

MRF Ltd
 October 04, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating1	Rating Action
Long-term Bank Facilities	2,000	CARE AAA; Stable [Triple A; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	550	CARE A1+ [A One Plus]	Reaffirmed
Total Facilities	2,550 (Rupees Two Thousand Five Hundred and Fifty crore only)		
Proposed Term loan/ NCD	100.00	CARE AAA; Stable [Triple A; Outlook: Stable]	Reaffirmed
NCD (Series II)	160.00	CARE AAA; Stable [Triple A; Outlook: Stable]	Reaffirmed
NCD (Series III)	180.00	CARE AAA; Stable [Triple A; Outlook: Stable]	Reaffirmed
Proposed NCD	500.00	CARE AAA; Stable [Triple A; Outlook: Stable]	Reaffirmed
Fixed deposit programme	50.00	CARE AAA(FD); Stable [Triple A (Fixed deposit); Outlook: Stable]	Reaffirmed
Total instruments	990.00 (Rupees Nine Hundred Ninety 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 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 FY18, share of MRF in total income of top 10 players stood at 30% (PY: 29%), 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, 2019, 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. The company's share of income from the replacement market has remained relatively high. For FY19, share of replacement market amounted to approximately 68% (PY:-69%) of MRF's sales by value. With such high share of revenue coming from the replacement market, risks arising out of the cyclical nature of the industry are also relatively limited. It is worthwhile to note that margins in replacement segment are higher than OEM.

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

Stable profitability during FY19; However profitability moderated during Q1FY20

During FY19, MRF reported 7% growth in the total income to Rs.16,242 crore as against Rs.15,188 crore in FY18 on the back of 4% growth in the sales volume and 3% increase in the selling price. PBILDT margin during FY19 stood at 16.39% as against 16.67% during FY18. During Q1FY20, MRF reported 15% growth in the sales to Rs.4,410 crore from Rs.3,836 crore in Q1FY19. PBILDT margin during Q1FY20 dropped to 13.67% from 15.02% in Q1FY19, partly on account of increase in raw material price (mainly natural rubber).

Key Rating Weaknesses**Profitability largely influenced by raw material prices**

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 came down to Rs.93/kg in February 2016 before reaching a high of Rs.159/kg in February 2017. During FY19, domestic price of natural rubber was range bound and stood between Rs.120/kg to Rs.130/kg. However, domestic natural rubber price went up to Rs.150/kg during the month of July 2019 partly due to the floods in the state of Kerala which has resulted in drop in natural rubber production

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. Diverse product offerings with presence in all the sectors and strong focus on the replacement market have enabled the company to sustain the strong market position.

Prospects

Over the past few years, the trend in tyre production and sales for OEM market has been in line with the automobile sales for the period i.e., production of tyres has been about 1.5 times that of a vehicle produced. Though automobile sales witnessed moderation during H1FY20 the impact of the same on MRF is limited to certain extent since replacement market accounts for around 68% of its total sales value. In the recent past, the technological improvement in tyre industry has led to radialisation of tyres. In India, radial tyre market is growing at the rate of 5%-6% annually. On the back of improvement in the road condition, restriction on overloading of commercial vehicles and better cost economics have pushed the demand for radial tyres in the Truck & Bus category. Foreseeing healthy growth potential in medium term, the tyre manufacturing companies have been augmenting radial tyre capacity. MRF too has been augmenting radial tyre capacities to cater to growing demand. Going forward, ability of MRF to sustain its strong market position amidst growing competition, while improving its capital structure, will be the key rating sensitivity. Augmenting capacity to cater to the increasing TBR demand will be critical for its growth prospects

Liquidity indicator - Strong

Liquidity is marked by strong accruals against negligible repayment obligations and liquid investments to the tune of Rs.2,659 Crore as on June 30, 2019. With a gearing of 0.31 times (including dealer deposit) as of March 31, 2019, the issuer 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 with low average working capital utilization of 15.54% during the period June 2018 to June 2019.

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](#)

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology - Auto Ancillary Companies](#)

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

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 66.6 million tyres as on March 31, 2019, 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)	FY18 (A)	FY19 (A)
Total operating income	15,188	16,242
PBILDT	2,532	2,662
PAT	1,092	1,097
Overall gearing (times)*	0.32	0.31
Interest coverage (times)	10.15	10.53

A: Audited; including dealer deposits

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN No	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	-	-	-	-	2000.00	CARE AAA; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	550.00	CARE A1+
Proposed Term loan/NCD	-	-	-	-	100.00	CARE AAA; Stable
NCD (Series II)	INE883A07166	May 27, 2011	10.09%	May 27, 2020	160.00	CARE AAA; Stable
NCD (Series III)	INE883A07174	May 27, 2011	10.09%	May 27, 2021	180.00	CARE AAA; Stable
NCD (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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Working Capital Limits	LT	2000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Sep-18)	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)
2.	Non-fund-based - ST-BG/LC	ST	550.00	CARE A1+	-	1)CARE A1+ (07-Sep-18)	1)CARE A1+ (04-Oct-17) 2)CARE A1+ (04-Jul-17) 3)CARE A1+ (12-May-17)	1)CARE A1+ (25-Jul-16)
3.	Debentures-Non Convertible Debentures	LT	100.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Sep-18)	1)CARE AAA; Stable (04-Oct-17) 2)CARE AAA; Stable (12-May-17)	1)CARE AAA (25-Jul-16)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)CARE AAA; Stable (12-May-17) 2)Withdrawn (12-May-17)	1)CARE AAA (25-Jul-16)
5.	Debentures-Non Convertible Debentures	LT	40.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Sep-18)	1)CARE AAA; Stable (04-Oct-17) 2)CARE AAA; Stable (12-May-17)	1)CARE AAA (25-Jul-16)
6.	Debentures-Non Convertible Debentures	LT	300.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Sep-18)	1)CARE AAA; Stable (04-Oct-17) 2)CARE AAA; Stable (12-May-17)	1)CARE AAA (25-Jul-16)
7.	Fixed Deposit	LT	50.00	CARE AAA (FD); Stable	-	1)CARE AAA (FD); Stable (07-Sep-18)	1)CARE AAA (FD); Stable (04-Oct-17) 2)CARE AAA (FD); Stable (12-May-17)	1)CARE AAA (FD) (25-Jul-16)
8.	Debentures-Non Convertible Debentures	LT	500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Sep-18)	1)CARE AAA; Stable (04-Oct-17) 2)CARE AAA; Stable (12-May-17)	-

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.

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