

Estimate change	↔
TP change	↑
Rating change	↔

Bloomberg	MRF IN
Equity Shares (m)	4
M.Cap.(INRb)/(USD\$)	453.5 / 5.5
52-Week Range (INR)	107500 / 78000
1, 6, 12 Rel. Per (%)	7/7/9
12M Avg Val (INR M)	950

Financials & valuations (INR b)

INR b	FY23	FY24E	FY25E
Sales	230.1	251.4	268.2
EBITDA	23.9	45.1	45.9
Adj. PAT	7.7	22.6	22.3
EPS (INR)	1,814	5,331	5,258
EPS Growth (%)	14.9	194.0	-1.4
BV/Share (INR)	34,688	39,839	44,897

Ratios

RoE (%)	5.4	14.3	12.4
RoCE (%)	5.9	13.8	12.3
Payout (%)	9.6	3.4	3.8

Valuations

P/E (x)	59.4	20.2	20.5
P/BV (x)	3.1	2.7	2.4
Div. Yield (%)	0.2	0.2	0.2
FCF yield (%)	-1.2	2.5	3.1

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	27.8	27.8	27.9
DII	11.2	11.7	12.5
FII	19.6	18.8	16.5
Others	41.5	41.7	43.2

FII Includes depository receipts

CMP: INR1,07,723 TP: INR97,000 (-10%) Sell

EBITDA in line despite a miss on revenue

Margin for 2QFY24 likely to have peaked

- MRF's 2QFY24 performance was a mixed bag as revenue was below estimate at INR60.9b (+6% YoY; est. INR64.1b), while EBITDA was in line at INR11.3b (+2.4x YoY). However, lower RM costs led to an EBITDA margin beat. Margin stood at 18.5% (vs. est. 17.5%). We believe the 2Q margin reflects most of the tailwinds and should see some moderation in the coming quarters.
- We tweak our FY24E/FY25E EPS by +3%/4% to factor in RM cost benefits partially offset by weaker revenue growth across categories. **Reiterate Sell** with a TP of INR97,000 (based on 18x Sep'25E EPS), as the stock trades at 20.5x FY25E EPS (in line with its 10-year LPA), which does not reflect its weakening competitive position and similar return ratios vs. its peers.

Better EBITDA margin driven by lower RM costs

- MRF's 2QFY24 revenue/EBITDA/Adj. PAT increased ~6%/2.4x/4.6x YoY to INR60.9b/INR11.3b/INR5.7b. 1HFY24 revenue/EBITDA/adj. PAT grew 10%/2.4x/4x YoY.
- Revenue rose 6% YoY (vs. CEAT's revenue growth of 5.5% YoY) to INR60.9b (est. INR64.05b).
- Gross margin expanded 11.1pp YoY (+200bp QoQ) to 40.8% (vs. est. 38.5%) as against CEAT's gross margin of 43.3% in 2QFY24.
- Despite higher-than-estimated other expenses and employee costs, EBITDA margin came in at 18.5% (+10.3pp YoY/90bp QoQ; vs. est. 17.5%) as against CEAT's margin of 14.6%. EBITDA surged 2.4x YoY to INR11.3b (in line) during the quarter.
- Adj. PAT too came in line at INR5.7b (+4.6x YoY/-2% QoQ).
- The Board declared its first interim dividend of INR3/share for FY24.
- FCF came in at IN6.8b in 1HFY24 (vs. outflow of INR4.9b in 1HFY23). This was due to strong operating cash flows of INR19.8b (vs. INR8.5b in 1HFY23) despite capex being steady at INR13b similar to the last year's levels.

