

Estimate change	
TP change	
Rating change	

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Bloomberg	MRF IN
Equity Shares (m)	4
M.Cap.(INRb)/(USDb)	339.4 / 4.6
52-Week Range (INR)	98515 / 55326
1, 6, 12 Rel. Per (%)	-4/-21/-15
12M Avg Val (INR M)	2353

#### Financials & valuations (INR b)

Y/E March	FY21	FY22E	FY23E
Sales	161.6	191.0	204.5
EBITDA	29.4	29.0	35.1
Adj. PAT	12.8	12.5	16.4
EPS (INR)	3,012	2,942	3,862
EPS Growth (%)	-10.2	-2.3	31.3
BV/Share (INR)	31,636	34,428	38,090

#### Ratios

RoE (%)	10.0	8.9	10.7
RoCE (%)	10.0	9.1	10.8
Payout (%)	5.0	5.1	5.2

#### Valuations

P/E (x)	26.6	27.2	20.7
P/BV (x)	2.5	2.3	2.1
Div. Yield (%)	0.2	0.2	0.2
FCF yield (%)	10.2	0.4	2.1

#### Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	27.8	27.8	27.9
DII	13.7	14.3	18.3
FII	14.1	13.5	6.3
Others	44.5	44.4	47.6
FII Includes depository receipts			

**CMP: INR80,014 TP: INR83,730 (+5%) Neutral**

## Operating de-leverage impacts performance

### Price increases to pass on cost inflation happening gradually

- MRF's 1QFY22 operating performance was impacted by operating deleverage and RM cost inflation. The industry is taking gradual price increases to dilute the impact of severe cost inflation.
- We cut our FY22E/FY23E EPS by ~11%/3%, factoring in the RM cost inflation. Maintain **Neutral**.

### Revenue decline in-line v/s peers; price hike dilutes cost impact

- Revenue/EBITDA/PAT declined 13%/35%/49% QoQ to INR41.3b/INR4.9b/INR1.6b.
- 1QFY22 revenue was down 13% QoQ (+70% YoY) to INR41.3b. The decline was largely in line with peers [CEAT: 17% QoQ and APTY (S/A): 11% QoQ].
- The decline in gross margin was restricted to 60bps QoQ (205bps YoY) at 37.9%. The decline of just 60bps QoQ is largely on account of a sharp change in finished goods inventory. The gross margin decline was higher in peers (CEAT: -310bps QoQ and Apollo S/A: -440bps QoQ) due to 10–12% commodity cost inflation during the quarter.
- EBITDA was down 35% QoQ (+47% YoY) to INR4.9b. The EBITDA margin declined 390bps QoQ (180bps YoY) to 11.8%. This margin decline was better than that in APTY (S/A) (-500bps QoQ / -40bps YoY), but worse than that in CEAT (-270bps QoQ / -40bps YoY).
- High other income and lower interest cost restricted PAT decline to 49% QoQ (+846% YoY) at INR1.6b.

### Valuation and view

- Cyclical recovery in both OEMs and replacement would enable the faster absorption of new capacities (Gujarat plant) and drive the benefit of operating leverage.
- The industry pricing environment seems to be stable, with all players taking price increases to pass on the substantial cost inflation. While there is likely to be a transitory impact of the cost inflation in 2QFY22, we expect margins to begin recovering from 2HFY22 (assuming stable commodity prices).
- MRF's competitive positioning within the sectors has weakened over the past few years, further reflected in the dilution of pricing power in the PCR and TBR segments. This, coupled with the impact of capex over the last three years, has resulted in substantial dilution in its superior return ratios.
- Current valuations at 27.2x/20.7x FY22E/FY23E EPS fairly capture the changing competitive dynamics for MRF. We maintain a **Neutral** rating, valuing it at 20x Sep'23E EPS (v/s 21.5x/14.5x its five-/10-year average P/E) to arrive at our TP of INR83,730.

