

**RESEARCH**
**BOB Economics Research | Weekly Wrap**

Domestic economic activity improving

**MRF | Target: Rs 67,000 | -19% | SELL**

RBI extends liquidity to support growth

**SUMMARY**
**India Economics: Weekly Wrap**

US 10Y yields closed lower. While ISM manufacturing, services PMI and jobless claims were better than estimate, non-farm payrolls rose less than expected. India's services sector contracted (PMI). However, our weekly economic tracker shows a pickup in economic activity this week (index at 83 from 81 WoW) with states easing restrictions. While RBI kept rates on hold, it offered more liquidity to tide over the impact of the pandemic and expanded restructuring to cover more borrowers. It now expects growth at 9.5% in FY22.

[Click here for the full report.](#)
**MRF**

- MRF's Q4 revenue grew 4% QoQ to Rs 47bn, EBITDA margin shrank 530bps on gross margin pressure and adj. PAT fell 38% QoQ to Rs 3.2bn
- We expect EBITDA margin to remain stressed led by RM inflation, higher share of CV tyres and rising OEM share in sales
- We maintain our EPS estimates and continue to value MRF at 22x FY23E P/E for a Mar'22 TP of Rs 67,000 – we retain SELL

[Click here for the full report.](#)
**TOP PICKS**
**Large-cap ideas**

Company	Rating	Target
<a href="#">TCS</a>	Buy	3,780
<a href="#">Tech Mahindra</a>	Buy	1,190
<a href="#">Tata Power</a>	Buy	131

**Mid-cap ideas**

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,620
<a href="#">Ajanta Pharma</a>	Buy	2,300
<a href="#">Alembic Pharma</a>	Buy	1,230

Source: BOBCAPS Research

**Daily macro indicators**

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.55	(7bps)	(4bps)	66bps
India 10Y yield (%)	6.03	3bps	1bps	26bps
USD/INR	73.00	(0.1)	1.2	3.4
Brent Crude (US\$/bbl)	71.89	0.8	4.4	70.0
Dow	34,756	0.5	1.8	28.2
Shanghai	3,592	0.2	3.4	22.6
Sensex	52,100	(0.3)	8.0	52.0
India FII (US\$ mn)	3 Jun	MTD	CYTD	FYTD
FII-D	65.6	76.5	(2,504.2)	(476.9)
FII-E	162.3	383.5	6,969.6	(356.7)

Source: Bank of Baroda Economics Research

**BOBCAPS Research**

researchreport@bobcaps.in



## WEEKLY WRAP

07 June 2021

### Domestic economic activity improving

US 10Y yields closed lower. While ISM manufacturing, services PMI and jobless claims were better than estimate, non-farm payrolls rose less than expected. India's services sector contracted (PMI). However, our weekly economic tracker shows a pickup in economic activity this week (index at 83 from 81 WoW) with states easing restrictions. While RBI kept rates on hold, it offered more liquidity to tide over the impact of the pandemic and expanded restructuring to cover more borrowers. It now expects growth at 9.5% in FY22.

Sameer Narang | Aditi Gupta

chief.economist@bankofbaroda.com

### Markets

- Bonds:** Global yields closed mixed this week. US 10Y yield fell by 4bps (1.55%) as US non-farm payrolls rose less than expected. Crude prices rose by 3.2% (US\$ 71.9/bbl) with global demand outlook improving. India's 10Y yield rose by 3bps (6.03%). While RBI did expand its bond purchase program, SDLs may crowd-out central securities. System liquidity surplus rose to Rs 4.7tn as on 4 Jun 2021 from Rs 4tn in previous week.
- Currency:** Except JPY and AUD (higher), other global currencies closed lower this week. DXY rose by 0.1% this week amidst positive macro data (jobless claims, services PMI). CNY fell by 0.4% as PBOC ordered banks to increase their foreign exchange reserve ratios. INR depreciated by 0.8% as oil prices rose to a 2-year high despite FII inflows of US\$ 1.1bn.
- Equity:** Barring Nikkei and Shanghai Comp, other global indices ended higher this week led by dip in Covid-19 cases globally. European indices ended in green led by strong PMI print. Amongst other indices, Sensex (1.3%) surged the most led by gains in real estate and oil and gas stocks.
- Covid-19 tracker:** Global Covid-19 cases rose at a slower pace of 1.6mn this week versus 3.7mn last week. India added 0.7mn cases versus 1.1mn WoW. Our weekly economic activity tracker index rose to 83 (100=Feb'20) from 81 last week. Israel has vaccinated 63% of its population (single dose), UK at 59% and US at 51%. India is now at 12.6%.
- Upcoming key events:** Markets await ECB meeting, US and China CPI and industrial production of major European economies. In India, apart from IIP data, progress in vaccination will also be closely watched.



