CareEdge RATINGS

MRF Limited (Revised)

October 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	2,799.99 (Reduced from 2,940.00)	CARE AAA; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	1,000.00	CARE AAA; Stable / CARE A1+	Reaffirmed
Short Term Bank Facilities	1,500.00	CARE A1+	Reaffirmed
Non Convertible Debentures	150.00	CARE AAA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to MRF Limited (MRF) continues to derive strength from its long operational track record, strong brand image, 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 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 Limited'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: Factors likely to lead to rating actions

Positive factors - NA

Negative factors

- Continuous decline in 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.

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.

Outlook: Stable

Stable outlook for MRF Ltd reflects its likelihood to maintain its market position which coupled with healthy demand scenario and improving profitability for tyre players shall enable it to sustain healthy operating and financial performance over the medium term.

Detailed description of the key rating drivers:

Key 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. MRF's share in the total estimated industry production (Source: Automotive Tyre Manufacturers Association) (ATMA)) stands at around 29-30% while revenue market share in the tyre industry stands 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, 2023, 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 71% of the total revenue during FY23 (PY: 73%). 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 8% of the total revenue in FY23 (PY: 9.6%). Major export destinations of MRF during FY23 continued to be Bangladesh, Philippines and Indonesia.

Improved revenue growth & operating margins; momentum expected to continue: During FY23, the strong demand scenario has resulted in the total operating income increasing by around 20% (sales volume increased by 10.37% and realisation improved by 10.18%). The company has witnessed strong revenue growth in the Truck and Bus Radial Segment of 31%, Truck and Bus Bias Segment of 12%, Passenger Line Radial Tyres of 30% and 2-Wheeler Segment of 20%. During FY23, the revenue

[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) segment witnessed the highest growth of 46% on an overall basis owing to the robust demand. The growth momentum continued in FY23 with Q1FY23 sales increasing by 13% on a y-o-y basis and 10% on a sequential basis.
The consolidated EBITDA margin improved to 10.41% in FY23 (FY22: 10%), due to a reduction in both rubber and crude-led input prices especially from H2FY23, coupled with reduced employee costs, improved operating leverage and a better product mix. This can also be witnessed in the quarterly results of the company wherein the PBILDT margin for Q2FY23 stood at 8.24% while the margin for Q3FY23 and Q4FY23 stood at 9.95% and 14.61%. The company undertook price hikes in the replacement and export markets during FY23, which should also support margin growth. Furthermore, in Q1FY24 the PBILDT margin improved significantly and stood at 17.54% as well which is expected to be maintained in FY24. CARE Ratings Limited (CARE Ratings) expects an enhanced EBITDA margin profile due to an improvement in the product mix caused by the new facilities considerably ramping-up operations in FY24-FY25.

Diversified product portfolio and wide distribution network: The customer-wise revenue mix of MRF stood at 21%: 71%: 8% for the OEM: replacement: export customers respectively in FY23 and as against 17%: 73%: 10% in FY22. Higher revenue share from the relatively stable and margin-accretive replacement segment continues to lend stability to MRF's revenue profile. During FY23, the OEM segment witnessed a pent-up demand as the volumes for passenger vehicles surged significantly. The increased demand from the OEM segment is also reflected in the sales mix. Export revenue growth was largely modest with stagnant volumes growth in FY23 Y-o-Y. MRF's operational profile remains strong, supported by its established presence across products. The segment-wise revenue mix for FY23 stands at Truck & Bus - 47%, 2-Wheeler & 3 Wheeler - 15%, SCV/LCV - 12%, Passenger car - 12% and others - 13%. The diversified segmental mix supports MRF favourably, especially during periods of industry slowdown.

Strong financial risk profile: The financial risk profile of MRF continues to remain comfortable with low net overall gearing levels of 0.08x (PY: 0.07x) and debt equity ratio of 0.11x (PY: 0.11x) as on March 31, 2023. Total debt (excluding LC acceptances and dealer deposit) as on June 30, 2023 stood at Rs. 1,594.99 crore, while the cash & equivalents stood at ₹3,487 crore.
Debt coverage indicators stood comfortable as interest coverage ratio (PBILDT/ Interest) stood at 3.32 times (PY: 7.29 times) and Total debt to PBILDT stood at 1.43x (PY: 1.9x) as on March 31, 2023. The company's LC-backed Acceptances as on March 31, 2023 stood at ₹413 crore which is largely in line with that on March 31, 2022.

