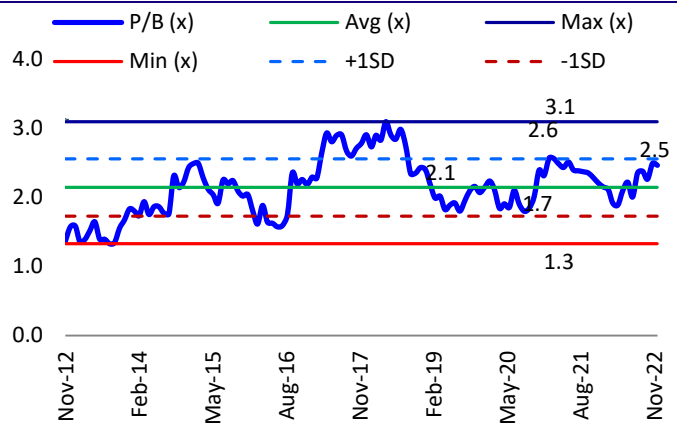
Source: Company, MOFSL

Exhibit 6: One-year forward P/E



Source: MOFSL, Company

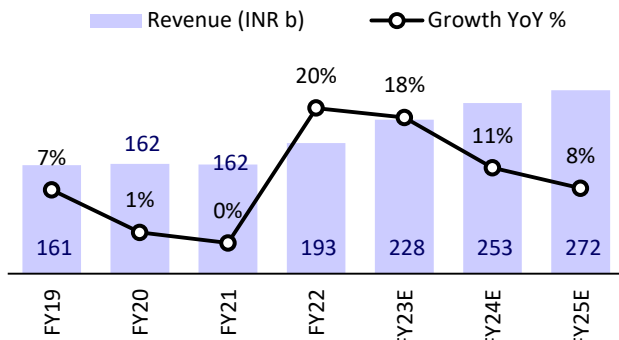
Exhibit 7: One-year forward P/B band



Source: MOFSL, Company

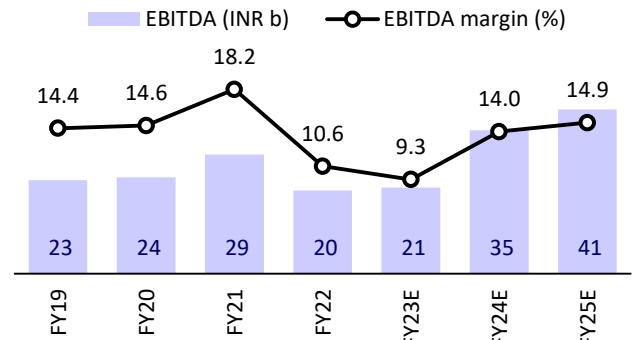
Story in charts

Exhibit 8: Revenue and growth trend



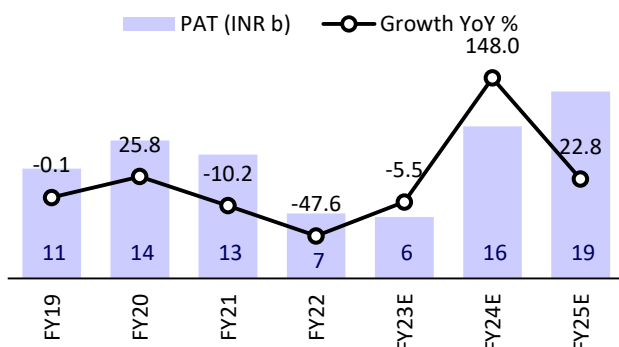
Source: MOFSL, Company

Exhibit 9: Trend in EBITDA



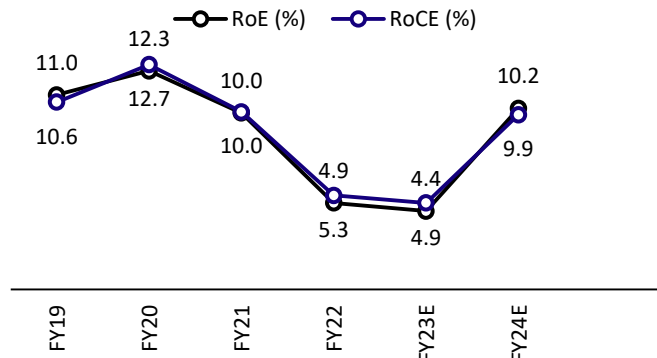
Source: MOFSL, Company

Exhibit 10: Trend in PAT



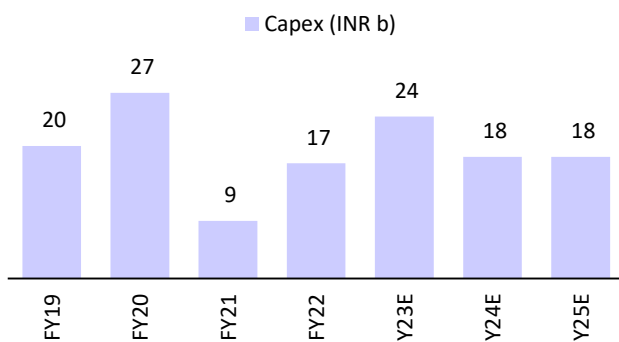
Source: MOFSL, Company

Exhibit 11: Trend in capital efficiency



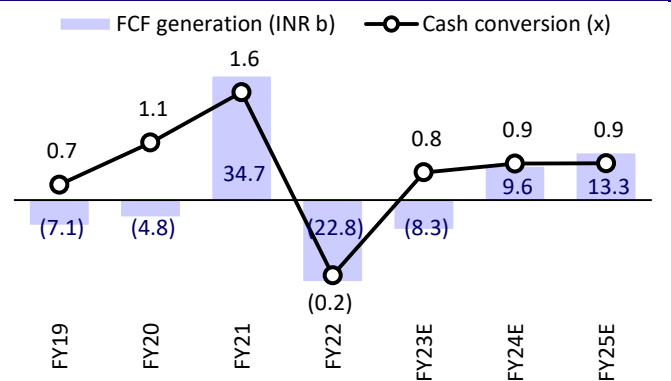
Source: MOFSL, Company

Exhibit 12: Trend in capex



Source: MOFSL, Company

Exhibit 13: FCF generation to be consistently positive



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement

INR million

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Income from Operations	1,49,544	1,60,625	1,62,394	1,61,632	1,93,167	2,28,195	2,52,536	2,71,833
Change (%)	11.5	7.4	1.1	-0.5	19.5	18.1	10.7	7.6
EBITDA	22,818	23,054	23,740	29,423	20,498	21,217	35,422	40,546
EBITDA Margin (%)	15.3	14.4	14.6	18.2	10.6	9.3	14.0	14.9
Depreciation	7,067	8,076	9,823	11,408	12,051	12,366	13,941	15,291
EBIT	15,751	14,978	13,917	18,016	8,447	8,851	21,482	25,255
EBIT Margin (%)	10.5	9.3	8.6	11.1	4.4	3.9	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	2,312	1,929	2,578
PBT bef. EO Exp.	16,527	16,522	14,343	17,368	9,079	8,545	21,193	26,015
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	16,527	16,522	14,343	17,368	9,079	8,545	21,193	26,015
Tax Rate (%)	31.5	31.6	0.8	26.5	26.3	26.0	26.0	26.0
