MRF Limited

September 30, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Remarks
Long Term Bank Facilities	1,700	CARE AAA; Stable [Triple A; Outlook: Stable]	Reaffirmed
Short Term Bank Facilities	1,000	CARE A1+ [A One Plus]	Reaffirmed
Long Term/ Short Term Bank Facilities	1,000	CARE AAA; Stable/ CARE A1+ [Triple A; Outlook: Stable/ A One Plus]	Assigned
Total Facilities	**3,700 (Rs. Three Thousand Seven Hundred crore only)**		
NCD (Series III)	**180 (Rs.One Hundred and Eighty crore only)**	CARE AAA; Stable [Triple A; Outlook: Stable]	Reaffirmed
NCD (Series II)	-	-	Withdrawn
Proposed Term Loan/ NCD	-	-	Withdrawn
Proposed NCD	-	-	Withdrawn
Fixed Deposit programme	-	-	Withdrawn

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. The rating also takes note of moderation in income during Q1FY21 (refers to the period from April 01 to June 30) on account of COVID-19 pandemic and resultant nationwide lockdown.
CARE has withdrawn the rating assigned to the NCD (Series II) with immediate effect as the company has repaid the aforementioned NCD issue in full and there is no amount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.
The rating assigned to fixed deposit scheme is withdrawn at the request of MRF as it has discontinued acceptance of fixed deposits and all deposits have been repaid with no amount outstanding as on date.
The rating assigned to proposed NCD, proposed NCD/TLs have been withdrawn at the request of MRF, as the company has not mobilized any funds and there is no outstanding against the rated instrument as on date.

Key Rating Sensitivities

Negative Factors

- Continuous decline in market share along with increase in leverage levels resulting in net overall gearing(including dealer deposits) of above 0.50x 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 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 FY20, share of MRF in total estimated industry turnover (Source: ATMA) stood at 27% (PY: 26%), 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, 2020, the company had network of more than 161 sales offices and active dealer network of more than 5,000 dealers, translating into strong presence in the replacement market which is critical to the overall profitability.

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

The company's share of income from the replacement market has remained relatively high over the years. For FY20, share of replacement market amounted to approximately 72% (PY: 68%) 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 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.

Stable profitability during FY20, however sales revenue and profitability during Q1FY21 moderated due to impact of COVID-19

During FY20, total income of MRF marginally improved to Rs. 16,310 crore from Rs.16,245 crore in FY19 on the back of 0.75% growth in the sales volume and 1% increase in the average selling price. PBILDT margin during FY20 stood stable at 16.25% as against 16.40% during FY19. During Q1FY21, MRF reported total income of Rs. 2,474 crore compared to Rs. 4,514 crore in Q1FY20 which is degrowth of 45% on year on year basis (Y-o-Y). Decline in total revenue is mainly on account of muted demand from OEM and replacement market because of nation-wide lockdown imposed due to COVID-19 pandemic and its impact on the economy. PBILDT margin during Q1FY21 marginally declined to 15.14% as compared to 15.68% in Q1FY20 and PAT margin dropped to 0.69% in Q1FY21 from 5.96% in Q1FY20. Decline in PAT margin during Q1FY21 is on account of sharp drop in revenue and under absorption of fixed cost (interest and depreciation).

Favorable financial risk profile

Financial risk profile of MRF continues to be favorable with low gearing levels of 0.18x (excluding dealer deposits) as on March 31, 2020 as against 0.21x as on March 31, 2019. As on March 31, 2020, total debt outstanding of the company (including financial lease) has declined to Rs. 1,746 crore from Rs. 1,866 crore as on March 31, 2019. MRF also had cash and liquid investments of Rs.2,618 crore as on March 31, 2020. During FY20, interest coverage ratio (PBILDT/ Interest) stood at 9.43 times (PY: 10.54 times) and Total debt to GCA stood at 1.10x (PY: 1.05x) as on March 31, 2020.

Commissioning of new green field plant (Phase 1) at Gujarat

During FY20, MRF commissioned phase 1 of its new greenfield project at Dahej, Gujarat. On account of the same, total tyre manufacturing capacity of the company improved and stood at 70.18 Mn units from 66.61 Mn units as on March 31, 2019. The New plant will cater to both domestic as well as export demand of MRF. During FY20, capacity utilization of the company has declined to 81% from 88% in FY19 due to combination of increase in production capacity and muted growth in demand.

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. 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.

Profitability of the players in the industry is 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 FY20, prices of natural rubber stood in the range of Rs. 130/Kg to Rs. 140/Kg for major part of the year as against Rs.120/kg to Rs.130/kg during FY19. India imports close to 40% of its natural rubber requirement while domestic production makes up for 60% of annual consumption. Natural rubber production in India during FY20 has increased by 9% to 7.12 lakh tonne compared to 6.51 lakh tonne during FY19 while consumption has dropped to 11.34 lakh tonne during FY20 as against consumption of 12.11 lakh tonne in FY19. During FY20, India imported 4.57 lakh tonne of natural rubber to meet its demand. With lower global prices and relatively stagnant natural rubber production domestically, India's dependency on import for natural rubber is expected to increase.

