

ADD

TP: Rs 73,200 | ▲ 7%

MRF

| Auto Components

| 06 November 2020

Strong Q2; earnings estimates raised

MRF delivered a positive surprise on Q2FY21 revenue and earnings, led by strong replacement demand in Indian markets and above-expected operating efficiency. Revenue was up 6% YoY and operating margin expanded 670bps YoY. We raise FY21/FY22/FY23 earnings by 8%/3%/6% to bake in strong replacement demand, OEM segment revival and better margins, yielding a higher Sep'21 TP of Rs 73,200 (vs. Rs 67,000), set at 23x one-year fwd EPS (22x earlier). Maintain ADD as the 13% rally over the past month limits upsides.

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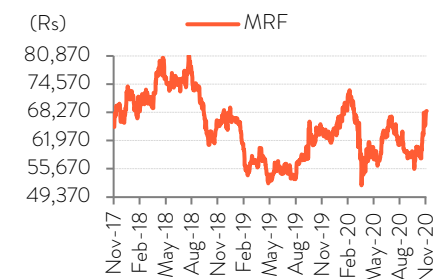
Healthy Q2: MRF's revenue came in 7% ahead of our estimate at Rs 41.9bn (+6% YoY). Gross margin was better than expected, improving 370bps YoY (+430bps QoQ), while better operating efficiencies further supported EBITDA performance (+58% YoY to Rs 8.5bn). EBITDA margin expanded 670bps YoY and was ahead of our estimate at 20.4% (16.8% est.). Adj. PAT increased 83% YoY to Rs 4bn.

Ticker/Price	MRF IN/Rs 68,517
Market cap	US\$ 3.9bn
Shares o/s	4mn
3M ADV	US\$ 18.3mn
52wk high/low	Rs 73,566/Rs 49,915
Promoter/FPI/DII	28%/5%/14%

Source: NSE

Replacement demand to fuel growth: We expect MRF to post a 9% revenue CAGR during FY20-FY23, anchored by its strong brand, >70% revenue share from the replacement segment and expected recovery in auto sector demand. We estimate a healthy volume CAGR of 10% in MHCV and LCV tyres (60% of domestic revenues) and 9% in PV tyres (21% share) for the company over our forecast period, alongside stable EBITDA margins of 15-16%.

STOCK PERFORMANCE



Source: NSE

Upgrade earnings, maintain ADD: Restrictions on Chinese tyre imports should fuel strong replacement demand, aiding margins. We raise FY21/FY22/FY23 earnings by 8%/3%/6% and increase our Sep'21 TP to Rs 73,200, based on a higher 23x target P/E. The stock has rallied 13% over the last one month, taking valuations to 23x/20x FY22E/FY23E EPS which limits upsides. Retain 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)	26.5	20.8	27.2	22.7	20.4
EV/EBITDA (x)	13.5	13.1	11.9	10.0	9.1

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Net Revenues	41,864	39,476	6.0	24,306	72.2	66,169	83,571	(20.8)
Total Income (A)	41,864	39,476	6.0	24,306	72.2	66,169	83,571	(20.8)
Operating Expenses:								
Raw materials consumed	23,334	23,470	(0.6)	14,585	60.0	37,919	50,432	(24.8)
Employee Expenses	3,331	3,300	0.9	3,098	7.5	6,429	6,385	0.7
Other Expenses	6,654	7,299	(8.8)	3,309	101.1	9,962	15,318	(35.0)
Total Expenditure (B)	33,319	34,068	(2.2)	20,991	58.7	54,310	72,135	(24.7)
EBITDA (A-B)	8,544	5,408	58.0	3,315	157.7	11,860	11,436	3.7
Other Income	443	948	(53.3)	430	2.9	873	1,997	(56.3)
Depreciation	2,839	2,372	19.7	2,730	4.0	5,569	4,652	19.7
EBIT	6,148	3,984	54.3	1,016	505.1	7,164	8,781	(18.4)
Finance Costs	528	665	(20.6)	737	(28.4)	1,265	1,347	(6.1)
PBT before excep items	5,620	3,319	69.4	279	1,914.4	5,899	7,434	(20.6)
PBT after excep items	5,620	3,319	69.4	279	1,914.4	5,875	7,422	(20.8)
Tax expense	1,590	1,115	42.6	109	1,365.4	1,699	2,545	(33.3)
Reported PAT	4,030	2,204	82.9	171	2,263.8	4,177	4,877	(14.3)
Adjusted PAT	4,030	2,204	82.9	171	2,263.8	4,201	4,889	(14.1)

Source: Company, BOBCAPS Research

FIG 2 – KEY PARAMETERS

(%)	Q2FY21	Q2FY20	YoY (bps)	Q1FY21	QoQ (bps)	H1FY21	H1FY20	YoY (bps)
Gross Margin	44.3	40.5	371	40	427	42.7	39.7	304
EBITDA Margin	20.4	13.7	671	14	677	17.9	13.7	424
EBIT Margin	14.7	10.1	459	4	1,051	10.8	10.5	32
PBT Margin	13.4	8.4	502	1	1,228	8.9	8.9	2
Tax Rate	28.3	33.6	(531)	39	(1,060)	28.9	34.3	(538)
Adj PAT Margin	9.6	5.6	405	1	893	6.3	5.8	50