Standalone - Quarterly Earnings Model										(INR m)	
Y/E March	FY21				FY22E				FY21	FY22E	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			
<b>Net Sales</b>	<b>24,306</b>	<b>41,864</b>	<b>45,668</b>	<b>47,377</b>	<b>41,277</b>	<b>48,143</b>	<b>50,234</b>	<b>51,386</b>	<b>1,59,214</b>	<b>1,91,041</b>	
YoY Change (%)	-44.9	6.0	13.9	30.7	69.8	15.0	10.0	8.5	-0.4	20.0	
Total Expenditure	20,991	33,319	36,036	39,921	36,405	40,801	42,280	42,548	1,30,267	1,62,033	
<b>EBITDA</b>	<b>3,315</b>	<b>8,544</b>	<b>9,631</b>	<b>7,456</b>	<b>4,872</b>	<b>7,342</b>	<b>7,954</b>	<b>8,839</b>	<b>28,947</b>	<b>29,007</b>	
Margins (%)	13.6	20.4	21.1	15.7	11.8	15.3	15.8	17.2	18.2	15.2	
Depreciation	2,730	2,839	2,831	2,970	3,007	3,100	3,245	3,548	11,369	12,900	
Interest	737	528	638	745	621	650	650	655	2,647	2,576	
Other Income	430	443	634	565	924	800	800	801	2,072	3,325	
<b>PBT before EO expense</b>	<b>279</b>	<b>5,620</b>	<b>6,797</b>	<b>4,306</b>	<b>2,168</b>	<b>4,392</b>	<b>4,859</b>	<b>5,437</b>	<b>17,003</b>	<b>16,856</b>	
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	
<b>PBT</b>	<b>279</b>	<b>5,620</b>	<b>6,797</b>	<b>4,306</b>	<b>2,168</b>	<b>4,392</b>	<b>4,859</b>	<b>5,437</b>	<b>17,003</b>	<b>16,856</b>	
Tax	108	1,590	1,680	1,134	555	1,142	1,263	1,423	4,512	4,383	
Rate (%)	38.8	28.3	24.7	26.3	25.6	26.0	26.0	26.2	26.5	26.0	
Minority Interest & Profit/Loss of Asso. Cos.	0	0	0	0	0	0	0	0	0	0	
<b>Reported PAT</b>	<b>171</b>	<b>4,030</b>	<b>5,117</b>	<b>3,173</b>	<b>1,613</b>	<b>3,250</b>	<b>3,596</b>	<b>4,014</b>	<b>12,490</b>	<b>12,474</b>	
<b>Adj PAT</b>	<b>171</b>	<b>4,030</b>	<b>5,117</b>	<b>3,173</b>	<b>1,613</b>	<b>3,250</b>	<b>3,596</b>	<b>4,014</b>	<b>12,490</b>	<b>12,474</b>	
YoY Change (%)	-93.6	82.9	116.3	-52.6	845.8	-19.4	-29.7	26.5	-10.5	-0.1	
Margins (%)	0.7	9.6	11.2	6.7	3.9	6.8	7.2	7.8	7.8	6.5	

E: MOFSL Estimates

### Key Performance Indicators

RM Cost(% of sales)	60.0	55.7	55.2	61.5	62.1	61.5	61.0	59.7	58.0	61.0
Staff Cost(% of sales)	12.7	8.0	8.6	7.4	8.6	7.7	7.7	7.5	8.7	7.9
Other costs(% of sales)	13.6	15.9	15.1	15.3	17.5	15.5	15.5	15.6	15.1	16.0
Gross Margin (%)	40.0	44.3	44.8	38.5	37.9	38.5	39.0	40.3	100.0	100.0
EBITDA Margin (%)	13.6	20.4	21.1	15.7	11.8	15.3	15.8	17.2	18.2	15.2

