

Estimate change	↔
TP change	↑
Rating change	↔

Bloomberg	MRF IN
Equity Shares (m)	4
M.Cap.(INRb)/(USDb)	581.4 / 7
52-Week Range (INR)	150254 / 81380
1, 6, 12 Rel. Per (%)	3/18/33
12M Avg Val (INR M)	848

Financials & valuations (INR b)

INR b	FY23	FY24E	FY25E
Sales	230.1	246.9	263.4
EBITDA	23.9	43.7	46.0
Adj. PAT	7.7	22.0	22.7
EPS (INR)	1,814	5,183	5,361
EPS Growth (%)	14.9	185.8	3.4
BV/Share (INR)	34,688	39,371	44,212

Ratios

RoE (%)	5.4	14.0	12.8
RoCE (%)	5.9	13.4	12.5
Payout (%)	9.6	9.6	9.7

Valuations

P/E (x)	75.6	26.4	25.6
P/BV (x)	4.0	3.5	3.1
Div. Yield (%)	0.1	0.4	0.4
FCF yield (%)	-0.9	1.8	2.5

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	27.8	27.8	27.9
DII	11.5	11.2	11.4
FII	19.4	19.6	18.2
Others	41.4	41.7	42.5

FII Includes depository receipts

CMP: INR1,37,083 TP: INR1,06,760 (-22%) Sell

Margins likely to have peaked out

Weaker-than-estimated operating performance

- MRF's 3QFY24 operating performance was below est. as higher RM costs and higher expenses dented overall margins, which stood at 17.2% (vs. est.18.2%). We believe margins are likely to have peaked out at current levels and expect stable margins over FY24-26E.
- We lower our FY24E EPS by 4% to factor in weak volume growth across CV/PV category, while maintaining our FY25E EPS estimates. We reiterate our Sell rating on the stock with a TP of INR106,760 (18x Mar'26E EPS) as the stock trades at 25.6x FY25E EPS (above its 10-year LPA), which does not reflect its weakening competitive position and similar return ratios vs. its peers.

Higher 'other expenses' restrict EBITDA margin expansion

- 3QFY24 revenue/EBITDA/Adj. PAT increased ~9%/89%/2x YoY to NR60.5b/INR10.4b/INR5.1b. 9MFY24 revenues/EBITDA/adj. PAT grew 9.5%/1.2x/3.1x YoY.
- Revenue rose 9% YoY (vs. CEAT/APTY revenue growth of 9%/3% YoY) to INR60.5b (est. INR61.4b). Revenue growth is likely to be driven by volume growth.
- Gross margins expanded 8pp YoY (down 70bp QoQ) to 40.1% (vs. est. 40.5% vs. APTY/CEAT gross margins of 46.6%/43.3%).
- Despite higher 'other expenses' (up 70bp YoY/up 60bp QoQ; as a percentage of sales), EBITDA margin came in at 17.2% (up 7.3pp YoY/down 130bp QoQ vs. est. 18.2% vs. CEAT/APTY margins of 14.1%/18.3%). EBITDA grew 89% YoY to INR10.4b (vs. est.11.2b).
- Adj. PAT grew 2x YoY to INR5.1b (vs. est. INR5.6b).
- The board has declared a second interim dividend of INR3/share (total dividend for FY24YTD is INR6/share).

Valuation and view

- MRF's competitive positioning in the sector has weakened over the past few years, evident in the dilution of pricing power in the PCR and TBR segments. This, coupled with the impact of the planned capex, is expected to constrain the expansion in return ratios. We expect MRF's return ratios to see a relatively lower uptick vs. peers over the next two years as its RoE is expected to reach 12.6% by FY26E (vs. APTY/CEAT estimated at 13.9%/17.3%).
- The stock is currently trading at 25.6x FY25E EPS above its 10-year LPA, despite its weakening competitive position and similar capital efficiency as peers. Hence, we reiterate our Sell rating on the stock with a TP of INR1,06,760 (valuing at 18x Mar-26E EPS).