Source: Company, BOBCAPS Research

Valuation methodology

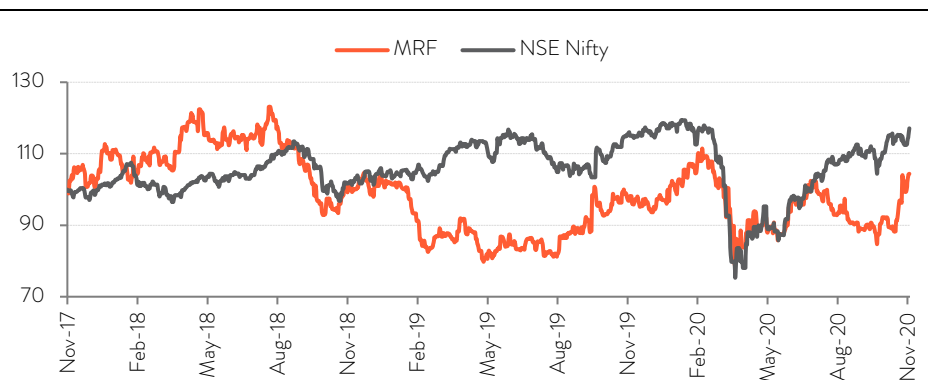
Restrictions on Chinese tyre imports should fuel strong replacement demand, aiding margins. We raise our FY21/FY22/FY23 earnings estimates by 8%/3%/6% and expect a revenue/EBITDA/PAT CAGR of 9%/11%/11% for MRF over FY20-FY23 (excludes DTA benefit of ~Rs 4bn in FY20). Our Sep'21 target price stands revised to Rs 73,200 (vs. Rs 67,000), set at 23x one-year forward EPS (22x earlier). The stock has rallied 13% over the last one month, taking valuations to 23x/20x FY22E/FY23E EPS which limits upsides. Maintain ADD.

FIG 3 – REVISED ESTIMATES

Change (%)	FY21E	FY22E	FY23E
Revenues	0.0	0.0	0.0
EBITDA	10.9	4.1	4.1
OPM (bps)	159	61	61
Adj. PAT	8.3	2.5	6.0
EPS	8.3	2.5	6.0

Source: Company, BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Slower recovery in OE demand may adversely impact sales.
- A spike in prices of natural rubber or crude derivatives could hurt margins.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	158,370	159,911	154,695	188,628	208,497
EBITDA	22,504	23,237	24,959	29,060	32,483
Depreciation	8,063	9,806	11,420	13,545	15,882
EBIT	18,616	16,736	16,536	18,939	20,579
Net interest income/(expenses)	(2,528)	(2,743)	(2,246)	(1,838)	(1,566)
Other income/(expenses)	4,175	3,305	2,996	3,424	3,978
Exceptional items	(1,356)	0	0	0	0
EBT	14,733	13,993	14,290	17,102	19,014
Income taxes	5,120	43	3,601	4,310	4,791
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	9,613	13,950	10,689	12,792	14,222
Adjustments	1,356	0	0	0	0
Adjusted net profit	10,969	13,950	10,689	12,792	14,222

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	23,276	23,401	23,300	31,448	29,764
Other current liabilities	21,389	24,404	23,405	35,570	33,601
Provisions	1,571	3,422	3,422	3,422	3,422
Debt funds	18,675	10,210	10,210	10,210	8,210
Other liabilities	2,441	5,781	5,781	5,781	5,781
Equity capital	42	42	42	42	42
Reserves & surplus	106,491	120,001	130,614	143,104	156,991
Shareholders' fund	106,533	120,044	130,656	143,147	157,034
Total liabilities and equities	173,885	187,263	196,775	229,579	237,812
Cash and cash eq.	601	11,069	3,987	3,699	4,733
Accounts receivables	23,616	22,570	24,751	32,067	31,275
Inventories	29,509	28,527	29,392	39,612	37,530
Other current assets	1,775	151	464	566	521
Investments	38,484	15,402	21,402	21,402	23,402
Net fixed assets	67,675	88,492	97,072	113,527	122,645
CWIP	14,032	17,346	16,000	15,000	14,000
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(8,392)	(4,278)	(4,278)	(4,278)	(4,278)
Other assets	6,585	7,985	7,985	7,985	7,985
Total assets	173,885	187,263	196,775	229,579	237,812

