FINANCIAL CHRONCIAL N.D 20/8/18

MRF

Expected buoyancy in the two-wheeler and truck markets, we continue to be positive on MRF. Competitive intensity is on the rise, with market-share pressure for the second and third operators in the two-wheeler market. We believe that MRF, with its strong brand in two-wheeler replacements would gain further market share and maintain 'buy'.

More push toward replacement market, addressing market-operated pricing. Our channel checks continue to suggest MRF is focusing more on the replacement market in two-wheeler tyres and is offering stiff competition to the second and third operators. In the TBR market, per channel checks, the company is offering an unconditional warranty and this has led to its average volumes in the replacement market at 55,000 tyres a month, from 40,000 tyres last year.

We believe the company is strengthening its position in the two-wheeler replacement market with higher capacity (current capacity at around 3.1 million a month) and more launches. We, thus, expect revenue for the next two years to register a 13 per cent CAGR.

Cost escalation to be a pass-through; not worried about margins. While the gross margin declined 250 bps QoQ in Q1FY19, we believe cash flow will be intact. Post-monsoon, we expect operators to increase prices, which would protect cash-flows. Thus, we believe the margin in FY19 would be 18.3 per cent, from the present 15.4 per cent.

On the strong volume growth, we expect revenue over FY18-20 to clock a 14 per cent CAGR to Rs 192 billion and earnings to come at Rs 20 billion in FY20. We maintain a buy on the stock, at a price target of Rs76,794 (16x FY20E EPS). The risks include higher raw material costs and lower volume growth.

—AnandRathi Securities