

Equity Research Report: MRF

Business Overview

Company overview: MRF Limited, established in 1946, is a leading Indian multinational tire manufacturer with a strong global presence. The company offers a broad range of rubber products, including tires, tubes, flaps, and tread rubber, serving various vehicle segments such as passenger cars, trucks, buses, two-wheelers, off-the-road vehicles, and specialized applications like military and agricultural equipment. Known for its extensive product portfolio, technological expertise, and customer-centric services like wheel alignment and tubeless repairs, MRF has built a reputation for quality and durability. Its popular tire lines, including MRF PERFINZA, MRF MARKUS, and MRF ZAPPER, are recognized worldwide. The company maintains a robust distribution network and strong relationships with OEMs and aftermarket distributors. Focused on innovation and expansion, MRF continues to invest in R&D;, eco-friendly solutions, and strategic partnerships to sustain growth and strengthen its market position both domestically and internationally.

Market Position

Key financials for MRF Tyres in 2023 show a strong revenue increase of approximately 19.2%, reaching 23,008.50 million dollars, driven by core business growth. Despite rising costs, with the cost of revenue up 22%, gross profit margins slightly compressed from 28.0% to 26.1%. Operating income grew significantly by 28.5% to 1,168.47 million dollars, and net income after taxes increased by 15% to 769 million dollars, indicating effective operational leverage. Earnings per share excluding extraordinary items rose 15.1% to 1,813.10 dollars, reflecting improved profitability per share. The company's balance sheet remains solid, with total assets of 24,369.41 million dollars, manageable debt levels, and increased shareholders' equity. Cash flow remained strong at 2,755.47 million dollars, though high capital expenditures highlight ongoing investments and liquidity management challenges. Overall, MRF Tyres demonstrates robust growth and profitability, supported by prudent asset management.

Operating Results

The valuation of MRF Tyres reflects its strong revenue growth and profitability improvements, supported by a solid asset base. With total assets of approximately \$24.37 billion and shareholders' equity of \$14.71 billion, the company demonstrates a robust financial position. The manageable long-term debt of \$1.33 billion and stable liquidity, indicated by current assets exceeding current liabilities, underpin its financial stability. Despite rising costs impacting margins, operating income and net profit have increased significantly, enhancing earnings per share. The company's prudent asset management and retained earnings growth suggest sustained operational strength. However, slight liquidity tightening warrants attention to maintain financial health. Overall, MRF Tyres' valuation indicates a financially sound company with strong growth prospects, supported by efficient asset utilization and moderate leverage.

Summarization

FY (crore mn)	2023	2022	2021	2020
Revenue	23,008.50	19,316.72	16,163.19	16,239.36
Net Income	768.96	669.24	1,277.07	1,422.57
EBIT	1,168.47	908.96	1,861.77	1,416
EBIT Margin	5.08	4.71	11.52	8.72
Net Income Margin	3.34	3.46	7.90	8.76
Effective Tax Rate	28.12	26.29	26.47	0.81
Interest Coverage	inf	inf	inf	inf
EBITDA	2,421.52	2,114.01	3,002.54	2,398.32
EPS	1,813.10	1,577.97	3,011.15	3,354.21
Shares	0.42	0.42	0.42	0.42

FinRobot

Team9 - UOA

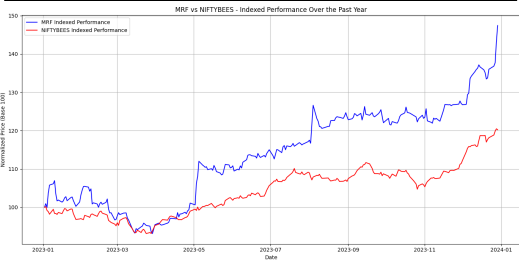
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Report date: 2023-03-31

