

FAC 102 PROJECT

EQUITY RESEARCH REPORT

MRF LTD.

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Presented to you by GROUP 16

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WITH LOVE AND HOPES OF US NEVR BEING POTENTIALLY INSOLVENT
WE WERE NEVER ON A BREAK!!

MRF LTD.

SECTOR- AUTO ANCILLARIES - TYRES & RUBBER PRODUCTS

BSE CODE- 500290

NSE SYMBOL- MRF



ABOUT MRF

Background:

MRF Limited started its journey in 1946 as a small balloon manufacturing unit in Chennai, Tamil Nadu. By 1952, it had ventured into tread rubber production and took the leap into full-fledged tyre manufacturing in 1961. Over the years, it has grown into a household name in India and is now the country's largest tyre manufacturer, earning its place among the top tyre companies worldwide.

What They Do:

MRF is primarily known for its tyres, but its operations extend beyond that. The company manufactures tyres for a wide range of vehicles, from two-wheelers and passenger cars to heavy trucks and farm equipment. It also produces industrial conveyor belts and paints under the "MRF Vapocure" brand and runs a motorsports division, which reinforces its focus on performance and reliability. Funkschool, part of MRF also is a big player in the toys industry

How MRF Stands Out:

Excellence in Manufacturing: MRF has invested heavily in advanced manufacturing technology to deliver durable, high-performance products.

Unmatched Distribution: MRF has an extensive network of dealers and service outlets across India, ensuring its products are easily available. Its global footprint spans over 65 countries.

Brand Power: MRF has built a strong, reliable brand image over the years through impactful advertising and partnerships, especially in sports and motorsports.

COMPANY DATA	
Market cap	₹ 52,131 Cr.
Enterprise value	₹ 54,995 Cr.
Dividend yield	0.16%
52 Week high	1,51,445
52 Week low	1,10,61
Face value	10

What Makes MRF a Leader:

1. **Market Share:** MRF dominates India's Tyre industry, holding the largest market share.
2. **Steady Growth:** Consistent growth in revenue reflects its strong market presence and operational efficiency.
3. **Profit Margins:** Higher margins compared to competitors demonstrate their ability to add value and control costs.

HERE ARE SOME LESSONS WE LEARNT FROM MRF THAT MADE IT THE LEADING PLAYER IN THE MARKET-

1. **MOVE UP THE VALUE CHAIN-** MRF'S FOUNDER STARTED BUSINESS BY SELLING BALLOONS ON ROADS. HE MOVED UP THE VALUE CHAIN BY PRODUCING THE BALLOONS HIMSELF TO EARN MORE PROFIT.
2. **MOVE UP TO DIFFERENT INDUSTRY-** FROM JUST SELLING BALLOONS, MRF'S FOUNDER MOVED TO THE TYRE INDUSTRY.
3. **COMPETITION IS UNIVERSAL-** IN THE BEGINNING YEARS OF MRF, IT GAINED ITS MARKET SHARE KEEPING IN MIND THE EXISTING COMPETITION.
4. **SELL WHEREVER POSSIBLE-** IN THE 1960S WHEN THERE WAS MINIMAL TYRE DEMAND IN INDIA, MRF STARTED EXPORTING ITS PRODUCTS AND BECAME THE FIRST COMPANY TO EXPORT TYRES FROM INDIA.
5. **STRATEGIC TYE UPS-** MRF'S FOUNDER, K.M. MAMMEN MAPPILLAI KNEW THEY LACKED TECHNICAL KNOWLEDGE SO THEY MADE STRATEGIC TYE UPS WITH VARIOUS ENTERPRISES WHICH BENEFITTED THEM BOTH.
6. **DIVERSIFY BUSINESS-** APART FROM TYRES, MRF EXPANDED INTO THE TOY BUSINESS, CONVEYER BELT MANUFACTURING, INDUSTRIAL PAINT MAKING ETC.
7. **BRAND MARKETING-** TO MAKE MRF KNOWN TO EACH AND EVERY PERSON IN INDIA, MRF TIED UP WITH THE BIGGEST CRICKET PLAYERS IN INDIA TO PRINT THEIR LOGO ON THEIR BATS.
8. **NO STOCK SPLIT-** MRF HAS NOT SPLIT ITS STOCK OR OFFERED BONUS SHARES SINCE THE LAST 50 YEARS SO THAT THERE IS NO MAJOR FLUCTUATION FROM BUYING AND SELLING IN THE MARKET ON THE DAILY BASIS.

