MRF Limited

October 17, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-convertible debentures	150.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned
Total long-term instruments	**150.00 (₹ One hundred fifty crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of MRF Limited (MRF) continues to derive strength from its long operational track record, strong market leadership position in the domestic tyre industry characterised by presence across all the user segments and strong presence in the replacement market aided by wide distribution network and strong brand image with diverse product offering. The rating considers the company's healthy financial risk profile characterised by its sizeable net worth, stable earnings, strong liquidity position and comfortable debt protection metrics. These strengths are, however, partially offset by the vulnerability of MRF's revenues to the cyclicality in automotive demand and susceptibility of margins to the volatile raw material prices, both natural rubber and crude-linked derivatives and competitive nature of the industry.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade: NA

Negative factors – Factors that could lead to negative rating action/downgrade:

- Continuous decline in the market share along with increase in debt levels with net overall gearing (including dealer deposits) above 0.50x and net debt/PBILDT > 1x on a sustained basis
- Sharp deterioration in MRF's profitability indicators or debt coverage metrics- negatively impacting its credit profile.

Detailed description of the key rating drivers

Key rating strengths

Market leadership position in domestic tyre industry with pan-market presence: MRF continues to be the market leader in the domestic tyre industry with significant presence in the entire segment. The company also has established presence in almost all sub-segments of the tyre industry, viz., two-wheeler, truck and bus, passenger car and jeep, small commercial vehicles (SCVs) and light commercial vehicles (LCVs), farm, off the road (OTR) and aviation, etc. During FY22 (refers to the period April 1 to March 31), share of MRF in the total estimated industry production (Source: Automotive Tyre Manufacturers Association) (ATMA)) stood at around 29-30% while revenue market share stood at 25%, reflecting continuation of market leadership position.

Strong brand image and wide distribution network: With long track record of operations and well-established pan-India distribution network, the company enjoys strong brand image. As on March 31, 2022, the company had active network of more than 5,000 dealers, translating into strong presence in the replacement market which is critical to the overall profitability. MRF has a strong presence in the replacement market which contributed to around 73% of the total revenue during FY22 (PY: 75%). With such high share of revenue coming from the replacement market, risks arising out of strong competition and the cyclical nature of the automobile industry are relatively limited. In addition to this, the company has strong export revenue which contributed up to 9.6% of the total revenue in FY22 (PY: 8%). Major export destinations of MRF during FY22 continued to be Bangladesh, Philippines and Indonesia.

Improved revenue growth; momentum expected to continue: During FY22, the strong demand scenario has resulted in the total operating income increasing by around 20% (sales volume increased by 8.54% and realisation improved by 7.45%). The company has witnessed strong growth in the Truck and Bus Radial Segment of 25%, Passenger Line Radial Tyres of 27% and 2-Wheeler Segment of 37%. The improved performance comes on the back of strong export market and improved demand

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

from the original equipment manufacturer (OEM) market. The growth momentum continued in FY23 with Q1FY23 sales increasing by 36% on a y-o-y basis and 8% on a sequential basis. The y-o-y growth was mainly on account of lower base of Q1FY22 sales which was impacted due to COVID-19 second wave, due to shut down of OEMs and dealer networks for about a month (April-May 2021) in some of the states.
Going forward the company is expecting a strong growth in the radial tyre segment, passenger car radials (PCR) and light and medium commercial vehicle (LMCV) segments. Unlike other market players the company is not planning to majorly expand its export revenues and choses to focus on the domestic market primarily.

Diversified product portfolio and wide distribution network: The customer-wise revenue mix of MRF stood at 17%: 73%: 10% for the OEM: replacement: export customers respectively in FY22 and as against 16%: 75%: 8% in FY21. Higher revenue share from the relatively stable and margin-accretive replacement segment continues to lend stability to MRF's revenue profile. While the overall demand in the replacement segment was robust in FY22 and supported the volumes, the growth in OEM and export segment was higher than replacement in FY22. The export revenue saw the highest growth on y-o-y basis of 34.18% followed by OEM market (26.41%) and replacement market (14%).
MRF's operational profile remains strong, supported by its established presence across products. The segment-wise revenue mix for FY22 stands at Truck & Bus - 49%, 2 Wheeler & 3 Wheeler - 15%, LCV - 13%, Passenger car - 11% and others - 13%. The diversified segmental mix supports MRF favourably, especially during periods of industry slowdown.