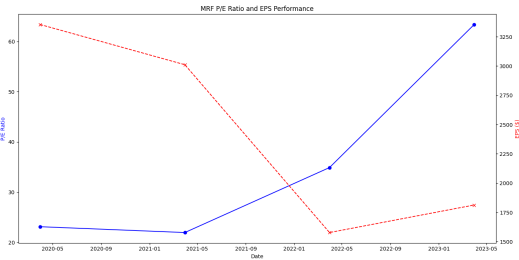
Key data

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



Risk Assessment

Risk assessment for MRF Tyres indicates that the company operates within a moderately risky environment primarily due to industry-specific challenges. The highly competitive nature of the tire industry exposes MRF to intense rivalry among global and domestic players, which can lead to price wars, shrinking profit margins, and increased marketing costs. The mature market status and presence of numerous competitors heighten the risk of market share erosion, especially as regulatory standards for safety and environmental impact become more stringent, potentially increasing compliance costs and operational complexities. Additionally, the cyclical nature of the automotive and transportation sectors significantly influences MRF's performance. Fluctuations in vehicle production, economic downturns, or shifts in consumer preferences can cause substantial declines in tire demand, impacting revenue and profitability. During economic slowdowns, reduced vehicle sales and fleet activity lead to lower tire consumption, making the company's financial results sensitive to macroeconomic conditions. Furthermore, raw material price volatility and supply chain disruptions pose considerable risks. The manufacturing process relies heavily on rubber and other commodities whose prices are affected by global market fluctuations. Sudden increases in raw material costs can squeeze profit margins if the company cannot swiftly pass these costs onto customers. Supply chain disruptions, whether due to geopolitical tensions, natural disasters, or logistical challenges, could impair production schedules and delivery timelines, affecting customer satisfaction and operational efficiency. Although MRF's diversification across various tire segments and value-added services provides some resilience, the dependency on raw materials remains a vulnerability. Overall, MRF's risk profile is shaped by industry competitiveness, economic cyclicality, and raw material volatility. The company's strategic diversification, long-term customer relationships, and focus on innovation help mitigate some risks. However, external macroeconomic factors and commodity price swings necessitate vigilant risk management practices. To sustain its market position and financial stability, MRF must continuously adapt to industry dynamics, regulatory changes, and supply chain challenges. While the company demonstrates resilience, ongoing efforts to enhance operational efficiencies and diversify supply sources are essential to navigate the inherent risks of its operating environment.

Competitors Analysis

Competitors analysis for MRF Tyres indicates that the company faces significant challenges across multiple financial dimensions. The company's profitability, as reflected in EBITDA margins, appears modest and potentially declining, suggesting difficulties in operational efficiency and cost management. When compared to its competitors, MRF's margins are generally lower or on par, highlighting competitive pressures and possible pricing constraints. The valuation metric EV/EBITDA has remained high or increased, implying that the market may perceive the company as overvalued relative to its earnings, especially given its weaker profitability metrics. This overvaluation could be driven by market optimism rather than solid fundamentals. Free cash flow conversion efficiency is another concern, with indications that MRF is less effective at translating earnings into cash flows compared to its peers, raising questions about liquidity and financial flexibility. The company's gross margins, which measure control over production costs, show signs of stagnation or decline, hinting at rising input costs or intensified competitive pricing strategies. When evaluating return on invested capital, MRF demonstrates low or declining ROIC, often below its cost of capital, signaling poor utilization of capital and limited value creation. Revenue growth trends are weak or inconsistent, reflecting challenges in expanding market share or product demand, which aligns with the company's overall subdued valuation and "Sell" rating. The narrow 52-week price range and relatively low market capitalization further suggest investor caution and limited confidence in near-term growth prospects. Overall, MRF's financial health appears strained, with margins, cash flow efficiency, and return metrics under pressure. The valuation multiples, particularly EV/EBITDA, may overstate the company's true earning capacity, indicating potential overvaluation. These factors collectively justify a cautious outlook, emphasizing the need for strategic improvements to enhance operational efficiency and growth. The competitive landscape underscores the importance of addressing cost structures, boosting profitability, and innovating to regain market confidence and improve financial metrics.