MACRO ECONOMIC FACTORS

MRF Limited experienced significant expansion in financial results during FY 2023-24. In Q2FY24 (July-September 2023), the company saw a 351.76% increase in consolidated net profit to ₹586.66 crore, up from ₹129.86 crore in the same quarter of the prior year. The second quarter of fiscal year 2024 generated a revenue of ₹6,217.10 crore, showing a 6.7% increase from last year but a 3.46% decrease from the previous quarter

Key factors highlighted in the management discussion and analysis (MD&A) that we believe are important for the substantial increase in MRF's profits despite a minimal change in revenue.

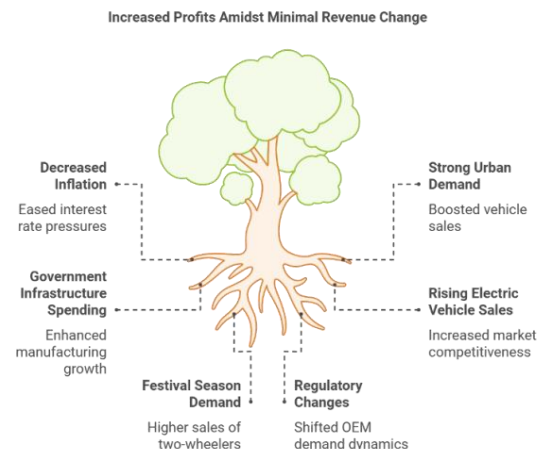
India's booming economy gave MRF a big boost. As cities grew and people bought more vehicles, the company's tyre sales zoomed ahead. Cars, SUVs, and motorcycles were flying off the shelves, and MRF was right there to supply their wheels.

Cheaper materials and lower prices helped MRF save money and earn more. Big infrastructure projects meant more trucks needed tough tyres, which was another win for the company.

Not everything was smooth sailing. Farmers weren't buying tractors like before, which hurt sales in rural areas. Selling tyres outside India was tricky because of global trade problems.

MRF didn't just sit around. They got smart and created special tyres for electric vehicles and motorcycles. They adapted to what customers wanted and kept ahead of the competition.

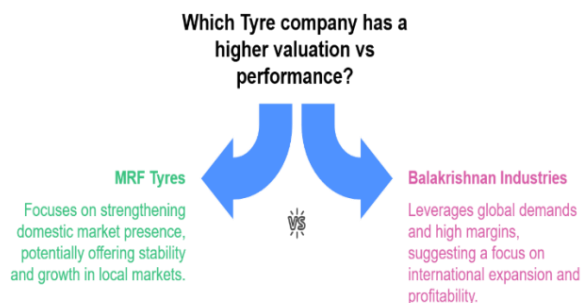
Even when things got tough, MRF stayed strong. By understanding the Indian market and being innovative, they kept their spot as a top tyre company.



Effects of the aforementioned

While there has been a humble growth in revenues, profits of the company increased by more than 300%, due to the fall in cost of raw materials, increased income within the country which led to a boost in car sales. Recovery in rural demand due to a good monsoon. The onset of electric vehicles was also crucial for the increase in profits.

The company reported a sharp fall in its net profit for the second quarter of financial year 2024-25 (Q2FY25). MRF reported a 20.4 per cent year-on-year decline in net profit for the September quarter, posting Rs 455 crore, compared to Rs 572 crore in the same period last year. However, the profit figure was slightly above the average analyst estimate of Rs 434 crore.

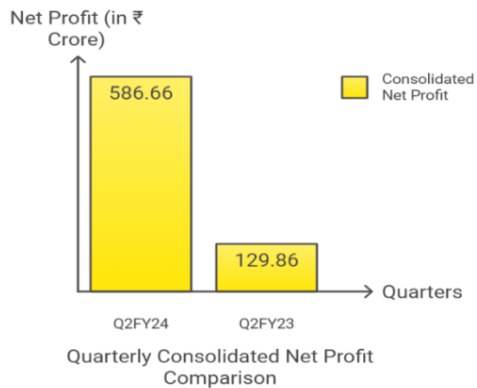


We know that MRF is the biggest player in the Tyre market but while researching we observed **Balakrishnan Industries** having a higher valuation. This is because they produce commercial Tyres and use economies of scale to boost their value. This also tells us that having a higher valuation doesn't always guarantee better market