## Key exhibits

Exhibit 1: Revenue trend

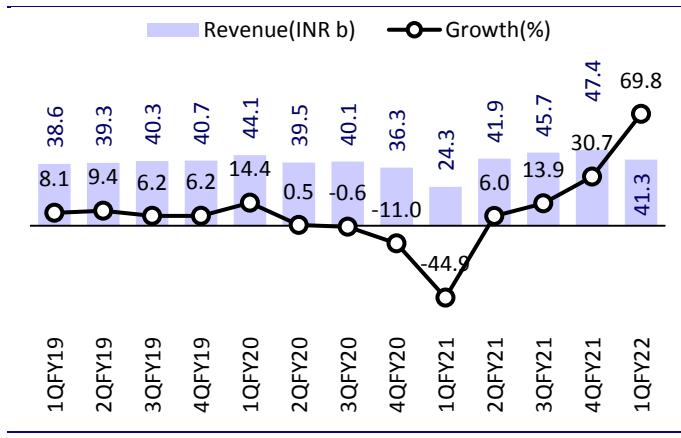
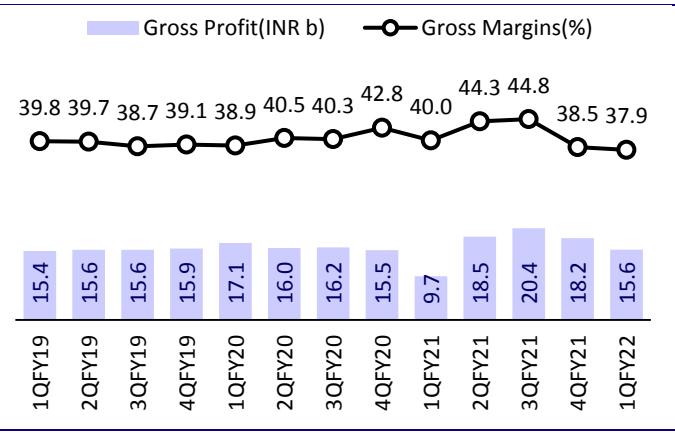