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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

Standalone - Quarterly Earning Model

(INR Million)

Y/E March	FY23				FY24E				FY23	FY24E	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE
Net Sales	55,989	57,190	55,349	57,254	63,233	60,876	60,478	62,282	2,25,782	2,46,868	61,438
YoY Change (%)	35.6	18.4	14.6	10.1	12.9	6.4	9.3	8.8	18.9	9.3	11.0
Total Expenditure	51,207	52,517	49,863	48,823	52,091	49,589	50,084	51,417	2,02,409	2,03,180	50,230
EBITDA	4,783	4,673	5,486	8,431	11,142	11,286	10,394	10,865	23,373	43,688	11,208
Margins (%)	8.5	8.2	9.9	14.7	17.6	18.5	17.2	17.4	10.4	17.7	18.2
Depreciation	2,969	3,083	3,149	3,285	3,317	3,500	3,591	3,620	12,486	13,984	3,650
Interest	635	704	802	839	780	749	776	747	2,981	2,843	760
Other Income	341	764	700	678	739	696	766	764	2,482	2,921	650
PBT before EO expense	1,519	1,650	2,235	4,985	7,783	7,734	6,792	7,262	10,389	29,783	7,448
Extra-Ord expense	0	0	0	-803	0	0	0	0	-803	0	0
PBT	1,519	1,650	2,235	5,788	7,783	7,734	6,792	7,262	11,192	29,783	7,448
Tax	395	410	543	1,682	1,969	2,015	1,712	1,953	3,030	7,650	1,892
Rate (%)	26.0	24.9	24.3	29.1	25.3	26.1	25.2	26.9	27.1	25.7	25.4
Reported PAT	1,123	1,240	1,692	4,106	5,814	5,719	5,080	5,309	8,162	22,133	5,556
Adj PAT	1,123	1,240	1,692	3,537	5,814	5,719	5,080	5,309	7,576	22,133	5,556
YoY Change (%)	-30.4	-32.4	16.0	125.6	417.6	361.3	200.2	50.1	17.0	192.1	228.4
Margins (%)	2.0	2.2	3.1	6.2	9.2	9.4	8.4	8.5	3.4	9.0	9.0

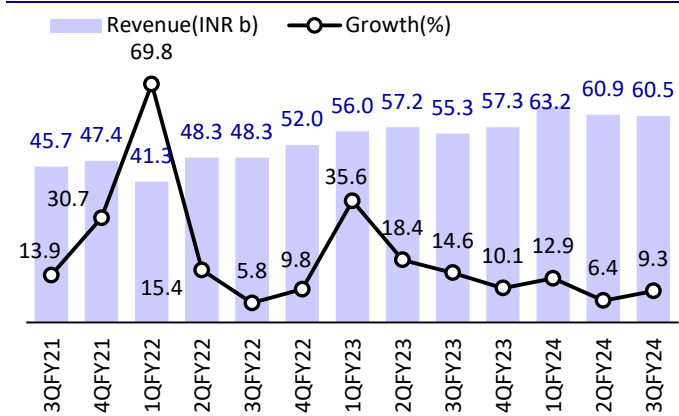
Key Performance Indicators

RM Cost(% of sales)	68.5	70.3	67.9	63.0	61.2	59.2	59.9	60.0	67.4	60.1	59.5
Staff Cost(% of sales)	6.5	6.8	7.3	7.0	6.5	7.1	7.2	7.1	6.9	7.0	7.1
Other costs(% of sales)	16.4	14.7	15.0	15.3	14.7	15.1	15.7	15.5	15.3	15.3	15.2
Gross Margin(%)	31.5	29.7	32.1	37.0	38.8	40.8	40.1	40.0	100.0	100.0	40.5
EBITDA Margin(%)	8.5	8.2	9.9	14.7	17.6	18.5	17.2	17.4	10.4	17.7	18.2

