

Estimate change



TP change



Rating change



CMP: INR1,40,392 TP: INR1,08,000 (-23%)

Sell

Strong performance relative to peers

Rising input costs likely to be the key monitorable

- MRF reported a strong beat on all fronts in 1QFY25, driven by healthy revenue growth of ~12% YoY (vs. ~8%/4% for CEAT/APTY). Despite strong revenue growth, PAT declined ~3% YoY due to commodity inflation and higher depreciation.
- We raise our FY25E/FY26E EPS by 4%/9% to factor in better-than-expected revenue growth and cost efficiencies. The stock trades at ~29.5x/25.2x FY25E/26E EPS (higher than APTY's 19x/15.2x and CEAT's 17.2x/13.7x), which does not align with its weakening competitive position. Maintain Sell with a TP of INR108,000, based on 19x Jun'26E EPS.

Lower employee cost offsets RM inflation resulting in margin beat

- Standalone revenue/EBITDA grew ~12%/2% YoY to INR70.8b/INR11.4b (est. INR63.9b/INR9.7b). Adj. PAT declined 3% YoY to INR5.6b (est. INR4.5b).
- Gross margin came in line at 37.2%, down 150bp YoY/160bp QoQ at 37.3%, led by an increase in RM costs.
- However, lower-than-expected employee and other operational expenses led to an EBITDA margin beat at 16.1% (est. 15.2%), down 150bp YoY/10bp QoQ.
- The company recognized a provision of INR300.7m in 1QFY25 toward the levy on Extended Producer Responsibility (EPR), which was accounted in other expenses.
- The healthy operating performance was partially offset by higher interest costs and depreciation, resulting in adj. PAT beat.

Valuation and view

- MRF's competitive positioning in the sector has weakened over the past few years, which reflects in the dilution of pricing power in the PCR and TBR segments. This, coupled with the impact of the planned capex, should limit the expansion in return ratios. We expect MRF's return ratios to dilute over the next two years as its RoE is expected to reach 12.1% by FY26E (vs. ~13.5% in FY24).
- The stock is currently trading at 29.5x/25.2x FY25E/FY26E EPS above its 10-year LPA of ~23x, despite its weakening competitive position and similar capital efficiency as peers. Hence, we maintain our Sell rating on the stock with a TP of INR1,08,000 (valuing at 19x June-26E EPS).

Bloomberg	MRF IN
Equity Shares (m)	4
M.Cap.(INRb)/(USD)	595.4 / 7.1
52-Week Range (INR)	151445 / 104751
1, 6, 12 Rel. Per (%)	10/-13/7
12M Avg Val (INR M)	1193

Financials & valuations (INR b)

INR b	FY24	FY25E	FY26E
Sales	251.7	279.4	305.1
EBITDA	43.0	42.8	47.7
Adj. PAT	21.2	20.2	23.6
EPS (INR)	4,990	4,753	5,557
EPS Growth (%)	175.2	-4.8	16.9
BV/Share (INR)	39,394	43,627	48,584

Ratios

RoE (%)	13.5	11.4	12.1
RoCE (%)	13.3	11.5	11.9
Payout (%)	4.1	10.9	10.8

Valuations

P/E (x)	28.1	29.5	25.2
P/BV (x)	3.6	3.2	2.9
Div. Yield (%)	0.1	0.4	0.4
FCF yield (%)	1.9	2.9	2.8

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	27.8	27.8	27.8
DII	10.7	10.6	11.7
FII	19.1	19.7	18.8
Others	42.4	41.9	41.7