Valuation and view

- MRF's competitive positioning in the sector has weakened over the past few years, which reflects 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 see a relatively lower uptick vs. peers over the next two years as its RoE is expected to reach 12.4% by FY25 (vs. APT/CEAT estimated at 13.5%/17.2%).
- The stock is currently trading at 20.5x FY25E EPS, in line with its 10-year LPA, despite its weakening competitive position and similar capital efficiency as peers. **Hence, we maintain our Sell rating on the stock with a TP of INR97,000 (premised on 18x Sep'25E EPS).**

Jinesh Gandhi - Research analyst (Jinesh@MotilalOswal.com)

Research analyst: Amber Shukla (Amber.Shukla@MotilalOswal.com) | Aniket Desai (Aniket.Desai@motilalosal.com)

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Standalone - Quarterly Earning Model

(INR Million)

Y/E March	FY23				FY24E				FY23	FY24E	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE
Net Sales	55,989	57,190	55,349	57,254	63,233	60,876	61,438	61,086	2,25,782	2,46,632	64,053
YoY Change (%)	35.6	18.4	14.6	10.1	12.9	6.4	11.0	6.7	18.9	9.2	12.0
Total Expenditure	51,207	52,517	49,863	48,823	52,091	49,589	50,537	50,581	2,02,409	2,02,797	52,829
EBITDA	4,783	4,673	5,486	8,431	11,142	11,286	10,900	10,505	23,373	43,834	11,224
Margins (%)	8.5	8.2	9.9	14.7	17.6	18.5	17.7	17.2	10.4	17.8	17.5
Depreciation	2,969	3,083	3,149	3,285	3,317	3,500	3,650	3,741	12,486	14,208	3,440
Interest	635	704	802	839	780	749	760	763	2,981	3,052	800
Other Income	341	764	700	678	739	696	650	644	2,482	2,729	740
PBT before EO expense	1,519	1,650	2,235	4,985	7,783	7,734	7,140	6,645	10,389	29,304	7,724
Extra-Ord expense	0	0	0	-803	0	0	0	0	-803	0	0
PBT	1,519	1,650	2,235	5,788	7,783	7,734	7,140	6,645	11,192	29,304	7,724
Tax	395	410	543	1,682	1,969	2,015	1,814	1,674	3,030	7,472	1,947
Rate (%)	26.0	24.9	24.3	29.1	25.3	26.1	25.4	25.2	27.1	25.5	25.2
Reported PAT	1,123	1,240	1,692	4,106	5,814	5,719	5,327	4,970	8,162	21,831	5,778
Adj PAT	1,123	1,240	1,692	3,537	5,814	5,719	5,327	4,970	7,576	21,831	5,778
YoY Change (%)	-30.4	-32.4	16.0	125.6	417.6	361.3	214.8	40.5	17.0	188.2	366.0
Margins (%)	2.0	2.2	3.1	6.2	9.2	9.4	8.7	8.1	3.4	8.9	9.0

E: MOFSL Estimates

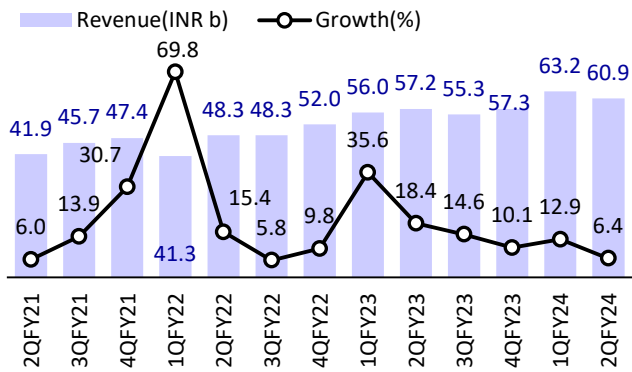
Key Performance Indicators

RM Cost(% of sales)	68.5	70.3	67.9	63.0	61.2	59.2	60.0	60.4	67.4	60.2	61.5
Staff Cost(% of sales)	6.5	6.8	7.3	7.0	6.5	7.1	7.1	7.1	6.9	7.0	6.5
Other costs(% of sales)	16.4	14.7	15.0	15.3	14.7	15.1	15.2	15.3	15.3	15.1	14.5
Gross Margin (%)	31.5	29.7	32.1	37.0	38.8	40.8	40.0	39.6	100.0	100.0	38.5
EBITDA Margin (%)	8.5	8.2	9.9	14.7	17.6	18.5	17.7	17.2	10.4	17.8	17.5

