MRL Tyres Limited

July 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	223.00	CARE BBB+; Stable	Assigned
Long Term / Short Term Bank Facilities	17.00	CARE BBB+; Stable / CARE A2+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of MRL Tyres Limited derives strength from long operational track record of the company and promoter's wide experience in Off the Road (OTR) tyre segment, diversified revenue portfolio with high number of stock keeping units (SKU's), catering to both original equipment manufacturers (OEMs) and replacement market and geographically-diversified operations in more than 120 countries. The ratings also derive comfort from improved operational performance in FY24 (refers to April 01 to March 31), supported by volume growth, coupled with improved profitability margins with adequate liquidity position. However, as a result of the ongoing debt funded capex being undertaken in Gujarat, the leverage and debt coverage indicators are expected to witness some moderation in near future. The rating strengths are, however, partially offset by implementation and subsequent stabilization related risks with respect to the ongoing project, exposure to volatility in the raw material prices, company's exposure to currency risk and competitive intensity in the global OTR market. The company also remains exposed to the vagaries of economic downturns.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the overall gearing below 1.00x on a sustained basis.
- Successful implementation of capex leading to higher growth in TOI with optimum capacity utilization as envisaged along with improvement in PBILDT margin on a sustained basis.

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

- Delay in implementation of capex programme within the specified timelines which may adversely impact company's liquidity.
- Deterioration in the overall gearing above 1.75x and debt coverage indicators.

Analytical approach: Standalone

Outlook: Stable

The "Stable" outlook reflects CARE Ratings' expectation of steady scale of operations across varied countries, along with improvement in profitability margins and financial risk profile.

Detailed description of the key rating drivers:

Key strengths

Long track record of operations with an experienced promoters and management team: MRL Tyres Ltd. is managed by Mr. Gopal Krishan Malhotra (Managing Director) who has experience of around four decades in tyre industry and looks after the overall business of the company. Mr. G.K. Malhotra is assisted by his sons, Mr. Monit Malhotra (Whole Time Director) and Mr. Raghav Malhotra (Whole Time Director). Mr. Monit Malhotra heads the sales, marketing and looks after R&D, strategic initiatives, procurement, HR, etc. having over 2 decades of experience in tyre industry and Mr. Raghav Malhotra looks after the domestic manufacturing and upcoming project including project procurement part of the business. Further, the directors are assisted by a team of professionals who are highly experienced in their respective domain and have prior experience in tyre industry. Promoters have infused funds, from time to time, on need basis as well.

Diversified revenue profile and geographical presence: The company has a diversified revenue profile, catering to both agricultural and industrial segments, including tyres for mining and construction activities. The company has presence in both the Original Equipment Manufacturer (OEM) and replacement segments. In FY24, nearly 77% of the revenue was derived from the replacement segment. The company also has well-diversified geographical presence with around 65% of the revenue coming from Europe. In FY24, nearly 88% of its revenue was derived from the export market (PY: 85%). The company caters to more than 120 countries worldwide with over 2000 Stock Keeping Units (SKUs).

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

Growing scale of operations with volatile profitability margins: The company experienced consistent revenue growth from FY19 till FY22 at a CAGR of 18%. However, the same declined to Rs. 446.48 Cr (PY: Rs. 470.42 Cr) in FY23 due to weakened demand in European markets influenced by adverse global factor such as the Russia-Ukraine war. Further, the company's performance recovered in FY24, with TOI stood at Rs. 509.51 Cr as per provisional financials (prov.), reflecting a ~14% year-on-year growth driven by ~9% increase in sales volume and balance through price hikes. The company was reporting operating margins in the range of 10-12% from the past couple of years, though in FY23 the PBILDT margin declined from 11.02% in FY22 to 7.97% due to rise in raw material (RM) prices mainly rubber and carbon black. Although the company is able to pass on the price hike to end consumers, however with a lag of one quarter. Further, as per provisional financials, the same was recovered in FY24 to 11.80% with softening in the RM prices.

Comfortable financial risk profile: The capital structure of the company is comfortable with the overall gearing remained less than unity from past three fiscals, however slight deterioration was noted year-on-year due to addition of new term loans during FY24 for the ongoing project in Gujarat, as reflected in long term debt-to-equity and overall gearing ratios, which stood at 0.49x and 0.84x, respectively, as on March 31, 2024 (PY: 0.39x and 0.77x, respectively). Further, the Interest coverage ratio is comfortable at 5.88x (PY: 3.48x), however total debt/GCA is at moderate level and stood at 3.54x (PY: 4.57x) in FY24 (prov.). Going forward, financial profile deterioration is expected due to increased debt levels for ongoing capex in Gujarat.