E: MOFSL Estimates

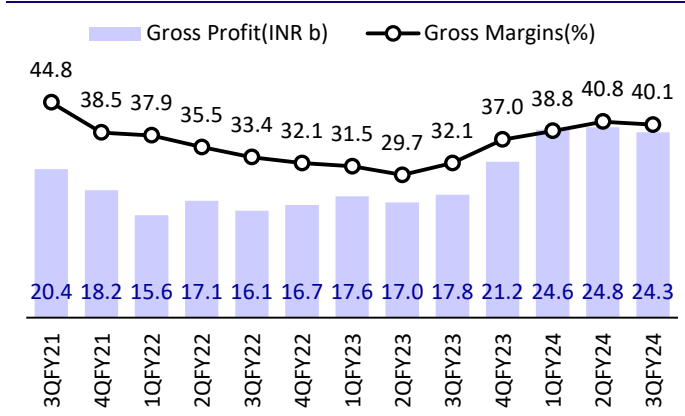
Key exhibits

Exhibit 1: Revenue trend



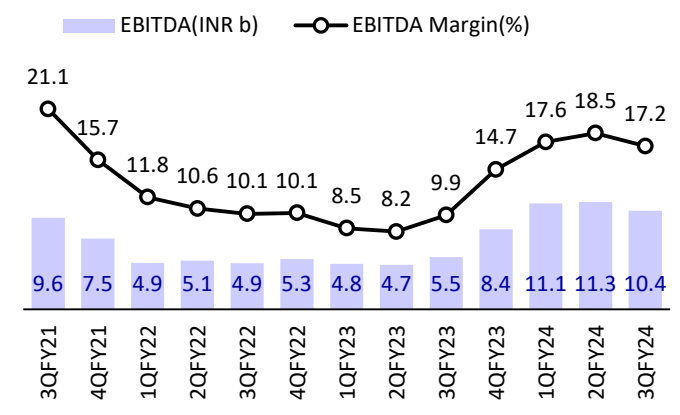
Source: MOFSL, Company

Exhibit 2: Trend in gross margin



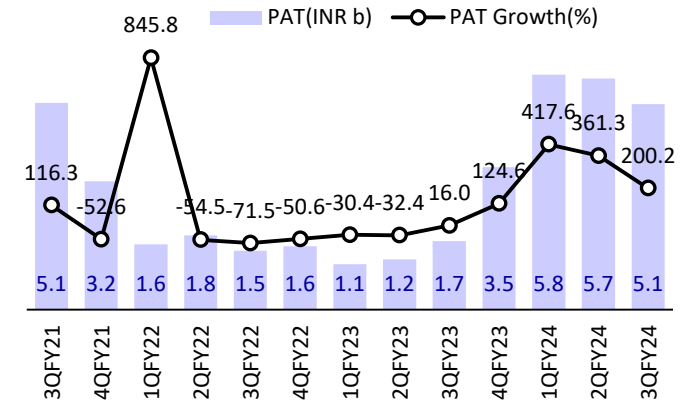
Source: MOFSL, Company

Exhibit 3: EBITDA and EBITDA margin trend



Source: MOFSL, Company

Exhibit 4: PAT and PAT growth trend



Source: MOFSL, Company

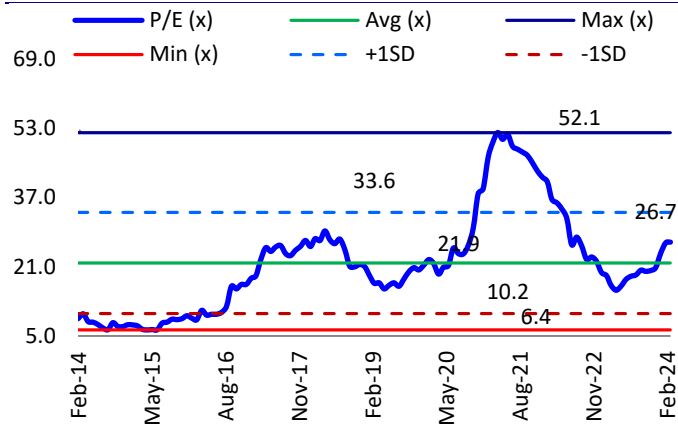
Valuation and view

- 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 such as 2W and PVs, resulting in the dilution of MRF’s competitive positioning. Moreover, MRF’s 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.
- EBITDA margin seems to have peaked out:** MRF’s competitive positioning within the sector has weakened over the past few years, evident in the dilution of pricing power in the PCR and TBR segments. Given that commodity cycle seems to have bottomed out, we anticipate that margins peaked in Q2 and foresee MRF maintaining stable margins over FY24-26E, contingent upon input costs remaining at their current low levels.