E: MOFSL Estimates

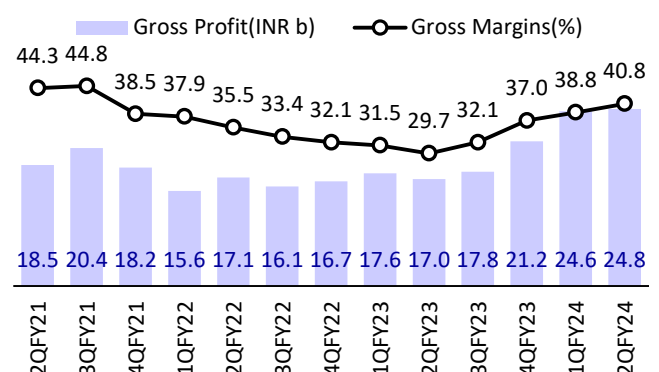
Key exhibits

Exhibit 1: Revenue trend



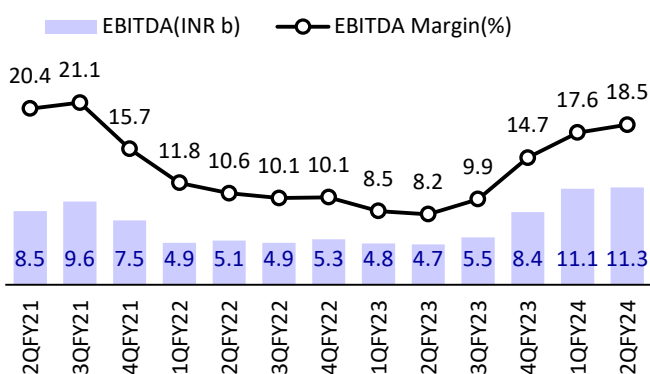
Source: MOFSL, Company

Exhibit 2: Trend in gross margin



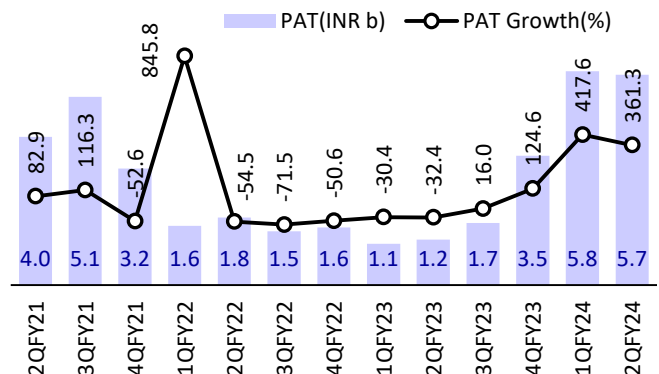
Source: MOFSL, Company

Exhibit 3: EBITDA and EBITDA margin trends



Source: MOFSL, Company

Exhibit 4: PAT and PAT growth trends



Source: MOFSL, Company

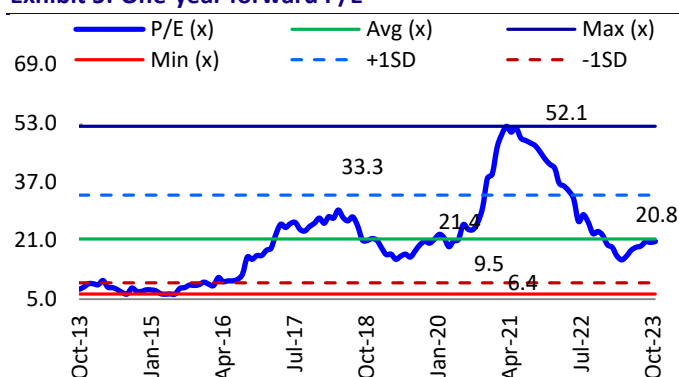
Valuation and view

- **Dilution in competitive positioning:** MRF's leadership across major segments of T&B, 2Ws, and PCR 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 2W 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.
- **Return ratios to stay under pressure:** We forecast ~8% revenue CAGR over FY23-25 led by stable OE demand and an expected recovery in the replacement segment. However, the recent capex, leading to lower capacity utilization, will keep margin and RoE in check over FY23-25E. We expect a ~39% CAGR in EBITDA over FY23-25 and a ~670bp expansion in margin to 17.1% (vs. 18.5% in 2QFY24). PAT is expected to report a ~70% CAGR over FY23-25. We project MRF's return ratios to see a relatively lower uptick vs. peers over the next two years as its RoE is anticipated to reach 12.4% by FY25 (vs. APTY/CEAT's estimated RoE of 13.5%/17.2%).
