MRF Limited

September 27, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term: NCD	500.0	500.0	[ICRA]AAA(Stable); reaffirmed
Long Term: NCD – proposed	100.0	100.0	
Total	**600.0**	**600.0**	

Rating action

ICRA has reaffirmed the long-term rating outstanding on the Rs. 600.00 crore[1] Non-convertible debenture (NCD) programme of MRF Limited ('MRF' / 'the company')[2] at [ICRA]AAA (pronounced ICRA triple A). The outlook on the rating is stable.

Rationale

The rating remains supported by MRF's strong business profile, supported by its long operational track record and market leadership position in the domestic tyre industry, diversified segmental and product profile, strong brand-pull and wide distribution reach. The rating remains underpinned by MRF's strong financial risk profile with sizeable networth, strong cashflow from operations, strong liquidity position and comfortable debt protection metrics. In the last few quarters, MRF's performance has remained strong supported by healthy revival in tyre demand across all segments, especially Truck and Bus Radials (TBR) post the re-imposition of Anti-dumping duty on import of TBR tyres from China for a period of five years. With tyre demand outlook being favourable and the on-streaming of new capacities, MRF is well positioned to meet the rising demand and sustain its market share over the near to medium term. MRF is also investing towards capacity expansions with a higher than normal capital expenditure over the next four years; to be funded largely through internal accruals and available cash reserves. The ratings also consider the vulnerability of MRF's revenues to the pricing pressures and cyclicality in auto and tyre demand, and susceptibility of margins to the volatile raw material (RM) prices. With a well-diversified product portfolio and over two-third share of revenues derived from the replacement markets, MRF's volumes are insulated from cyclicality in the domestic automotive industry to a large extent.

Outlook: Stable

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 and strong balance sheet.

The outlook may be revised to 'Negative' if there is a significant deterioration in financial performance.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Key rating drivers

Credit strengths

- **Leading market position in the domestic tyre industry** –Aided by its long track record, strong brand equity, stable relationships with OEMs, 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 ~30% (based on values) during FY2018.
- **Strong operational profile** – MRF's operational profile remains strong supported by a well-balanced product mix and diversified segmental mix (~70% share from replacements). Higher revenue share from the relatively stable replacement segment continue to support MRF's revenues. Considering its large scale of operations and leading market share, the diversified segmental mix supports MRF favorably during any industry slowdown.
- **Healthy financial risk profile** – MRF's consolidated revenues stood at Rs. 15,000.4 crore with an operating and net margin of 15.8% and 7.5% during FY2018. The revenues grew by 11.8%, aided by strong volume growth (especially in replacements) even as realisations continued to fall on the back of lower raw material prices. While the profit margins contracted due to volatile rubber prices in Q1 FY2018, the cash accruals and networth position remain healthy. MRF's cash and liquid investments stood at Rs. 4,382.2 billion as of March 2018. The debt indicators remain comfortable with gearing of 0.4x as on March 31, 2018 while the interest coverage and total debt to operating profits ratio were at 9.2x and 1.5x respectively.
- **Stable tyre demand to support MRF's growth-** Favourable outlook on the domestic automotive sector on the back of improving economic activity, stable rural demand and declining tyre imports shall support tyre demand over the next 12-18 months. Given its strong pedigree, MRF shall benefit from the favorable tyre demand. To meet the rising demand, MRF is planning to ramp up its capacities as it currently operates at near full capacity utilisation. MRF's annual spend on capex over next three years is expected to be significantly higher than the last few years.

Credit challenges

- **Vulnerability to cyclicality in automotive demand** – MRF's performance is largely dependent on the automotive demand, which exhibits cyclicality in most of the 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. That said, MRF is largely insulated with bulk of revenues garnered from the replacement segment.
- **Margins susceptible to fluctuation in raw material (RM) prices** – Rubber, along with few crude derivatives forms the major raw materials for manufacture of tyres. While the prices of natural rubber continue to be low, the prices of crude derivatives have increased in the last few quarters impacting margins of industry players, including MRF. Given the high competition and the inability to immediately pass on RM price hikes (in the replacement segment), any adverse fluctuation in RM prices will 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
Rating Methodology for Auto Component Manufacturers

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 27.5% stake (as of June 2018) in the company. MRF has its manufacturing plants spread across nine locations in Tamil Nadu, Kerala, Andhra Pradesh and Goa. The company is also setting up a facility in Gujarat. MRF has a strong R&D support and marketing team with a wide distribution network.

Key financial indicators (audited)

Fiscal	FY2017	FY2018
Operating income (Rs. crore)	13,412.2	15,000.4
PAT (Rs. crore)	1,486.2	1,131.6
OPBDITA/OI (%)	20.3%	15.8%
RoCE (%)	21.7%	15.8%
Total Debt/TNW (times)	0.4	0.4
Total Debt/OPBDITA (times)	1.3	1.5
Interest coverage (times)	10.6	9.2

Source: Company, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes;
PAT: Profit After Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Sep 2018	Date & Rating in FY2018 August 2017	Date & Rating in FY2017 July 2016	Date & Rating in FY2016 April 2015
1	NCD	Long Term	500.0	500.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA+ (Stable)
2	NCD -proposed	Long Term	100.0	NA	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE883A07158	NCD	May 2011	10.09%	May 2019	160.0	[ICRA]AAA (Stable)
INE883A07166	NCD	May 2011	10.09%	May 2020	160.0	[ICRA]AAA (Stable)
INE883A07174	NCD	May 2011	10.09%	May 2021	180.0	[ICRA]AAA (Stable)
NA	NCD - proposed	-	-	-	100.0	[ICRA]AAA (Stable)

Source: MRF Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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