

Estimate change

TP change

Rating change



Bloomberg	MRF IN
Equity Shares (m)	4
M.Cap.(INRb)/(USDb)	396.7 / 4.8
52-Week Range (INR)	95954 / 65900
1, 6, 12 Rel. Per (%)	7/3/23
12M Avg Val (INR M)	917

Financials & valuations (INR b)

INR b	FY23	FY24E	FY25E
Sales	230.1	250.9	273.4
EBITDA	23.9	34.4	37.7
Adj. PAT	7.7	15.2	17.8
EPS (INR)	1,814	3,574	4,194
EPS Growth (%)	14.9	97.1	17.3
BV/Share (INR)	34,688	38,082	42,076

Ratios

RoE (%)	5.4	9.8	10.5
RoCE (%)	5.9	9.6	10.2
Payout (%)	9.6	5.0	4.8

Valuations

P/E (x)	51.6	26.2	22.3
P/BV (x)	2.7	2.5	2.2
Div. Yield (%)	0.2	0.2	0.2
FCF yield (%)	-1.3	3.2	3.2

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	27.8	27.9	28.0
DII	11.7	11.4	11.7
FII	18.1	18.2	15.5
Others	42.5	42.5	44.8

FII Includes depository receipts

CMP: INR93,528
TP: INR75,400 (-19%)
Sell

Above est; benign RM costs aid margin expansion

MRF likely to underperform peers due to weak competitive position

- MRF's 4QFY23 performance surprised positively as lower RM costs boosted EBITDA margin to 14.7% (est. 11.9%). EBITDA margin recovery is expected to continue in FY24 on the back of softening RM costs and operating leverage.
- We upgrade FY24E/FY25E EPS by 16.6%/4.7% to factor in the benefits of lower RM costs, which will support margin. However, we maintain Sell with a revised TP of INR75,400 (18x Mar-25E EPS) as its pricing power has diluted over the years due to its weakening competitive position.

Better gross margin leads to 8-quarter high EBITDA margin of 14.7%

- 4QFY23 revenue/EBITDA/Adj. PAT increased by ~10%/60%/1.26x YoY to INR57.2b/INR8.4b/INR3.5b. FY23 consolidated revenue/EBITDA/Adj. PAT grew 19%/17%/15% YoY.
- Revenue rose 10% YoY to INR57.25b (in line) likely on the back of stable domestic demand and price hikes. Consolidated export revenue improved 5% YoY to INR18.8b for FY23.
- Gross margin expanded 490bp QoQ/YoY to 37% due to lower RM costs and price hikes.
- The above factors, coupled with lower employee costs, led to a 460bp YoY/480bp QoQ expansion in EBITDA margin to 14.7% (est. 11.9%). EBITDA grew 60% YoY to INR8.4b (est. INR6.9b).
- There was an extraordinary item of income tax impact on account of a refund from a wholly owned subsidiary amounting to INR803m. Despite higher tax, adj. PAT jumped 1.26x to INR3.5b (est. INR2.75b).
- The board has declared a special dividend of INR169 per share. The total dividend for FY23 stood at INR175 per share.
- FCFF was negative INR5.3b (v/s negative INR22.8b in FY22) mainly due to high capex of INR32.9b (v/s INR17b in FY22). Operating cash flow stood at INR27.5b (v/s negative INR5.8b in FY22) due to a decrease in WC.

Valuation and view

- MRF's competitive positioning within the sector has weakened over the past few years, which is also being reflected in the dilution of pricing power in the PCR and TBR segments. This, coupled with the impact of capex to be carried out, should result in limited expansion in return ratios. We expect MRF's return ratios to see a relatively lower uptick v/s peers over the next two years as its RoE is expected to reach 10.5% by FY25 (lower than APTY/CEAT at 12.2%/13.7%).
- The current valuation at 22.3x FY25E EPS represents an almost 100% premium to its peers, despite a weakening competitive position and similar capital efficiencies. Maintain our Sell rating.

