

**MRF Limited**  
September 29, 2021

**Ratings**

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-Term Bank Facilities	2,300.00 (Enhanced from 2,000.00)	<b>CARE AAA; Stable (Triple A; Outlook: Stable)</b>	<b>Reaffirmed</b>
Long-Term / Short-Term Bank Facilities (LT/ST)	400.00 (Reduced from 700.00)	<b>CARE AAA; Stable / CARE A1+ (Triple A; Outlook: Stable/ A One Plus)</b>	<b>Reaffirmed</b>
Short-Term Bank Facilities	1,000.00	<b>CARE A1+ (A One Plus)</b>	<b>Reaffirmed</b>
<b>Total Bank Facilities</b>	<b>3,700.00 (Rs. Three Thousand Seven Hundred Crore Only)</b>		
Non Convertible Debentures (Series III)	-	-	<b>Withdrawn</b>

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & 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 characterized by presence across all the user segments and strong presence in the replacement market aided by wide distribution network, strong brand image with diverse product offering and strong financial risk profile.*

*The rating strengths are, however, partially offset by exposure of the company's profitability to volatility in the raw material prices.*

*CARE Ratings has withdrawn the rating assigned to the non-convertible debenture (NCD) (Series III – ISIN: INE883A07174) with immediate effect as the company has repaid the aforementioned NCD issue in full and there is no amount outstanding under the issue as on date.*

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 Total debt/PBILDT > 2x on a sustained basis.

**Detailed description of the key rating drivers****Key Rating Strengths****Market leadership position in domestic tyre industry with diverse product offerings**

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 (SCV) and Light Commercial Vehicles (LCV), farm, Off The Road (OTR) and aviation, etc. During FY21 (refers to the period April 1 to March 31), share of MRF in the total estimated industry production (Source: ATMA) stood at 29%, reflecting continuation of market leadership position.

MRF commissioned phase 1 of its new greenfield project at Dahej, Gujarat, during FY20, catering to both domestic as well as export demand. Furthermore, the company is undertaking capacity expansion at few of its plants (in Telangana and Tamil Nadu) to meet increasing demand.

**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, 2021, 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. The company's share of income from the replacement market has remained relatively high over the years.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

For FY21, share of replacement market amounted to approximately 76% (PY: 72%) of MRF's sales by value. With such high share of the revenue coming from the replacement market, risks arising out of the cyclical nature of the automobile industry are also relatively limited. It is worthwhile to note that margins in replacement market for major sub segments are significantly higher than OEM.

#### ***Improvement profitability margins during FY21***

During FY21, MRF's total income de-grew marginally (by 1%) to Rs.16,112 crore as against Rs.16,310 crore in FY20. Tyre production for MRF declined by 8% during FY21 on account of unfavourable demand scenario during Q1FY21 due to Covid-19 impact. However, the company witnessed strong recovery in demand during H2FY21. During FY21, capacity utilization of the company declined to 70% from 81% in FY20 due to substantial reduction in demand during Q1FY21 on account of Covid-19 pandemic induced nation-wide lockdowns and addition of new capacities. The PBILDT margin improved y-o-y to 19.22% (PY: 16.25%) in FY21, on the back of benign input prices during H1FY21. The company's return on capital employed (ROCE) increased to 13.27% in FY21 (PY: 12.13%), lifted by improved profitability. Also, to be noted that the company's ROCE levels in the last two years (FY20 and FY21) had remained lower vis-à-vis previous years due to high capex incurrence to augment its capacities during the period.

For Q1FY22, the company's total income improved significantly y-o-y on account of low base (due to Covid-induced lockdowns in Q1FY21) to Rs.4,220 crore (PY: 2,474 crore). The PBILDT margin declined to 13.73% (Q1FY21: 15.14%), due to rise in the input cost items (especially rubber) and impact on sales volumes due to Covid-19 second wave.

#### ***Strong financial risk profile***

The company's financial position continues to remain strong and comfortable. The overall gearing was comfortable at 0.11x as on March 31, 2021 (0.15x as on March 31, 2020). MRF also had cash and liquid investments of Rs.5,960 crore as on March 31, 2021. Against the cash balances, total debt as on March 31, 2021, stood at Rs.1,486 crore, indicating negative net debt. During FY21, interest coverage ratio (PBILDT/ Interest) stood at 11.44 times (PY: 9.43 times) and total debt to PBILDT stood at 0.66x (PY: 0.48x) as on March 31, 2021.

For FY21, the operating cycle of the company improved to 39 days (PY: 68 days) due to increase in average creditors period. As on March 31, 2021, the company's trade payables increased y-o-y to Rs.4,245 crore (PY: Rs.2,340 crore) on account of introduction of a supplier finance program by the company.

#### ***Industry outlook***

Tyre industry generates sales from three markets namely i) Replacement ii) OEM and iii) Exports. In-general, total industry sales in the replacement market accounts for 65% of total sales followed by OEM (25%) and exports (10%).

During FY21, the automobile industry witnessed continued decline in demand aggravated by Covid-19 pandemic. However, it is noteworthy that by the end of the year, the automobiles industry witnessed strong recovery. During FY21, 2W segment declined 13% y-o-y, while 3W fell by 66% y-o-y, CV declined by 21% and PV declined least at 2%. Only tractors sales remained unaffected and grew by 24% y-o-y. The decline in automobile production resulted in drop in sales in the OEM market for tyre industry during FY21. The overall tyre sales fell by 8% y-o-y in FY21.

During Q1FY22, sales across all tyre segments increased significantly due to low base of Q1FY21. However, on sequential basis, sales declined in comparison to Q4FY21 due to Covid second wave. However, given the momentum in economic pick-up during current year, the tyre sales are expected to grow positively during FY22, as both OEM and replacement demand to witness healthy recovery.