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. During FY20, total tyre industry production contracted by 8% on y-o-y basis on account of tepid demand in OEM market due to decline in automobile production. According to data released by SIAM, in FY20 the Indian automotive industry recorded a 20% decline in domestic sales (including all segment) as compared to a 6% growth in FY19.

During Q1FY21, on account of COVID-19 and nationwide lock down, tyre sales across the markets including replacement, OEM and Exports have declined sharply. However, demand in the replacement market is expected to rebound quickly than OEM market once lockdown is lifted. With respect to OEM market, demand in two wheelers, passenger cars and tractors have shown green shoots of recovery following the relaxation in lockdown norms with monthly sales already nearing pre-

covid levels in the month of July 2020 due to pent up demand and favorable conditions in rural market. However, demand recovery in Commercial Vehicle (CV) segment is expected to take longer time. As per CARE estimates, CV industry is expected to report volume degrowth of 30-35% in FY21. Also the recently introduced import restrictions on new pneumatic radial tyres, above 16 inches being imported from China is expected to support the sales in truck & bus segment. Though overall tyre sales volume is expected to decline during FY21, long term outlook for tyre industry continues to be stable as significant amount of revenue is generated from sales in the replacement market. In respect of MRF, replacement market accounted for 72% of the total sales during FY20.
In the recent past, demand for radial tyres in tyre and bus segment are on the rise on the back of improvement in the road condition, restriction on overloading of commercial vehicles and better cost economics. 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: Strong
Liquidity is marked by strong cash accruals against relatively lower debt repayment obligations. Cash and liquid investments as on June 30, 2020 stood at Rs. 4,310 crore and average working capital utilization of MRF during July 2019 to July 2020 stood at 28.73%. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. With overall gearing of 0.18x as on March 31, 2020, MRF has sufficient gearing headroom to raise additional debt for its CAPEX if required. GCA during Q1FY21 is Rs. 228 crore as against scheduled repayment obligation of Rs.181 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
Rating Methodology-Manufacturing Companies
Rating Methodology - Auto Ancillary Companies
Financial ratios – Non-Financial Sector
Policy on Withdrawal of ratings

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 70.18 million tyres as on March 31, 2020, 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)	FY19 (A)	FY20 (A)
Total operating income	16,245	16,310
PBILDT	2,665	2,650
PAT	1,097	1,395
Overall gearing (times)*	0.31	0.27
Interest coverage (times)	10.54	9.43

** Including dealer deposits; 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 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	-	-	-	-	1700.00	CARE AAA; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	1000.00	CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	1000.00	CARE AAA; Stable / CARE A1+
Debentures-Non Convertible Debentures	-	-	-	-	0.00	Withdrawn
Debentures-Non Convertible Debentures	-	-	-	-	0.00	Withdrawn
Debentures-Non Convertible Debentures	-	-	-	-	0.00	Withdrawn
Debentures-Non Convertible Debentures	INE883A07174	May 27, 2011	10.09	May 27, 2021	180.00	CARE AAA; Stable
Fixed Deposit		-	-	-	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Working Capital Limits	LT	1700.00	CARE AAA; Stable	-	1)CARE AAA; Stable (04-Oct-19)	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)
2.	Non-fund-based - ST-BG/LC	ST	1000.00	CARE A1+	-	1)CARE A1+ (04-Oct-19)	1)CARE A1+ (07-Sep-18)	1)CARE A1+ (04-Oct-17) 2)CARE A1+ (04-Jul-17) 3)CARE A1+ (12-May-17)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AAA; Stable (04-Oct-19)	1)CARE AAA; Stable (07-Sep-18)	1)CARE AAA; Stable (04-Oct-17) 2)CARE AAA; Stable (12-May-17)
4.	Debentures-Non	LT	-	-	-	-	-	1)Withdrawn

	Convertible Debentures							(12-May-17) 2)CARE AAA; Stable (12-May-17)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AAA; Stable (04-Oct-19)	1)CARE AAA; Stable (07-Sep-18)	1)CARE AAA; Stable (04-Oct-17) 2)CARE AAA; Stable (12-May-17)
6.	Debentures-Non Convertible Debentures	LT	180.00	CARE AAA; Stable	-	1)CARE AAA; Stable (04-Oct-19)	1)CARE AAA; Stable (07-Sep-18)	1)CARE AAA; Stable (04-Oct-17) 2)CARE AAA; Stable (12-May-17)
7.	Fixed Deposit	LT	-	-	-	1)CARE AAA (FD); Stable (04-Oct-19)	1)CARE AAA (FD); Stable (07-Sep-18)	1)CARE AAA (FD); Stable (04-Oct-17) 2)CARE AAA (FD); Stable (12-May-17)
8.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AAA; Stable (04-Oct-19)	1)CARE AAA; Stable (07-Sep-18)	1)CARE AAA; Stable (04-Oct-17) 2)CARE AAA; Stable (12-May-17)
9.	Fund-based/Non-fund-based-LT/ST	LT/ST	1000.00	CARE AAA; Stable / CARE A1+	-	-	-	-

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

Name of the Instrument	Detailed explanation
Bank Facilities (Fund/Non-Fund Based)	
A. Financial covenants	
Not Applicable	-
B. Non financial covenants	
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 the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Fixed Deposit	Simple
3.	Fund-based - LT-Working Capital Limits	Simple
4.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE 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 for any clarifications.*

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About CARE Ratings:
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