

Estimate change

TP change

Rating change



Bloomberg	MRF IN
Equity Shares (m)	4
M.Cap.(INRb)/(USD\$)	545.2 / 6.5
52-Week Range (INR)	151445 / 88250
1, 6, 12 Rel. Per (%)	-6/2/13
12M Avg Val (INR M)	1081

Financials & valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	251.7	264.2	283.9
EBITDA	43.0	40.9	44.1
Adj. PAT	21.2	19.4	21.7
EPS (INR)	4,990	4,584	5,112
EPS Growth (%)	175.2	-8.1	11.5
BV/Share (INR)	39,394	43,458	48,030

Ratios

RoE (%)	13.5	11.1	11.2
RoCE (%)	13.3	11.0	11.1
Payout (%)	4.1	11.3	10.6

Valuations

P/E (x)	25.7	28.0	25.1
P/BV (x)	3.3	3.0	2.7
Div. Yield (%)	0.2	0.4	0.4
FCF yield (%)	2.1	2.3	2.5

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	27.8	27.8	27.8
DII	10.6	11.5	11.7
FII	19.7	19.4	18.1
Others	41.9	41.4	42.5

FII Includes depository receipts

CMP: INR1,28,495
TP: INR92,000 (-28%)
Sell

Weak operational performance

EBITDA margin to deteriorate due to RM pressure and EPR provisions

- MRF's 4QFY24 result was weak as higher RM costs and operating expenses led to lower adjusted EBITDA margin of 16.2% (-100bp QoQ vs. est. 17%). A provision of INR463.6m, which was made in FY23, was recognized in 4Q along with the additional provision of INR981.4m for FY24 to cover EPR costs. We believe EPR costs would be recurring in nature, which, combined with rising RM costs, could hurt EBITDA margin in the upcoming quarters.
- We lower our FY25E/FY26E consol. EPS by 12%/10% to factor in commodity headwind and EPR provisions. We maintain Sell with a TP of INR92,000 (18x Mar'26E EPS), as the stock trades at 25x FY26E EPS (above its 10-year LPA of ~22x), which we believe does not reflect its weakening competitive position and deteriorating return profile.

EBITDA miss driven by high commodity inflation and EPR expenses

- 4Q standalone revenue/EBITDA/adj. PAT grew ~9%/19%/33% YoY to INR62.2b/INR10.1b/INR4.7b (vs. est. INR62.3b/INR10.6b/INR5.1b). FY24 revenue/EBITDA/PAT grew ~9%/80%/2.7x YoY to INR246.7b/INR42.1b/INR20.7b.
- Gross margin contracted 190bp YoY (-120bp QoQ) to 38.9% (est. 39.7%), led by an increase in commodity prices.
- Higher commodity costs and provision for EPR expenses led to lower EBITDA at INR10b (+19% YoY, est. INR10.6b). However, reported EBITDA stood at INR 8.9b as it included the annual provision recognized by MRF for EPR obligations, amounting to INR463.6m/INR736.05m for FY23/24.
- Adjusted EBITDA margin expanded 150bp YoY (-100bp QoQ) to 16.2% (est. 17%). Reported EBITDA margin for the quarter was ~14.2%.
- Further, the weak operating performance was partially offset by higher other income and lower tax, resulting in adj. PAT of INR4.7b (+33% YoY, est. INR5.1b).
- CFO in FY24 grew ~20% YoY to INR33b. FCF improved to INR11.4b (vs. outflow of INR5.3b in FY23). It has proposed a final dividend of INR194 per share and has already paid two interim dividend of INR3 each in FY24.
- There were hardly any price hikes taken by MRF in FY24. Moreover it has taken a price cut in TBR segment.
- The company has entered into high end bike steel radial tyres. Despite it being a small market presently, it was done to preserve imported brands for a long time.

Valuation and view

- MRF's competitive positioning in the sector has weakened over the past few years, which reflects in the dilution of pricing power in the PCR and TBR segments. This, coupled with the impact of the planned capex, should limit the expansion in return ratios. We expect MRF's return ratios to dilute over the next two years as its RoE is expected to decline to 11.2% by FY26E (vs. ~13.5% in FY24).