- Return ratios to stay under pressure:** We expect a ~7% revenue CAGR over FY24-26E, 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 FY23-26E. We expect a muted ~6% CAGR in EBITDA over FY24-26 and margins to remain stable in this period at 17.5%. PAT is expected to see a ~7% CAGR over FY24-26. We expect MRF’s return ratios to see a relatively lower uptick vs. peers over the next two years as its RoE is expected to reach 12.6% by FY26E (vs. APTY/CEAT estimated at 13.9%/17.3%).
- Steep valuations do not factor in changing competitive dynamics; maintain Sell:** We tweak our FY24E EPS by 4% to factor in weak volume growth across CV/PV category, while maintaining our FY25E EPS estimates. The stock currently trades at 25.6x FY25E EPS, above its 10-year LPA, which does not reflect its weakening competitive position and similar capital efficiency as its peers. We reiterate our Sell rating on the stock with a TP of INR1,06,760/share.

Exhibit 5: Revised forecast (Consol)

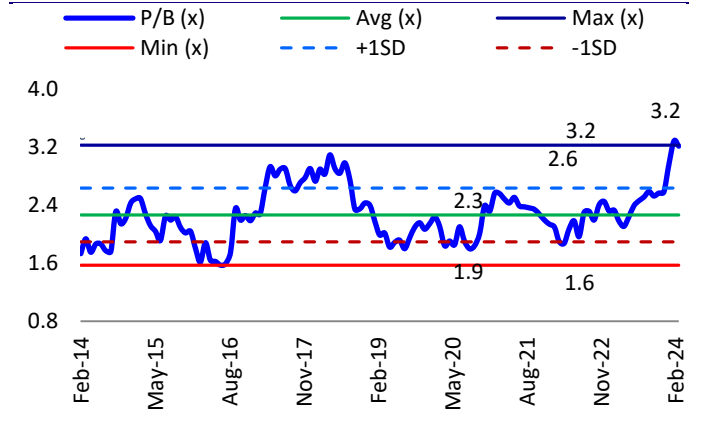
(INR M)	FY24E			FY25E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	2,46,868	2,53,388	-2.6	2,63,370	2,70,398	-2.6
EBITDA	43,688	45,389	-3.7	46,016	46,443	-0.9
EBITDA (%)	17.7	17.9	-20bp	17.5	17.2	30bp
Adj. PAT	21,977	22,836	-3.8	22,730	22,730	0.0
EPS (INR)	5183	5386	-3.8	5361	5361	0.0