Standalone - Quarterly Earning Model

(INR m)

Y/E March	FY22				FY23E				FY22	FY23	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE
Net Sales	41,277	48,317	48,299	52,003	55,989	57,190	55,349	57,254	1,89,895	2,25,782	58,270
YoY Change (%)	69.8	15.4	5.8	9.8	35.6	18.4	14.6	10.1	19.3	18.9	12.1
Total Expenditure	36,405	43,194	43,442	46,728	51,207	52,517	49,863	48,823	1,69,769	2,02,409	51,349
EBITDA	4,872	5,122	4,856	5,275	4,783	4,673	5,486	8,431	20,126	23,373	6,921
Margins (%)	11.8	10.6	10.1	10.1	8.5	8.2	9.9	14.7	10.6	10.4	11.9
Depreciation	3,007	2,958	2,946	3,103	2,969	3,083	3,149	3,285	12,014	12,486	3,164
Interest	621	566	628	656	635	704	802	839	2,470	2,981	791
Other Income	924	887	690	649	341	764	700	678	3,149	2,482	736
PBT before EO expense	2,168	2,485	1,973	2,165	1,519	1,650	2,235	4,985	8,791	10,389	3,702
Extra-Ord expense	0	0	0	0	0	0	0	-803	0	-803	0
PBT	2,168	2,485	1,973	2,165	1,519	1,650	2,235	5,788	8,791	11,192	3,702
Tax	555	652	514	598	395	410	543	1,682	2,318	3,030	951
Rate (%)	25.6	26.2	26.1	27.6	26.0	24.9	24.3	29.1	26.4	27.1	25.7
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	1,568	1,123	1,240	1,692	4,106	6,473	8,162	2,751
Adj PAT	1,613	1,834	1,458	1,568	1,123	1,240	1,692	3,537	6,473	7,576	2,751
YoY Change (%)	845.8	-54.5	-71.5	-50.6	-30.4	-32.4	16.0	125.6	-48.2	17.0	75.5
Margins (%)	3.9	3.8	3.0	3.0	2.0	2.2	3.1	6.2	3.4	3.4	4.7

E: MOFSL Estimates

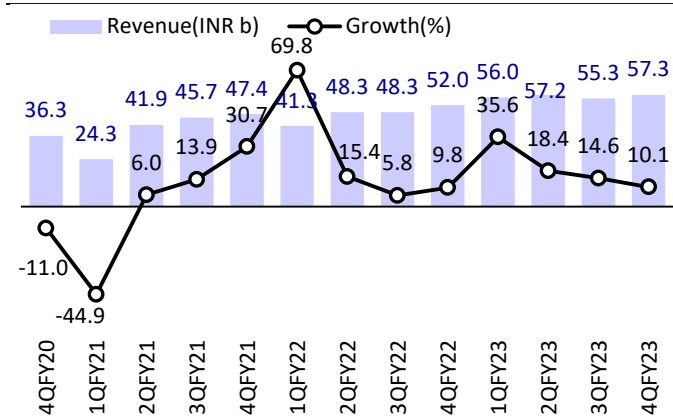
Key Performance Indicators

RM Cost(% of sales)	62.1	64.5	66.6	67.9	68.5	70.3	67.9	63.0	65.4	67.4	66.3
Staff Cost(% of sales)	8.6	7.8	7.7	7.1	6.5	6.8	7.3	7.0	7.8	6.9	7.2
Other costs(% of sales)	17.5	17.1	15.6	14.9	16.4	14.7	15.0	15.3	16.2	15.3	14.6
Gross margin (%)	37.9	35.5	33.4	32.1	31.5	29.7	32.1	37.0	100.0	100.0	33.7
EBITDA margin (%)	11.8	10.6	10.1	10.1	8.5	8.2	9.9	14.7	10.6	10.4	11.9