- **EBITDA margin likely to have peaked:** MRF's competitive positioning within the sector has weakened over the past few years, which reflects the dilution of pricing power in the PCR and TBR segments. This, coupled with the impact of capex to be carried out, should limit the expansion in return ratios.
- **Steep valuations do not factor in the changing competitive dynamics; maintain Sell:** We tweak our FY24E/FY25E EPS by +3%/4% to factor in RM cost benefits partially offset by weaker revenue growth across categories. The stock currently trades at 20.5x FY25E EPS, in line with 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 INR97,000/share.

Our revised forecasts (Consol)

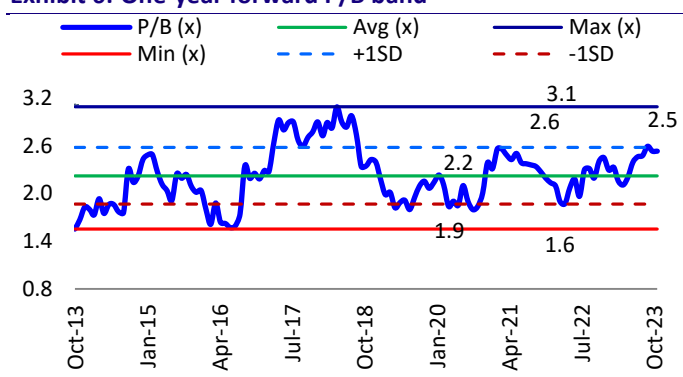
(INR M)	FY24E			FY25E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	2,51,365	2,57,426	-2.4	2,68,244	2,79,765	-4.1
EBITDA	45,082	44,003	2.5	45,862	44,233	3.7
EBITDA (%)	17.9	17.1	80bp	17.1	15.8	130bp
Adj. PAT	22,605	21,921	3.1	22,294	21,523	3.6
EPS (INR)	5331	5170	3.1	5258	5076	3.6