FII Includes depository receipts

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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	FY24				FY25E				FY24	FY25E	FY25E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE
Net Sales	63,233	60,876	60,478	62,151	70,778	66,963	66,526	69,958	2,46,737	2,74,225	63,865
YoY Change (%)	12.9	6.4	9.3	8.6	11.9	10.0	10.0	12.6	9.3	11.1	1.0
Total Expenditure	52,091	49,589	50,084	52,096	59,400	56,852	56,766	59,056	2,04,595	2,32,074	54,189
EBITDA	11,142	11,286	10,394	10,055	11,378	10,111	9,759	10,902	42,142	42,151	9,676
Margins (%)	17.6	18.5	17.2	16.2	16.1	15.1	14.7	15.6	17.1	15.4	15.2
Depreciation	3,317	3,500	3,591	3,842	3,943	3,950	3,960	3,983	14,250	15,835	3,750
Interest	780	749	776	858	754	725	710	702	3,163	2,891	680
Other Income	739	696	766	924	827	820	810	900	3,125	3,358	840
PBT before EO expense	7,783	7,734	6,792	6,279	7,509	6,256	5,899	7,118	27,853	26,782	6,086
Extra-Ord expense	0	0	0	1,200	0	0	0	0	464	0	0
PBT	7,783	7,734	6,792	5,079	7,509	6,256	5,899	7,118	27,389	26,782	6,086
Tax	1,969	2,015	1,712	1,284	1,883	1,595	1,504	1,847	6,980	6,829	1,552
Rate (%)	25.3	26.1	25.2	25.3	25.1	25.5	25.5	25.9	25.5	25.5	25.5
Reported PAT	5,814	5,719	5,080	3,795	5,625	4,661	4,395	5,271	20,409	19,953	4,534
Adj PAT	5,814	5,719	5,080	4,692	5,625	4,661	4,395	5,271	20,755	19,953	4,534
YoY Change (%)	417.6	361.3	200.2	32.7	-3.3	-18.5	-13.5	12.3	173.9	-3.9	-22.0
Margins (%)	9.2	9.4	8.4	7.5	7.9	7.0	6.6	7.5	8.4	7.3	7.1

E: MOFSL Estimates

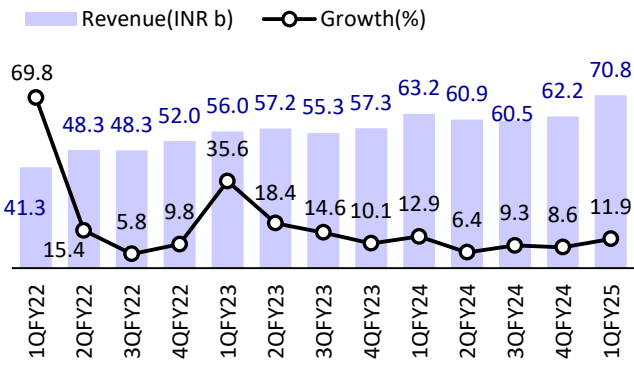
Key Performance Indicators

RM Cost(% of sales)	61.2	59.2	59.9	61.1	62.7	63.0	63.0	62.9	60.3	62.9	62.6
Staff Cost(% of sales)	6.5	7.1	7.2	7.5	6.3	6.7	6.8	6.7	7.1	6.6	7.0
Other costs(% of sales)	14.7	15.1	15.7	15.2	14.9	15.2	15.5	14.8	15.5	15.1	15.2
Gross Margin (%)	38.8	40.8	40.1	38.9	37.3	37.0	37.0	37.1	39.7	37.1	37.4
EBITDA Margin (%)	17.6	18.5	17.2	16.2	16.1	15.1	14.7	15.6	17.1	15.4	15.2