Exhibit 6: One-year forward P/E



Source: MOFSL, Company

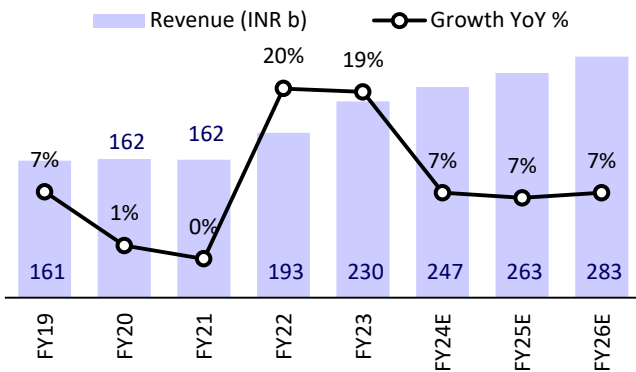
Exhibit 7: One-year forward P/B band



Source: MOFSL, Company

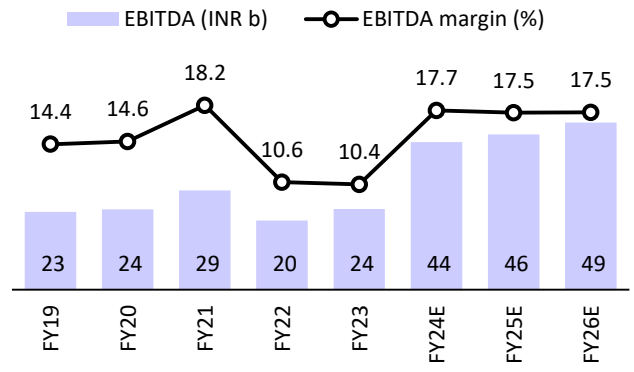
Story in charts

Exhibit 8: Revenue and growth trend



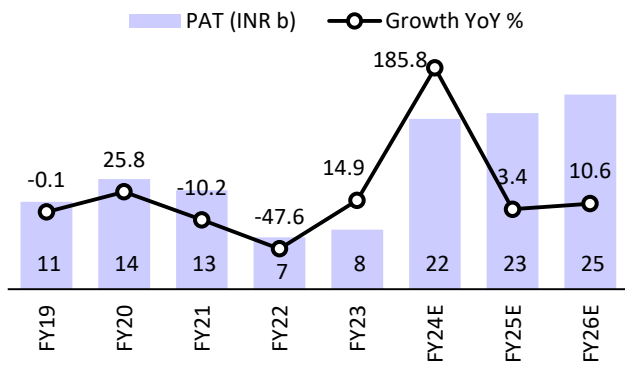
Source: MOFSL, Company

Exhibit 9: Trend in EBITDA



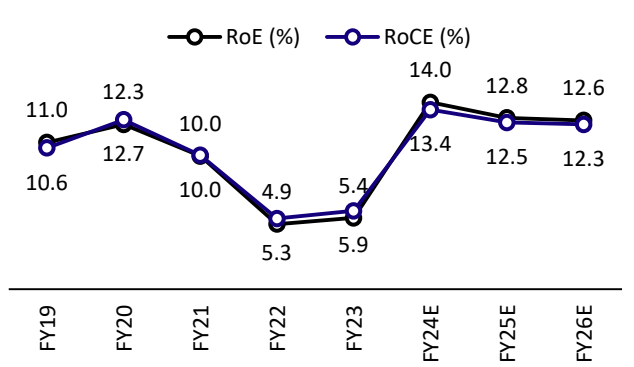
Source: MOFSL, Company

Exhibit 10: Trend in PAT



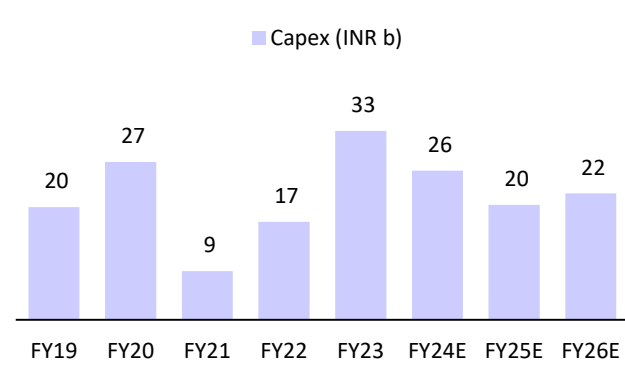
Source: MOFSL, Company

Exhibit 11: Trend in capital efficiency



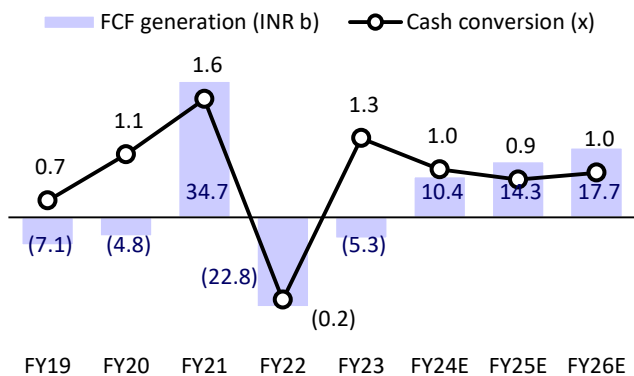
Source: MOFSL, Company

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	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	1,60,625	1,62,394	1,61,632	1,93,167	2,30,085	2,46,868	2,63,370	2,82,591
Change (%)	7.4	1.1	-0.5	19.5	19.1	7.3	6.7	7.3
EBITDA	23,054	23,740	29,423	20,498	23,891	43,688	46,016	49,466
EBITDA Margin (%)	14.4	14.6	18.2	10.6	10.4	17.7	17.5	17.5
Depreciation	8,076	9,823	11,408	12,051	12,531	14,028	15,841	17,458
EBIT	14,978	13,917	18,016	8,447	11,361	29,660	30,175	32,007
EBIT Margin (%)	9.3	8.6	11.1	4.4	4.9	12.0	11.5	11.3
Int. and Finance Charges	2,673	2,928	2,747	2,538	3,190	3,052	2,914	2,910
Other Income	4,217	3,354	2,099	3,170	2,527	2,965	3,249	4,649
PBT bef. EO Exp.	16,522	14,343	17,368	9,079	10,697	29,573	30,510	33,746
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	16,522	14,343	17,368	9,079	10,697	29,573	30,510	33,746
Tax Rate (%)	31.6	0.8	26.5	26.3	28.1	25.7	25.5	25.5
Reported PAT	11,306	14,226	12,771	6,692	7,690	21,977	22,730	25,141
Adjusted PAT	11,306	14,226	12,771	6,692	7,690	21,977	22,730	25,141
Change (%)	-0.1	25.8	-10.2	-47.6	14.9	185.8	3.4	10.6