Exhibit 5: One-year forward P/E



Source: MOFSL, Company

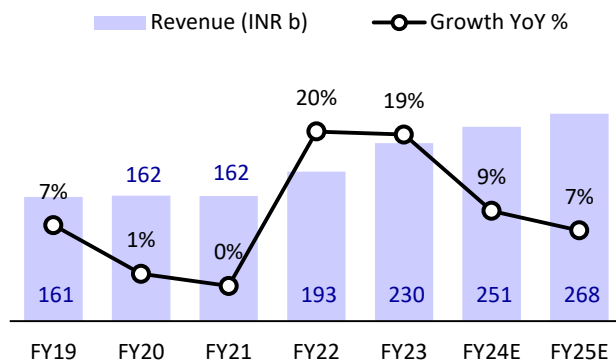
Exhibit 6: One-year forward P/B band



Source: MOFSL, Company

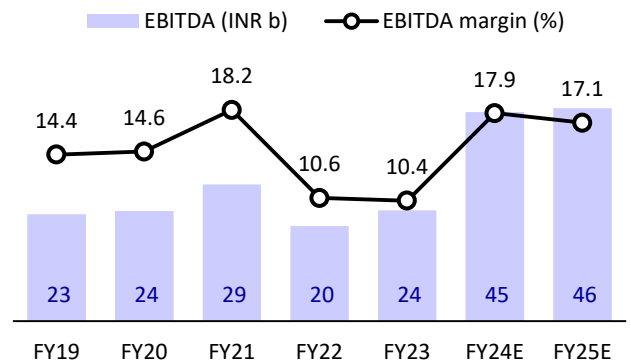
Story in charts

Exhibit 7: Revenue and growth trends



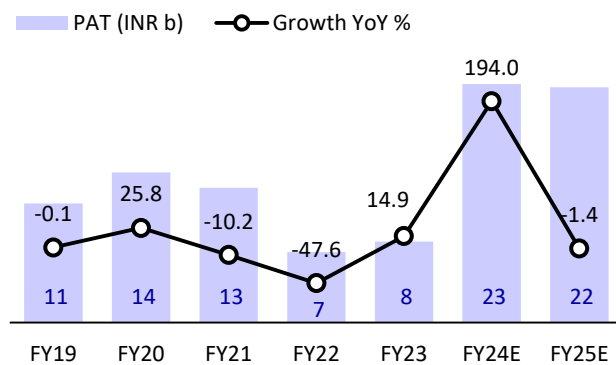
Source: MOFSL, Company

Exhibit 8: Trend in EBITDA



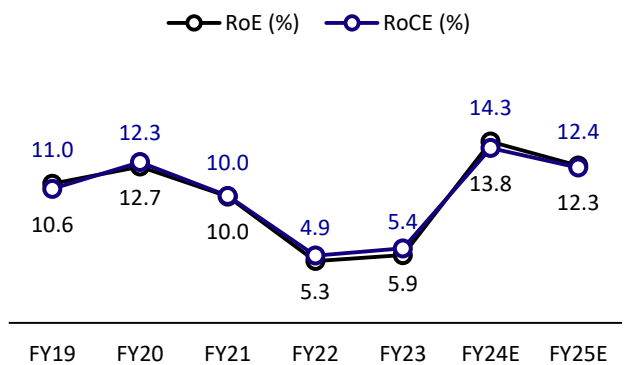
Source: MOFSL, Company

Exhibit 9: Trend in PAT



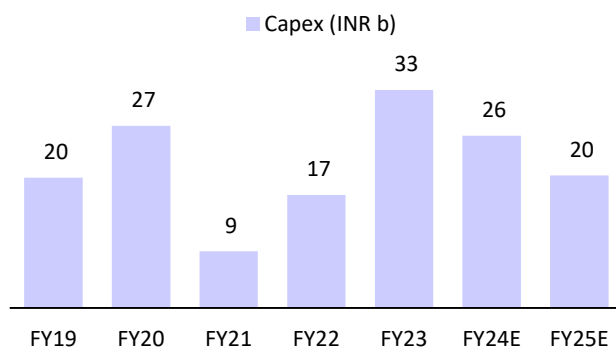
Source: MOFSL, Company

Exhibit 10: Trend in capital efficiency



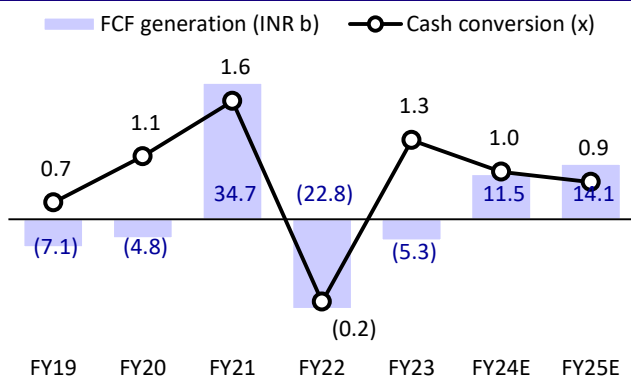
Source: MOFSL, Company

Exhibit 11: Trend in capex



Source: MOFSL, Company

Exhibit 12: FCF generation to be consistently positive



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement

INR million

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	1,60,625	1,62,394	1,61,632	1,93,167	2,30,085	2,51,365	2,68,244
Change (%)	7.4	1.1	-0.5	19.5	19.1	9.2	6.7
EBITDA	23,054	23,740	29,423	20,498	23,891	45,082	45,862
EBITDA Margin (%)	14.4	14.6	18.2	10.6	10.4	17.9	17.1
Depreciation	8,076	9,823	11,408	12,051	12,531	14,253	16,047
EBIT	14,978	13,917	18,016	8,447	11,361	30,829	29,815
EBIT Margin (%)	9.3	8.6	11.1	4.4	4.9	12.3	11.1
Int. and Finance Charges	2,673	2,928	2,747	2,538	3,190	3,261	3,300
Other Income	4,217	3,354	2,099	3,170	2,527	2,774	3,410
PBT bef. EO Exp.	16,522	14,343	17,368	9,079	10,697	30,342	29,925
EO Items	0	0	0	0	0	0	0
PBT after EO Exp.	16,522	14,343	17,368	9,079	10,697	30,342	29,925
Tax Rate (%)	31.6	0.8	26.5	26.3	28.1	25.5	25.5
Reported PAT	11,306	14,226	12,771	6,692	7,690	22,605	22,294