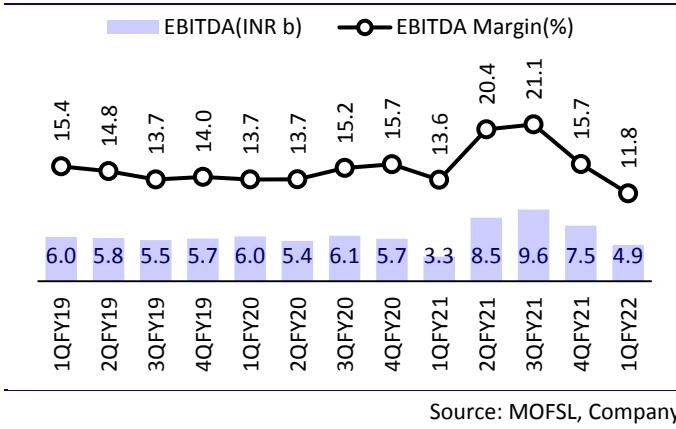
Exhibit 2: Trend in gross margin



Source: MOFSL, Company

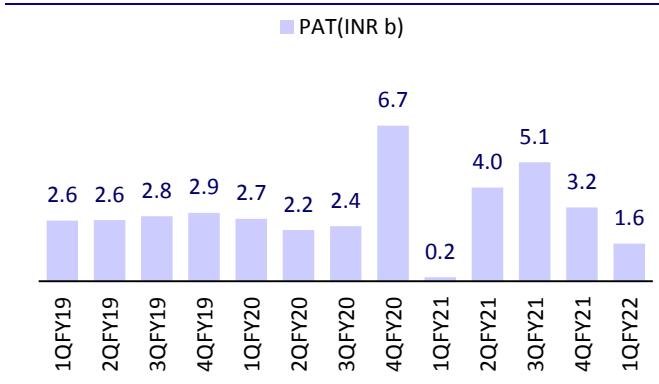
Source: MOFSL, Company

Exhibit 3: EBITDA and EBITDA margin trend



Source: MOFSL, Company

Exhibit 4: Trend in PAT



Source: MOFSL, Company

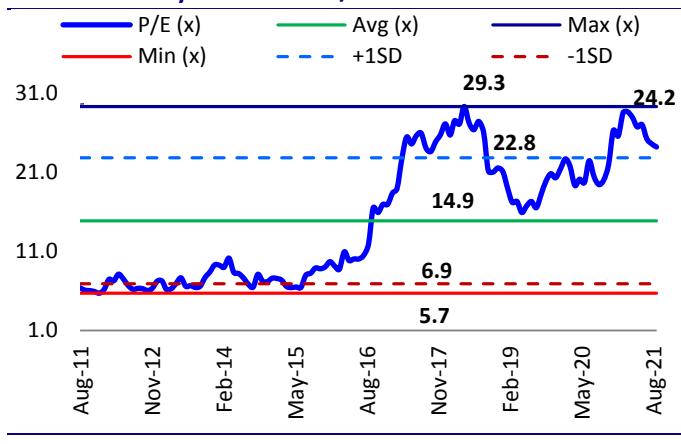
## Valuation and view

- **Well-diversified presence, with leadership across major segments:** MRF's leadership across the major segments of T&B, 2W, 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 translated into MRF having the highest profitability and superior ratios.
- **Dilution in competitive positioning:** However, aggressive competition in the recent past has dethroned MRF from the top spot in the PCR and T&B segments and resulted in 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 have muted growth, makes it vulnerable to the trend of 'radialization' in the T&B segment. We expect a ~12% revenue CAGR over FY21–23E owing to healthy replacement demand.
- **Margin/RoE to remain under pressure:** The recent capex, leading to lower capacity utilization, would keep margins and RoE in check over FY21–23E. We expect a ~9% EBITDA CAGR over FY21–23E, with margins contracting ~100bp to 17.2%. PAT growth would be stronger (~13% CAGR) over FY21–23E
- **Steep valuations do not factor in downside risk:** MRF's competitive positioning within the sector has weakened over the past few years, further reflected in the dilution of pricing power in the PCR and TBR segments. This, coupled with the impact of capex over the last three years, has resulted in substantial dilution in its superior return ratios. Current valuations at 27.2x/20.7x FY22E/FY23E EPS fairly capture the changing competitive dynamics for MRF. We maintain a Neutral rating, valuing it at 20x Sep'23E EPS (v/s 21.5x/14.5x its five-/10-year average P/E) to arrive at our TP of INR83,730.

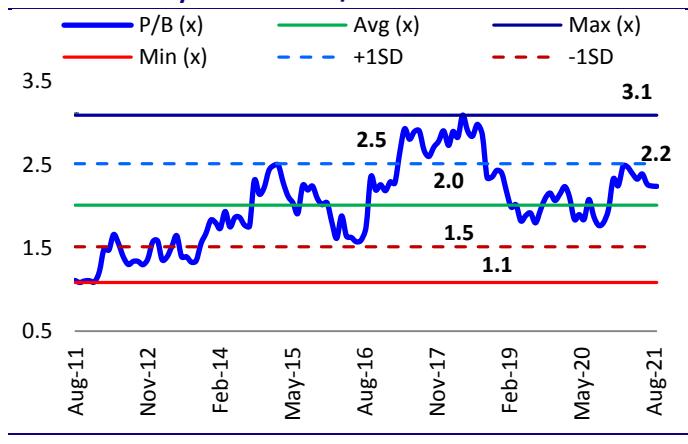
## Exhibit 5: Change in estimates

(INR m)	FY22E			FY23E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net sales	1,91,041	1,88,184	1.5	2,04,466	2,01,638	1.4
EBITDA	29,008	31,230	-7.1	35,121	35,811	-1.9
EBITDA (%)	15.2	16.6	-140bp	17.2	17.8	-60bp
Adjusted PAT	12,474	14,080	-11.4	16,374	16,844	-2.8
EPS (INR)	2942	3321	-11.4	3862	3973	-2.8

