

June 25, 2023

**COMPANY UPDATE** | Sector: Automobile

# JK Tyre and Industries Ltd

## Targeting industry outperformance in FY24E

### View & Valuation

*We interacted with the management of JKI during our recent plant visit. The management reiterated revenues growth outperformance in FY24E as it anticipates revenue growth of 15-20% (v/s high single digit growth as indicated by peers). JKI indicated continued improvement in return ratios led by margins expansion (product, RM and cost savings led) and moderate capex. Demand commentaries for domestic market remained mixed while it expects healthy exports in FY24E. While maintaining leadership in TBR segment continued to be in focus, in line with industry it expects premiumization within PCR to drive growth with share of premium products would be 30-35%. We believe, key factors for sustained industry profitability ahead to be watched out for are, 1) continued priced discipline, 2) RM decline, 3) moderate capex and 4) all round recovery from the replacement volumes. The continued re-rating for the tyre stocks is contingent upon sustenance of the above factors. Not rated.*

### Key takeaways from interaction

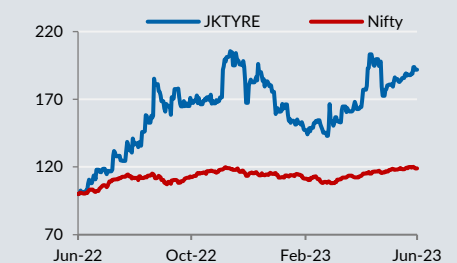
- **Demand outlook (India business)** - Seeing healthy offtake across segments; FY24E revenue growth expected at 15-20%. OEM, replacement, and exports demand is looking better with good order book for exports. Second quarter volumes will be lower than 1Q led by seasonality due to rains.
- **Mexico operations outlook is improving QoQ** - Business in Mexico is seeing sequential volume uptick, though it has some headwinds yet to subside. **Volume mix** - ~59% replacement/ ~41% is export. Trading volumes were high in Mexico last financial year. **Product mix** - TBR - 16%, PCR - 55%, Non truck bias - 28%. Mexico operations reported ~8% blended EBITDA margins for Mexico operations in 4QFY23. Expect 15-20% volume growth in Mexico in FY24E.
- **RM led margins expansion expected over 1HFY24E** - Seeing sequential improvement in margins due to RM stabilizing. In 4QFY23, RM benefit was limited due to absorption of higher priced inventories. RM under recoveries still at 5-6% currently, however do not anticipate any price corrections by the competition. Believe, fixed over heads are at par with competition and trying to minimize the overall cost through digital transformation. Targeting ~0.5% cost savings over and above RM, mix related benefits. It would largely come from head count savings due to digital initiatives. Current exports margins are at par with replacement.
- **Looking at premiumization within PCR for growth** - within PCR looking at high margin +15-inch trims for growth ahead. **Supplying to Hyundai Creta (~70% share of business for top end variants), Alcazar and Kia Seltos.** Believe, market share in SUV for leader would be 17-18%. ASP difference for higher trims 17-18' inch to 15'inch is about 15-20%.
- **PCR sales mix** - 87% replacement and 13% OEMs. Share of premium products would be 30-35% for PCR segment.
- **Capex** - current focus is to stabilize PCR capacity expansion which is underway with focus on more premium products for both domestic and exports. Radial capacity utilization at 85-90% across products segments and for Bias the same remains at 80-85%. Project capex underway is Rs8b of which Rs5.3b for PCR (commercial production by 4QFY24) and Rs2.6b for TBR (commercial production by 2QFY24). Of the total Rs8b, ~Rs3b spent in FY23.

Reco	:	<b>NOT RATED</b>
CMP	:	Rs 193
Target Price	:	NA
Potential Return	:	NA

### Stock data (as on June 23, 2023)

Nifty	18,666
52 Week h/l (Rs)	214 / 98
Market cap (Rs/USD mn)	47670 / 581
Outstanding Shares (mn)	246
6m Avg t/o (Rs mn):	366
Div yield (%):	1.1
Bloomberg code:	JKI IN
NSE code:	JKTYRE

