

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	MRF IN
Equity Shares (m)	4
M.Cap.(INRb)/(USD\$b)	482.9 / 5.5
52-Week Range (INR)	151445 / 110000
1, 6, 12 Rel. Per (%)	-7/-14/-28
12M Avg Val (INR M)	1196

Financials & valuations (INR b)

INR b	FY25E	FY26E	FY27E
Sales	282.4	308.1	335.8
EBITDA	38.9	43.3	48.2
Adj. PAT	17.3	19.2	22.0
EPS (INR)	4,082	4,533	5,191
EPS Growth (%)	-18.2	11.0	14.5
BV/Share (INR)	43,076	47,109	51,700

Ratios

RoE (%)	9.9	10.1	10.5
RoCE (%)	10.1	10.2	10.6
Payout (%)	9.8	11.0	11.6

Valuations

P/E (x)	27.9	25.2	22.0
P/BV (x)	2.6	2.4	2.2
Div. Yield (%)	0.4	0.4	0.5
FCF yield (%)	2.9	2.8	3.6

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	27.8	27.8	27.8
DII	12.0	11.7	11.5
FII	18.2	18.7	19.4
Others	42.0	41.9	41.4

FII Includes depository receipts

CMP: INR113,858 TP: INR95,500 (-16%) Sell

Prioritizing growth over profitability

Revenue traction better but margin impact higher than peers

- MRF's 3QFY25 result was weak as the margin contracted 280bp QoQ to 11.6% (est. of 13.9%). The company appears to be focusing on recovering its share, which is hurting margins, in the interim. This is also evident in the fact that while its revenue traction is better than peers, its margin impact is higher on a sequential basis.
- We reduce our FY25/FY26 EPS estimates by 8%/10% to factor in the weak performance in 3Q. The stock trades at 25.2x/22x FY26E/FY27E EPS (higher than APTY's 13.7x/11.2x and CEAT's 17.2x/13.4x), which does not align with its weakening competitive position. **Reiterate Sell with a TP of INR95,500, based on 19x Dec'26E EPS.**

EBITDA margin at an eight-quarter low of 11.6%

- Standalone revenue grew ~14% YoY to INR68.8b (in line), but EBITDA/ adj. PAT declined 23%/40% YoY to INR8b/INR3.1b (est. INR9.5b/INR4.1b). Revenue grew ~12% YoY while EBITDA/PAT declined 11%/20% YoY during 9MFY25.
- Higher commodity costs led to a lower gross margin at 33.1% (-700bp YoY/-340bp QoQ; est. 36%).
- This resulted in an EBITDA margin contraction of ~550bp YoY/280bp QoQ to 11.6% (est. 13.9%). Overall, EBITDA dipped 23% YoY to INR8b (est. INR9.5b) during the quarter.
- The company appears to be focusing on recovering its share, which is hurting margins, in the interim. This is also evident in the fact that while its revenue traction is better than peers, its margin impact is higher on a sequential basis.
- Weak operational performance led to a 40% YoY decline in Adj. PAT at INR3.1b (est. INR4.1b).
- The BOD approved an interim dividend of INR3 per share.

Valuation and view

- MRF's competitive positioning in the sector has weakened over the past few years, which is reflected 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 its return ratios. We expect MRF's return ratios to dilute over the next two years as its RoE is expected to reach 10.5% by FY27E (vs. ~13.5% in FY24).
- Valuations at 25.2x/22x FY26E/FY27E EPS appear expensive given its weakening competitive position and similar capital efficiency as peers. **Hence, we reiterate our Sell rating on the stock with a TP of INR95,500 (valuing it at 19x Dec'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 Earnings Model

(INR m)