E: MOFSL Estimates

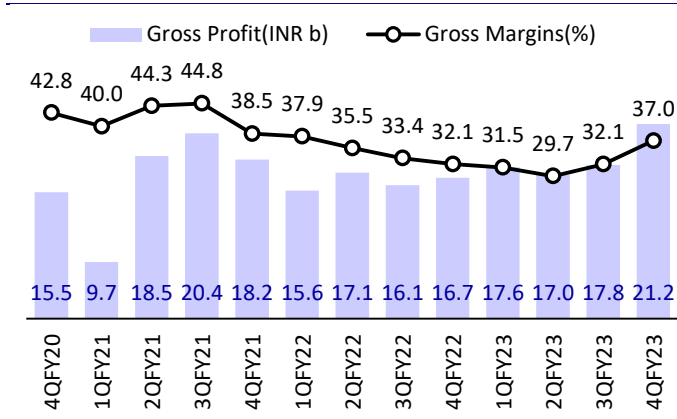
Key exhibits

Exhibit 1: Revenue trend



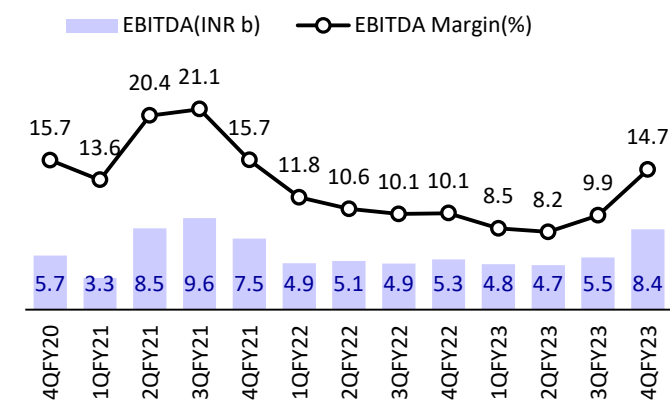
Source: MOFSL, Company

Exhibit 2: Trend in gross margin



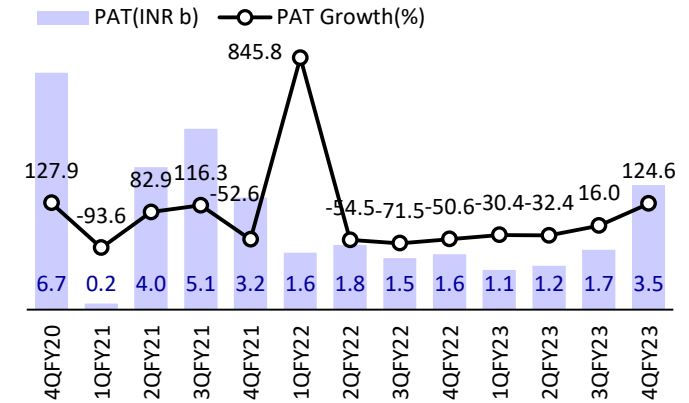
Source: MOFSL, Company

Exhibit 3: EBITDA and EBITDA margin trend



Source: MOFSL, Company

Exhibit 4: PAT and PAT growth trend



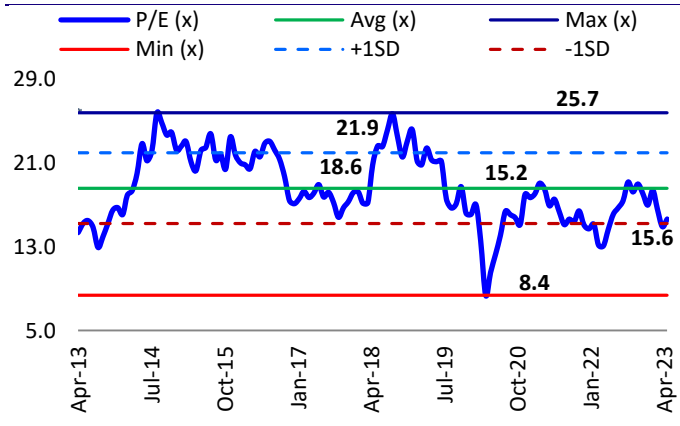
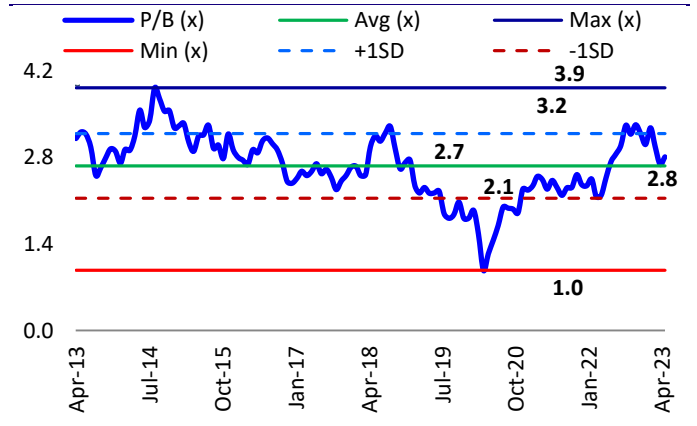
Source: MOFSL, Company

Valuation and view

- **Dilution in competitive positioning:** MRF's leadership across 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 better margin segments like 2W and PVs, resulting in the dilution of MRF's competitive positioning. Moreover, 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.
- **Return ratios to stay under pressure:** We expect a ~9% revenue CAGR over FY23-25, led by stable OE demand and expected recovery in the replacement segment. However, the recent capex, leading to lower capacity utilization, will keep margin and RoE in check over FY23-25E. We expect a ~26% CAGR in EBITDA over FY23-25 and a ~340bp expansion in margin to 13.8%. PAT is expected to see a ~52% CAGR over FY23-25. We expect MRF's return ratios to see a relatively lower uptick v/s peers over the next two years as its RoE is expected to reach 10.5% by FY25 (lower than APTY/CEAT at 12.2%/13.7%).