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- The stock is currently trading at 25x FY26E EPS, above its 10-year LPA, despite its weakening competitive position and similar capital efficiency as peers. Hence, we maintain our Sell rating on the stock with a TP of INR92,000 (valuing at 18x Mar-26E EPS).

Standalone - Quarterly Earning Model

(INR m)

Y/E March	FY23				FY24				FY23	FY24	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE
Net Sales	55,989	57,190	55,349	57,254	63,233	60,876	60,478	62,151	2,25,782	2,46,737	62,282
YoY Change (%)	35.6	18.4	14.6	10.1	12.9	6.4	9.3	8.6	18.9	9.3	8.8
Total Expenditure	51,207	52,517	49,863	48,823	52,091	49,589	50,084	52,096	2,02,409	2,04,595	51,664
EBITDA	4,783	4,673	5,486	8,431	11,142	11,286	10,394	10,055	23,373	42,142	10,618
Margins (%)	8.5	8.2	9.9	14.7	17.6	18.5	17.2	16.2	10.4	17.1	17.0
Depreciation	2,969	3,083	3,149	3,285	3,317	3,500	3,591	3,842	12,486	14,250	3,620
Interest	635	704	802	839	780	749	776	858	2,981	3,163	747
Other Income	341	764	700	678	739	696	766	924	2,482	3,125	764
PBT before EO expense	1,519	1,650	2,235	4,985	7,783	7,734	6,792	6,279	10,389	27,853	7,015
Extra-Ord expense	0	0	0	-803	0	0	0	1,200	-803	464	0
PBT	1,519	1,650	2,235	5,788	7,783	7,734	6,792	5,079	11,192	27,389	7,015
Tax	395	410	543	1,682	1,969	2,015	1,712	1,284	3,030	6,980	1,890
Rate (%)	26.0	24.9	24.3	29.1	25.3	26.1	25.2	25.3	27.1	25.5	26.9
Reported PAT	1,123	1,240	1,692	4,106	5,814	5,719	5,080	3,795	8,162	20,409	5,125
Adj PAT	1,123	1,240	1,692	3,537	5,814	5,719	5,080	4,692	7,576	20,755	5,125
YoY Change (%)	-30.4	-32.4	16.0	125.6	417.6	361.3	200.2	32.7	17.0	173.9	44.9
Margins (%)	2.0	2.2	3.1	6.2	9.2	9.4	8.4	7.5	3.4	8.4	8.2

E: MOFSL Estimates

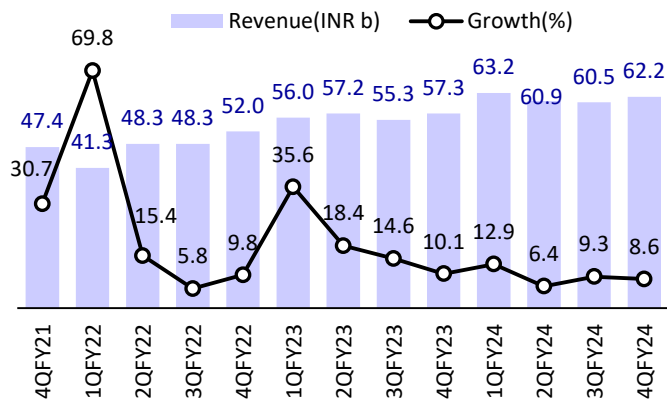
Key Performance Indicators

RM Cost(% of sales)	68.5	70.3	67.9	63.0	61.2	59.2	59.9	61.1	67.4	60.3	60.3
Staff Cost(% of sales)	6.5	6.8	7.3	7.0	6.5	7.1	7.2	7.5	6.9	7.1	7.1
Other costs(% of sales)	16.4	14.7	15.0	15.3	14.7	15.1	15.7	15.2	15.3	15.5	15.6
Gross Margin(%)	31.5	29.7	32.1	37.0	38.8	40.8	40.1	38.9	32.6	39.7	39.7
EBITDA Margin(%)	8.5	8.2	9.9	14.7	17.6	18.5	17.2	16.2	10.4	17.1	17.0