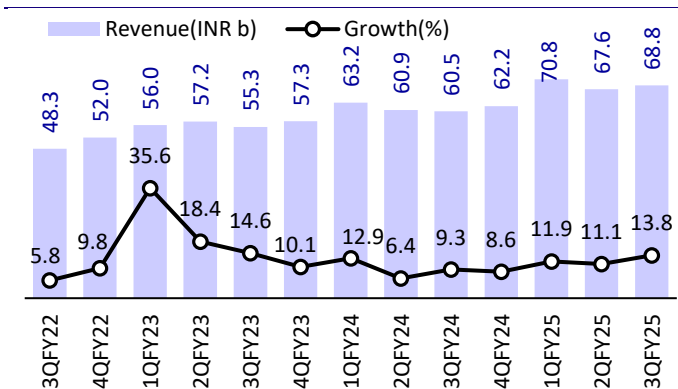
Y/E March	FY24				FY25E				FY24	FY25E	3QE	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	63,233	60,876	60,478	62,151	70,778	67,604	68,832	70,008	2,46,737	2,77,222	68,340	1
YoY Change (%)	12.9	6.4	9.3	8.6	11.9	11.1	13.8	12.6	9.3	12.4	13.0	
Total Expenditure	52,091	49,589	50,084	52,096	59,400	57,869	60,814	60,823	2,04,595	2,38,906	58,809	
EBITDA	11,142	11,286	10,394	10,055	11,378	9,734	8,018	9,184	42,142	38,315	9,531	-16
Margins (%)	17.6	18.5	17.2	16.2	16.1	14.4	11.6	13.1	17.1	13.8	13.9	
Depreciation	3,317	3,500	3,591	3,842	3,943	4,079	4,143	4,151	14,250	16,315	4,100	
Interest	780	749	776	858	754	667	711	717	3,163	2,850	710	
Other Income	739	696	766	924	827	1,121	966	988	3,125	3,902	810	
PBT before EO expense	7,783	7,734	6,792	6,279	7,509	6,109	4,130	5,304	27,853	23,052	5,531	
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	6,109	4,130	5,304	27,389	23,052	5,531	
Tax	1,969	2,015	1,712	1,284	1,883	1,555	1,063	1,377	6,980	5,878	1,410	
Rate (%)	25.3	26.1	25.2	25.3	25.1	25.4	25.7	26.0	25.5	25.5	25.5	
Reported PAT	5,814	5,719	5,080	3,795	5,625	4,554	3,067	3,927	20,409	17,174	4,121	
Adj PAT	5,814	5,719	5,080	4,692	5,625	4,554	3,067	3,927	20,755	17,174	4,121	-26
YoY Change (%)	417.6	361.3	200.2	32.7	-3.3	-20.4	-39.6	-16.3	173.9	-17.3	-18.9	
Margins (%)	9.2	9.4	8.4	7.5	7.9	6.7	4.5	5.6	8.4	6.2	6.0	

E: MOFSL Estimates

Key Performance Indicators	FY24				FY25E				FY24	FY25E	3QE
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
RM Cost(% of sales)	61.2	59.2	59.9	61.1	62.7	63.5	66.9	64.9	60.3	64.5	64.0
Staff Cost(% of sales)	6.5	7.1	7.2	7.5	6.3	6.9	6.6	6.6	7.1	6.6	6.9
Other costs(% of sales)	14.7	15.1	15.7	15.2	14.9	15.2	14.9	15.4	15.5	15.1	15.2
Gross Margin(%)	38.8	40.8	40.1	38.9	37.3	36.5	33.1	35.1	39.7	35.5	36.0
EBITDA Margin(%)	17.6	18.5	17.2	16.2	16.1	14.4	11.6	13.1	17.1	13.8	13.9