### Stock performance



	1M	3M	1Y
Absolute return	6.3%	24.7%	91.9%

### Shareholding pattern (As of Mar'23)

Promoter	56.3%
FII+DII	8.1%
Others	35.7%

### Financial Summary

Y/E MARCH (Rs cr)	2021	2022	2023
Sales	9,102	11,983	14,645
EBITDA	1,306	1,073	1,298
Adj. PAT	324	188	321
Adj. EPS (INR)	13.2	7.6	13.0
EPS Gr. (%)	(141)	(41.9)	70.7
BV/Sh. (INR)	108.5	115.7	137.9
RoE (%)	13.0	6.8	10.3
RoCE (%)	13.0	9.4	11.4
Payout (%)	5.0	25.8	13.1
P/E (x)	14.4	24.8	14.5
P/BV (x)	1.7	1.6	1.4
EV/EBITDA (x)	7.1	8.7	7.2
Div. Yield (%)	1.1	0.8	0.8

### DEEP SHAH

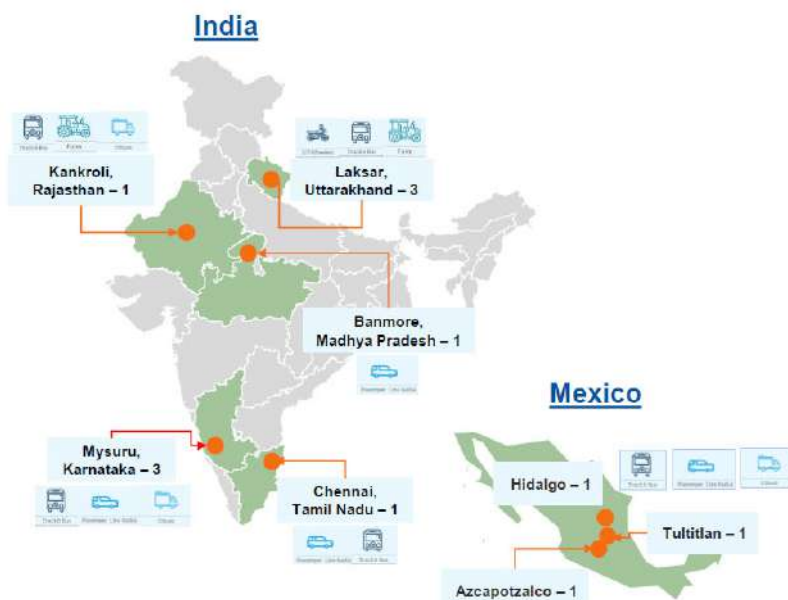
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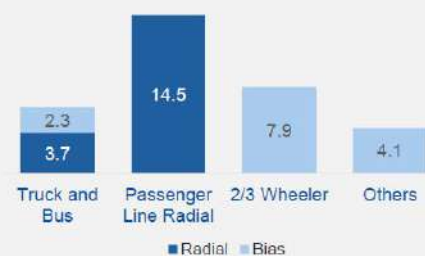


- **Inventory** – most of the excess inventories or destocking have already been taken place which started at the start of 4QFY23 in exports markets. In domestic markets too, current inventory is at reasonable levels.
- **Net debt declined to ~Rs45b in FY23 (a reduction of ~Rs4.2b from FY22).** JKI have scheduled repayments of ~Rs9b over next 2 years. This is premised on stable working capital in FY24 (v/s FY23).
- **Other highlights –**
  - JKI's overall SKUs at 450+ with capability to manufacture 2kg to 3.4 ton tyre.
  - **STUs** (tender based business) - Roughly Rs1-1.5b business per year for JK. Margins are better than OEMs but at par with replacement mix.
  - **R&D expenditure** is ~1.5% of consol sales whereas marketing – ~1% of consol sales.
  - **RM sourcing** - ~40% import and ~60% domestic. For NR, source maximum of requirement Kochi and North east.
  - **RM mix** - NR content is higher in TBR and OHT but SBR is higher in PCR due to higher short distance braking, lower load and heat.
  - Steel would account for 10-11% of PCR which is 8-9kg, and for TBR it would be 15-20% of weight (~55kg).
  - Indicative Tyre life - PCR ~60k KM, TBR - ~1-1.2L, EV 4W - ~50k.
  - Aramid can replace steel but may not be viable from cost perspective.