**SELL**

TP: Rs 67,000 | ▼ 19%

**MRF**

| Auto Components

| 07 June 2021

## Margin headwinds to persist; maintain SELL

- MRF's Q4 revenue grew 4% QoQ to Rs 47bn, EBITDA margin shrank 530bps on gross margin pressure and adj. PAT fell 38% QoQ to Rs 3.2bn
- We expect EBITDA margin to remain stressed led by RM inflation, higher share of CV tyres and rising OEM share in sales
- We maintain our EPS estimates and continue to value MRF at 22x FY23E P/E for a Mar'22 TP of Rs 67,000 – we retain SELL

Mayur Milak | Nishant Chowhan, CFA  
researchreport@bobcaps.in

**Q4 gross margin plummets:** MRF's revenue was in line with projections at Rs 47.4bn (+4% QoQ). Gross margin fell sharply by 630bps QoQ led by rising raw material cost pressures, fuelling a 530bps decline in EBITDA margin to 15.7% (14.2% est.). EBITDA decreased 23% QoQ to Rs 7.5bn and adj. PAT fell 38% QoQ to Rs 3.2bn.

**FY21 performance muted:** MRF's revenue growth was flattish in FY21 at Rs 159.2bn. EBITDA margin expanded 370bps YoY, supported by a 150bps rise in gross margin as raw material prices remained soft in H1FY21. Higher depreciation (+29% YoY) and lower other income (-37% YoY) led to a 10% dip in adj. PAT to Rs 12.5bn. MRF has paid out dividend of Rs 150/sh for the year.

**Near-term headwinds:** With a 12% QoQ cost rise in the raw material basket in Q4, a further expected increase of ~10% sequentially in Q1FY22 (per industry experts) and the inability of tyre companies to fully pass on the cost burden, we anticipate gross margin deterioration for our tyre coverage. We forecast a gross margin decline of ~350bps for MRF over FY21-FY23 (from 42% in FY21).

**Maintain SELL:** While our revenue estimates for FY22/FY23 are in line with consensus, we are ~12% below on EBITDA as we bake in 200bps lower gross margins due to raw material cost pressure and inability of tyre companies to fully pass on the cost. Our EPS estimates remain 25-30% below the street.

We continue to expect MRF to clock a revenue/EBITDA/earnings CAGR of 16%/6%/2% over FY21-FY23 and maintain our Mar'22 TP at Rs 67,000, based on an unchanged 22x target P/E. Our target multiple is in line with the stock's long-term average as well as the premium it has historically commanded against peers. SELL.

## Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	MRF IN/Rs 82,401
Market cap	US\$ 4.8bn
Free float	72%
3M ADV	US\$ 25.6mn
52wk high/low	Rs 98,600/Rs 55,300
Promoter/FPI/DII	28%/5%/14%

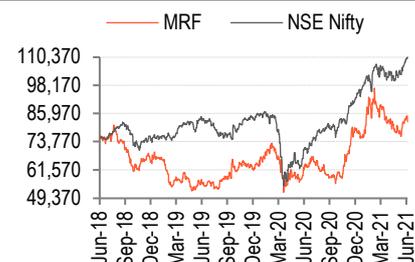
Source: NSE | Price as of 7 Jun 2021

## Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	159,214	192,643	213,721
EBITDA (Rs mn)	28,947	28,662	32,381
Adj. net profit (Rs mn)	12,491	11,741	13,060
Adj. EPS (Rs)	2,945.9	2,769.2	3,080.1
Consensus EPS (Rs)	2,946.0	3,514.0	4,332.0
Adj. ROAE (%)	9.5	8.2	8.4
Adj. P/E (x)	28.0	29.8	26.8
EV/EBITDA (x)	12.3	12.2	10.9
Adj. EPS growth (%)	(10.5)	(6.0)	11.2

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

## Stock performance



Source: NSE



## Disclaimer

### Recommendation scale: 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)

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Rating distribution

As of 31 May 2021, out of 95 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 47 have BUY ratings, 19 have ADD ratings, 6 are rated REDUCE and 23 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

### Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

### Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

### General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH00000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed

in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

#### **Other disclosures**

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.