

Aug 06, 2012

BSE Code: 500290 NSE Code: MRF Reuters Code: MRF.NS Bloomberg Code: MRF.IN

MRF Ltd., a leading Indian tyre manufacturing company, established in 1946, is engaged in the manufacturing of rubber products, such as tyres, tubes, flaps, tread rubber and conveyor belt. Other business operations of the company consist of manufacturing and dealing in specialty coatings and sports goods. Recently, the company has launched a new "WANDERER" range of tyres for the new series of Compact SUVs which offers a great ride and handling experience.

Investor's Rationale

Top line grew by 17.0% YoY on higher demand, export and better product mix

MRF posted a growth of 17.0% YoY in its net sales at ₹30.1 billion from ₹25.7 billion mainly due to improvement in replacement market demand, export and better product mix as compared to last year. Further, the company posted a flat 0.5% QoQ rise in its net sales.

Bottom line posted a growth of 352.5% YoY in Q3FY'12 due to stronger EBITDA margin

Despite of massive triple digit rise in taxation charges by 439.6% YoY at ₹0.7 billion, MRF witnessed a huge 352.5% YoY rise in its net profit at ₹1.4 billion from ₹0.3 billion a year ago, backed by robust growth in EBITDA margin. While, financial cost grew by 61.3% YoY to ₹0.4 billion, other income fell by 67.4% YoY in the same period previous year.

OPM higher by 477bps on lower raw material cost

MRF posted a 110.3% YoY increase in EBITDA at ₹3.2 billion from ₹1.5 billion, therefore OPM reported a huge growth of 477bps to 10.7% from 6.0% due to a decline in raw material cost as a percentage of sales net of stock adjustment by 650bps YoY to 69.6% and decline in staff cost by 10bps YoY to 4.5%. Further, purchasing cost of stock-in-trade declined by 42.9% YoY to ₹0.1 billion while other expenses grew significantly by 34.5% YoY to ₹4.7 billion.

Margin outlook remains cautious

With flat growth in passenger vehicles, 30-40% cutback in original equipment demand from commercial vehicles and rising inventory reported in two-wheelers, MRF's management has expressed concerns on cautious outlook. Beside, capacity expansion in the Tyre industry could exert pressure on margins going forward.

Market Data

CMP (₹)	10,349
Target Price	11,380
Stop Loss	9,935
Duration	Mid-term
52-week High-Low (₹)	11578.8/6190.0
Rise from 52WL (%)	67.9
Correction from 52WH (%)	10.3
Beta	1.04
1 year Average Volume (mn)	0.01
	3M- (7.9)
Stock Return (%)	6M- 26.6
	9M- 36.7
Market Cap (₹bn)	43.9
Enterprise Value (₹bn)	70.9

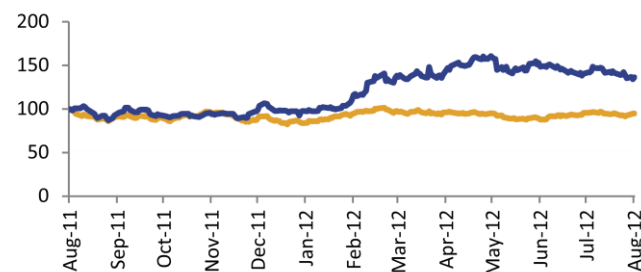
Shareholding Pattern

	Jun'12	Mar'12	Chg
Promoters (%)	27.2	27.0	0.2
FII (%)	4.2	3.5	0.7
DII (%)	10.9	10.6	0.3
Public & Others (%)	57.7	58.9	(1.2)

Quarterly Performance (Standalone)

(₹ bn)	Q3 FY'12	Q3 FY'11	Q2 FY'12	YoY Change(%)	QoQ Change(%)
Net sales	30.1	25.7	29.9	17.0	0.5
Op. exp	26.9	24.2	26.7	11.0	0.7
EBITDA	3.2	1.5	3.3	110.3	(0.8)
OPM (%)	10.7	6.0	10.9	477bps	(15bps)
Net profit	1.4	0.3	1.5	352.5	(3.7)
NPM (%)	4.8	1.2	5.0	356bps	(21bps)
EPS (₹)	340.9	75.3	354.0	352.5	(3.7)

One Year Price Chart



— NIFTY — MRF LTD.



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