November 30, 2021

MRF Limited: Rating reaffirmed and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	180.00	-	[ICRA]AAA(Stable); reaffirmed and withdrawn
Proposed Non-Convertible Debenture Programme	100.00	-	[ICRA]AAA(Stable); reaffirmed and withdrawn
Total	**280.00**	**-**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings are withdrawn in accordance with ICRA's policy on withdrawal of credit ratings. The rated NCD worth Rs. 180 crore has been fully redeemed and there is no amount outstanding against the same, while there was no debt issued against the proposed NCD of Rs. 100 crore.

ICRA has also reaffirmed MRF Limited's (MRF) rating, which remains supported by its strong business profile with a 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 replacement segment further lend stability to MRF's business profile. The rating considers the company'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 cyclicality in automotive demand and susceptibility of margins to the volatile raw material prices, both natural rubber and crude-linked derivatives. Nevertheless, MRF's business profile is insulated from cyclicality in the domestic automotive industry, to a large extent, given its well-diversified product portfolio and over two-third of revenues derived from the replacement markets.

The Stable outlook on the 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 – MRF is the largest player in the Indian tyre industry and had an estimated market share of ~29% (based on revenues) in FY2021. Given its long track record, strong brand equity, stable relationships with OEMs, wide distribution network and large supply additions in the recent years, the company 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 two-third 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.

Healthy financial risk profile – MRF's financial profile is strong, driven by stable revenue growth and comfortable debt indicators. While its revenues were primarily flat in FY2021 due to the Covid-19 pandemic-led lockdown, its operating margins improved to 18.8% (from 15.1% in FY2020) supported by lower prices of crude linked derivatives like synthetic rubber, carbon black and caprolactam. However, the margins witnessed sharp contraction in H1 FY2022 on account of increase in raw material prices. MRF's debt indicators continue to remain robust, aided by healthy profitability and strong cash generation. MRF's liquidity position is superior with sizeable cash balances and liquid investments.

Credit challenges

Earnings vulnerable to cyclicality in commodity price cycles and automotive demand – MRF's performance is dependent on automotive demand, which exhibits cyclicality 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 affect demand, as witnessed in the past. However, MRF is relatively better placed with a 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 global supply–demand scenario. 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 witnessed sizeable investments towards capacity addition over the last few years. MRF undertook considerable capacity addition till FY2020, which 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 was much lower in FY2021.

Liquidity position: Superior

MRF's liquidity position is **superior** with healthy fund flow from operations, along with cash and liquid balances of Rs. 4,807.1 crore as on September 30, 2021. The repayment obligations of Rs. 267 crore in FY2022, Rs. 295 crore in FY2023 and Rs. 150 crore in FY2024 are likely to be serviced comfortably, given the stable accruals and healthy cash reserves.

Rating sensitivities: Not applicable as the ratings are being withdrawn

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers ICRA Policy on Withdrawal and Suspension of Credit Rating
Parent/Group Support	Not Applicable
Consolidation/Standalone	Consolidated

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 ~27% stake (as of September 2021) in the company. It 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)

Standalone	FY2020	FY2021
Operating Income (Rs. crore)	16,290.5	16,199.0
PAT (Rs. crore)	1,422.6	1,277.1
OPBDIT/OI (%)	15.1%	18.8%
PAT/OI (%)	8.7%	7.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.7
Total Debt/OPBDIT (times)	0.9	0.8
Interest Coverage (times)	8.2	10.8

Source: Company, ICRA Research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on November 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Nov 30, 2021	Nov 30, 2020	Oct 25, 2019	Sep 27, 2018
1	NCD	Long-term	180.00	-	[ICRA]AAA(Stable); reaffirmed and withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	NCD - Proposed	Long-term	100.00	-	ICRA]AAA(Stable); reaffirmed and withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	NCD	Long-term	-	-	-	[ICRA]AAA (Stable); reaffirmed and withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)

Amount in Rs. crore;

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-Convertible Debentures	Very Simple
Proposed NCD	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE883A07174	NCD	May 2011	10.09%	May 2021	180.00	[ICRA]AAA(Stable); reaffirmed and withdrawn
-	Proposed NCD	-	-	-	100.00	[ICRA]AAA(Stable); reaffirmed and withdrawn

Source: *Company*

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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