

# Equity Research Report: MRF

## Business Overview

MRF Limited, established in 1960, is a prominent multinational tire manufacturer based in India. It produces a wide range of rubber products including tires, tubes, flaps, and tread rubber, serving segments such as passenger vehicles, trucks, buses, off-the-road equipment, and two-wheelers. With a strong international presence, MRF exports to regions including Asia, Africa, and Latin America, contributing significantly to its revenue. The company is known for its extensive product portfolio featuring popular tire brands and advanced services like computerized nitrogen inflation and wheel alignment. Its focus on research and development has led to innovative, sustainable tires with low rolling resistance, supporting environmental goals. MRF's competitive edge stems from its brand reputation, technological innovation, and broad distribution network. The company continues to expand through product innovation, capacity building, and strategic initiatives to maintain its leadership in a dynamic industry.

## Market Position

The key financials of MRF Tyres for FY2022 show a revenue increase of 19.4% to Rs. 19,316.72 crore, driven by higher domestic and export sales, with exports rising 33%. However, the cost of goods sold grew faster at 35.5%, reaching Rs. 13,900.31 crore, which compressed profit margins. Gross profit declined slightly to Rs. 5,416.41 crore, with gross margin decreasing from 36.6% to 28%. Operating profit halved to Rs. 908.96 crore, and net profit fell by 47.6% to Rs. 669.24 crore, reflecting margin pressures and rising expenses. Earnings per share dropped significantly from Rs. 3,011.15 to Rs. 1,577.97. The company's balance sheet remains strong with total assets of Rs. 23,059.74 crore and shareholders' equity of Rs. 14,031.75 crore. Despite healthy asset management, negative operating cash flow indicates operational challenges that need addressing for sustained growth.

## Operating Results

The valuation of MRF Tyres reflects a company with a strong asset base and stable financial position despite margin pressures. With total assets of Rs. 23,059.74 crore and shareholders' equity of Rs. 14,031.75 crore, the firm demonstrates solid net worth and asset management. The debt levels are manageable, with long-term debt at Rs. 1,168.08 crore and a low debt-to-equity ratio of approximately 0.08, indicating conservative leverage. The tangible book value per share of Rs. 33,034.80 underscores substantial intrinsic value. Although profitability declined due to rising costs and margin compression, the company's robust asset base and equity position suggest resilience and growth potential. These factors support a positive valuation outlook, emphasizing the importance of operational efficiencies to sustain long-term value creation.

## Summarization

FY (crore mn)	2022	2021	2020
Revenue	19,316.72	16,163.19	16,239.36
Net Income	669.24	1,277.07	1,422.57
EBIT	908.96	1,861.77	1,416
EBIT Margin	4.71	11.52	8.72
Net Income Margin	3.46	7.90	8.76
Effective Tax Rate	26.29	26.47	0.81
Interest Coverage	inf	inf	inf
EBITDA	2,114.01	3,002.54	2,398.32
EPS	1,577.97	3,011.15	3,354.21
Shares	0.42	0.42	0.42

## FinRobot

Team9 - UOA

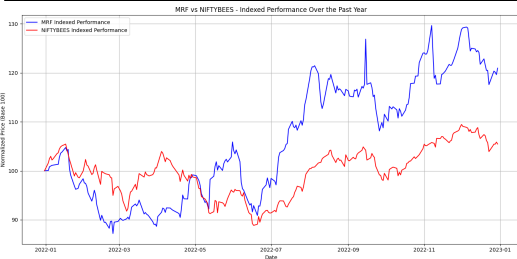
GitHub:ashreim-UPL/FinRobot-Langgraph.git

Report date: 2022-03-31

## Key data

Rating	Sell (score: 3.70)
Currency	INR
Closing Price	143965.00
Market Cap (Millions)	0.06
52 Week Price Range	102124.05 - 148075.00
BVPS	N/A

## Share Performance



## PE & EPS

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## Risk Assessment

Risk assessment for MRF Tyres indicates that the company faces significant vulnerabilities stemming from raw material price volatility, supply chain disruptions, and macroeconomic factors. The tire manufacturing industry relies heavily on commodities such as rubber and petrochemicals, whose prices are highly susceptible to global market fluctuations. During FY 2022-23, escalating raw material costs severely impacted profit margins, with net profit margins declining from 7.74% to 3.35%. Although the company employs strategies such as diversified product offerings, strategic inventory management, and diversified sourcing to mitigate this risk, these measures provide limited protection against sustained commodity price increases. Supply chain disruptions pose another critical risk, intensified by geopolitical tensions, notably the Ukraine conflict, and pandemic-related restrictions, especially in China. These disruptions can cause delays, increase costs, and lead to inventory shortages, adversely affecting production and sales. Despite internal controls, periodic physical verifications, and diversified sourcing strategies, the company remains vulnerable to large-scale or prolonged supply chain bottlenecks, which can significantly impair operational efficiency and profitability. The broader economic environment further influences MRF Tyres' performance. Rising interest rates and inflationary pressures can dampen consumer demand, particularly in the automotive sector, which is highly cyclical. Increased borrowing costs and reduced consumer confidence may lead to decreased vehicle and tire sales. The company's declining margins and return on net worth during FY 2022-23 reflect this macroeconomic impact. While diversified product portfolios and long-term customer relationships offer some resilience, these protections are limited against widespread economic downturns. Overall, MRF Tyres operates within a sector inherently exposed to commodity price swings, geopolitical risks, and economic cycles. The company's internal controls and strategic initiatives provide only partial mitigation against these external shocks. Given the industry's cyclical nature and dependence on volatile raw materials and global supply chains, the company's future profitability and stability remain susceptible to external disruptions. Stakeholders should consider these risks carefully, recognizing that existing protections may not fully shield the company from significant or prolonged adverse events.

## Competitors Analysis

Competitors analysis for MRF Tyres indicates that the company faces significant challenges across multiple financial dimensions compared to its peers. The company's profitability, as reflected in EBITDA margins, appears to be under pressure, with a declining trend suggesting deteriorating operational efficiency and rising costs. This weak profitability is further emphasized by lower gross margins relative to competitors, highlighting operational struggles and cost management issues. The company's valuation metrics, particularly EV/EBITDA, seem elevated or increasing, implying that the market may overvalue its earnings potential despite declining margins and profitability, which raises concerns about overvaluation and market skepticism. Cash flow efficiency, measured through free cash flow conversion, is also weaker than that of competitors, indicating difficulties in translating earnings into cash, possibly due to high capital expenditures or operational inefficiencies. This weak cash flow performance undermines the company's ability to fund growth or service debt effectively. Additionally, the company's return on invested capital is notably lower than that of its rivals, signaling poor capital allocation and diminishing efficiency in generating returns from invested resources. Revenue growth trends further compound concerns, with stagnation or decline over recent years suggesting shrinking market share or industry headwinds. This lack of growth diminishes investor confidence and aligns with the company's overall negative outlook. The combination of declining profitability, weak cash flow, poor capital utilization, and stagnant revenue paints a picture of a company struggling to sustain its market position and financial health. Compared to competitors, MRF Tyres appears less resilient, with financial metrics indicating operational and strategic disadvantages. The market's valuation multiples may not fully reflect these underlying issues, leading to a cautious or negative outlook. Overall, the competitive landscape underscores the need for strategic improvements to reverse these trends and enhance financial stability.