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

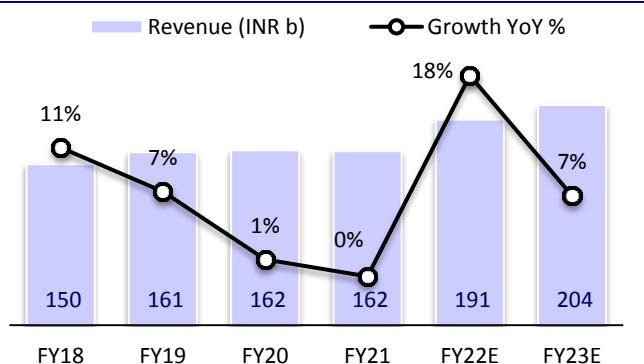


## Exhibit 7: One-year forward P/B band



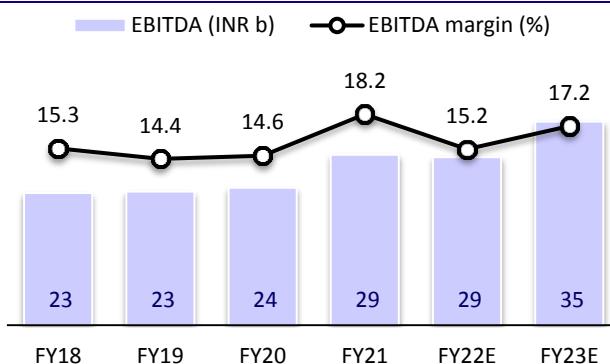
## Story in charts

### Exhibit 8: Revenue and growth trend



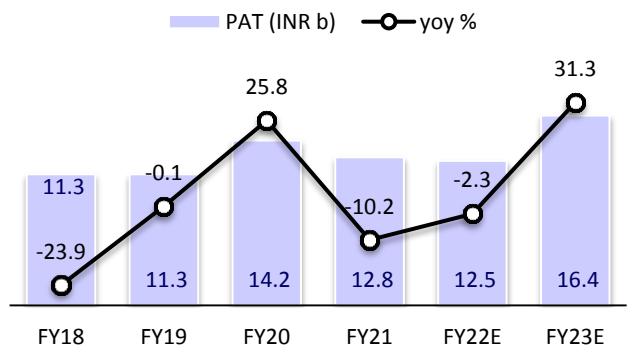
Source: MOFSL, Company

### Exhibit 9: Expect ~9% EBITDA CAGR over FY21–23, margins to contract by ~100bp to 17.2%



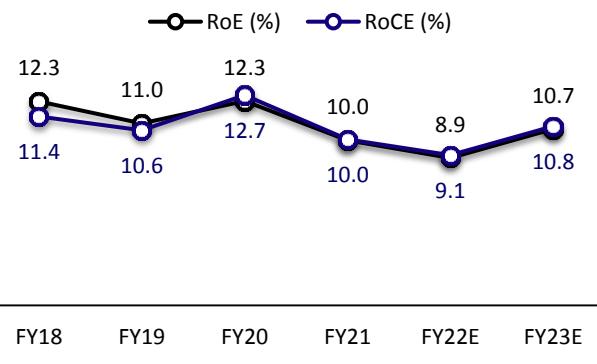
Source: MOFSL, Company

### Exhibit 10: Expect 13% PAT CAGR over FY21–23



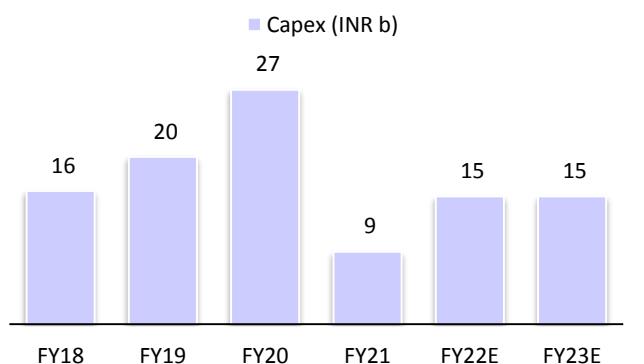
Source: MOFSL, Company

### Exhibit 11: Capital efficiency to remain weak



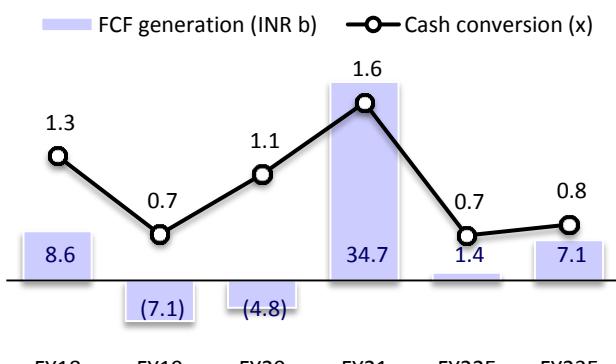
Source: MOFSL, Company

### Exhibit 12: Capex spending over FY21–23E to be largely towards capacity ramp-up



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	FY22E	FY23E
<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>1,91,041</b>	<b>2,04,466</b>
Change (%)	11.5	7.4	1.1	-0.5	18.2	7.0
<b>EBITDA</b>	<b>22,818</b>	<b>23,054</b>	<b>23,740</b>	<b>29,423</b>	<b>29,008</b>	<b>35,121</b>
EBITDA Margin (%)	15.3	14.4	14.6	18.2	15.2	17.2
Depreciation	7,067	8,076	9,823	11,408	12,900	14,190
<b>EBIT</b>	<b>15,751</b>	<b>14,978</b>	<b>13,917</b>	<b>18,016</b>	<b>16,107</b>	<b>20,930</b>
EBIT Margin (%)	10.5	9.3	8.6	11.1	8.4	10.2
Int. and Finance Charges	2,531	2,673	2,928	2,747	2,576	2,448
Other Income	3,307	4,217	3,354	2,099	3,325	3,645
<b>PBT bef. EO Exp.</b>	<b>16,527</b>	<b>16,522</b>	<b>14,343</b>	<b>17,368</b>	<b>16,856</b>	<b>22,128</b>
EO Items	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>16,856</b>	<b>22,128</b>
Tax Rate (%)	31.5	31.6	0.8	26.5	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>12,474</b>	<b>16,374</b>
<b>Adjusted PAT</b>	<b>11,316</b>	<b>11,306</b>	<b>14,226</b>	<b>12,771</b>	<b>12,474</b>	<b>16,374</b>
Change (%)	-23.9	-0.1	25.8	-10.2	-2.3	31.3

Consolidated - Balance Sheet						
Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	42	42	42	42	42	42
Total Reserves	97,340	1,08,331	1,22,105	1,34,094	1,45,932	1,61,458
<b>Net Worth</b>	<b>97,382</b>	<b>1,08,374</b>	<b>1,22,147</b>	<b>1,34,137</b>	<b>1,45,974</b>	<b>1,61,501</b>
Deferred Tax Liabilities	6,198	8,402	4,289	3,802	3,802	3,802
Total Loans	21,636	21,024	18,375	20,398	16,398	12,399