E: MOFSL Estimates

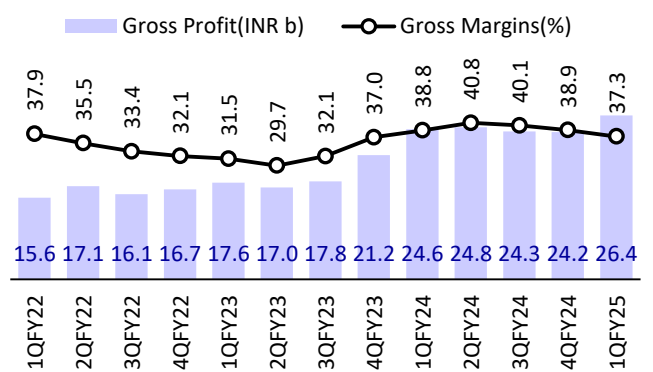
Key exhibits

Exhibit 1: Revenue trend



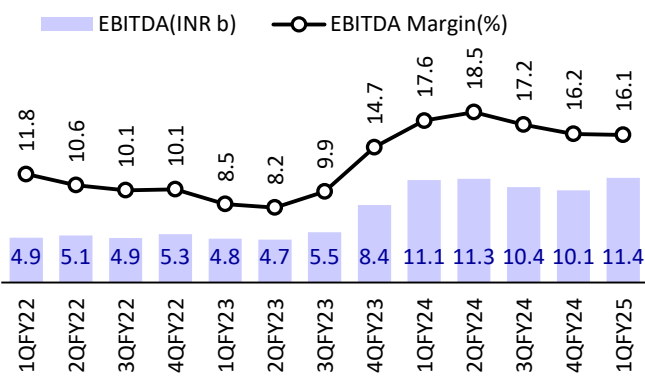
Source: MOFSL, Company

Exhibit 2: Trend in gross margin



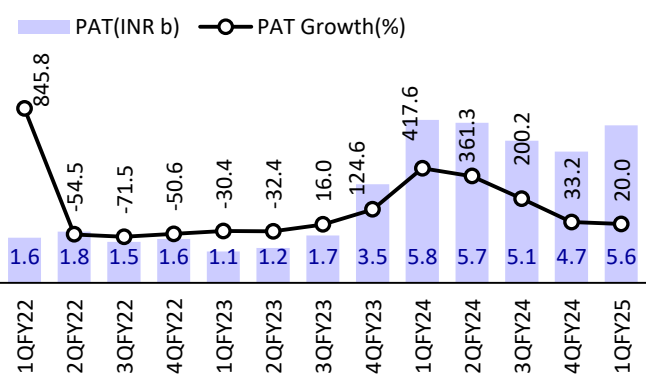
Source: MOFSL, Company

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 like 2Ws 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.
- **EBITDA margin seems to have peaked:** MRF’s competitive positioning within the sector has weakened over the past few years, which reflects in the dilution of pricing power in the PCR and TBR segments. Given that the commodity cycle seems to have bottomed out, we expect margins in 1Q to have peaked out and expect MRF to post 150bp margin decline over FY24-26E. Moreover, the Ministry of Environment, Forest and Climate Change notified Regulations on EPR for waste tyres applicable to tyre manufacturers. Against this, the company has recognized the provision for 2022-23, amounting to INR463.6m as of Mar’24. We believe this expense would be recurring in nature and hence would be further detrimental to profitability.
- **Return ratios to stay under pressure:** We expect a ~10% revenue CAGR over FY24-26E, led by stable OE demand and expected recovery in the replacement

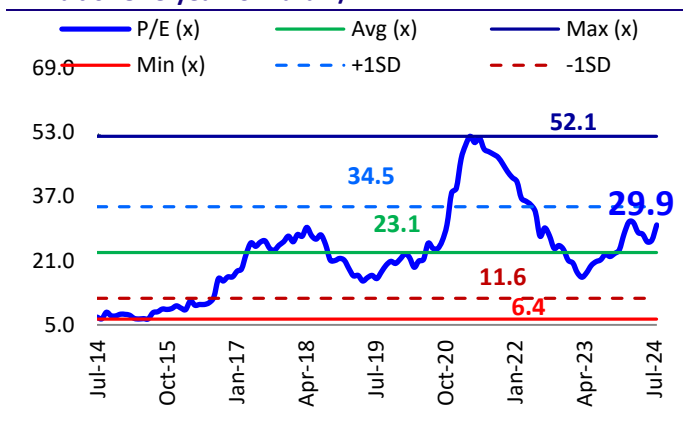
segment. However, the recent capex, leading to lower capacity utilization, will keep margin and RoE in check over FY24-26E. We expect a muted ~5% CAGR in EBITDA over FY24-26 and margins to decline to ~15.6%. PAT is expected to see a ~6% CAGR over FY24-26. This, coupled with the impact of the planned capex, should limit the expansion in return ratios. We expect MRF's return ratios to dilute over the next two years as its RoE is expected to reach 12.1% by FY26E (vs. ~13.5% in FY24).