Consolidated - Balance Sheet

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	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	1,66,891	1,87,416	2,10,267
Net Worth	1,08,374	1,22,147	1,34,137	1,40,318	1,47,077	1,66,934	1,87,459	2,10,310
Deferred Tax Liabilities	8,402	4,289	3,802	1,537	1,214	1,214	1,214	1,214
Total Loans	21,024	18,375	20,398	28,180	24,295	22,295	22,295	22,295
Capital Employed	1,37,801	1,44,812	1,58,339	1,70,036	1,72,587	1,90,444	2,10,969	2,33,820
Gross Block	94,725	1,24,267	1,40,786	1,52,874	1,69,729	1,95,729	2,15,729	2,37,729
Less: Accum. Deprn.	26,863	35,570	46,378	57,656	68,549	82,577	98,419	1,15,877
Net Fixed Assets	67,862	88,698	94,408	95,218	1,01,180	1,13,152	1,17,311	1,21,852
Capital WIP	14,035	17,409	10,022	12,331	30,459	30,459	30,459	30,459
Total Investments	38,547	15,193	58,740	36,565	30,851	30,851	30,851	30,851
Curr. Assets, Loans&Adv.	63,969	73,123	62,649	84,066	78,572	85,254	1,07,204	1,30,636
Inventory	29,932	29,052	29,388	41,297	41,411	36,568	39,119	41,958
Account Receivables	23,827	22,994	22,543	23,327	25,033	28,407	32,470	34,840
Cash and Bank Balance	1,045	11,811	1,694	2,561	2,585	8,781	21,183	38,354
Loans and Advances	9,164	9,266	9,024	16,881	9,544	11,498	14,431	15,484
Curr. Liability & Prov.	46,612	49,611	67,480	58,144	68,475	69,271	74,855	79,977
Account Payables	17,094	19,053	34,414	20,568	24,358	22,266	25,011	26,825
Other Current Liabilities	26,235	27,097	28,915	33,541	39,592	42,480	45,320	48,627
Provisions	3,284	3,461	4,150	4,035	4,525	4,525	4,525	4,525
Net Current Assets	17,357	23,512	-4,831	25,923	10,098	15,983	32,349	50,658
Appl. of Funds	1,37,801	1,44,812	1,58,339	1,70,036	1,72,587	1,90,444	2,10,969	2,33,820

