

August 21, 2017

## MRF Limited

### Summary of rated instruments

Instrument *	Rated Amount (Rs. Crore) <sup>1</sup>	Rating Action
NCD	500.0	[ICRA]AAA (stable) / reaffirmed
NCD – Proposed	100.0	

\* Instrument details are furnished in Annexure – 1

### Rating action

ICRA has reaffirmed the long term rating of [ICRA]AAA (pronounced ICRA triple A)<sup>2</sup> outstanding on the Rs. 500.0 Crore NCD and Rs. 100.0 crore proposed NCD programme of MRF Limited ('MRF'). The outlook on the long term rating is stable.

### Rationale

The rating remains supported by MRF's strong business risk profile, aided by its sustained market leadership position amidst intense competition in the domestic tyre industry, favourable segmental mix with large skew towards replacement sales, presence across all product segments, vast network reach and strong brand equity. MRF's financial profile remains healthy with sizeable network, comfortable debt protection metrics and strong liquidity position. Given its strong market share, diversified presence across product and segments, and on-streaming of capacities which were added in last three years, MRF is well positioned to meet the expected rise in tyre demand and sustain its market share over the near to medium term. The ratings also consider the vulnerability of MRF's revenues to the pricing pressures and cyclicity in auto and tyre demand, and susceptibility of margins to the volatile raw material (RM) prices.

### Key Rating Drivers

#### Credit Strengths

- **Dominant player in the domestic tyre industry** – Aided by its long operational track record, strong brand equity, diversified presence across business and products segments, and wide distribution network, MRF continues to dominate the Indian tyre industry with an estimated market share of ~29% (based on values) in FY2017.
- **Strong operational profile** – Supported by a well-balanced product mix (commercial to non-commercial mix being 59%:41%) and diversified segmental mix (70% share from replacements), MRF's operational profile remains strong.
- **Healthy financial risk profile** – MRF's consolidated revenues stood at Rs. 13,406 crore with an operating and net margin of 20.2% and 11.1% during FY2017. The revenues stood flat in comparison to FY2016, affected mainly by falling realisations on the back of steady decline in raw material prices. Operating margins gained support from lower rubber prices, which coupled with large 'other income' (from liquid investments) resulted in healthy growth in cash accruals and networth position of the company. Despite the large ongoing capital expenditure, the debt indicators remain strong. The gearing stood at 0.4x as on March 31, 2017 while the interest coverage and total debt to operating profits ratio stood satisfactory at 10.8x and 1.3x respectively. MRF also had cash and liquid investments of over Rs. 37.0 billion as of March 2017. Over the medium term, MRF is estimated to spend ~Rs.12-15.0 billion on an annual basis towards ramping up of its capacities.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA Rating Publications

### Credit Weaknesses

- **Vulnerability to cyclical demand in automotive demand** – MRF’s performance is largely dependent on the automotive demand, which exhibits cyclical nature in most of the segments. With over half of the revenues derived from commercial segment, any slowdown in economic growth (or) pace of investments in infrastructure and allied sectors can impact MRF’s demand. That said, MRF is insulated compared to peers with bulk of revenues (~70%) garnered from replacement segment.
- **Margins susceptible to adverse fluctuation in RM prices** – Rubber, along with few petroleum derivatives forms the major raw materials for manufacture of tyres. The prices of most of the RMs, especially natural rubber, have been lower in the last two years, leading to a sharp expansion in margins for the industry players, including MRF. Any adverse fluctuation in RM prices shall impact the company’s margins, as witnessed in the past.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

### About the company

Incorporated in 1960, MRF Limited was initially started as a small manufacturing unit producing balloons, latex cast squeaking toys and industrial gloves. The company has four subsidiaries - MRF Corp Limited, MRF International Limited, MRF Lanka (Private) Limited and MRF SG Pte Ltd. MRF is currently managed by Mr. K.M. Mammen; and the promoters collectively hold 27.4% stake (as on March 31, 2017) in the company. With an annual production capacity of 57.4 million tyres and 40.2 million tubes, MRF has its manufacturing plants spread across nine locations in Tamil Nadu, Kerala, Andhra Pradesh and Goa. MRF has a strong R&D support and marketing team with a wide distribution network.

### Key Financial Indicators (Audited)

Particulars	18mFY2016	FY2017
<b>No. of months</b>	<b>18</b>	<b>12</b>
Operating Income (OI)	20,180.2	13,405.8
PAT	2,509.4	1,486.2
OPBDITA/OI (%)	22.4%	20.2%
ROCE (%)	31.2%	21.7%
Total Debt / TNW (Times)	0.5	0.4
Total Debt / OPBDITA (Times)	1.2	1.3
Interest coverage (Times)	12.8	10.8
NWC / OI (%)	17%	19%

*Amounts in Rs. crore; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: Return on Capital Employed; TNW: Tangible Net Worth; NWC: Net Working Capital.*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:**

**Table: 1**

S. No.	Instrument	Current Rating			Chronology of Rating History for the past three years		
		Type	Amount rated (Rs. crore)	August 2017	July 2016	April 2015	August 2013
1	NCD	Long term	500.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	NCD – proposed	Long term	100.0	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in).

**Annexure -1**  
**Instrument details**

<b>Instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Amount rated (Rs. crore)</b>	<b>Current rating and Outlook</b>
NCD	May 2011	10.09%	Payable in May 2019, May 2020 and May 2021	500.0	[ICRA]AAA (Stable)
NCD – proposed	NA	NA	NA	100.0	

Source: MRF

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About ICRA Limited:

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