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MRF - RESULT UPDATE 22ND DECEMBER, 09

STOCK DETAILS

BSE Code	**500290**
Current Market Price	Rs. 6,113.65
Market Capitalisation	Rs. 25,928 mn
Face Value (Rs.)	Rs. 10/-
Book Value (Rs.)	Rs. 3,239/-
52 Wk High (BSE)	Rs. 6,899/- (21st Dec 2009)
52 Wk Low (BSE)	Rs. 1,501/- (06th Mar 2009)

Standalone (Rs. in mn)

Particulars	Q 4 FY 09	Q4 FY 08	*YoY % change*	Q3 FY 09	*QoQ % change*	FY 09	FY 08	*% change*
Net Sales	**14,768**	**14,063**	**5%**	**14,382**	**2.68%**	**56,728**	**50,469**	**12.4%**
EBITDA	**2,488**	**348**	**266%**	**2,514**	**(1.03)%**	**6,914**	**4,109**	**68.3%**
Margins (%)	16.8%	2.47%	580%	17%		12.19%	8.14%	49.7%
Depreciation	(800)	(515)	55.3%	(606)	32%	2,493	1,695	47%
Interest	(143)	(201)	(28.8)%	(115)	24%	689	663	3.92%
Other Income	81	205	(60.4)%	88	(7.9)%	253	363	(30.3)%
PBT	**1626**	**(163)**	**181%**	**1,881**	**(13.5)%**	**3,985**	**2,114**	89%
Tax	(657.4)	117		(624)		(1,455)	668	
PAT	969	(46)	2206%	1,257	22.9%	**2,530**	**1,446**	74.9%
Margins (%)	6.53%	(0.32)%	2140%	8.69%	(24.86)%	4.44%	2.84%	56%
No. of Equity Shares (mn)	4.24	4.24	-	4.24	-	4.24	4.24	-
EPS	**229**	**(10.84)**	**2213%**	**296**	**(22.64)%**	**596**	**341**	**74.7%**

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%**

Q4 FY 09 Result analysis

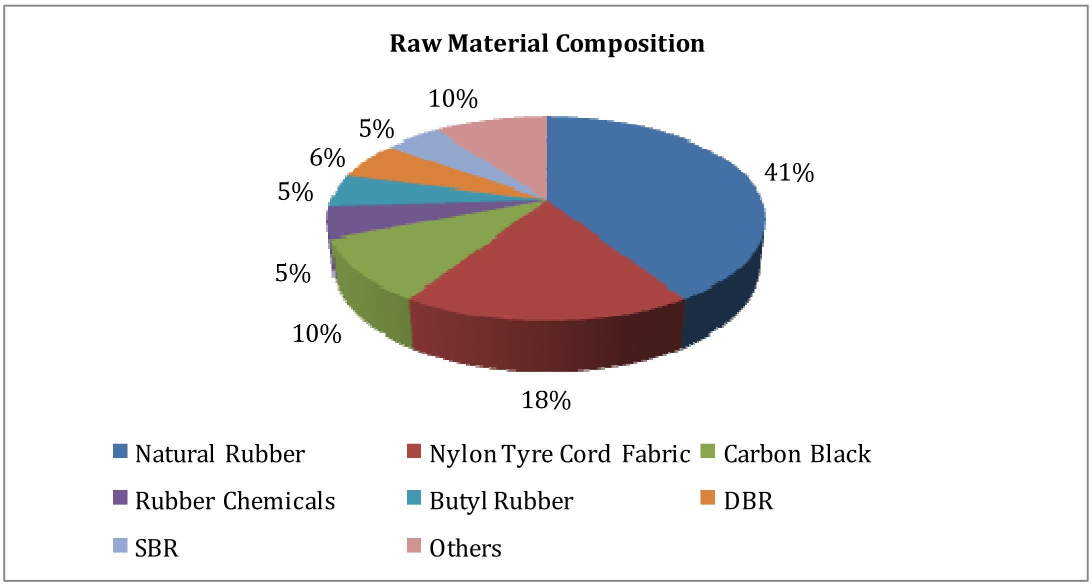
1) **Growth in Net Sales:** Net sales of the company improved by 5% YoY to Rs. 14,768 mn in Q4FY 09 on account of higher volumes. It was mainly on account of sharp rebound in sale of vehicles due to revival in fortunes of Auto Industry.
Volumes would have been much higher but was affected on account of brief closure of its units at Arakkonam, Tamil Nadu and Puducherry due to labour unrest.

2) **EBITDA:** Growth of 266% was seen in EBITDA of Q4 FY 09 on YoY basis. The rise can be partially attributed to bleak Auto industry scenario in Q4 FY 08 as economy was facing recessionary trends which resulted into lower sales and rubber prices were at its peak leading to depressed EBITDA margins. The rise in YoY sales was mainly due to low base effect.
On QoQ basis, EBITDA has declined by 130 basis points to Rs. 2,488 mn in Q4 FY 09 on account of higher raw material expenditure resulting due to higher rubber prices. Last 2 months average rubber prices (Oct 09 and Nov 09) were ~Rs. 110.9 per Kg. Currently the rubber prices are trading at Rs. 138.5 per kg.

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. 106.50/- per kg (Sep 09) to Rs. 140/- (Dec 09). The current quarter PAT is on account of raw materials acquired in Q3 FY 09 when rubber prices were low. MRF maintains an inventory cycle of ~60 days.



Source: Automotive Tyres Manufacturing Association

Impact of Rubber Prices:

Particulars	Rubber Rice (Rs. per kg)	Total Raw Material Expenditure (% of sales)	Net Profit Margin (%)
March – 09	Rs. 73.8	56.68%	4.87%
June - 09	Rs. 80.8	53.48%	8.69%
Sep - 09	Rs. 106.5	70.44%	6.53%

Source: Rubber Board of India, Company Results

Note: ***Effect of Raw Materials acquired would be seen in the results of the next quarter.*** Raw materials acquired (rubber in Sept 09 at Rs. 106.5 per kg would be reflected in Results of Dec – 09 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. Although MRF is certain to raise the prices of tyre products, it would be insufficient to offset the increase in raw material prices which would affect the profitability.

Sequential fall in Net Profits: Net profit of the company (QoQ) has declined from Rs. 1,257 mn to Rs. 969 mn in Q4 FY 09.

Outlook

FY 09 and Q4 FY 09 results are very much in line with our expectations.

Particulars	FY 09 Audited Results (Rs. in mn)	FY 09 Projections (Rs. in mn)
Net Sales	**56,773**	**56,409**
EBITDA	**6,905**	**6,823**
PAT	**2,507**	**2,594**
EPS	**591**	**612**

With the worst behind, MRF is expanding its capacities in all its factories to meet the demand from OEMs and replacement market which would be reflected in coming quarters.

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.

On account of all these above factors, we recommend **"Partial booking of profits"** for investors with short/medium term horizon as rubber prices have increased by 38% from Rs. 106.5 per kg (Sep 09) to Rs. 138/- per kg (Dec 09). Rubber constitutes ~50% of raw material costs. Its impact likely to be felt in Q2FY10 bottomline. However, its impact is likely to be partially offset by volume growth and increase in tyre prices.

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