<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>1,66,176</b>	<b>1,77,704</b>
Gross Block	79,709	94,725	1,25,384	1,42,502	1,57,502	1,72,502
Less: Accum. Deprn.	18,787	26,863	36,687	48,094	60,994	75,184
<b>Net Fixed Assets</b>	<b>60,922</b>	<b>67,862</b>	<b>88,698</b>	<b>94,408</b>	<b>96,507</b>	<b>97,317</b>
Capital WIP	10,789	14,035	17,409	10,022	10,022	10,022
<b>Total Investments</b>	<b>41,450</b>	<b>38,547</b>	<b>15,193</b>	<b>58,740</b>	<b>58,740</b>	<b>58,740</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>65,713</b>	<b>73,064</b>
Inventory	21,973	29,932	29,052	29,388	28,855	30,157
Account Receivables	21,499	23,827	22,994	22,543	27,217	29,129
Cash and Bank Balance	2,337	1,045	11,811	1,694	-827	2,574
Loans and Advances	5,812	9,164	9,266	9,024	10,468	11,204
<b>Curr. Liability &amp; Prov.</b>	<b>39,567</b>	<b>46,612</b>	<b>49,611</b>	<b>67,480</b>	<b>64,807</b>	<b>61,440</b>
Account Payables	15,685	17,094	19,053	34,414	26,636	20,878
Other Current Liabilities	20,924	26,235	27,097	28,915	34,021	36,412
Provisions	2,958	3,284	3,461	4,150	4,150	4,150
<b>Net Current Assets</b>	<b>12,054</b>	<b>17,357</b>	<b>23,512</b>	<b>-4,831</b>	<b>906</b>	<b>11,624</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>1,66,176</b>	<b>1,77,704</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Basic (INR)</b>						
EPS	<b>2,669</b>	<b>2,667</b>	<b>3,355</b>	<b>3,012</b>	<b>2,942</b>	<b>3,862</b>
Cash EPS	4,336	4,571	5,672	5,702	5,984	7,209
BV/Share	22,967	25,560	28,808	31,636	34,428	38,090
FCF per share	2,032	-1,676	-1,126	8,191	322	1,663
DPS	60	60	65	150	150	200
Payout (%)	2.7	2.7	2.3	5.0	5.1	5.2
<b>Valuation (x)</b>						
P/E	30.0	30.0	23.8	26.6	27.2	20.7
P/BV	3.5	3.1	2.8	2.5	2.3	2.1
EV/Sales	2.1	2.0	2.0	1.9	1.6	1.4
EV/EBITDA	13.9	13.9	13.9	10.2	10.3	8.3
Dividend Yield (%)	0.1	0.1	0.1	0.2	0.2	0.2
<b>Return Ratios (%)</b>						
RoE	12.3	11.0	12.3	10.0	8.9	10.7
RoCE	11.4	10.6	12.7	10.0	9.1	10.8
ROIC	15.4	13.2	15.0	14.1	12.8	15.1
<b>Working Capital Ratios</b>						
Fixed Asset Turnover (x)	1.9	1.7	1.3	1.1	1.2	1.2
Asset Turnover (x)	1.2	1.2	1.1	1.0	1.1	1.2
Working Cap. Turnover (Days)	24	37	26	-15	3	16
<b>Leverage Ratio (x)</b>						
Current Ratio	1.3	1.4	1.5	0.9	1.0	1.2
Interest Cover Ratio	6.2	5.6	4.8	6.6	6.3	8.6
Net Debt:Equity (x)	-0.2	-0.2	-0.1	-0.3	-0.3	-0.3