Adjusted PAT	11,306	14,226	12,771	6,692	7,690	22,605	22,294
Change (%)	-0.1	25.8	-10.2	-47.6	14.9	194.0	-1.4

Consolidated - Balance Sheet

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	42	42	42	42	42	42	42
Total Reserves	1,08,331	1,22,105	1,34,094	1,40,275	1,47,034	1,68,876	1,90,322
Net Worth	1,08,374	1,22,147	1,34,137	1,40,318	1,47,077	1,68,918	1,90,364
Deferred Tax Liabilities	8,402	4,289	3,802	1,537	1,214	1,214	1,214
Total Loans	21,024	18,375	20,398	28,180	24,295	22,295	22,295
Capital Employed	1,37,801	1,44,812	1,58,339	1,70,036	1,72,587	1,92,428	2,13,875
Gross Block	94,725	1,24,267	1,40,786	1,52,874	1,69,729	1,95,729	2,15,729
Less: Accum. Deprn.	26,863	35,570	46,378	57,656	68,549	82,802	98,849
Net Fixed Assets	67,862	88,698	94,408	95,218	1,01,180	1,12,927	1,16,880
Capital WIP	14,035	17,409	10,022	12,331	30,459	30,459	30,459
Total Investments	38,547	15,193	58,740	36,565	30,851	30,851	30,851
Curr. Assets, Loans&Adv.	63,969	73,123	62,649	84,066	78,572	88,577	1,11,957
Inventory	29,932	29,052	29,388	41,297	41,411	37,127	40,024
Account Receivables	23,827	22,994	22,543	23,327	25,033	28,924	33,071
Cash and Bank Balance	1,045	11,811	1,694	2,561	2,585	10,819	24,164
Loans and Advances	9,164	9,266	9,024	16,881	9,544	11,707	14,698
Curr. Liability & Prov.	46,612	49,611	67,480	58,144	68,475	70,385	76,272
Account Payables	17,094	19,053	34,414	20,568	24,358	22,606	25,589
Other Current Liabilities	26,235	27,097	28,915	33,541	39,592	43,254	46,159
Provisions	3,284	3,461	4,150	4,035	4,525	4,525	4,525
Net Current Assets	17,357	23,512	-4,831	25,923	10,098	18,192	35,685
Appl. of Funds	1,37,801	1,44,812	1,58,339	1,70,036	1,72,587	1,92,428	2,13,875