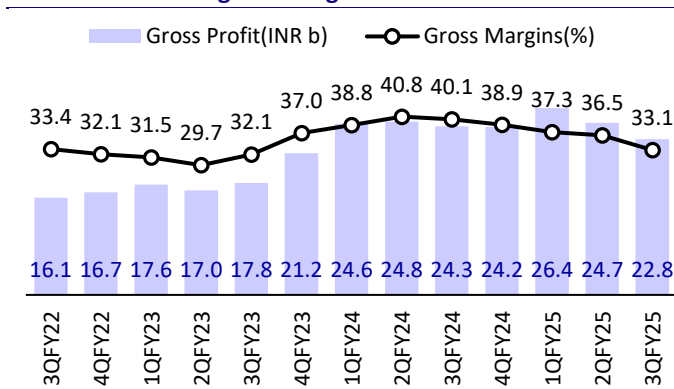
Key exhibits

Exhibit 1: Revenue trend



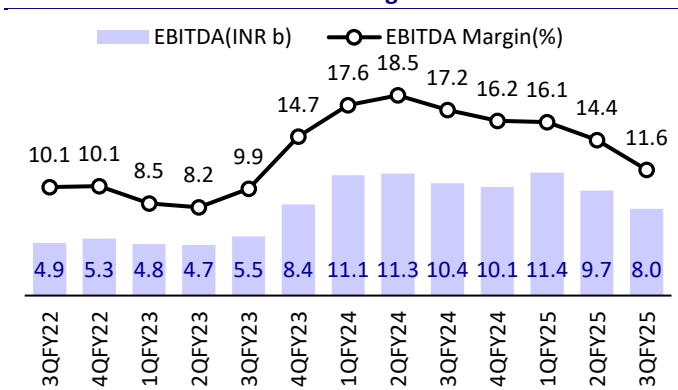
Source: MOFSL, Company

Exhibit 2: Trend in gross margin



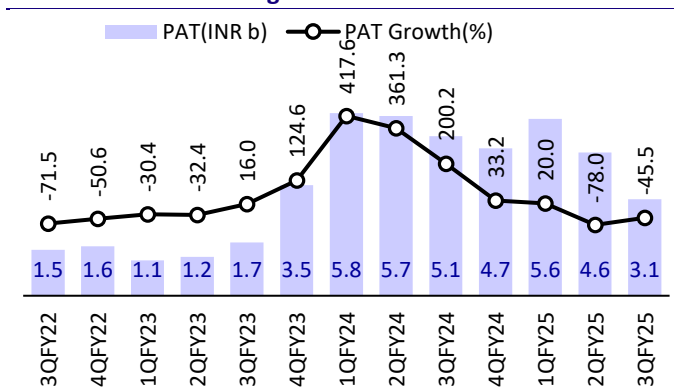
Source: MOFSL, Company

Exhibit 3: EBITDA and EBITDA margin trends



Source: MOFSL, Company

Exhibit 4: PAT and PAT growth trends



Source: MOFSL, Company

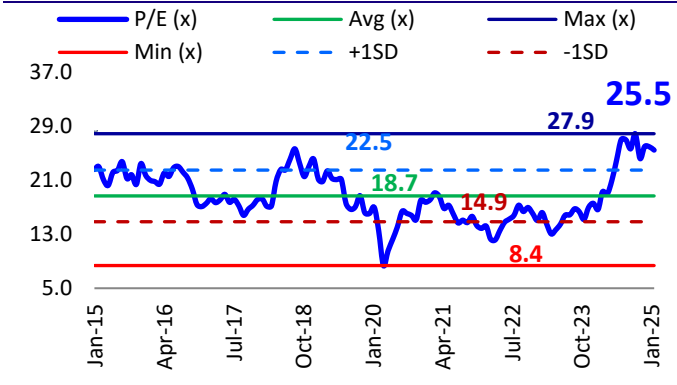
Valuation and view

- **Dilution in competitive positioning:** MRF's leadership across major segments of T&B, 2Ws, and PCR has 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 may not normalize anytime soon:** MRF's competitive positioning within the sector has weakened over the past few years, which is reflected in the dilution of pricing power in the PCR and TBR segments. Further, the recent result trends suggest that the management appears to be focusing on recovering its lost share in key segments. This is also visible in the better revenue traction seen for MRF relative to peers. However, this has come at the expense of margins, which have taken a bigger hit relative to peers. Thus, even if input costs cool off from here, one may not see a commensurate improvement in margins for MRF if it continues to focus on market share recovery in the coming quarters. Post a sharp correction seen in recent quarters, we factor in margins to revive at a much slower pace to 14.4% by FY27E.
