

November 30, 2020

MRF Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	180.0	180.0	[ICRA]AAA(Stable); reaffirmed
Non-convertible Debenture Programme (proposed)	100.0	100.0	[ICRA]AAA(Stable); reaffirmed
Non-convertible Debenture Programme	320.0	-	[ICRA]AAA(Stable); reaffirmed and withdrawn
Total	600.0	280.0	

*Instrument details are provided in Annexure-1

Rationale

The rating remains supported by MRF Limited's (MRF) strong business profile marked by its dominant market share in the Indian tyre industry, strong brand equity, wide distribution reach and diversified product profile. Its long operational track record, vast experience of promoters and large dependence on the replacement segment further lend stability to MRF's business profile. The rating also considers MRF's healthy financial risk profile characterised by its sizeable net worth, stable earnings, strong liquidity position and comfortable debt protection metrics. These strengths are, however, partially offset by the vulnerability of MRF's revenues to cyclicalities in automotive demand and susceptibility of margins to the volatile raw material (RM) prices, both natural rubber and crude-linked derivatives. Nevertheless, MRF's business profile is insulated from cyclicalities in the domestic automotive industry to a large extent given its well-diversified product portfolio and with over 70% of revenues derived from the replacement markets.

The Stable outlook on the long-term rating reflects ICRA's belief that MRF's credit profile will continue to benefit from its diversified segmental and product profile as well as its strong balance sheet.

Key rating drivers and their description

Credit strengths

Strong brand name and dominant market position in Indian tyre industry – With operating income of Rs. 16,290 crore, MRF is the largest player in the Indian tyre industry and had an estimated market share of ~29% (based on value) in FY2020. Given its long track record, strong brand equity, stable relationships with OEMs, wide distribution network and large supply additions in the recent years, MRF is expected to maintain its market leadership position in the near to medium term.

Diversified segmental and product presence lends stability to revenues – MRF's operational profile remains strong, supported by its established presence across products (commercial vehicles, passenger vehicles, two/three wheelers, tractors, off-the-road, etc.) and diversified segmental mix with over 70% of revenues from replacements. Higher revenue share from the relatively stable and margin-accretive replacement segment continues to lend stability to MRF's revenues. Considering its large scale of operations and leading market share, the diversified segmental mix supports MRF

favourably, especially during periods of industry slowdown, as witnessed in FY2020. MRF witnessed flattish revenues during FY2020 against a 9% de-growth across the tyre industry. In H1 FY2021, MRF's revenues fell by ~20% affected by sharp impact of Covid-19 led lockdown in Q1 (down 45% YoY). Supported by the recovery in replacement demand, MRF posted 6% growth in Q2. With demand in OE and export segments likely to improve, the revenues are expected to be better in H2 FY2021.

Healthy financial risk profile – Supported by favourable tyre demand and improving exports, MRF's revenues witnessed a 6.7% growth (three-year CAGR ending in FY2020). In FY2020, MRF reported a flattish revenue amid subdued tyre demand and loss of revenues in the last few days of March 2020 due to the Covid-19-led lockdown. With the lockdown impact in Q1, MRF's revenues continued to be affected (down 20% YoY in H1 FY2021). Nevertheless, operating profits improved on a YoY basis during this period supported by favourable movement of RM prices and cost-control measures taken by the company. As on September 30, 2020, MRF's cash balances and liquid investments were over Rs. 5,000 crore, while total debt/OPBDITA and gearing was comfortable at 0.9x and 0.2x, respectively.

Credit challenges

Earnings vulnerable to cyclicity in commodity price cycles and automotive demand – MRF's performance is dependent on automotive demand, which exhibits cyclicity in most segments. With over half of the revenues derived from the commercial segment, any slowdown in economic growth or pace of investments in infrastructure and allied sectors can impact demand, as witnessed in the past. That said, MRF is relatively better placed with the bulk of revenues garnered from the replacement segment. Natural rubber and other crude derivative products form the major raw materials for manufacturing tyres. The prices of these raw materials are volatile and are driven by the supply–demand scenario in the global markets. Given the stiff competition, the ability to pass on RM price hikes (especially in the replacement segment) in a timely manner is a challenge for all players. Hence, any adverse fluctuation in RM prices shall impact the company's margins, as witnessed in the past.

Large industry-wide supply additions could limit pricing flexibility – The domestic tyre industry has witnessed sizeable investments towards capacity addition in the last few years. MRF's spend towards capacity addition has also been sizeable in the last two years and this in turn had impacted its return on capital employed (RoCE) levels compared to its historical averages. With demand-related uncertainties amid the Covid-19 pandemic, MRF's capex spend is likely to be much lower in the near term.

Liquidity position: Superior

MRF's liquidity position is **superior** with healthy fund flow from operations and cash and liquid balances of over Rs. 5,000 crore as on September 30, 2020. MRF's average working capital utilisation has been low at ~20% of the sanctioned limits in the last one year. The repayment obligations of Rs. 344 crore in FY2021 and Rs. 266 crore in FY2022 is expected to be serviced comfortably, given the stable accruals and healthy cash reserves.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – Negative pressure on MRF's rating could arise from sharp deterioration in MRF's profitability indicators or debt coverage metrics. Specific metrics that could lead to a rating downgrade include net debt/OPBITDA at >1.0x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodology	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidation/Standalone	The assigned rating is based on consolidated financial statements of the rated entity.

About the company

Incorporated in 1960, MRF Limited (MRF) 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 ~28% stake (as of September 2020) in the company. MRF has manufacturing plants spread across nine locations in Tamil Nadu, Kerala, Andhra Pradesh, Gujarat and Goa. It also has a strong R&D support and marketing team with a wide distribution network.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	16,156.3	16,290.5
PAT (Rs. crore)	1,130.6	1,422.6
OPBDIT/OI (%)	15.3%	15.1%
PAT/OI (%)	7.0%	8.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.6
Total Debt/OPBDIT (times)	1.0	0.9
Interest Coverage (times)	9.0	8.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating 30 Nov 2020	Date & Rating in FY2020 25 Oct 2019	Date & Rating in FY2019 27 Sep 2018	Date & Rating in FY2018 21 Aug 2017	
1. NCD	Long Term	180.0	180.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
2. NCD-proposed	Long Term	100.0	NA	[ICRA]AAA (Stable)	[ICRA] AAA (Stable)	[ICRA]AAA (Stable)	[ICRA] AAA (Stable)	
3. NCD	Long Term	320.0	-	[ICRA]AAA (Stable) reaffirmed and withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (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

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE883A07174	NCD	May 2011	10.09%	May 2021	180.0	[ICRA]AAA (Stable)
NA	NCD Proposed	-	-	-	100.0	[ICRA]AAA (Stable)
INE883A07158	NCD	May 2011	10.09%	May 2019	160.0	[ICRA]AAA (Stable) reaffirmed and withdrawn
INE883A07166	NCD	May 2011	10.09%	May 2020	160.0	[ICRA]AAA (Stable)reaffirmed and withdrawn

Source: MRF Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
MRF Corp Limited	100.00%	Full Consolidation
MRF International Limited	94.66%	Full Consolidation
MRF Lanka (P) Limited	100.00%	Full Consolidation
MRF SG Pte. Limited	100.00%	Full Consolidation

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