Reported PAT	11,316	11,306	14,226	12,771	6,692	6,323	15,682	19,251
Adjusted PAT	11,316	11,306	14,226	12,771	6,692	6,323	15,682	19,251
Change (%)	-23.9	-0.1	25.8	-10.2	-47.6	-5.5	148.0	22.8

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	1,45,920	1,60,839	1,79,242
Net Worth	97,382	1,08,374	1,22,147	1,34,137	1,40,318	1,45,962	1,60,882	1,79,285
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
Capital Employed	1,25,218	1,37,801	1,44,812	1,58,339	1,72,454	1,74,100	1,85,020	1,99,424
Gross Block	79,709	94,725	1,24,267	1,40,786	1,52,874	1,76,874	1,94,874	2,12,874
Less: Accum. Deprn.	18,787	26,863	35,570	46,378	57,656	70,021	83,962	99,253
Net Fixed Assets	60,922	67,862	88,698	94,408	95,218	1,06,853	1,10,912	1,13,622
Capital WIP	10,789	14,035	17,409	10,022	12,331	12,331	12,331	12,331
Total Investments	41,450	38,547	15,193	58,740	36,565	23,565	23,565	23,565
Curr. Assets, Loans&Adv.	51,621	63,969	73,123	62,649	86,484	97,048	1,09,214	1,25,769
Inventory	21,973	29,932	29,052	29,388	41,297	44,249	46,416	49,446
Account Receivables	21,499	23,827	22,994	22,543	23,327	27,557	30,496	32,826
Cash and Bank Balance	2,337	1,045	11,811	1,694	1,804	1,549	6,082	15,273
Loans and Advances	5,812	9,164	9,266	9,024	20,056	23,693	26,220	28,224
Curr. Liability & Prov.	39,567	46,612	49,611	67,480	58,144	65,696	71,002	75,861
Account Payables	15,685	17,094	19,053	34,414	20,568	22,038	23,118	24,627
Other Current Liabilities	20,924	26,235	27,097	28,915	33,541	39,623	43,849	47,200
Provisions	2,958	3,284	3,461	4,150	4,035	4,035	4,035	4,035
Net Current Assets	12,054	17,357	23,512	-4,831	28,340	31,352	38,213	49,907
Appl. of Funds	1,25,218	1,37,801	1,44,812	1,58,339	1,72,454	1,74,100	1,85,020	1,99,424