- **Steep valuations do not factor in changing competitive dynamics; maintain Sell:** We raise our FY25E/FY26E EPS by 4%/9% to factor in better than expected revenue growth and cost efficiencies. The stock currently trades at 29.5x/25.2x FY25/26E EPS, above its 10-year LPA, which does not reflect its weakening competitive position and similar capital efficiency as its peers. Maintain Sell with a TP of INR108,000/share (based on 19x June-26E EPS).

Exhibit 5: Revised forecast (Consol)

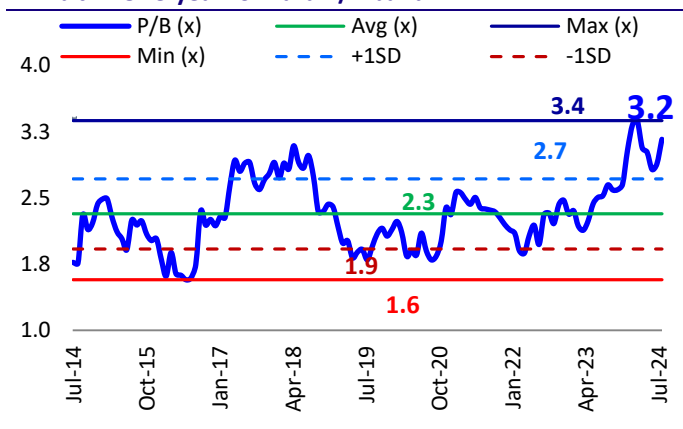
(INR M)	FY25E			FY26E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	2,79,431	2,64,625	5.6	3,05,089	2,84,344	7.3
EBITDA	42,791	40,951	4.5	47,701	44,011	8.4
EBITDA (%)	15.3	15.5	-20bp	15.6	15.5	20bp
Adj. PAT	20,152	19,431	3.7	23,562	21,681	8.7
EPS (INR)	4753	4583	3.7	5557	5113	8.7