E: MOFSL Estimates

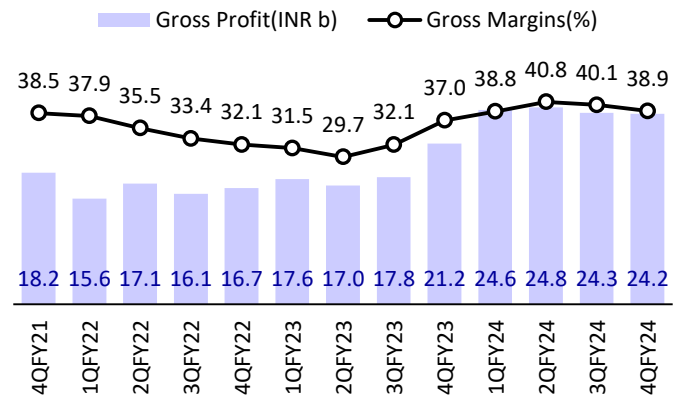
Key exhibits

Exhibit 1: Revenue trend



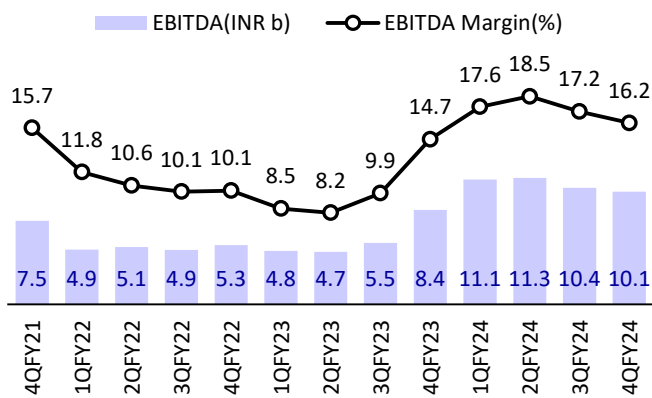
Source: MOFSL, Company

Exhibit 2: Trend in gross margin



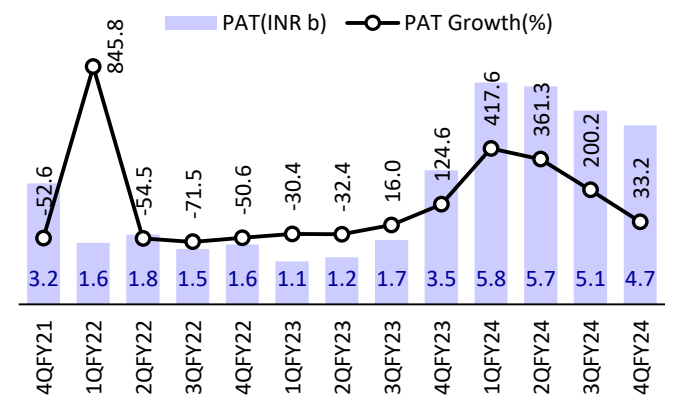
Source: MOFSL, Company

Exhibit 3: EBITDA and EBITDA margin trends



Source: MOFSL, Company

Exhibit 4: PAT and PAT growth trends



Source: MOFSL, Company

Valuation and view

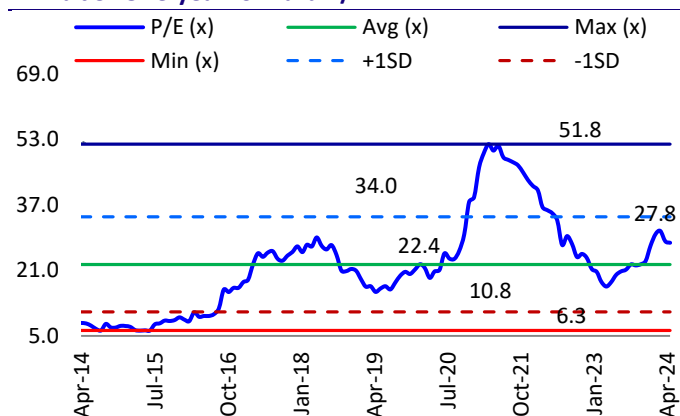
- **Dilution in competitive positioning:** MRF's leadership in the major segments of T&B, 2Ws, and PCR had led to the creation of a strong brand and pricing power. However, aggressive competition in the recent past has dethroned MRF from the top spot in PCR and T&B and has resulted in an overall market share loss. Peers have started focusing on high-margin segments like 2W and PVs, resulting in the dilution of MRF's competitive positioning. Moreover, its higher exposure to the TBB segment, which is expected to see muted growth, makes MRF vulnerable to the trend of radialization in the T&B segment.
- **EBITDA margin seems to have peaked out:** Given that the commodity cycle seems to have bottomed out, we expect margins in 2Q to peak out and expect MRF to post stable margins over FY24-26E, provided input costs remain at the current low levels. Moreover, the Ministry of Environment, Forest and Climate Change notified Regulations on Extended Producer Responsibilities (EPR) for waste tyres applicable to tyre manufacturer. Against this, the company has recognized the provision for 2022-23, amounting to INR463.6m (for FY23) and INR981.4m at the year ended Mar'24. We believe this expense would be recurring in nature and hence would be further detrimental to profitability.