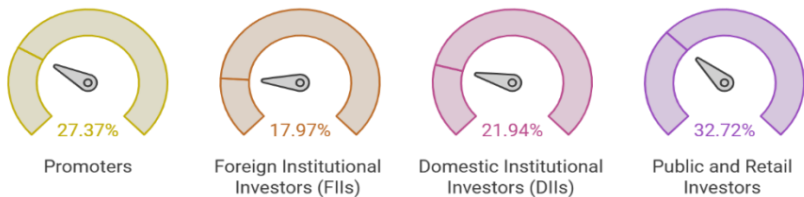
MRF built its first Formula 3 car in 1997.^[1] MRF in collaboration with Maruti established the Formula Maruti racing, a single-seater, open wheel class motorsport racing event for race cars made in India.

FINANCIAL RESULTS AND ANALYSIS

The seasonal profits of MRF Limited saw a dramatic increase from Q2 FY23 to Q2 FY24. The company's net profit for Q2 FY24 surged by an impressive **351% year-on-year**, reaching ₹572 crore compared to ₹129.86 crore in the same quarter the previous year. This exceptional growth was driven by factors such as improved operational efficiency, a significant expansion of EBITDA margins from 8.2% to 18.5%, and reduced raw material costs

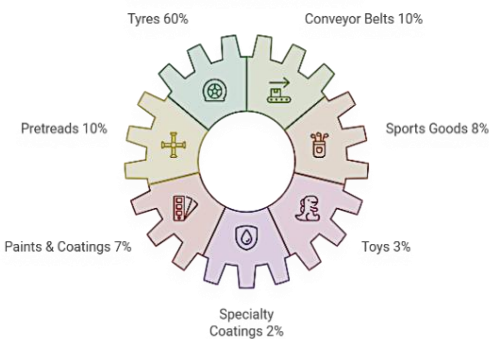


Equity Ownership Distribution



MRF Went public in 1962. They had Initial equity 2.46cr. MRF did offer bonus shares in 1970 and 1975, with ratios of 1:2 and 3:10, respectively. However, since then, MRF has not issued any bonus shares or split its stock.

Revenue Distribution Overview

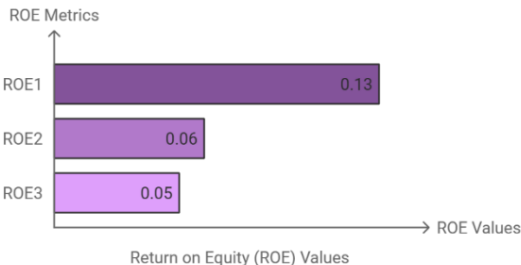
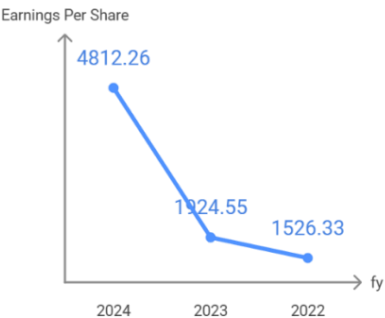


Revenue distribution by segments

In FY 2024, MRF distributed two interim dividends of ₹3 each and a final dividend of ₹194 per share, totalling ₹200 for the fiscal year. This corresponds to a 2000% dividend on the stock's face value of ₹10.

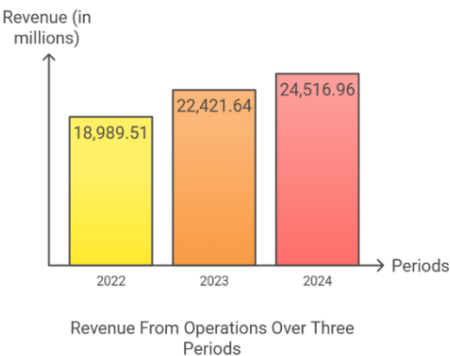
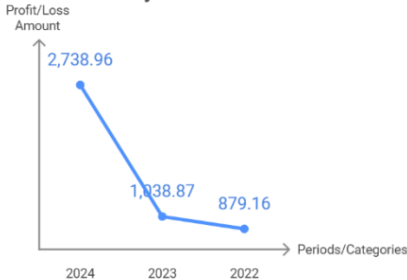
MRF has a consistent practice of issuing small interim dividends along with larger final or special payouts. For example, in FY 2023, it paid interim dividends of ₹3 per share and a final dividend of ₹169. Similarly, in FY 2022, interim dividends were ₹3 per share, while the final dividend was

Earnings Per Share Comparison



GRAPHS DEPICTING CHANGE IN EPS, EBITDA, ROE, REVENUE IN THE LAST THREE YEARS ARE GIVEN HERE. WE CAN SEE A GRADUAL INCREASE FROM 2022 TO 2023 AND THEN A JUMP IN 2024. REASONS FOR THE SAME HAVE BEEN EXPLAINED IN THE PROJECT.