Exhibit 6: One-year forward P/E



Source: MOFSL, Company

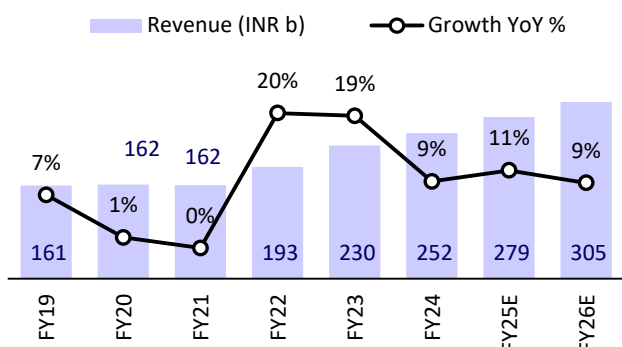
Exhibit 7: One-year forward P/B band



Source: MOFSL, Company

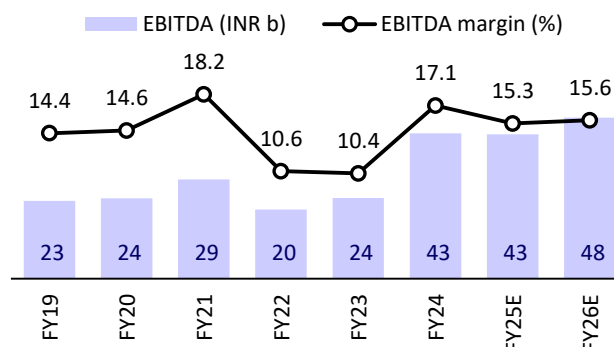
Story in charts

Exhibit 8: Revenue and growth trend



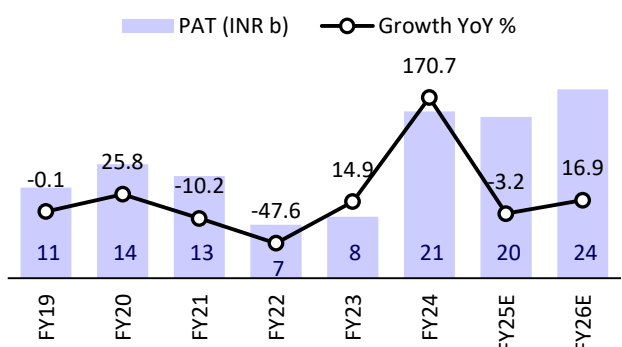
Source: MOFSL, Company

Exhibit 9: Trend in EBITDA



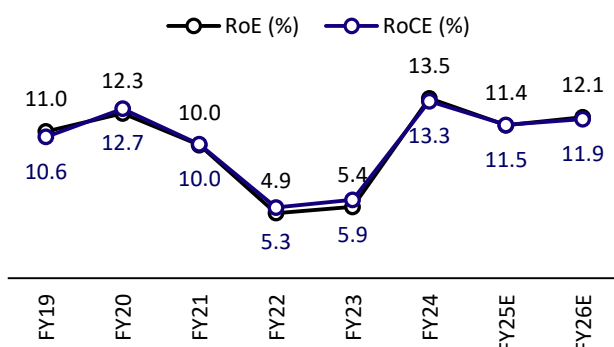
Source: MOFSL, Company

Exhibit 10: Trend in PAT



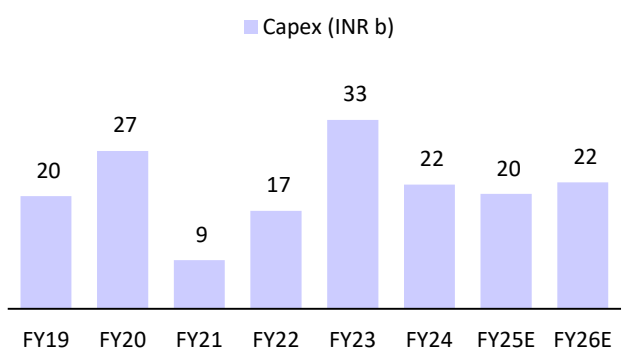
Source: MOFSL, Company

Exhibit 11: Trend in capital efficiency



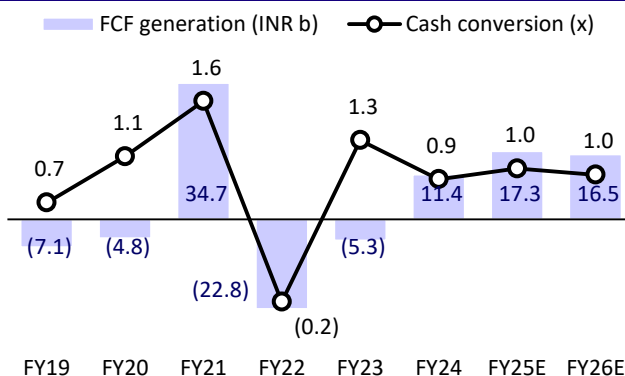
Source: MOFSL, Company

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 m							
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	1,60,625	1,62,394	1,61,632	1,93,167	2,30,085	2,51,692	2,79,431	3,05,089
Change (%)	7.4	1.1	-0.5	19.5	19.1	9.4	11.0	9.2
EBITDA	23,054	23,740	29,423	20,498	23,891	42,999	42,791	47,701
EBITDA Margin (%)	14.4	14.6	18.2	10.6	10.4	17.1	15.3	15.6
Depreciation	8,076	9,823	11,408	12,051	12,531	14,300	15,885	16,981
EBIT	14,978	13,917	18,016	8,447	11,361	28,700	26,905	30,721
EBIT Margin (%)	9.3	8.6	11.1	4.4	4.9	11.4	9.6	10.1
Int. and Finance Charges	2,673	2,928	2,747	2,538	3,190	3,530	3,258	2,947
Other Income	4,217	3,354	2,099	3,170	2,527	3,168	3,402	3,853
PBT bef. EO Exp.	16,522	14,343	17,368	9,079	10,697	28,338	27,049	31,627
EO Items	0	0	0	0	0	-464	0	0
PBT after EO Exp.	16,522	14,343	17,368	9,079	10,697	27,874	27,049	31,627
Tax Rate (%)	31.6	0.8	26.5	26.3	28.1	25.3	25.5	25.5
Reported PAT	11,306	14,226	12,771	6,692	7,690	20,812	20,152	23,562
Adjusted PAT	11,306	14,226	12,771	6,692	7,690	21,158	20,152	23,562
Change (%)	-0.1	25.8	-10.2	-47.6	14.9	170.7	-3.2	16.9