- **Return ratios to stay under pressure:** We expect a ~6% revenue CAGR over FY24-26, led by stable OE demand and an expected recovery in the replacement segment. However, the recent capex, leading to lower capacity utilization, will keep margin and RoE in check over FY24-26E. We expect a muted ~1% CAGR in EBITDA over FY24-26 and margins to decline to 15.5% in FY25E/26E from 17.1% in FY24. PAT is expected to see a ~1% CAGR over FY24-26. This, coupled with the impact of the planned capex, should limit the expansion in return ratios. We expect MRF's return ratios to dilute over the next two years as its RoE is expected to decline to 11.2% by FY26E (vs. ~13.5% in FY24).
- **Steep valuations do not factor in changing competitive dynamics; maintain Sell:** We cut our FY25E/FY26E EPS by 12%/10% to factor in commodity headwinds and other cost pressures. The stock currently trades at 28x/25x FY25/26E EPS, above its 10-year LPA, which does not reflect its weakening competitive position and deteriorating return profile. We maintain Sell with a TP of INR92,000/share (based on 18x FY26E EPS).

Revised estimates (Consol)

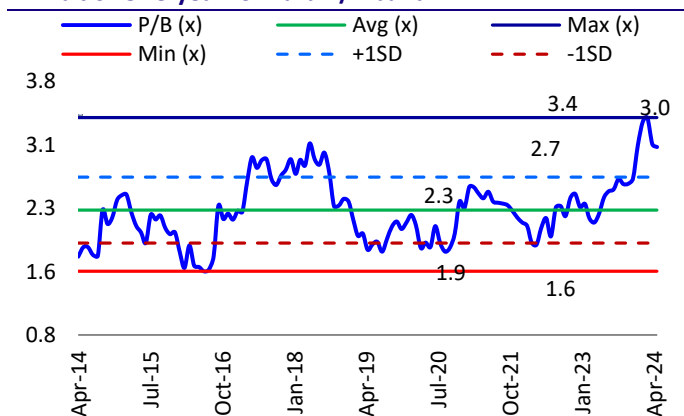
(INR M)	FY25E			FY26E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	2,64,225	2,63,370	0.3	2,83,945	2,82,591	0.5
EBITDA	40,916	44,923	-8.9	44,122	47,544	-7.2
EBITDA (%)	15.5	17.1	-160bp	15.5	16.8	-130bp
Adj. PAT	19,436	22,011	-11.7	21,676	24,053	-9.9
EPS (INR)	4584	5191	-11.7	5112	5673	-9.9