- **Return ratios to remain under pressure:** We expect a ~10% revenue CAGR over FY24-27, fueled 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 FY24-27E. We expect a ~4% CAGR in EBITDA over FY24-27E and margins to improve to ~14.4%, post its correction in FY25E. PAT is expected to see a ~1% CAGR over FY24-27E. 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 10.5% by FY27E (vs. ~13.5% in FY24).
- **Steep valuations do not factor in changing competitive dynamics; maintain Sell:** We reduce our FY25/FY26 EPS estimates by 8%/10% to factor in higher RM cost inflation and higher depreciation. The stock is currently trading at 25.2x/22x FY26E/FY27E EPS above its 10-year LPA of ~24x, despite its weakening competitive position and similar capital efficiency as peers. Hence, we **reiterate our Sell rating** on the stock with a TP of INR95,500 (valuing at 19x Dec'26E EPS).

Exhibit 5: Our revised estimates (Consol.)

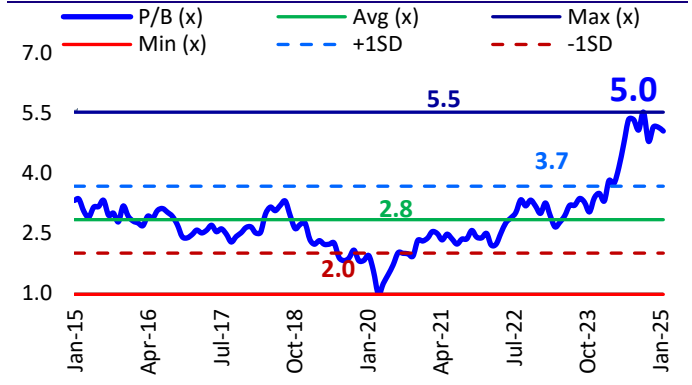
(INR M)	FY25E			FY26E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	2,82,428	2,79,431	1.1	3,08,119	3,07,809	0.1
EBITDA	38,870	41,035	-5.3	43,280	45,860	-5.6
EBITDA (%)	13.8	14.7	-90bp	14.0	14.9	-90bp
Adj. PAT	17,310	18,757	-7.7	19,219	21,373	-10.1
EPS (INR)	4082	4424	-7.7	4533	5041	-10.1