Consolidated - Balance Sheet

	INR m							
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	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	1,66,988	1,84,934	2,05,952
Net Worth	1,08,374	1,22,147	1,34,137	1,40,318	1,47,077	1,67,030	1,84,977	2,05,995
Deferred Tax Liabilities	8,402	4,289	3,802	1,537	1,214	1,075	1,075	1,075
Total Loans	21,024	18,375	20,398	28,180	24,295	20,751	20,751	20,751
Capital Employed	1,37,801	1,44,812	1,58,339	1,70,036	1,72,587	1,88,858	2,06,804	2,27,822
Gross Block	94,725	1,24,267	1,40,786	1,52,874	1,69,729	1,98,467	2,18,467	2,40,467
Less: Accum. Deprn.	26,863	35,570	46,378	57,656	68,549	78,004	93,890	1,10,870
Net Fixed Assets	67,862	88,698	94,408	95,218	1,01,180	1,20,462	1,24,577	1,29,597
Capital WIP	14,035	17,409	10,022	12,331	30,459	23,845	23,845	23,845
Total Investments	38,547	15,193	58,740	36,565	30,851	33,830	48,830	63,830
Curr. Assets, Loans&Adv.	63,969	73,123	62,649	84,066	78,572	86,749	89,955	97,585
Inventory	29,932	29,052	29,388	41,297	41,411	44,686	42,590	46,324
Account Receivables	23,827	22,994	22,543	23,327	25,033	29,120	32,154	35,106
Cash and Bank Balance	1,045	11,811	1,694	2,561	2,585	3,454	3,727	3,617
Loans and Advances	9,164	9,266	9,024	16,881	9,544	9,490	11,483	12,538
Curr. Liability & Prov.	46,612	49,611	67,480	58,144	68,475	76,029	80,403	87,034
Account Payables	17,094	19,053	34,414	20,568	24,358	26,528	25,933	28,207
Other Current Liabilities	26,235	27,097	28,915	33,541	39,629	42,497	47,465	51,823
Provisions	3,284	3,461	4,150	4,035	4,488	7,004	7,004	7,004
Net Current Assets	17,357	23,512	-4,831	25,923	10,098	10,720	9,552	10,551
Appl. of Funds	1,37,801	1,44,812	1,58,339	1,70,036	1,72,587	1,88,858	2,06,804	2,27,822