Exhibit 5: One-year forward P/E



Source: MOFSL, Company

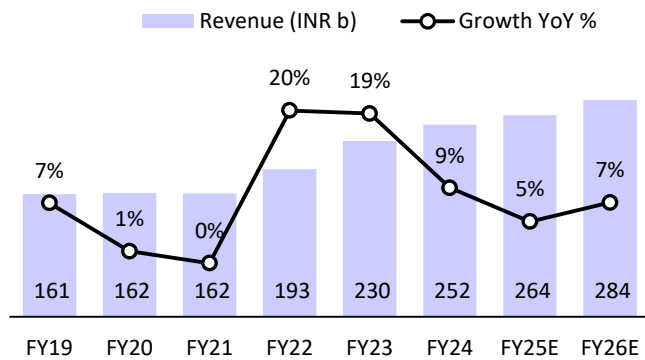
Exhibit 6: One-year forward P/B band



Source: MOFSL, Company

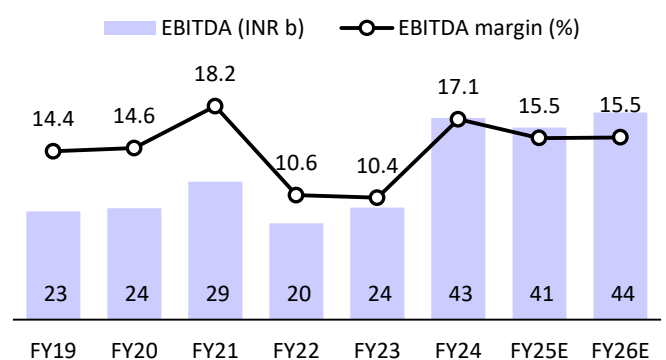
Story in charts

Exhibit 7: Revenue and growth trends



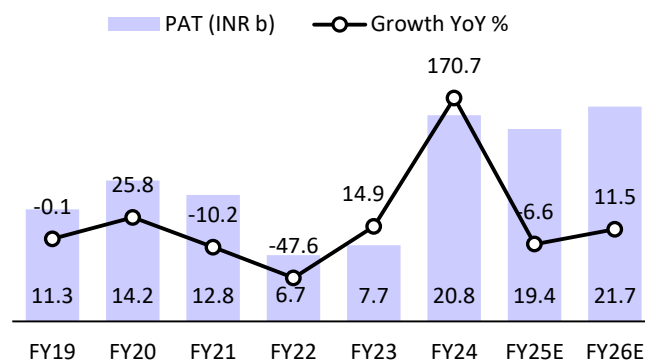
Source: MOFSL, Company

Exhibit 8: Trend in EBITDA



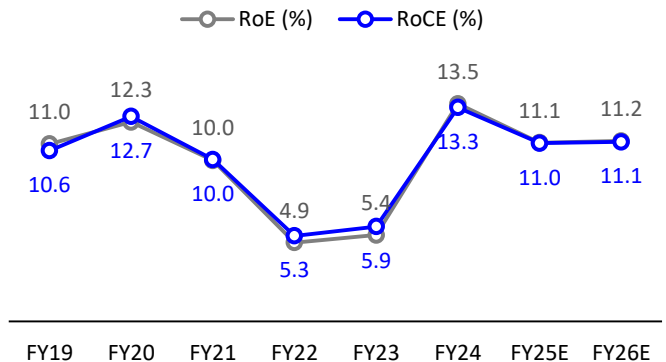
Source: MOFSL, Company

Exhibit 9: Trend in PAT



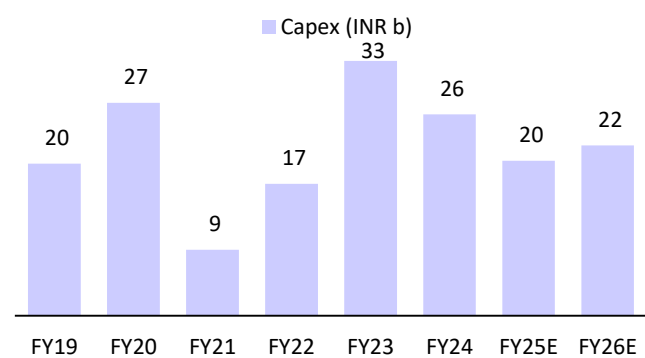
Source: MOFSL, Company

Exhibit 10: Trend in capital efficiency



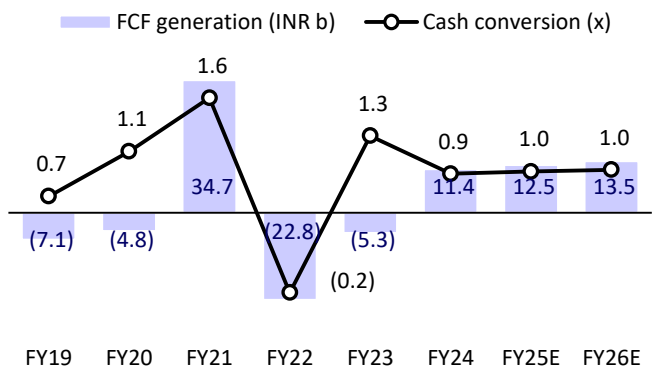
Source: MOFSL, Company

Exhibit 11: Trend in capex



Source: MOFSL, Company

Exhibit 12: FCF generation to be consistently positive



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement

INR million

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	1,60,625	1,62,394	1,61,632	1,93,167	2,30,085	2,51,692	2,64,225	2,83,945
Change (%)	7.4	1.1	-0.5	19.5	19.1	9.4	5.0	7.5
EBITDA	23,054	23,740	29,423	20,498	23,891	42,999	40,916	44,122
EBITDA Margin (%)	14.4	14.6	18.2	10.6	10.4	17.1	15.5	15.5
Depreciation	8,076	9,823	11,408	12,051	12,531	14,300	15,358	16,636
EBIT	14,978	13,917	18,016	8,447	11,361	28,700	25,558	27,486
EBIT Margin (%)	9.3	8.6	11.1	4.4	4.9	11.4	9.7	9.7
Int. and Finance Charges	2,673	2,928	2,747	2,538	3,190	3,530	3,009	2,947
Other Income	4,217	3,354	2,099	3,170	2,527	3,168	3,540	4,556
PBT bef. EO Exp.	16,522	14,343	17,368	9,079	10,697	28,338	26,089	29,095
EO Items	0	0	0	0	0	-464	0	0
PBT after EO Exp.	16,522	14,343	17,368	9,079	10,697	27,874	26,089	29,095
Tax Rate (%)	31.6	0.8	26.5	26.3	28.1	25.3	25.5	25.5
Reported PAT	11,306	14,226	12,771	6,692	7,690	20,812	19,436	21,676
Adjusted PAT	11,306	14,226	12,771	6,692	7,690	21,158	19,436	21,676
