

FIRST LIGHT

03 December 2020

MRF | Target: Rs 73,200 | -8% | SELL

Rising input cost a key concern amid rich valuations; cut to SELL

SUMMARY

MRF

MRF Tyres (MRF) has rallied ~30% in the last three months and is currently trading at 25x Sep'22E EPS. Even with optimistic earnings projections post the Q2 beat, we find valuations expensive and hence cut the stock from ADD to SELL. Our Sep'21 TP remains at Rs 73,200. In our view, positives from domestic volume visibility, lower imports and a steady margin outlook are in the price. Further, rising prices of natural rubber (up ~30% in three months) and the sudden spike in crude derivatives are likely to weigh on margins.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	900
GAIL	Buy	155
Petronet LNG	Buy	330
TCS	Buy	3,180
Tech Mahindra	Buy	1,040

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Greenply Industries	Buy	150
Laurus Labs	Buy	410
Transport Corp	Buy	300
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.93	9bps	5bps	(79bps)
India 10Y yield (%)	5.93	2bps	5bps	(54bps)
USD/INR	73.67	0.5	0.6	(2.8)
Brent Crude (US\$/bbl)	47.42	(0.4)	26.6	(22.0)
Dow	29,824	0.6	12.5	8.4
Shanghai	3,452	1.8	7.1	19.7
Sensex	44,655	1.1	12.7	9.8
India FII (US\$ mn)	27 Nov	MTD	CYTD	FYTD
FII-D	(81.6)	(389.5)	(14,619.2)	(4,859.6)
FII-E	1,237.5	9,559.3	16,105.7	22,708.7

Source: Bank of Baroda Economics Research

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SELL

TP: Rs 73,200 | ▼ 8%

MRF

| Auto Components

| 02 December 2020

Rising input cost a key concern amid rich valuations; cut to SELL

MRF Tyres (MRF) has rallied ~30% in the last three months and is currently trading at 25x Sep'22E EPS. Even with optimistic earnings projections post the Q2 beat, we find valuations expensive and hence cut the stock from ADD to SELL. Our Sep'21 TP remains at Rs 73,200. In our view, positives from domestic volume visibility, lower imports and a steady margin outlook are in the price. Further, rising prices of natural rubber (up ~30% in three months) and the sudden spike in crude derivatives are likely to weigh on margins.

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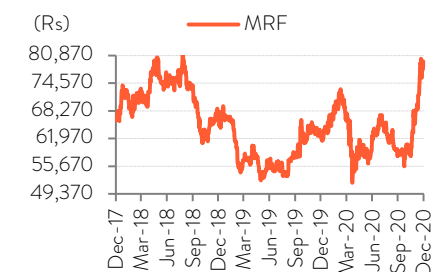
Strong volume growth factored in; rising input cost a key concern: We build in volume growth of 13% each in MRF's MHCV, LCV & 2W/3W tyres and 16% in its PV tyres over FY21-FY23. The spike in natural rubber prices from Rs 120/kg to >Rs 160/kg over the last three months and more recently in crude derivatives from US\$ 40 to US\$ 48 due to the sudden jump in crude prices will clearly have an adverse impact on gross margins (300-400bps QoQ).

Ticker/Price	MRF IN/Rs 79,564
Market cap	US\$ 4.5bn
Shares o/s	4mn
3M ADV	US\$ 30.7mn
52wk high/low	Rs 81,249/Rs 49,915
Promoter/FPI/DII	28%/5%/14%

Source: NSE

Leadership premium also in the price: MRF's product profile spanning MHCV, LCV, PV and 2/3W tyres, strong branding and high exposure to the domestic replacement market make for a healthy growth outlook. We also pencil in 50-100bps improvement in ROE and ROCE over FY21-FY23 along with a near-zero net debt/equity ratio. That said, we believe most optimism is in the price.

STOCK PERFORMANCE



Source: NSE

Valuations full, downgrade to SELL: After the recent 30% rally, MRF now trades at an expensive 25x Sep'22E EPS. We factor in strong volume growth led by domestic demand and lower imports but believe margins could come under significant pressure due to the sudden jump in input costs. Revenue/EBITDA/PAT are forecast to post a 16%/14%/15% CAGR over FY21-FY23. Our Sep'21 TP remains at 23x Sep'22E EPS – downgrade to SELL (from ADD).

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	158,370	159,911	154,695	188,628	208,497
EBITDA (Rs mn)	22,504	23,237	24,959	29,060	32,483
Adj. net profit (Rs mn)	10,969	13,950	10,689	12,792	14,222
Adj. EPS (Rs)	2,587.0	3,290.0	2,520.9	3,017.0	3,354.3
Adj. EPS growth (%)	0.4	27.2	(23.4)	19.7	11.2
Adj. ROAE (%)	10.3	11.6	8.2	8.9	9.1
Adj. P/E (x)	30.8	24.2	31.6	26.4	23.7
EV/EBITDA (x)	15.6	15.1	13.7	11.6	10.5

Source: Company, BOBCAPS Research



Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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