**Exhibit 1: JKI's manufacturing footprint – have installed radial/bias capacity base of 18.2m/14.3m tyres**



**Annual Capacity by Product Line – Volumes in Million**



**Manufacturing Facilities - 12**  
**Installed Capacity - 6,22,000 MT**  
**~33 million tyres annually**  
**Capacity Utilization FY23 – ~86%**

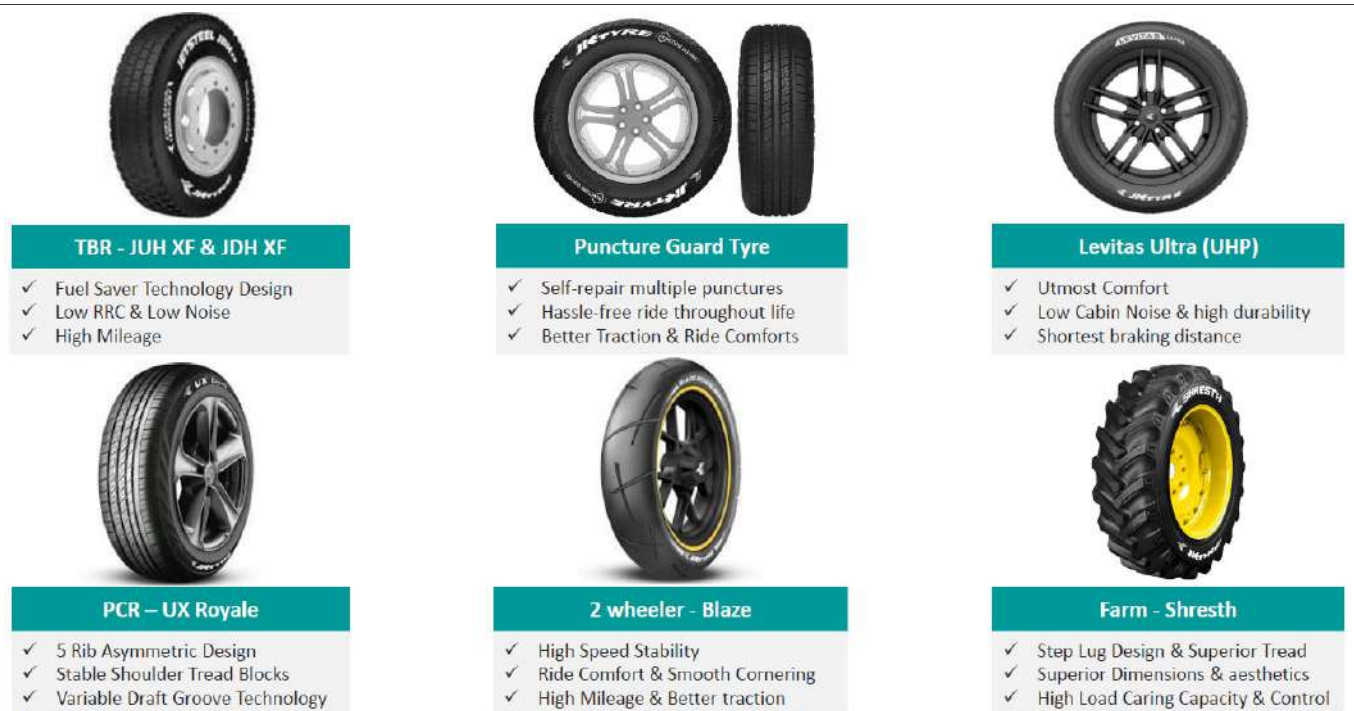
Source- Company, YES Sec

## Exhibit 2: Wide distribution base in India as well as Mexico



Source- Company, YES Sec

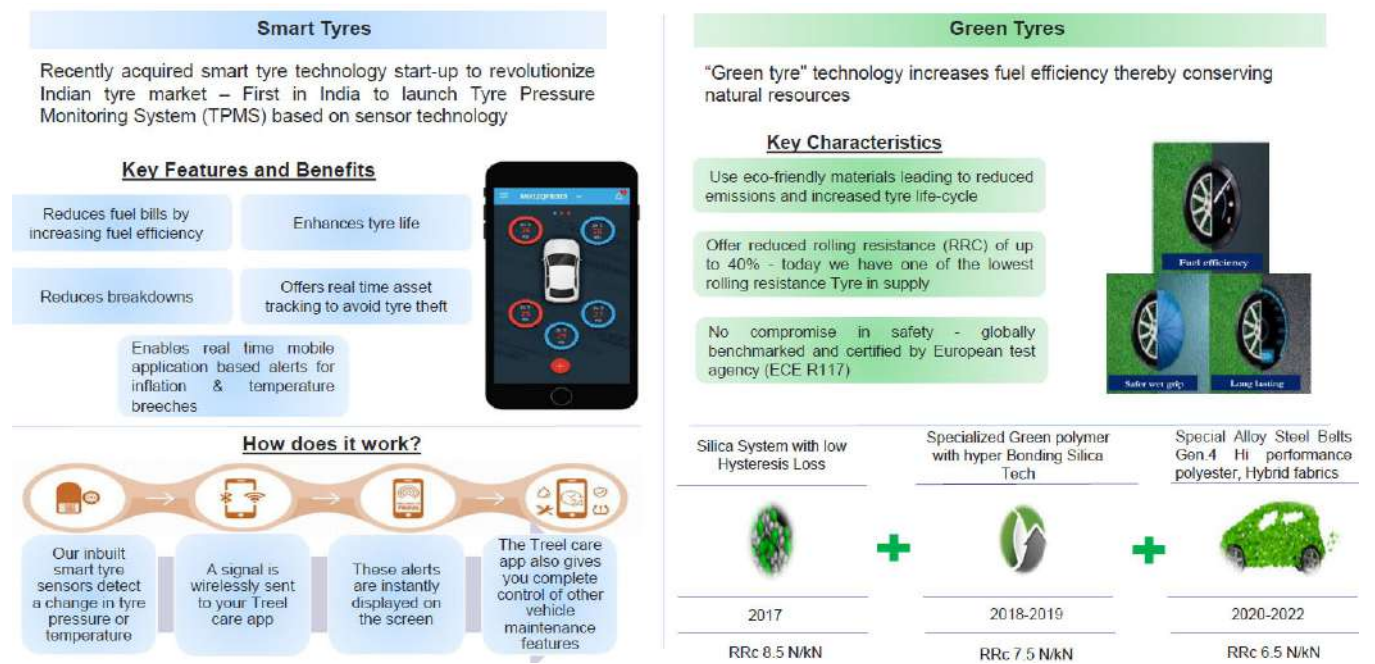