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	2,667	3,355	3,012	1,578	1,814	4,990	4,753	5,557
Cash EPS	4,571	5,672	5,702	4,420	4,769	8,363	8,499	9,562
BV/Share	25,560	28,808	31,636	33,094	34,688	39,394	43,627	48,584
FCF per share	-1,676	-1,126	8,191	-5,384	-1,261	2,684	4,088	3,898
DPS	60	65	150	150	175	200	520	600
Payout (%)	2.7	2.3	5.0	9.5	9.6	4.1	10.9	10.8
Valuation (x)								
P/E	52.6	41.8	46.6	88.9	77.4	28.1	29.5	25.2
P/BV	5.5	4.9	4.4	4.2	4.0	3.6	3.2	2.9
EV/Sales	3.6	3.6	3.4	3.0	2.5	2.3	2.0	1.8
EV/EBITDA	25.0	24.7	18.9	28.5	24.5	13.4	13.2	11.5
Dividend Yield (%)	0.0	0.0	0.1	0.1	0.1	0.1	0.4	0.4
Return Ratios (%)								
RoE	11.0	12.3	10.0	4.9	5.4	13.5	11.4	12.1
RoCE	10.6	12.7	10.0	5.3	5.9	13.3	11.5	11.9
ROIC	13.2	15.0	14.1	6.0	7.2	18.1	15.5	17.1
Working Capital Ratios								
Fixed Asset Turnover (x)	1.7	1.3	1.1	1.3	1.4	1.3	1.3	1.3
Asset Turnover (x)	1.2	1.1	1.0	1.1	1.3	1.3	1.4	1.3
Working Cap. Turnover (Days)	37	26	-15	44	12	11	8	8

Consolidated - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	16,522	14,343	17,368	9,079	10,697	27,874	27,049	31,627
Depreciation	8,076	9,823	11,408	12,051	12,531	14,300	15,885	16,981
Interest & Finance Charges	2,673	2,928	2,747	2,538	3,190	3,530	3,258	2,947
Direct Taxes Paid	-4,156	-4,418	-5,168	-2,135	-3,278	-7,222	-6,898	-8,065
(Inc)/Dec in WC	-7,844	2,285	18,222	-25,088	6,357	-3,283	1,442	-1,109
Others	-2,742	-2,235	-1,331	-2,226	-1,943	-2,194	-3,402	-3,853
CF from Operating incl EO	12,529	22,726	43,246	-5,780	27,555	33,005	37,335	38,528
(Inc)/Dec in FA	-19,633	-27,499	-8,516	-17,046	-32,901	-21,623	-20,000	-22,000
Free Cash Flow	-7,105	-4,773	34,730	-22,827	-5,346	11,382	17,335	16,528
(Pur)/Sale of Investments	5,960	25,852	-43,336	23,831	6,512	-1,297	-15,000	-15,000
Others	-189	10	989	-5,097	7,171	-857	3,825	3,853
CF from Investments	-13,862	-1,637	-50,862	1,687	-19,218	-23,777	-31,175	-33,147
Inc/(Dec) in Debt	3,523	-6,347	1,435	8,199	-3,854	-3,526	0	0
Interest Paid	-2,702	-2,809	-2,540	-2,361	-2,698	-2,896	-3,258	-2,947
Dividend Paid	-307	-307	-424	-636	-636	-742	-2,205	-2,544
Others	-93	-861	-971	-965	-1,207	-1,518	0	0
CF from Fin. Activity	422	-10,324	-2,500	4,238	-8,395	-8,682	-5,463	-5,491
Inc/Dec of Cash	-911	10,766	-10,117	145	-59	546	697	-110
Opening Balance	1,931	1,019	11,785	2,399	2,544	2,485	3,031	3,727
Closing Balance	1,020	11,785	1,668	2,544	2,485	3,031	3,727	3,617

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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