- **Margin recovery to remain lower than expected:** MRF's competitive positioning within the sector has weakened over the past few years, which is also being reflected in the dilution of pricing power in the PCR and TBR segments. This, coupled with the impact of capex to be carried out, should result in limited expansion in return ratios.
- **Steep valuations do not factor in changing competitive dynamics; maintain Sell:** We upgrade FY24E/FY25E EPS by 16.6%/4.7% to factor in the benefits of lower RM costs. The current valuation at 22.3x FY25E EPS represents an almost 100% premium to its peers, despite weakening competitive positioning and similar capital efficiencies. Maintain Sell with a TP of INR75,400/share.

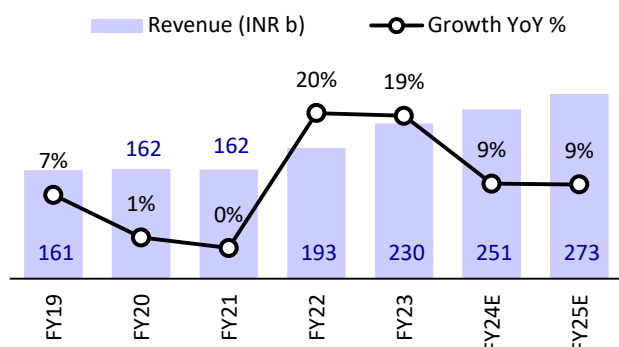
Exhibit 5: Revised forecast (Consol)

(INR m)	FY24E			FY25E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	2,50,916	2,51,294	-0.2	2,73,380	2,73,785	-0.1
EBITDA	34,359	30,834	11.4	37,714	36,393	3.6
EBITDA (%)	13.7	12.3	140bp	13.8	13.3	50bp
Adj. PAT	15,156	13,002	16.6	17,782	16,976	4.7
EPS (INR)	3574	3066	16.6	4194	4004	4.7