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)								
EPS	2,669	2,667	3,355	3,012	1,578	1,491	3,699	4,540
Cash EPS	4,336	4,571	5,672	5,702	4,420	4,408	6,987	8,147
BV/Share	22,967	25,560	28,808	31,636	33,094	34,425	37,944	42,284
FCF per share	2,032	-1,676	-1,126	8,191	-5,384	-1,951	2,260	3,132
DPS	60	60	65	150	150	160	180	200
Payout (%)	2.7	2.7	2.3	5.0	9.5	10.7	4.9	4.4
Valuation (x)								
P/E	35.6	35.6	28.3	31.5	60.1	63.6	25.7	20.9
P/BV	4.1	3.7	3.3	3.0	2.9	2.8	2.5	2.2
EV/Sales	2.5	2.4	2.4	2.2	2.0	1.8	1.6	1.4
EV/EBITDA	16.7	16.7	16.6	12.3	19.1	18.9	11.1	9.4
Dividend Yield (%)	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Return Ratios (%)								
RoE	12.3	11.0	12.3	10.0	4.9	4.4	10.2	11.3
RoCE	11.4	10.6	12.7	10.0	5.3	4.9	9.9	10.9
ROIC	15.4	13.2	15.0	14.1	5.9	5.1	11.4	12.8
Working Capital Ratios								
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	1.4	1.4
Working Cap. Turnover (Days)	24	37	26	-15	50	48	46	47
Leverage Ratio (x)								
Current Ratio	1.3	1.4	1.5	0.9	1.5	1.3	1.4	1.5
Interest Cover Ratio	6.2	5.6	4.8	6.6	3.3	3.4	9.7	13.9
Net Debt:Equity (x)	-0.2	-0.2	-0.1	-0.3	-0.1	0.0	-0.1	-0.1

Consolidated - Cash Flow Statement

INR million

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	16,527	16,522	14,343	17,368	9,079	8,545	21,193	26,015
Depreciation	7,067	8,076	9,823	11,408	12,051	12,366	13,941	15,291
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	-2,222	-5,510	-6,764
(Inc)/Dec in WC	5,289	-7,844	2,285	18,222	-25,088	-3,267	-2,328	-2,504
Others	-2,408	-2,742	-2,235	-1,331	-2,226	-2,312	-1,929	-2,578
CF from Operating incl EO	24,255	12,529	22,726	43,246	-5,780	15,728	27,584	31,278
(Inc)/Dec in FA	-15,640	-19,633	-27,499	-8,516	-17,046	-24,000	-18,000	-18,000
Free Cash Flow	8,615	-7,105	-4,773	34,730	-22,827	-8,272	9,584	13,278
(Pur)/Sale of Investments	-5,309	5,960	25,852	-43,336	23,831	13,000	0	0
Others	685	-189	10	989	-5,123	2,329	1,929	2,578
CF from Investments	-20,264	-13,862	-1,637	-50,862	1,661	-8,671	-16,071	-15,422
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
CF from Fin. Activity	-4,526	422	-10,324	-2,500	4,238	-7,295	-6,980	-6,665
Inc/Dec of Cash	-535	-911	10,766	-10,117	118	-238	4,533	9,191
Opening Balance	2,465	1,931	1,019	11,785	1,668	1,787	1,549	6,082
Closing Balance	1,931	1,020	11,785	1,668	1,787	1,549	6,082	15,272

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 be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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