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MRF – Result Update

30th April, 2010

Stock details

BSE Code	500290
Current Market Price	Rs. 7,075/-
Market Capitalisation	Rs. 30,006 mn
Face Value (Rs.)	Rs. 10/-
Book Value (Rs.)	Rs. 3,210/-

Standalone (Rs. in mn)

Particulars	Q 2 FY 10	Q2FY 09	*YoY % change*	Q1 FY 10	*QoQ % change*
Net Sales	**17,737**	**14,058**	26%	**16,563**	7.09%
Expenditure					
(Increase)/Decrease in Stock	**-236**	**1,520**	-116%	**-245**	-3.79%
Consumption of Raw Materials	**11,971**	**7,962**	50%	**10,663**	12.26%
Purchase of Traded Goods	**17**	**15**	11%	**15**	12.00%
Employees Cost	**917**	**806**	14%	**831**	10.35%
Other Expenditure	**2,976**	**2,014**	48%	**2,810**	5.88%
Total Expenditure	**15,644**	**12,318**	27%	**14,074**	11.15%
EBITDA	**2,093**	**1,740**	20%	**2,489**	-15.91%
Margins (%)	11.80%	12.38%	-5%	15%	-21.47%
Depreciation	553.3	550.8	0%	637.8	-13.25%
Interest	150.7	202.8	-26%	117.2	28.58%
Other Income	36.6	43.9	-17%	60.4	-39.40%
PBT	**1,426**	**1,031**	38%	**1,794**	-20.55%
Tax	467.6	343.8	36%	600.3	-22.11%
PAT	958	687	40%	1,194	-19.76%
Margins (%)	5.39%	4.87%	11%	7.18%	-24.96%
No. of Equity Shares (mn)	4.24	4.24		4.24	0.00%
EPS	**225.97**	**161.98**	40%	**281.63**	-19.76%

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Consolidated (Rs. in mn)

Particulars	FY 09	FY 08	% change
Net Sales	**56,773**	**50,510**	12.4%
EBITDA	**6,905**	**4,106**	68.1%
Margins (%)	12.1%	8.13%	4.88%
Depreciation	(2,504)	(1,702)	47.1%
Interest	(690)	(663)	4.07%
Other Income	251	361	(30.4)%
PBT	**3,962**	**2,102**	88.4%
Tax	(1,455)	(668)	117.8%
PAT	**2,507**	**1,434**	74.8%
Margins (%)	4.4%	2.82%	56%
No. of equity shares (mn)	4.24	4.24	-
EPS	**591**	**338**	**74.8%**

Q2 FY 10 Result analysis

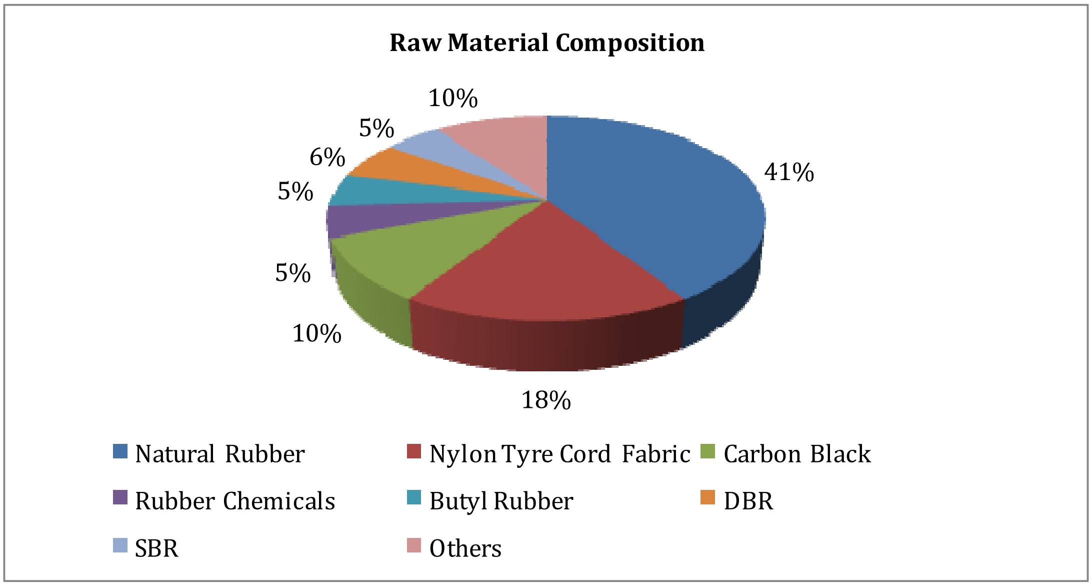
1) **Growth in Net Sales:** Net sales of the company improved by 26% YoY to Rs. 17,737 mn in Q2FY 10 on account of higher volumes. It was mainly on account of huge demand from OEMs.

2) **EBITDA:** Growth of 20% was seen in EBITDA of Q2 FY 10 on YoY basis. Q2 FY 10 EBIDTA stood at 11.8% as compared to 15% in the preceding quarter. ~15% QoQ decline in EBITDA can be attributed to a sharp increase in input cost, especially natural rubber. Currently, it is close to Rs 160-168. This has taken a toll on the EBIDTA, which has come down by about 3.5-4% over the preceding quarter.

a) **Future Outlook on EBITDA Margins:**

Higher Input Costs to affect margins: Natural rubber and Nylon cord fabrics are the most critical raw materials as it accounts for >50% of total raw material cost.

The prices of rubber have seen a spike from Rs. 140/- (Dec 09) to Rs. 168/- presently.



Source: Automotive Tyres Manufacturing Association

Note: ***Effect of Raw Materials acquired would be seen in the results of the next quarter.*** Raw materials acquired (rubber in Mar 10 at Rs. 168 per kg would be reflected in Results of Jun – 10 and same would be the case with quarters from there onwards)

As raw materials constitute rubber, crude derivatives, a rise in these commodities will have a negative impact on margins in the coming quarters.

Fall in Net Profit Margins: Despite in growth of Net Sales by 7% on QoQ basis, the profitability of the company has been mainly affected by increase in raw material prices especially rubber. Although MRF has gone for price hikes twice, it would be insufficient to offset the increase in raw material prices by 30 - 40%. Going forward, MRF in this competitive environment would not be able to go for further price hikes which it had done in Q2 FY 10.

Outlook

Volume growth, raw material prices and ability of MRF to pass on the increased raw material costs to its customers will determine its future profitability.

Rubber prices have increased by 20 % from Rs. 140 per kg (Dec 09) to Rs. 168/- per kg (Apr 2010). Although MRF has gone for price hikes twice, it would be insufficient to offset the increase in raw material prices by 30 - 40%. Going forward, with due consideration to competitive environment, scope for price hikes is limited.

In addition, MRF would not import rubber as it will have to pay a duty of 20% whereas tyres can be imported on payment of 7% duty. This results in an anamoly in the duty structure itself affecting local tyre manufacturers.

Higher raw material cost would put pressure on the margins and the growth in sales would not translate in to bottom line growth in the coming quarters. On account of all these above factors, we recommend **"Book Profits"** at current levels.

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