Exhibit 6: One-year forward P/E**Exhibit 7: One-year forward P/B band**

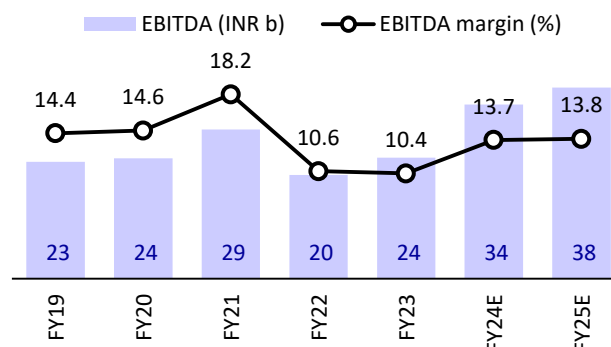
Story in charts

Exhibit 8: Revenue and growth trend



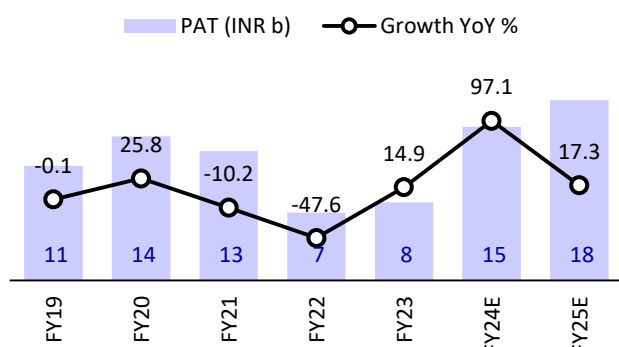
Source: MOFSL, Company

Exhibit 9: Trend in EBITDA



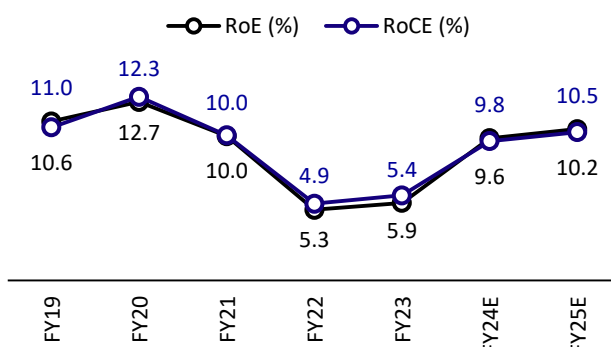
Source: MOFSL, Company

Exhibit 10: Trend in PAT



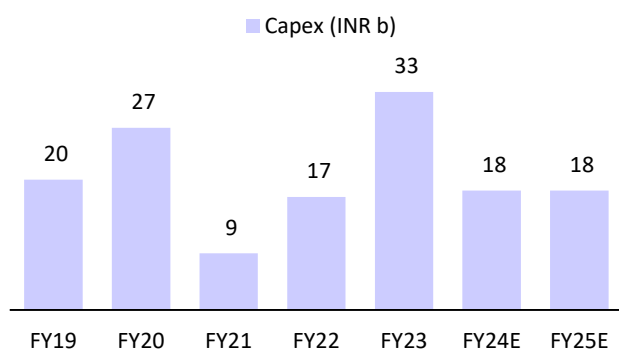
Source: MOFSL, Company

Exhibit 11: Trend in capital efficiency



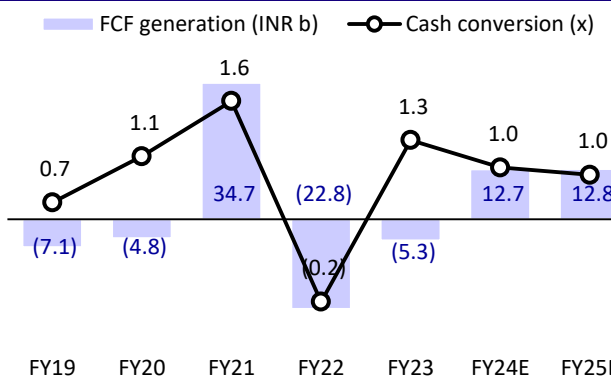
Source: MOFSL, Company

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 m

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	1,60,625	1,62,394	1,61,632	1,93,167	2,30,085	2,50,916	2,73,380
Change (%)	7.4	1.1	-0.5	19.5	19.1	9.1	9.0
EBITDA	23,054	23,740	29,423	20,498	23,891	34,359	37,714
EBITDA Margin (%)	14.4	14.6	18.2	10.6	10.4	13.7	13.8
Depreciation	8,076	9,823	11,408	12,051	12,531	14,014	14,501
EBIT	14,978	13,917	18,016	8,447	11,361	20,344	23,213
EBIT Margin (%)	9.3	8.6	11.1	4.4	4.9	8.1	8.5
Int. and Finance Charges	2,673	2,928	2,747	2,538	3,190	2,453	2,013
Other Income	4,217	3,354	2,099	3,170	2,527	2,370	2,572
PBT bef. EO Exp.	16,522	14,343	17,368	9,079	10,697	20,262	23,772
EO Items	0	0	0	0	0	0	0
PBT after EO Exp.	16,522	14,343	17,368	9,079	10,697	20,262	23,772
Tax Rate (%)	31.6	0.8	26.5	26.3	28.1	25.2	25.2
Reported PAT	11,306	14,226	12,771	6,692	7,690	15,156	17,782
Adjusted PAT	11,306	14,226	12,771	6,692	7,690	15,156	17,782
Change (%)	-0.1	25.8	-10.2	-47.6	14.9	97.1	17.3

Consolidated - Balance Sheet