Change (%)	-0.1	25.8	-10.2	-47.6	14.9	170.7	-6.6	11.5

Consolidated - Balance Sheet

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	42	42	42	42	42	42	42	42
Total Reserves	1,08,331	1,22,105	1,34,094	1,40,275	1,47,034	1,66,988	1,84,219	2,03,605
Net Worth	1,08,374	1,22,147	1,34,137	1,40,318	1,47,077	1,67,030	1,84,261	2,03,648
Deferred Tax Liabilities	8,402	4,289	3,802	1,537	1,214	1,075	1,075	1,075
Total Loans	21,024	18,375	20,398	28,180	24,295	20,751	20,751	20,751
Capital Employed	1,37,801	1,44,812	1,58,339	1,70,036	1,72,587	1,88,858	2,06,089	2,25,475
Gross Block	94,725	1,24,267	1,40,786	1,52,874	1,69,729	2,03,311	2,23,311	2,45,311
Less: Accum. Deprn.	26,863	35,570	46,378	57,656	68,549	82,849	98,208	1,14,844
Net Fixed Assets	67,862	88,698	94,408	95,218	1,01,180	1,20,462	1,25,104	1,30,468
Capital WIP	14,035	17,409	10,022	12,331	30,459	23,845	23,845	23,845
Total Investments	38,547	15,193	58,740	36,565	30,851	33,830	33,830	33,830
Curr. Assets, Loans&Adv.	63,969	73,123	62,649	84,066	78,572	86,749	1,01,478	1,20,794
Inventory	29,932	29,052	29,388	41,297	41,411	44,686	40,191	43,163
Account Receivables	23,827	22,994	22,543	23,327	25,033	29,120	32,576	35,007
Cash and Bank Balance	1,045	11,811	1,694	2,561	2,585	3,454	14,233	27,065
Loans and Advances	9,164	9,266	9,024	16,881	9,544	9,490	14,478	15,559
Curr. Liability & Prov.	46,612	49,611	67,480	58,144	68,475	76,029	78,167	83,461
Account Payables	17,094	19,053	34,414	20,568	24,358	26,528	25,696	27,596
Other Current Liabilities	26,235	27,097	28,915	33,541	39,629	42,497	45,467	48,860
Provisions	3,284	3,461	4,150	4,035	4,488	7,004	7,004	7,004
Net Current Assets	17,357	23,512	-4,831	25,923	10,098	10,720	23,310	37,333
Appl. of Funds	1,37,801	1,44,812	1,58,339	1,70,036	1,72,587	1,88,858	2,06,089	2,25,475