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	17,676	23,756	22,108	26,337	30,104
Interest expenses	2,528	2,743	2,246	1,838	(1,566)
Non-cash adjustments	(4,175)	(3,305)	(2,996)	(3,424)	(3,978)
Changes in working capital	(7,962)	10,584	(4,460)	2,677	(734)
Other operating cash flows	1,356	0	0	0	0
Cash flow from operations	9,422	33,778	16,899	27,427	23,826
Capital expenditures	(18,228)	(33,937)	(18,654)	(29,000)	(24,000)
Change in investments	2,980	23,082	(6,000)	0	(2,000)
Other investing cash flows	4,175	3,305	2,996	3,424	3,978
Cash flow from investing	(11,073)	(7,549)	(21,658)	(25,576)	(22,022)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	1,669	(8,465)	0	0	(2,000)
Interest expenses	(2,528)	(2,743)	(2,246)	(1,838)	(1,566)
Dividends paid	0	(509)	(76)	(302)	(335)
Other financing cash flows	1,724	(4,044)	0	0	0
Cash flow from financing	866	(15,761)	(2,322)	(2,140)	(3,901)
Changes in cash and cash eq.	(786)	10,468	(7,081)	(288)	(2,097)
Closing cash and cash eq.	601	11,069	3,987	3,699	4,733

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	2,587.0	3,290.0	2,520.9	3,017.0	3,354.3
Adjusted EPS	2,587.0	3,290.0	2,520.9	3,017.0	3,354.3
Dividend per share	0.0	100.0	17.8	71.2	79.1
Book value per share	25,125.7	28,312.1	30,815.2	33,761.0	37,036.2

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	1.9	1.9	1.9	1.5	1.4
EV/EBITDA	13.5	13.1	11.9	10.0	9.1
Adjusted P/E	26.5	20.8	27.2	22.7	20.4
P/BV	2.7	2.4	2.2	2.0	1.8

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	74.4	99.7	74.8	74.8	74.8
Interest burden (PBT/EBIT)	79.1	83.6	86.4	90.3	92.4
EBIT margin (EBIT/Revenue)	11.8	10.5	10.7	10.0	9.9
Asset turnover (Revenue/Avg TA)	130.5	121.3	109.4	123.4	126.3
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.1	1.1	1.1
Adjusted ROAE	10.8	12.3	8.5	9.3	9.5

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	7.2	1.0	(3.3)	21.9	10.5
EBITDA	1.0	3.3	7.4	16.4	11.8
Adjusted EPS	0.4	27.2	(23.4)	19.7	11.2
Profitability & Return ratios (%)					
EBITDA margin	14.2	14.5	16.1	15.4	15.6
EBIT margin	11.8	10.5	10.7	10.0	9.9
Adjusted profit margin	6.9	8.7	6.9	6.8	6.8
Adjusted ROAE	10.3	11.6	8.2	8.9	9.1
ROCE	9.4	12.0	8.5	9.0	9.1
Working capital days (days)					
Receivables	52	53	56	55	55
Inventory	59	66	68	67	68
Payables	76	90	95	89	90
Ratios (x)					
Gross asset turnover	0.6	0.8	0.9	0.9	1.0
Current ratio	1.2	1.2	1.2	1.1	1.1
Net interest coverage ratio	7.4	6.1	7.4	10.3	13.1
Adjusted debt/equity	0.2	0.1	0.1	0.1	0.1

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

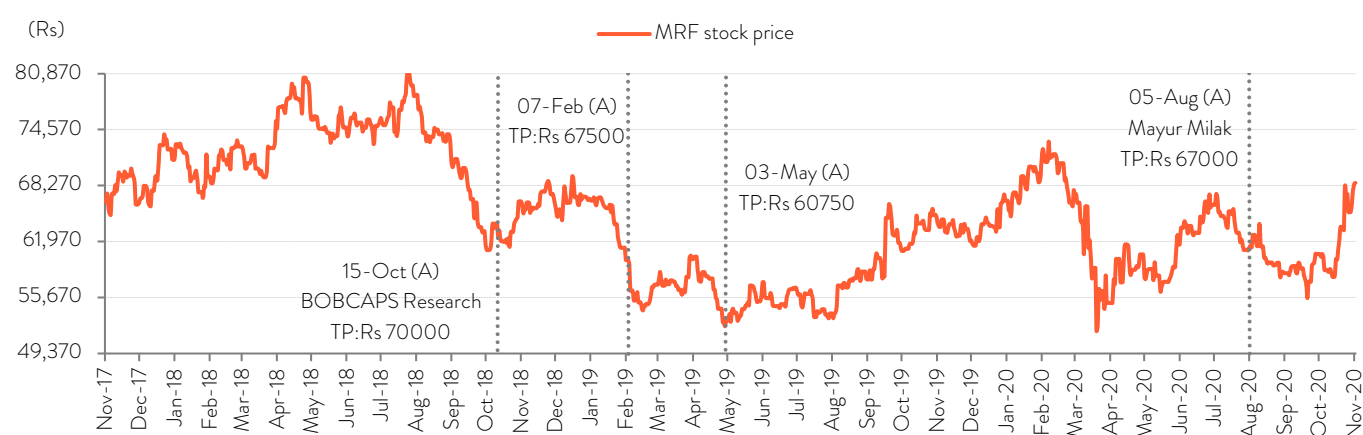
ADD – Expected return from >+5% to +15%

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): MRF (MRF IN)



B – Buy, A – Add, R – Reduce, S – Sell

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