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	42	42	42	42	42	42	42
Total Reserves	1,08,331	1,22,105	1,34,094	1,40,275	1,47,034	1,61,427	1,78,361
Net Worth	1,08,374	1,22,147	1,34,137	1,40,318	1,47,077	1,61,469	1,78,403
Deferred Tax Liabilities	8,402	4,289	3,802	1,537	1,214	1,214	1,214
Total Loans	21,024	18,375	20,398	28,180	24,295	20,296	16,297
Capital Employed	1,37,801	1,44,812	1,58,339	1,70,036	1,72,587	1,82,981	1,95,915
Gross Block	94,725	1,24,267	1,40,786	1,52,874	1,71,366	1,89,366	2,07,366
Less: Accum. Deprn.	26,863	35,570	46,378	57,656	70,186	84,201	98,701
Net Fixed Assets	67,862	88,698	94,408	95,218	1,01,180	1,05,165	1,08,665
Capital WIP	14,035	17,409	10,022	12,331	30,459	30,459	30,459
Total Investments	38,547	15,193	58,740	36,565	30,851	30,851	30,851
Curr. Assets, Loans&Adv.	63,969	73,123	62,649	84,066	78,572	87,133	1,02,457
Inventory	29,932	29,052	29,388	41,297	41,411	38,976	42,415
Account Receivables	23,827	22,994	22,543	23,327	25,033	27,299	29,743
Cash and Bank Balance	1,045	11,811	1,694	2,561	2,585	10,450	18,958
Loans and Advances	9,164	9,266	9,024	16,881	9,544	10,408	11,340
Curr. Liability & Prov.	46,612	49,611	67,480	58,144	68,475	70,627	76,516
Account Payables	17,094	19,053	34,414	20,568	24,358	22,926	24,949
Other Current Liabilities	26,235	27,097	28,915	33,541	39,592	43,177	47,042
Provisions	3,284	3,461	4,150	4,035	4,525	4,525	4,525
Net Current Assets	17,357	23,512	-4,831	25,923	10,098	16,506	25,941
Appl. of Funds	1,37,801	1,44,812	1,58,339	1,70,036	1,72,587	1,82,981	1,95,915