Exhibit 6: One-year forward P/E



Source: MOFSL, Company

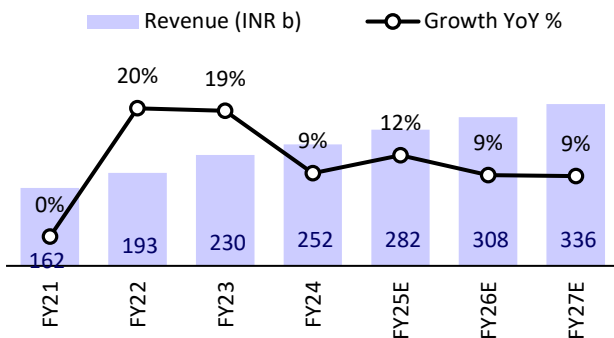
Exhibit 7: One-year forward P/B band



Source: MOFSL, Company

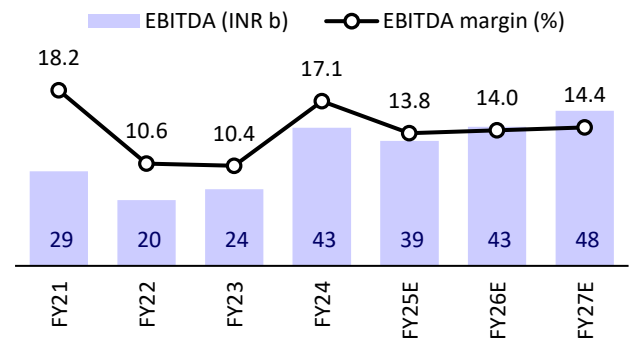
Story in charts

Exhibit 8: Revenue and growth trends



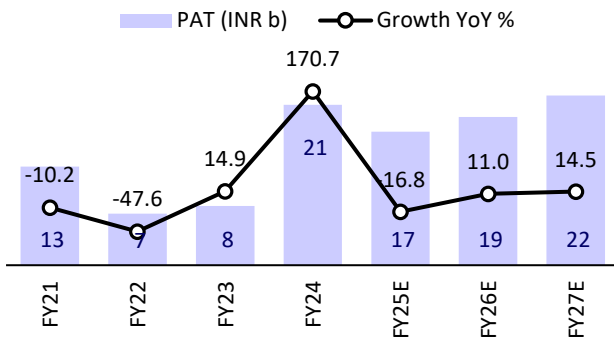
Source: MOFSL, Company

Exhibit 9: Trend in EBITDA



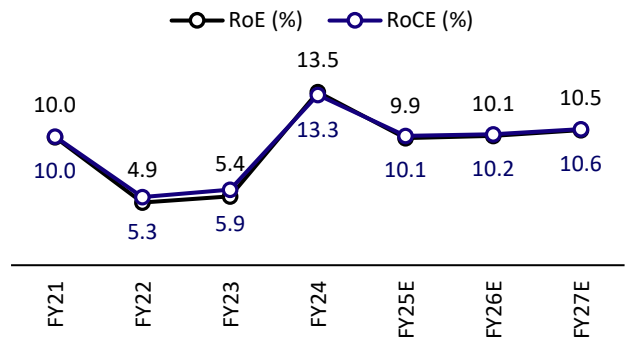
Source: MOFSL, Company

Exhibit 10: Trend in PAT



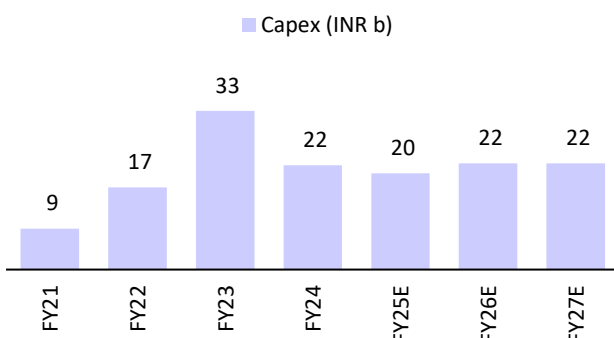
Source: MOFSL, Company

Exhibit 11: Trend in capital efficiency



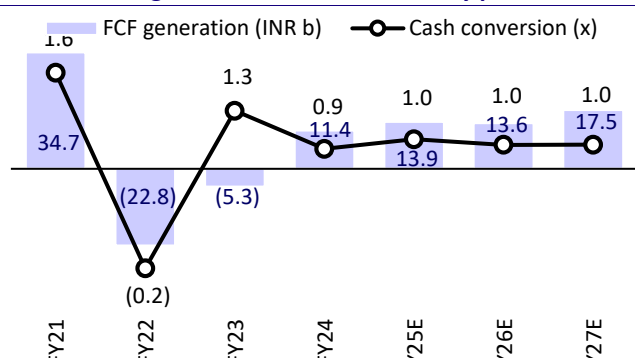
Source: MOFSL, Company

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	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	1,62,394	1,61,632	1,93,167	2,30,085	2,51,692	2,82,428	3,08,119	3,35,759
Change (%)	1.1	-0.5	19.5	19.1	9.4	12.2	9.1	9.0
EBITDA	23,740	29,423	20,498	23,891	42,999	38,870	43,280	48,228
EBITDA Margin (%)	14.6	18.2	10.6	10.4	17.1	13.8	14.0	14.4
Depreciation	9,823	11,408	12,051	12,531	14,300	16,365	18,128	19,614
EBIT	13,917	18,016	8,447	11,361	28,700	22,505	25,152	28,613
EBIT Margin (%)	8.6	11.1	4.4	4.9	11.4	8.0	8.2	8.5
Int. and Finance Charges	2,928	2,747	2,538	3,190	3,530	3,216	3,154	3,196
Other Income	3,354	2,099	3,170	2,527	3,168	3,946	3,799	4,125
PBT bef. EO Exp.	14,343	17,368	9,079	10,697	28,338	23,235	25,797	29,542
EO Items	0	0	0	0	-464	0	0	0
PBT after EO Exp.	14,343	17,368	9,079	10,697	27,874	23,235	25,797	29,542
Tax Rate (%)	0.8	26.5	26.3	28.1	25.3	25.5	25.5	25.5
Reported PAT	14,226	12,771	6,692	7,690	20,812	17,310	19,219	22,009
Adjusted PAT	14,226	12,771	6,692	7,690	21,158	17,310	19,219	22,009
Change (%)	25.8	-10.2	-47.6	14.9	170.7	-16.8	11.0	14.5

Consolidated - Balance Sheet