#### ***Key Rating Weaknesses***

##### ***Industry characterized by intense competition***

Indian tyre industry is intensely competitive with the entry of several multinationals and scaling-up of operations by the domestic players. MRF has continued to maintain the leadership position in the Indian tyre industry for the last several years despite the increasing competition. Despite intense competition, the company is expected to maintain its market share across segments given its leadership position, diverse product offerings, strong distribution network and ramp-up in production at recently commissioned capacities. However, the same limits the pricing flexibility of the company to an extent.

##### ***Profitability of the players in the industry is influenced by raw material prices***

Inherent to the tyre industry, raw material cost forms the largest cost head, accounting for 60%-65% of the total cost for MRF. Natural Rubber (NR) is the major raw material used in tyre production and constitutes significant portion of raw material cost. The prices of natural rubber depends on international supply-demand situation and its area under cultivation, and prices of other key raw materials including carbon black are based on crude oil prices.

During FY21, domestic NR prices remained benign until Aug-Sep 2020 due to Covid induced nation-wide lockdown during Q1FY21. However, subsequently with improvement in pent-up demand for automotive, the prices started inching upwards.

The average prices reached almost Rs.160/Kg during Q4FY21 from around Rs.120/Kg during Q1FY21. The average prices further increased by around 8% during 5mFY22 (refers to the period April 01 to August 31) from Q4FY21 levels. However, during September 2021 month, the prices have started softening and expected to moderate further during H2FY22. During last few quarters, the company has taken price hikes on products to combat the increased input costs to an extent.

#### **Liquidity: Strong**

Liquidity is marked by strong cash accruals against relatively lower debt repayment obligations. Cash and liquid investments as on June 30, 2021, stood at Rs.4,416 crore and average fund-based working capital utilization of MRF for the last 12-month period ended June 2021 stood at around 3%. The debt repayment obligation for MRF (incl. lease liabilities) stands at Rs.322 crore against gross cash accruals achieved of Rs.2,347 crore in FY21.

**Analytical approach:** Standalone

#### **Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch' to credit ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Financial ratios - Non-Financial Sector](#)

[Rating Methodology - Manufacturing companies](#)

[Rating Methodology - Auto Ancillary Companies](#)

#### **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 Mr 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 capacity of 71.32 million tyres 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 (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	16,310	16,112
PBILDT	2,650	3,096
PAT	1,395	1,249
Overall gearing (times)	0.15	0.11
Interest coverage (times)	9.43	11.44

A: Audited;

**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 for this company:** Annexure 4

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits	-	-	-	-	1700.00	CARE AAA; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	1000.00	CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	400.00	CARE AAA; Stable / CARE A1+
Fund-based - LT-Term Loan	-	-	-	-	600.00	CARE AAA; Stable
Debentures-Non Convertible Debentures	INE883A07174	May 27, 2011	10.09	May 27, 2021	0.00	Withdrawn

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Working Capital Limits	LT	1700.00	CARE AAA; Stable	1)CARE AAA; Stable (13-Apr-21)	1)CARE AAA; Stable (30-Sep-20)	1)CARE AAA; Stable (04-Oct-19)	1)CARE AAA; Stable (07-Sep-18)
2	Non-fund-based - ST-BG/LC	ST	1000.00	CARE A1+	1)CARE A1+ (13-Apr-21)	1)CARE A1+ (30-Sep-20)	1)CARE A1+ (04-Oct-19)	1)CARE A1+ (07-Sep-18)
3	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (30-Sep-20)	1)CARE AAA; Stable (04-Oct-19)	1)CARE AAA; Stable (07-Sep-18)
4	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (30-Sep-20)	1)CARE AAA; Stable (04-Oct-19)	1)CARE AAA; Stable (07-Sep-18)
5	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AAA; Stable (30-Sep-20)	1)CARE AAA; Stable (04-Oct-19)	1)CARE AAA; Stable (07-Sep-18)
6	Fixed Deposit	LT	-	-	-	1)Withdrawn (30-Sep-20)	1)CARE AAA (FD); Stable (04-Oct-19)	1)CARE AAA (FD); Stable (07-Sep-18)

7	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (30-Sep-20)	1)CARE AAA; Stable (04-Oct-19)	1)CARE AAA; Stable (07-Sep-18)
8	Fund-based/Non-fund-based-LT/ST	LT/ST*	400.00	CARE AAA; Stable / CARE A1+	1)CARE AAA; Stable / CARE A1+ (13-Apr-21)	1)CARE AAA; Stable / CARE A1+ (30-Sep-20)	-	-
9	Fund-based - LT-Term Loan	LT	600.00	CARE AAA; Stable	1)CARE AAA; Stable (13-Apr-21)	-	-	-

\* Long Term / Short Term

### Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
<b>Bank Facilities (Fund/Non-Fund Based)</b>	
<b>A. Financial covenants</b>	
Not Applicable	-
<b>B. Non-financial covenants</b>	
i) Borrower shall not undertake the following activities, without the prior permission of the Lead Bank in writing	a) Effect any change in the capital structure b) Formulate any scheme of Amalgamation or Reconstruction c) Undertake guarantee obligations on behalf of any third party or any other company other than subsidiary d) Implement any scheme of Expansion/ Diversion/ Modernisation other than routine CAPEX

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

Sr. No	Name of 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	Non-fund-based - ST-BG/LC	Simple

### Annexure 5: Bank Lender Details for this Company

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

**Note on complexity levels of the rated instrument:** 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@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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