Strong financial risk profile: The company's financial position continues to remain strong and comfortable. The overall gearing was comfortable at 0.26x as on March 31, 2022 (0.30x as on March 31, 2021). MRF also had cash and liquid investments of ₹4,287 crore as on March 31, 2022, resulting in a negative net debt. During FY22, the interest coverage ratio (PBILDT/ Interest) stood at 8.08 times (PY: 10.57 times) and total debt to PBILDT stood at 1.8x (PY: 1.33x) as on March 31, 2022. The company has discontinued its supplier finance program, to support the domestic rubber dealers. Due to this the LC / acceptances have reduced substantially from ₹1,598 crore to ₹427 crore.
For FY22, the operating cycle of the company improved marginally to 57 days (PY: 58 days) despite the sharp rise seen in the prices of raw material owing to the geopolitical instability.

Key rating weaknesses

Margins moderation amid raw material price volatility and vulnerable to cyclicality in automotive demand:
MRF's performance is dependent on automotive demand, which exhibits cyclicality in most segments. With over half of the revenues derived from the commercial segment, any slowdown in economic growth or pace of investments in infrastructure and allied sectors can affect demand, as witnessed in the past. However, with bulk of revenues from the replacement segment, MRF is relatively better placed.
Inherent to the tyre industry, raw material cost forms the largest cost head, accounting for 60-65% of the total cost. Rubber and crude oil are global commodities and prices vary across all international markets. The tyre business is highly sensitive to movement in rubber & crude oil prices. During FY22 and Q1FY23 the raw material prices witnessed an unprecedent increase. In March 2022 the prices saw a sharp jump on account of the geo-political uncertainties and the Russia-Ukraine war. The prices of natural rubber witnessed a sharp rise for the last 15-18 months on account of withholding of exports by countries as well COVID-19 impact. However, the prices of natural rubber seem to have peaked in June 2022 as the spot for natural rubber (Thailand spot/RSS4 Kottayam) fell from its Q1FY23 average.
In light of the above, during FY22, despite the volume and better realisation the profitability margins (PBILDT) dipped in from 18% in FY21 to 11% in FY22 primarily due to the unprecedent increase in cost of raw materials. Despite timely price hikes by tyre companies over the last 6-8 quarters, RM cost inflation has continued to rise, leading to a significant margin compression. The prices of raw material remained inflated in Q1FY23 as well in light of the geopolitical instability resulting of in a further decline in the PBILDT margin to 9%. The prices of key raw material have softened in the recent past and the effect of the same shall be visible from H2FY23.

Competition nature of industry: The group faces competition from other established players in the domestic tyre manufacturing though MRF has been able to retain its overall market position across various segments over the years. The domestic tyre industry witnessed sizeable investments towards capacity addition over the last few years by various players. MRF has also spent towards capacity addition in the last two years and this in turn had impacted its return on capital employed (RoCEs) levels compared to its past averages.

ESG profile: The tyre sector has an impact on the environment owing to emissions, generation of waste and consumption of water. Tyre manufacturing process is dependent on natural resources, such as natural rubber, as key raw materials. Due to the nature of operations affecting local community and health hazards involved in the manufacturing process, the sector also has a social impact. MRF has consistently focused on mitigating its environmental and social risks. CARE Ratings Limited (CARE Ratings) believes MRF's commitment to ESG will support its credit profile.

Environmental: To improve the sustainability, the company is working on the multipronged 4R strategy, that is reduce (by reduction in CO2 emission by low RR tyres) – recycle (promoting recycled materials from end-of-life tyres as raw materials for new tyres) – reuse (by making multiple re-treadable tyres and doing the retreading process) and renewable (by promoting critical tyre raw materials from environmentally sustainable sources such as biomass, waste materials, etc.). Furthermore, about 2% of the raw materials are recycled materials and 94% of the manufactured raw materials are sourced from suppliers who have ISO 14001 certification.

Social: On the social front, the company has a rich organisational culture rooted in its core values of respect for people. The company's CSR activities are directed towards fulfilling the needs of various communities with regard to promotion of education, healthcare and public infrastructure. MRF also supports skill-development initiatives for increasing employability of rural youth and also for sports.

Governance: The company has always adopted high standards of governance. Its business processes are crafted to deliver long-term value for investors through prudent fiscal practices and sound business strategy combined with fair disclosure practices.

Liquidity: Strong:

Liquidity is marked by strong cash accruals expected to be in the range of ₹2,000 - ₹2,500 crore against the scheduled repayment obligations of ₹289 crore during Q3FY23. Cash and liquid investments as on June 30, 2022, stood at ₹3,024 crore and average fund-based working capital utilisation of MRF for the 12-month period ended June 2022 remained at around 18.5%. MRF has annual capex commitments to the tune of ₹1,000-1,500 crore which will largely be taken care out of the sufficient accruals it is generating.