	INR m							
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	42	42	42	42	42	42	42	42
Total Reserves	1,22,105	1,34,094	1,40,275	1,47,034	1,66,988	1,82,601	1,99,700	2,19,165
Net Worth	1,22,147	1,34,137	1,40,318	1,47,077	1,67,030	1,82,644	1,99,742	2,19,207
Deferred Tax Liabilities	4,289	3,802	1,537	1,214	1,075	1,075	1,075	1,075
Total Loans	18,375	20,398	28,180	24,295	20,751	20,751	20,751	20,751
Capital Employed	1,44,812	1,58,339	1,70,036	1,72,587	1,88,858	2,04,471	2,21,570	2,41,035
Gross Block	1,24,267	1,40,786	1,52,874	1,69,729	1,98,467	2,18,467	2,40,467	2,62,467
Less: Accum. Deprn.	35,570	46,378	57,656	68,549	78,004	94,369	1,12,497	1,32,111
Net Fixed Assets	88,698	94,408	95,218	1,01,180	1,20,462	1,24,098	1,27,970	1,30,355
Capital WIP	17,409	10,022	12,331	30,459	23,845	23,845	23,845	23,845
Total Investments	15,193	58,740	36,565	30,851	33,830	47,830	59,830	75,830
Curr. Assets, Loans&Adv.	73,123	62,649	84,066	78,572	86,749	90,368	98,291	1,06,552
Inventory	29,052	29,388	41,297	41,411	44,686	43,835	47,665	51,750
Account Receivables	22,994	22,543	23,327	25,033	29,120	32,499	35,455	38,635
Cash and Bank Balance	11,811	1,694	2,561	2,585	3,454	2,428	2,508	2,369
Loans and Advances	9,266	9,024	16,881	9,544	9,490	11,607	12,662	13,798
Curr. Liability & Prov.	49,611	67,480	58,144	68,475	76,029	81,670	88,366	95,548
Account Payables	19,053	34,414	20,568	24,358	26,528	26,691	29,023	31,510
Other Current Liabilities	27,097	28,915	33,541	39,629	42,497	47,974	52,338	57,033
Provisions	3,461	4,150	4,035	4,488	7,004	7,004	7,004	7,004
Net Current Assets	23,512	-4,831	25,923	10,098	10,720	8,699	9,925	11,005
Appl. of Funds	1,44,812	1,58,339	1,70,036	1,72,587	1,88,858	2,04,471	2,21,570	2,41,035