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)							
EPS	2,667	3,355	3,012	1,578	1,814	3,574	4,194
Cash EPS	4,571	5,672	5,702	4,420	4,769	6,880	7,614
BV/Share	25,560	28,808	31,636	33,094	34,688	38,082	42,076
FCF per share	-1,676	-1,126	8,191	-5,384	-1,261	2,997	3,018
DPS	60	65	150	150	175	180	200
Payout (%)	2.7	2.3	5.0	9.5	9.6	5.0	4.8
Valuation (x)							
P/E	35.1	27.9	31.1	59.3	51.6	26.2	22.3
P/BV	3.7	3.2	3.0	2.8	2.7	2.5	2.2
EV/Sales	2.4	2.4	2.2	2.0	1.7	1.5	1.3
EV/EBITDA	16.4	16.3	12.1	18.8	16.2	10.9	9.6
Dividend Yield (%)	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Return Ratios (%)							
RoE	11.0	12.3	10.0	4.9	5.4	9.8	10.5
RoCE	10.6	12.7	10.0	5.3	5.9	9.6	10.2
ROIC	13.2	15.0	14.1	6.0	7.2	13.8	15.3
Working Capital Ratios							
Fixed Asset Turnover (x)	1.7	1.3	1.1	1.3	1.3	1.3	1.3
Asset Turnover (x)	1.2	1.1	1.0	1.1	1.3	1.4	1.4
Working Cap. Turnover (Days)	37	26	-15	44	12	9	9
Leverage Ratio (x)							
Current Ratio	1.4	1.5	0.9	1.4	1.1	1.2	1.3
Interest Cover Ratio	5.6	4.8	6.6	3.3	3.6	8.3	11.5
Net Debt:Equity (x)	-0.2	-0.1	-0.3	-0.1	-0.1	-0.1	-0.2

Consolidated - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
INR m							
OP/(Loss) before Tax	16,522	14,343	17,368	9,079	10,697	20,262	23,772
Depreciation	8,076	9,823	11,408	12,051	12,531	14,014	14,501
Interest & Finance Charges	2,673	2,928	2,747	2,538	3,190	2,453	2,013
Direct Taxes Paid	-4,156	-4,418	-5,168	-2,135	-3,278	-5,106	-5,991
(Inc)/Dec in WC	-7,844	2,285	18,222	-25,088	6,357	1,457	-927
Others	-2,742	-2,235	-1,331	-2,226	-1,943	-2,370	-2,572
CF from Operating incl EO	12,529	22,726	43,246	-5,780	27,555	30,709	30,796
(Inc)/Dec in FA	-19,633	-27,499	-8,516	-17,046	-32,901	-18,000	-18,000
Free Cash Flow	-7,105	-4,773	34,730	-22,827	-5,346	12,709	12,796
(Pur)/Sale of Investments	5,960	25,852	-43,336	23,831	6,512	0	0
Others	-189	10	989	-5,097	7,171	2,470	2,572
CF from Investments	-13,862	-1,637	-50,862	1,687	-19,218	-15,530	-15,428
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	3,523	-6,347	1,435	8,199	-3,854	-3,999	-3,999
Interest Paid	-2,702	-2,809	-2,540	-2,361	-2,698	-2,453	-2,013
Dividend Paid	-307	-307	-424	-636	-636	-763	-848
Others	-93	-861	-971	-965	-1,207	0	0
CF from Fin. Activity	422	-10,324	-2,500	4,238	-8,395	-7,215	-6,860
Inc/Dec of Cash	-911	10,766	-10,117	145	-59	7,965	8,509
Opening Balance	1,931	1,019	11,785	2,399	2,544	2,485	10,450
Closing Balance	1,020	11,785	1,668	2,544	2,485	10,450	18,958

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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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