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	2,667	3,355	3,012	1,578	1,814	4,990	4,584	5,112
Cash EPS	4,571	5,672	5,702	4,420	4,769	8,363	8,206	9,036
BV/Share	25,560	28,808	31,636	33,094	34,688	39,394	43,458	48,030
FCF per share	-1,676	-1,126	8,191	-5,384	-1,261	2,684	2,937	3,187
DPS	60	65	150	150	175	200	520	540
Payout (%)	2.7	2.3	5.0	9.5	9.6	4.1	11.3	10.6
Valuation (x)								
P/E	48.2	38.3	42.7	81.4	70.9	25.7	28.0	25.1
P/BV	5.0	4.5	4.1	3.9	3.7	3.3	3.0	2.7
EV/Sales	3.3	3.3	3.1	2.8	2.3	2.1	2.0	1.8
EV/EBITDA	22.8	22.6	17.2	26.0	22.4	12.3	12.6	11.4
Dividend Yield (%)	0.0	0.1	0.1	0.1	0.1	0.2	0.4	0.4
Return Ratios (%)								
RoE	11.0	12.3	10.0	4.9	5.4	13.5	11.1	11.2
RoCE	10.6	12.7	10.0	5.3	5.9	13.3	11.0	11.1
ROIC	13.2	15.0	14.1	6.0	7.2	18.1	14.5	14.9
Working Capital Ratios								
Fixed Asset Turnover (x)	1.7	1.3	1.1	1.3	1.4	1.2	1.2	1.2
Asset Turnover (x)	1.2	1.1	1.0	1.1	1.3	1.3	1.3	1.3
Working Cap. Turnover (Days)	37	26	-15	44	12	11	13	13

Consolidated - Cash Flow Statement

INR million

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	16,522	14,343	17,368	9,079	10,697	27,874	26,089	29,095
Depreciation	8,076	9,823	11,408	12,051	12,531	14,300	15,358	16,636
Interest & Finance Charges	2,673	2,928	2,747	2,538	3,190	3,530	3,009	2,947
Direct Taxes Paid	-4,156	-4,418	-5,168	-2,135	-3,278	-7,222	-6,653	-7,419
(Inc)/Dec in WC	-7,844	2,285	18,222	-25,088	6,357	-3,283	-1,811	-1,190
Others	-2,742	-2,235	-1,331	-2,226	-1,943	-2,194	-3,540	-4,556
CF from Operating incl EO	12,529	22,726	43,246	-5,780	27,555	33,005	32,453	35,512
(Inc)/Dec in FA	-19,633	-27,499	-8,516	-17,046	-32,901	-21,623	-20,000	-22,000
Free Cash Flow	-7,105	-4,773	34,730	-22,827	-5,346	11,382	12,453	13,512
(Pur)/Sale of Investments	5,960	25,852	-43,336	23,831	6,512	-1,297	0	0
Others	-189	10	989	-5,097	7,171	-857	3,963	4,556
CF from Investments	-13,862	-1,637	-50,862	1,687	-19,218	-23,777	-16,037	-17,444
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	3,523	-6,347	1,435	8,199	-3,854	-3,526	0	0
Interest Paid	-2,702	-2,809	-2,540	-2,361	-2,698	-2,896	-3,009	-2,947
Dividend Paid	-307	-307	-424	-636	-636	-742	-2,205	-2,290
Others	-93	-861	-971	-965	-1,207	-1,518	0	0
CF from Fin. Activity	422	-10,324	-2,500	4,238	-8,395	-8,682	-5,214	-5,236
Inc/Dec of Cash	-911	10,766	-10,117	145	-59	546	11,202	12,832
Opening Balance	1,931	1,019	11,785	2,399	2,544	2,485	3,031	14,233
Closing Balance	1,020	11,785	1,668	2,544	2,485	3,031	14,233	27,065

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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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