Analytical approach: Consolidated owing to strong operational and strategic linkages with its subsidiaries. The entities are in the same line of business, sell under common brands and have common management and control. The entities considered in consolidation are mentioned in **Annexure 6** below.

Change in approach: CARE Ratings Limited (CARE Ratings) had earlier taken a standalone approach. However, as the subsidiaries are also in similar line of business and have operational & management linkages with MRF Ltd, the approach is being changed to Consolidated.

Applicable criteria

Consolidation

Financial Ratios – Non financial Sector

Liquidity Analysis of Non-financial sector entities

Rating Outlook and Credit Watch

Short Term Instruments

Auto Ancillary Companies

Manufacturing Companies

Definition of Default

About the company

MRF Ltd (MRF), India's largest manufacturer of automotive tyres and tubes, was incorporated as a private limited company in 1960 to take over the business of a partnership firm 'The Madras Rubber Factory', started by the late K M Mammen Mapillai. Over the years, the company has established a country-wide dealer network and enjoys a strong brand equity. MRF had an installed tyre manufacturing capacity of 74.51 million tyres and tubes manufacturing capacity of 47.46 million units as on March 31, 2021, spread over nine plants across India. Other business operations of the company consist of manufacturing pre-cured treads, tread rubber, specialty paints, etc.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (UA)
Total operating income	16,185	19,317	5,696
PBILDT	2,975.65	2,049.79	527.84
PAT	1,277.07	669.24	123.6
Overall gearing (times)	0.30	0.34	NA
Interest coverage (times)	10.57	8.08	8.00

A: Audited, UA: Un-Audited, NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (MM-YY)	Coupon Rate (%)	Maturity Date (MM-YY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-Convertible Debentures (Proposed)		-	-	-	150.00	CARE AAA; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Working Capital limits	LT	2200.00	CARE AAA; Stable	1)CARE AAA; Stable (06-Oct-22)	1)CARE AAA; Stable (29-Sep-21) 2)CARE AAA; Stable (13-Apr-21)	1)CARE AAA; Stable (30-Sep-20)	1)CARE AAA; Stable (04-Oct-19)
2	Non-fund-based - ST-BG/LC	ST	1500.00	CARE A1+	1)CARE A1+ (06-Oct-22)	1)CARE A1+ (29-Sep-21) 2)CARE A1+ (13-Apr-21)	1)CARE A1+ (30-Sep-20)	1)CARE A1+ (04-Oct-19)
3	Debentures-Non-convertible	LT	-	-	-	-	1)Withdrawn (30-Sep-20)	1)CARE AAA; Stable

	debentures							(04-Oct-19)
4	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (30-Sep-20)	1)CARE AAA; Stable (04-Oct-19)
5	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (29-Sep-21)	1)CARE AAA; Stable (30-Sep-20)	1)CARE AAA; Stable (04-Oct-19)
6	Fixed deposit	LT	-	-	-	-	1)Withdrawn (30-Sep-20)	1)CARE AAA (FD); Stable (04-Oct-19)
7	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (30-Sep-20)	1)CARE AAA; Stable (04-Oct-19)
8	Fund-based/Non-fund-based-LT/ST	LT/ST*	1000.00	CARE AAA; Stable / CARE A1+	1)CARE AAA; Stable / CARE A1+ (06-Oct-22)	1)CARE AAA; Stable / CARE A1+ (29-Sep-21) 2)CARE AAA; Stable / CARE A1+ (13-Apr-21)	1)CARE AAA; Stable / CARE A1+ (30-Sep-20)	-
9	Fund-based - LT-Term loan	LT	740.00	CARE AAA; Stable	1)CARE AAA; Stable (06-Oct-22)	1)CARE AAA; Stable (29-Sep-21) 2)CARE AAA; Stable (13-Apr-21)	-	-
10	Debentures-Non-convertible debentures	LT	150.00	CARE AAA; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of bank facilities please click here

Annexure-6: Entities being consolidated

Companies consider under consideration	Subsidiary/Associate	% of share held
MRF Corp Limited	Subsidiary	100
MRF International Limited	Subsidiary	100
MRF Lanka Pvt Limited	Subsidiary	100
MRF SG PTE Ltd	Subsidiary	100

Note on complexity levels of the rated instruments: CARE Ratings Limited (CARE Ratings) has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Ravleen Sethi
Phone: 9818032229
E-mail: ravleen.sethi@careedge.in

Relationship contact
Name: Pradeep Kumar V
Phone: +91-98407 54521
E-mail: pradeep.kumar@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in