

MRF Ltd

September 07, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	2,100	CARE AAA; Stable [Triple A; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	550	CARE A1+ [A One Plus]	Reaffirmed
Total Facilities	2,650 (Rupees Two Thousand Six Hundred and Fifty crore only)		
Proposed Term loan/NCD	100.00	CARE AAA; Stable [Triple A; Outlook: Stable]	Reaffirmed
NCD issue	500.00	CARE AAA; Stable [Triple A; Outlook: Stable]	Reaffirmed
Fixed deposit	50.00	CARE AAA(FD); Stable [Triple A (Fixed deposit); Outlook: Stable]	Reaffirmed
NCD issue (Proposed)	500.00	CARE AAA; Stable [Triple A; Outlook: Stable]	Reaffirmed
Total instruments	1,150 (Rupees One Thousand One Hundred and Fifty Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings continue to derive strength from the long operational track record of MRF Ltd, its strong market leadership position in the domestic tyre industry characterized by presence across all the user segments & strong presence in the replacement market aided by wide distribution network, strong brand image with diverse product offering and favorable financial risk profile. These credit strengths far outweigh the risks including the company's profitability being exposed to volatility in the raw material prices. In light of the intense competition and increasing imports, the ability of the company to continue to maintain its market position while maintaining its capital structure will be the key rating sensitivities.

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 market leader in the domestic tyre industry with significant presence in the entire segment. The company also has a significant 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. Overall market share of MRF Ltd in the domestic tyre segment during FY16 was around 30% in rupee terms. During FY17, share of MRF in total income of top 10 players stood at 28.6%, 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 has strong brand image. As on March 31, 2018, the company had network of more than 161 sales offices and active dealer network of more than 5,000 dealers, translating to a strong presence in the replacement market which is critical to the overall profitability.

Moderation in PBILDT margin on account of increase in input costs during FY18

During FY18, MRF reported total operating income of Rs.14,746 crore as against Rs.13,474 crore in FY17. On account of increase in the input cost of raw materials including natural rubber, crude linked output derivatives like carbon black and synthetic rubber, PBILDT margin during FY18 moderated to 15.42% as against 19.27% in FY17. Domestic natural rubber price remained at higher level of around Rs.150/kg during Q1FY18 before stabilizing at around Rs.130/kg in the subsequent quarter. Thereafter prices of natural rubber stood range bound in the range of Rs.125/kg to Rs.133/kg till June 2018. During Q1FY19, MRF reported 7% growth in the total income to Rs.3,907 crore as against Rs.3,656 in Q1FY18

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

with PBILDT margin of 16.56% during Q1FY19.

Key Rating Weaknesses

Profitability largely influenced by raw material prices

Natural Rubber is the major raw material used in tyre production and constitutes significant portion of raw material cost. In India natural rubber price after attaining a peak price of Rs.239/kg (Domestic) in April 2011 began to exhibit a declining trend and has come down to Rs.93/kg in February 2016. However, from FY17 it has started increasing and had reached a high of Rs.159/kg in February 2017 and continued to remain high during Q1FY18 before stabilising at around Rs.130/kg in the subsequent quarters. Thereafter prices of natural rubber stood range bound in the range of Rs.125/kg to Rs.133/kg till June 2018.

Analytical approach:

Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

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

[CARE's methodology for Short-term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology - Auto Ancillary Companies](#)

About the Company

MRF Ltd (MRF, CIN: L25111TN1960PLC004306), 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 image. MRF had an installed capacity of 62.9 million tyres as on March 31, 2018, spread over nine plants across India. Other business operations of the company consist of manufacturing pre-cured treads, tread rubber, conveyor belts, etc.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	13,474	14,746
PBILDT	2,597	2,274
PAT	1,451	1,092
Overall gearing (times)	0.37	0.30
Interest coverage (times)	10.39	9.11

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact:

Name: Mr.Sudhakar P

Tel: 044 – 2850 1003

Email: p.sudhakar@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum

of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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	-	-	-	2100.00	CARE AAA; Stable
Non-fund-based - ST-BG/LC	-	-	-	550.00	CARE A1+
Debentures-Non Convertible Debentures (Proposed)	-	-	-	100.00	CARE AAA; Stable
Debentures-Non Convertible Debentures	27-May-2011	10.09%	27-May-2021	500.00	CARE AAA; Stable
Debentures-Non Convertible Debentures (Proposed)	-	-	-	500.00	CARE AAA; Stable
Fixed Deposit	-	-	-	50.00	CARE AAA (FD); Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Working Capital Limits	LT	2100.00	CARE AAA; Stable	-	1)CARE AAA; Stable (04-Oct-17) 2)CARE AAA; Stable (04-Jul-17) 3)CARE AAA; Stable (12-May-17)	1)CARE AAA (25-Jul-16)	1)CARE AAA (12-Oct-15)
2.	Non-fund-based - ST-BG/LC	ST	550.00	CARE A1+	-	1)CARE A1+ (04-Oct-17) 2)CARE A1+ (04-Jul-17) 3)CARE A1+ (12-May-17)	1)CARE A1+ (25-Jul-16)	1)CARE A1+ (12-Oct-15)
3.	Debentures-Non Convertible Debentures	LT	100.00	CARE AAA; Stable	-	1)CARE AAA; Stable (04-Oct-17) 2)CARE AAA; Stable (12-May-17)	1)CARE AAA (25-Jul-16)	1)CARE AAA (12-Oct-15)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AAA; Stable (12-May-17) 2)Withdrawn (12-May-17)	1)CARE AAA (25-Jul-16)	1)CARE AAA (12-Oct-15)
5.	Debentures-Non Convertible Debentures	LT	200.00	CARE AAA; Stable	-	1)CARE AAA; Stable (04-Oct-17) 2)CARE AAA; Stable (12-May-17)	1)CARE AAA (25-Jul-16)	1)CARE AAA (12-Oct-15)
6.	Debentures-Non Convertible Debentures	LT	300.00	CARE AAA; Stable	-	1)CARE AAA; Stable (04-Oct-17) 2)CARE AAA; Stable (12-May-17)	1)CARE AAA (25-Jul-16)	1)CARE AAA (12-Oct-15)
7.	Fixed Deposit	LT	50.00	CARE AAA (FD); Stable	-	1)CARE AAA (FD); Stable (04-Oct-17) 2)CARE AAA (FD); Stable (12-May-17)	1)CARE AAA (FD) (25-Jul-16)	1)CARE AAA (FD) (12-Oct-15)
8.	Debentures-Non Convertible Debentures	LT	500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (04-Oct-17) 2)CARE AAA; Stable (12-May-17)	-	-

CONTACT**Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 91 98190 09839

E-mail: meenal.sikchi@careratings.com**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: rashmi.narvankar@careratings.com**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: ankur.sachdeva@careratings.com**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD****Mr. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: deepak.prajapati@careratings.com**BENGALURU****Mr. V Pradeep Kumar**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: pradeep.kumar@careratings.com**CHANDIGARH****Mr. Anand Jha**SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91- 0172-490-4000/01

Email: anand.jha@careratings.com**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**

T-3, 3rd Floor, Manchester Square

Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**PUNE****Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691