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)							
EPS	2,667	3,355	3,012	1,578	1,814	5,331	5,258
Cash EPS	4,571	5,672	5,702	4,420	4,769	8,693	9,043
BV/Share	25,560	28,808	31,636	33,094	34,688	39,839	44,897
FCF per share	-1,676	-1,126	8,191	-5,384	-1,261	2,709	3,321
DPS	60	65	150	150	175	180	200
Payout (%)	2.7	2.3	5.0	9.5	9.6	3.4	3.8
Valuation (x)							
P/E	40.4	32.1	35.8	68.3	59.4	20.2	20.5
P/BV	4.2	3.7	3.4	3.3	3.1	2.7	2.4
EV/Sales	2.7	2.8	2.6	2.3	1.9	1.7	1.6
EV/EBITDA	19.0	18.9	14.2	21.8	18.7	9.7	9.2
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Return Ratios (%)							
RoE	11.0	12.3	10.0	4.9	5.4	14.3	12.4
RoCE	10.6	12.7	10.0	5.3	5.9	13.8	12.3
ROIC	13.2	15.0	14.1	6.0	7.2	20.1	17.9
Working Capital Ratios							
Fixed Asset Turnover (x)	1.7	1.3	1.1	1.3	1.4	1.3	1.2
Asset Turnover (x)	1.2	1.1	1.0	1.1	1.3	1.3	1.3
Working Cap. Turnover (Days)	37	26	-15	44	12	11	16
Leverage Ratio (x)							
Current Ratio	1.4	1.5	0.9	1.4	1.1	1.3	1.5
Interest Cover Ratio	5.6	4.8	6.6	3.3	3.6	9.5	9.0
Net Debt:Equity (x)	-0.2	-0.1	-0.3	-0.1	-0.1	-0.1	-0.2

Consolidated - Cash Flow Statement

INR million

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	16,522	14,343	17,368	9,079	10,697	30,342	29,925
Depreciation	8,076	9,823	11,408	12,051	12,531	14,253	16,047
Interest & Finance Charges	2,673	2,928	2,747	2,538	3,190	3,261	3,300
Direct Taxes Paid	-4,156	-4,418	-5,168	-2,135	-3,278	-7,737	-7,631
(Inc)/Dec in WC	-7,844	2,285	18,222	-25,088	6,357	140	-4,148
Others	-2,742	-2,235	-1,331	-2,226	-1,943	-2,774	-3,410
CF from Operating incl EO	12,529	22,726	43,246	-5,780	27,555	37,484	34,083
(Inc)/Dec in FA	-19,633	-27,499	-8,516	-17,046	-32,901	-26,000	-20,000
Free Cash Flow	-7,105	-4,773	34,730	-22,827	-5,346	11,484	14,083
(Pur)/Sale of Investments	5,960	25,852	-43,336	23,831	6,512	0	0
Others	-189	10	989	-5,097	7,171	2,874	3,410
CF from Investments	-13,862	-1,637	-50,862	1,687	-19,218	-23,126	-16,590
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	3,523	-6,347	1,435	8,199	-3,854	-2,000	0
Interest Paid	-2,702	-2,809	-2,540	-2,361	-2,698	-3,261	-3,300
Dividend Paid	-307	-307	-424	-636	-636	-763	-848
Others	-93	-861	-971	-965	-1,207	0	0
CF from Fin. Activity	422	-10,324	-2,500	4,238	-8,395	-6,025	-4,148
Inc/Dec of Cash	-911	10,766	-10,117	145	-59	8,334	13,345
Opening Balance	1,931	1,019	11,785	2,399	2,544	2,485	10,819
Closing Balance	1,020	11,785	1,668	2,544	2,485	10,819	24,164

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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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Details of Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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