Key weaknesses

Project Implementation and Stabilization Risk: Company is setting up new manufacturing plant for agriculture and OTR Tyres with an annual capacity of 45 MT/day. The project cost of Rs. 286.05 Cr is to be funded in debt-to-equity ratio of 3:1 (already tied-up, yet to be fully disbursed). The project is scheduled to commence from July 01, 2025, aims to enhance revenue and profitability through operational cost reduction due to locational advantage and saving in logistics cost, manpower cost due to automation etc. However, successful implementation of the project and its stabilization shall remain a key monitorable.

Margins susceptible to volatility in raw material prices and currency risk: MRL uses natural rubber, synthetic rubber and crude derivates like carbon black as the raw material, highly volatile in nature. The prices of raw material account for around 62% of its aggregate production costs. Hence, the company remains exposed to movement in rubber and crude prices and any adverse movement in raw material can impact the profitability of the company. However, the company has a cost-plus mechanism wherein any movement in raw material price is passed on to the customers, albeit with a time lag of one quarter. Raw materials are sourced through both domestic and overseas suppliers. Further, company mitigates foreign currency fluctuation risk through natural hedging, as exports amount to around Rs. 442 crore and imports of raw material to Rs. 185.37 crore during the fiscal year 2024. The company has also booked net gain of Rs. 3.79 crore in FY24 on foreign currency transactions.

Intense competition from industry incumbents: Company faces competition from foreign as well as domestic players like Balkrishna Industries, ATG Group, Mahansaria, Bridgestone, Michelin, Goodyear, Continental, Pirelli etc. The company's ability to garner incremental market share after commissioning of new project amidst competition and improving profitability without any adverse impact on the capital structure shall remain a key monitorable.

Liquidity: Adequate

Liquidity is marked by sufficient cash accruals to repayment obligations, unutilized bank limits and cash balance. Gross Cash Accruals is expected to the tune of Rs.44.31 crore in FY25 against scheduled term loan repayments of only Rs.11.22 crore. The liquidity of the company is characterized by an above unity current ratio since last 5 fiscal years. Further, company has undertaken capex of Rs.286.05 crore, being funded in debt-equity ratio of 3:1. The operating cycle of the company stood at 75 days during FY24. However, average working capital utilization of the company remained around ~34% for the last twelve months ending March 2024.

Applicable criteria

- Definition of Default
- Liquidity Analysis of Non-financial sector entities
- Rating Outlook and Rating Watch
- Manufacturing Companies
- Financial Ratios – Non financial Sector
- Auto Components & Equipments
- Short Term Instruments

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

The MRL Group was established by Mr. C.L. Malhotra in 1954 and was initially engaged in the manufacturing of Tyre Retreading Material. In 1978, Mr. C.L. Malhotra further incorporated Malhotra Rubbers Private Limited & later became a Limited Company in August 1994. The company was renamed MRL Tyres Limited in 2016. Currently, the company is owned and managed by Mr. Gopal Krishan Malhotra (son of the late Mr. C.L. Malhotra) and his sons, Mr. Monit Malhotra and Mr. Raghav Malhotra. MRL is engaged in the manufacturing of Specialty Tyres, known as 'Off Highway Tyres' (OHT) which caters to Agriculture, Industrial, Construction, Commercial Vehicles, Earthmoving, Mining, Port, Lawn & Garden and All-Terrain Vehicle (ATVs) Tyres with currently over 2000 SKUs. About 85% of company's tyre production is exported, with 65% to Europe. Other major markets include the U.S.A., U.K., Australia, Argentina, Brazil, France, Greece, Spain, Germany, South Africa, Dubai, Turkey, Poland, Canada, Italy, Philippines, Afghanistan, Syria, Mauritius, Bangladesh etc. The MRL Group currently operates in over 120 countries worldwide. The company has network of 1800 dealers and 28 depots across India. Currently, company is operating in Greater Noida, Uttar Pradesh. The annual installed capacity is of 26800 MT with current utilization at 76%.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)
Total operating income	446.48	509.51
PBILDT	35.60	60.14
PAT	8.69	23.20
Overall gearing (times)	0.79	0.84
Interest coverage (times)	3.48	5.88

A: Audited P: Provisional; 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
Fund-based - LT-Term Loan		-	-	01.07.2033	212.00	CARE BBB+; Stable
Fund-based - LT-Working Capital Limits		-	-	-	11.00	CARE BBB+; Stable
Fund-based/Non-fund-based-LT/ST		-	-	-	17.00	CARE BBB+; Stable / CARE A2+

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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	212.00	CARE BBB+; Stable				
2	Fund-based - LT-Working Capital Limits	LT	11.00	CARE BBB+; Stable				
3	Fund-based/Non-fund-based-LT/ST	LT/ST	17.00	CARE BBB+; Stable / CARE A2+				

LT: Long term; LT/ST: 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	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

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

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:

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