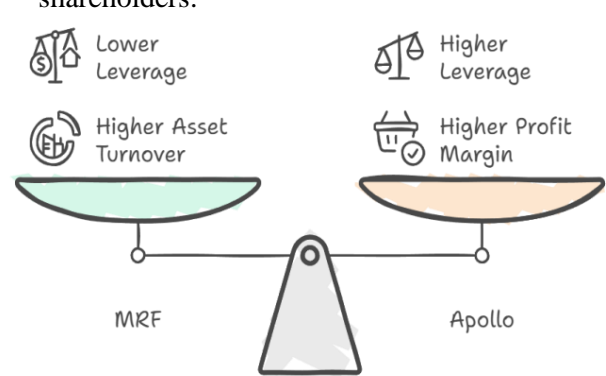
Profit/Loss Before Exceptional, Extraordinary Items and Tax



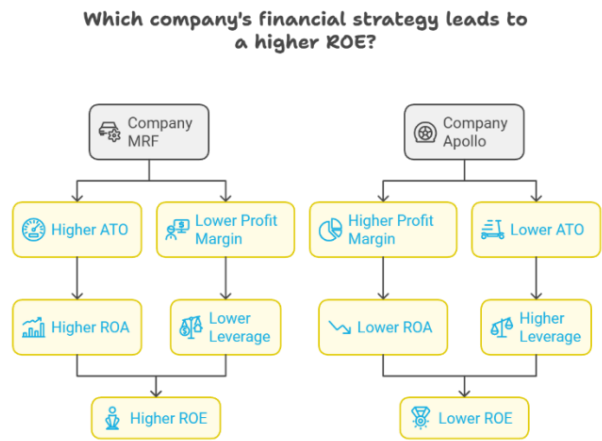
RATIO ANALYSIS AND DUPONT ANALYSIS

DU PONT ANALYSIS FOR MRF VS APOLLO (LEAD COMPETITOR)

- From the DuPont analysis, it is evident that **Return on Assets (ROA)** is determined by the combination of **Profit Margin** and **Asset Turnover**. When analyzing the last two years, we see that Apollo has a higher **Profit Margin** compared to MRF. This indicates that Apollo is able to generate greater profitability from its sales, showcasing its efficiency in converting revenue into profit.
- On the other hand, MRF has a significantly higher **Asset Turnover** than Apollo, which highlights that MRF achieves a larger volume of sales relative to the value of its assets. This suggests that MRF is more efficient in utilizing its assets to drive sales growth.
- Despite Apollo’s strategy of using higher leverage to boost its **Return on Equity (ROE)**, MRF’s **ROE** remains higher. This demonstrates that MRF has achieved superior growth and performance overall, relying on operational efficiency rather than excessive leverage to deliver better returns for its shareholders.



Comparing ROE Drivers of MRF and Apollo



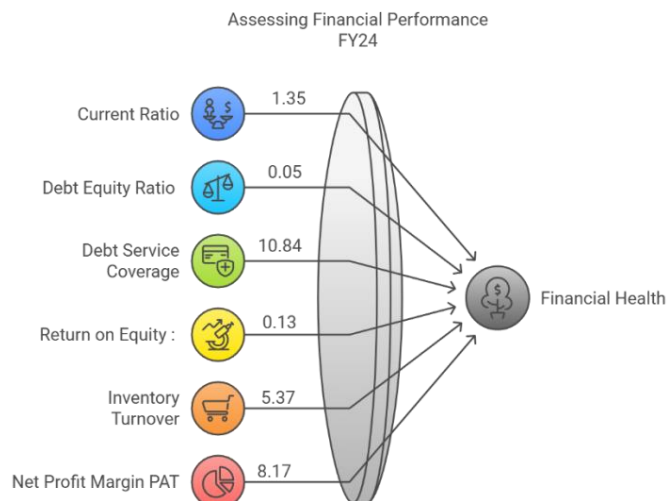
RATIO	EFFECT
Debt Service Coverage Ratio:	This significantly increased from 4.7 to 10.1, driven by a rise in EBITDA and a reduction in loan repayments during the current year.
Return on Equity (ROE):	ROE experienced a substantial growth of approximately 129%, primarily due to the increase in Profit After Tax for the current year.
Return on Capital Employed (ROCE):	ROCE improved this year as a result of a rise in EBIT during the current financial period.
Net Capital Turnover Ratio:	This ratio declined due to a reduction in Working Capital during the current year.