### Consolidated - Cash Flow Statement

INR m

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>OP/(Loss) before Tax</b>						
16,527	16,522	14,343	17,368	16,856	22,128	
Depreciation	7,067	8,076	9,823	11,408	12,900	14,190
Interest & Finance Charges	2,531	2,673	2,928	2,747	2,576	2,448
Direct Taxes Paid	-4,751	-4,156	-4,418	-5,168	-4,383	-5,753
(Inc)/Dec in WC	5,289	-7,844	2,285	18,222	-8,258	-7,317
Others	-2,408	-2,742	-2,235	-1,331	-3,325	-3,645
<b>CF from Operating incl EO</b>	<b>24,255</b>	<b>12,529</b>	<b>22,726</b>	<b>43,246</b>	<b>16,366</b>	<b>22,050</b>
(Inc)/Dec in FA	-15,640	-19,633	-27,499	-8,516	-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>1,366</b>	<b>7,050</b>
(Pur)/Sale of Investments	-5,309	5,960	25,852	-43,336	0	0
Others	685	-189	10	989	3,350	3,645
<b>CF from Investments</b>	<b>-20,264</b>	<b>-13,862</b>	<b>-1,637</b>	<b>-50,862</b>	<b>-11,650</b>	<b>-11,355</b>
Issue of Shares	0	0	0	0	0	1
Inc/(Dec) in Debt	-1,325	3,523	-6,347	1,435	-4,000	-3,999
Interest Paid	-2,541	-2,702	-2,809	-2,540	-2,576	-2,448
Dividend Paid	-306	-307	-307	-424	-636	-848
Others	-354	-93	-861	-971	0	0
<b>CF from Fin. Activity</b>	<b>-4,526</b>	<b>422</b>	<b>-10,324</b>	<b>-2,500</b>	<b>-7,212</b>	<b>-7,294</b>
<b>Inc/Dec of Cash</b>	<b>-535</b>	<b>-911</b>	<b>10,766</b>	<b>-10,117</b>	<b>-2,495</b>	<b>3,402</b>
Opening Balance	2,465	1,931	1,019	11,785	1,668	-827
<b>Closing Balance</b>	<b>1,931</b>	<b>1,020</b>	<b>11,785</b>	<b>1,668</b>	<b>-827</b>	<b>2,575</b>

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

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