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)								
EPS	3,355	3,012	1,578	1,814	4,990	4,082	4,533	5,191
Cash EPS	5,672	5,702	4,420	4,769	8,363	7,942	8,808	9,817
BV/Share	28,808	31,636	33,094	34,688	39,394	43,076	47,109	51,700
FCF per share	-1,126	8,191	-5,384	-1,261	2,684	3,288	3,197	4,122
DPS	65	150	150	175	200	400	500	600
Payout (%)	2.3	5.0	9.5	9.6	4.1	9.8	11.0	11.6
Valuation (x)								
P/E	34.0	37.9	72.2	62.9	22.9	27.9	25.2	22.0
P/BV	4.0	3.6	3.4	3.3	2.9	2.6	2.4	2.2
EV/Sales	2.9	2.7	2.4	2.1	1.9	1.6	1.4	1.3
EV/EBITDA	20.0	15.1	23.1	19.9	10.9	11.7	10.2	8.8
Dividend Yield (%)	0.1	0.1	0.1	0.2	0.2	0.4	0.4	0.5
Return Ratios (%)								
RoE	12.3	10.0	4.9	5.4	13.5	9.9	10.1	10.5
RoCE	12.7	10.0	5.3	5.9	13.3	10.1	10.2	10.6
ROIC	15.0	14.1	6.0	7.2	18.1	13.0	14.1	15.5
Working Capital Ratios								
Fixed Asset Turnover (x)	1.3	1.1	1.3	1.4	1.3	1.3	1.3	1.3
Asset Turnover (x)	1.1	1.0	1.1	1.3	1.3	1.4	1.4	1.4
Working Cap. Turnover (Days)	26	-15	44	12	11	8	9	9

Consolidated - Cash Flow Statement

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
INR m								
OP/(Loss) before Tax	14,343	17,368	9,079	10,697	27,874	23,235	25,797	29,542
Depreciation	9,823	11,408	12,051	12,531	14,300	16,365	18,128	19,614
Interest & Finance Charges	2,928	2,747	2,538	3,190	3,530	3,216	3,154	3,196
Direct Taxes Paid	-4,418	-5,168	-2,135	-3,278	-7,222	-5,925	-6,578	-7,533
(Inc)/Dec in WC	2,285	18,222	-25,088	6,357	-3,283	996	-1,146	-1,219
Others	-2,235	-1,331	-2,226	-1,943	-2,194	-3,946	-3,799	-4,125
CF from Operating incl EO	22,726	43,246	-5,780	27,555	33,005	33,941	35,556	39,476
(Inc)/Dec in FA	-27,499	-8,516	-17,046	-32,901	-21,623	-20,000	-22,000	-22,000
Free Cash Flow	-4,773	34,730	-22,827	-5,346	11,382	13,941	13,556	17,476
(Pur)/Sale of Investments	25,852	-43,336	23,831	6,512	-1,297	-14,000	-12,000	-16,000
Others	10	989	-5,097	7,171	-857	4,369	3,799	4,125
CF from Investments	-1,637	-50,862	1,687	-19,218	-23,777	-29,631	-30,201	-33,875
Inc/(Dec) in Debt	-6,347	1,435	8,199	-3,854	-3,526	0	0	0
Interest Paid	-2,809	-2,540	-2,361	-2,698	-2,896	-3,216	-3,154	-3,196
Dividend Paid	-307	-424	-636	-636	-742	-1,696	-2,120	-2,544
Others	-861	-971	-965	-1,207	-1,518	0	0	0
CF from Fin. Activity	-10,324	-2,500	4,238	-8,395	-8,682	-4,912	-5,274	-5,740
Inc/Dec of Cash	10,766	-10,117	145	-59	546	-603	80	-139
Opening Balance	1,019	11,785	2,399	2,544	2,485	3,031	2,428	2,508
Closing Balance	11,785	1,668	2,544	2,485	3,031	2,428	2,508	2,369

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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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