OUTLOOK AND CONCLUSION

In the MDA, MRF predicted muted growth in commercial vehicles and a moderate growth in passenger vehicles. Two-wheeler segment is likely to show significant growth due to expected increase in rural demand owing to good monsoon. Since there is a possible increase in capex in auto companies, tyre companies could also see higher levels of production in years to come.

In the MDA, MRF revealed no significant changes in ratios except interest coverage, debt equity, operating profit margin, net profit margin and return on net worth. Some other ratios which we felt had a significant change are highlighted in the previous page. The change in ratios were observed mainly due to rise in EBITDA and PAT.

Macroeconomic factors such as declining inflation, onset of EVs, monsoon, lower cost of raw materials and international factors affected MRF's performance mostly in a positive manner.



Total Shareholders' Funds	16,440.65	14,508.87	13,777.27
Total Non-Current Liabilities	2,433.14	2,163.68	2,069.42
Short Term Borrowings	906.7	1,153.50	1,186.51
Total Current Liabilities	7,541.00	7,351.20	6,846.71
Total Capital And Liabilities	26,414.79	24,023.75	22,693.40
Total Non-Current Assets	16,212.96	15,062.59	12,749.19
Total Current Assets	10,201.83	8,961.16	9,944.21
Contingent Liabilities	3,184.87	3,669.21	3,897.42

The Balance Sheet showed a sudden jump in contingent liabilities in in mar-2022 which remained constant in the next years. We couldn't find any reason for this jump in their annual report or online. We think there could be a possible reason which was not revealed to the public.

Profit and loss

Total Revenue	24,986.14	22,826.44	19,304.43
Total Expenses	22,247.18	21,787.57	18,425.27
Profit/Loss for The Period	2,040.95	816.23	647.34
Equity Dividend Rate (%)	2,000.00	1,750.00	1,500.00
Basic EPS (Rs.)	4,812.26	1,924.56	1,526.34
Equity Share Dividend	74.22	63.62	63.6

A significant jump in earnings per share is observed due to increase in profits and no change in equity. MRF also has been providing regular and hefty dividend payments.

WE SUGGEST THE INVESTORS TO THEREFORE, **HOLD** THE STOCK, given the current scenarios and financial climate the company is in and its performance in it. The Company has shown growth despite the challenges faced and has adapted to newer strategies of foster the growth it has by entering newer market segments and better serving its existent clientele.

MRF started as a balloon company by Mr. KM Mammen Mappillai, seeing the potential for rubber products in India and the opportunity of utilizing Chennai and Kerala's high-grade rubber for the same. The company gradually became one of the most trusted names for Tyres in India and started taking a share of the global market. It has come a long way, to being the largest tyre manufacturer in the Indian Subcontinent and the 6th largest in the whole world. MRF is also known to have diversified into various other but related segments, such as rubber products and toys, their largest brand being 'Funkskool'. MRF also gained brand value by venturing into motorsports, both creating a market for itself and allowing it to be seen as a first mover into risk. It's India's first F3 car manufacturer. Its legacy has moved from just rubber to segments that rely on it, such as racing. The annual MRF MMSC FMSCI Indian National Car Racing Championship is a flagship event that not only contributes to finding India's faces international racing but also creates long standing relationships with international players such as Pirelli. Under the leadership of its current CEO Rahul Mammen Mappillai, MRF has been able to sustain and grow despite the restrictions faced during the COVID 19 Pandemic and the Red Sea Crisis. It has taken a hit but has proved to be a strong business entity that can adapt, grow and be trusted by people as it has been for the last 7 decades.

CREDITS AND CITATIONS

1. Special Thanks To Group Number 19- Apollo Tyres Ltd.
2. <https://www.mrftyres.com/> (Main Company Website)
3. <https://www.napkin.ai/> (Graphics)
4. <https://www.moneycontrol.com/> (Data and documents)
5. <https://www.screener.in/> (Data and insights)
6. <https://www.business-standard.com/> (insights and public information)
7. <https://www.youtube.com/> (Learning Resource)

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