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	2,667	3,355	3,012	1,578	1,814	5,183	5,361	5,929
Cash EPS	4,571	5,672	5,702	4,420	4,769	8,492	9,097	10,047
BV/Share	25,560	28,808	31,636	33,094	34,688	39,371	44,212	49,601
FCF per share	-1,676	-1,126	8,191	-5,384	-1,261	2,453	3,366	4,180
DPS	60	65	150	150	175	500	520	540
Payout (%)	2.7	2.3	5.0	9.5	9.6	9.6	9.7	9.1
Valuation (x)								
P/E	51.4	40.8	45.5	86.8	75.6	26.4	25.6	23.1
P/BV	5.4	4.8	4.3	4.1	4.0	3.5	3.1	2.8
EV/Sales	3.5	3.5	3.3	3.0	2.5	2.3	2.1	1.9
EV/EBITDA	24.4	24.1	18.4	27.8	23.9	12.9	12.0	10.8
Dividend Yield (%)	0.0	0.0	0.1	0.1	0.1	0.4	0.4	0.4
Return Ratios (%)								
RoE	11.0	12.3	10.0	4.9	5.4	14.0	12.8	12.6
RoCE	10.6	12.7	10.0	5.3	5.9	13.4	12.5	12.3
ROIC	13.2	15.0	14.1	6.0	7.2	19.2	18.1	18.2
Working Capital Ratios								
Fixed Asset Turnover (x)	1.7	1.3	1.1	1.3	1.4	1.3	1.2	1.2
Asset Turnover (x)	1.2	1.1	1.0	1.1	1.3	1.3	1.2	1.2
Working Cap. Turnover (Days)	37	26	-15	44	12	11	15	16

Consolidated - Cash Flow Statement

INR million

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	16,522	14,343	17,368	9,079	10,697	29,573	30,510	33,746
Depreciation	8,076	9,823	11,408	12,051	12,531	14,028	15,841	17,458
Interest & Finance Charges	2,673	2,928	2,747	2,538	3,190	3,052	2,914	2,910
Direct Taxes Paid	-4,156	-4,418	-5,168	-2,135	-3,278	-7,596	-7,780	-8,605
(Inc)/Dec in WC	-7,844	2,285	18,222	-25,088	6,357	311	-3,964	-1,139
Others	-2,742	-2,235	-1,331	-2,226	-1,943	-2,965	-3,249	-4,649
CF from Operating incl EO	12,529	22,726	43,246	-5,780	27,555	36,403	34,272	39,721
(Inc)/Dec in FA	-19,633	-27,499	-8,516	-17,046	-32,901	-26,000	-20,000	-22,000
Free Cash Flow	-7,105	-4,773	34,730	-22,827	-5,346	10,403	14,272	17,721
(Pur)/Sale of Investments	5,960	25,852	-43,336	23,831	6,512	0	0	0
Others	-189	10	989	-5,097	7,171	3,065	3,249	4,649
CF from Investments	-13,862	-1,637	-50,862	1,687	-19,218	-22,935	-16,751	-17,351
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	-2,000	0	0
Interest Paid	-2,702	-2,809	-2,540	-2,361	-2,698	-3,052	-2,914	-2,910
Dividend Paid	-307	-307	-424	-636	-636	-2,120	-2,205	-2,290
Others	-93	-861	-971	-965	-1,207	0	0	0
CF from Fin. Activity	422	-10,324	-2,500	4,238	-8,395	-7,172	-5,119	-5,200
Inc/Dec of Cash	-911	10,766	-10,117	145	-59	6,296	12,402	17,170
Opening Balance	1,931	1,019	11,785	2,399	2,544	2,485	8,781	21,183
Closing Balance	1,020	11,785	1,668	2,544	2,485	8,781	21,183	38,354

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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