Key weaknesses

Operating profitability susceptible to 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. In FY22 the company witnessed an unprecedented rise in the prices of the raw material which further aggravated in H1FY23. The cost pressure for the company continued to be at peak levels until July-August 2022. Thereafter, the prices of crude as well as natural rubber gradually softened. The benefit of the reduced crude prices and natural rubber prices started reflecting in the profit margin of the company with a lag.
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.

Competitive 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 (RoCE) levels compared to its past averages.

Liquidity: Strong

Liquidity is marked by strong cash accruals expected to be in the range of around ₹3,000 - ₹3,500 crore against the scheduled repayment obligations of ₹150 crore during FY24 and ₹100 crore in FY25 and ₹352 crore in FY26. Cash and liquid investments as on June 30, 2023 stood at ₹3,487 crore and average fund-based working capital utilization of MRF for the 12-month period ended June 2023 remained at 26%. In FY24 the company has planned capex of ₹3,200 crore which will be primarily funded through internal accruals and cash balance which is available with the company. With adjusted overall gearing of 0.31 times (including dealer deposit) as on March 31, 2023 (PY: 0.35 times), MRF has sufficient gearing headroom to raise additional debt for its capex if required. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year.

Environment, social, and governance (ESG) risks: 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 believes MRF's commitment to ESG will support its credit profile.
Environment –

- Agreements have been signed for purchasing solar power for the plants in Tamil Nadu and hybrid power (solar and wind) for the Gujarat plant which will reduce the carbon footprint
- Replacement of furnace oil-based steam generation with alternate gas-based steam generation and use of biomass as alternate fuel for boilers have been initiated.
- Construction of waste-water treatment facility in several plants is underway. Agreements have been signed for using treated municipal sewage water at the Perambalur plant. The treated water will be used in the manufacturing process.
- Most of MRF's purchases are from suppliers in the A and A+ categories (who are governed by MRF's Supplier Sustainable Policy and Green Procurement Policy) as well as from B category suppliers who are ISO 14001 certified.

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.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Auto Ancillary Companies
Manufacturing Companies
Rating Outlook and Credit Watch
Short Term Instruments
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Tyres & Rubber Products

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 80.78 million tyres and tubes manufacturing capacity of 47.37 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) - Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	19164	22997	6440
PBILDT	1916	2393	1130
PAT	669	769	589
Overall gearing (times)	0.26	0.23	-
Interest coverage (times)	7.29	7.32	13.42

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Brief Financials (₹ crore) - Standalone	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	18,837	22,567	6397
PBILDT	1,877	2,340	1188

PAT	647	816	581
Overall gearing (times)	0.21	0.20	-
Interest coverage (times)	7.38	7.70	15.22

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE883A08016	24/02/2023	7.00	24/02/2026	150.00	CARE AAA; Stable
Fund-based - LT-Term Loan	-	-	-	01/06/2027	599.99	CARE AAA; Stable
Fund-based - LT-Working Capital Limits	-	-	-	-	2200.00	CARE AAA; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	-	1000.00	CARE AAA; Stable / CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	-	1500.00	CARE A1+

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 2023-2024	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
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	1)CARE AAA; Stable (30-Sep-20)

							(13-Apr-21)	
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)
3	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (30-Sep-20)
4	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (30-Sep-20)
5	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (29-Sep-21)	1)CARE AAA; Stable (30-Sep-20)
6	Fixed Deposit	LT	-	-	-	-	-	1)Withdrawn (30-Sep-20)
7	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (30-Sep-20)
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	599.99	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	-	1)CARE AAA; Stable (17-Oct-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT-Working Capital Limits	Simple
4	Fund-based/Non-fund-based-LT/ST	Simple
5	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

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

Annexure-6: Entities getting consolidated as on June 30, 2023

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 the complexity levels of the rated instruments: 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.

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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.

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