## Exhibit 3: Innovation led recent launches are gaining traction



Source- Company, YES Sec

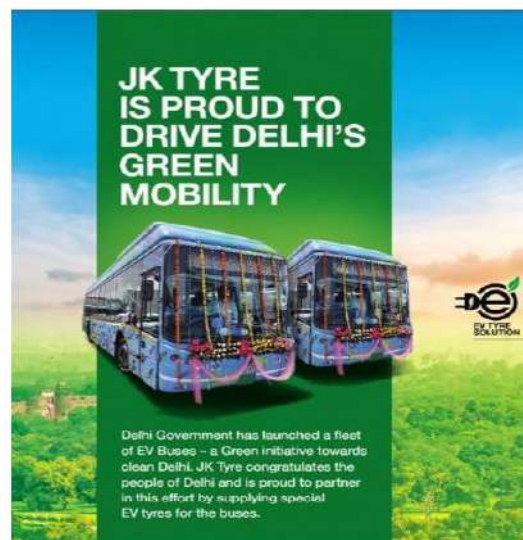
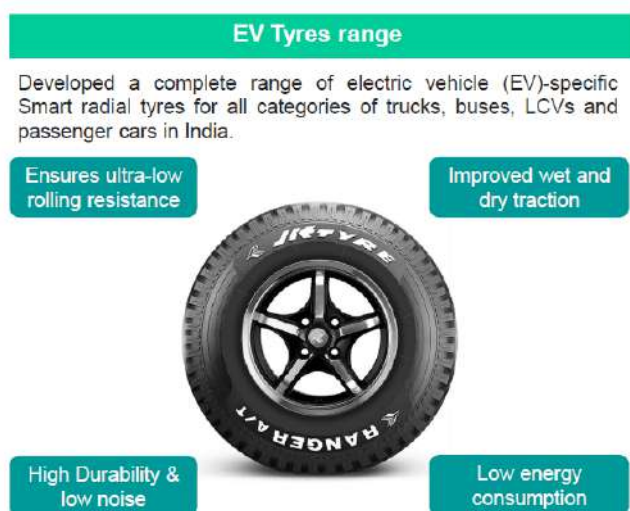


## Exhibit 4: Investing towards futuristic manufacturing process; in line with industry trends



Source- Company, YES Sec

## Exhibit 5: Developed entire range of EV tyres across segments



Source- Company, YES Sec

**Exhibit 6: OEM presence increasing with increased focus on PCR segment**



Source- Company, YES Sec

## FINANCIALS

**Exhibit 7: Balance Sheet**

Y/E March (Rs crore)	FY19	FY20	FY21	FY22	FY23
Equity Share Capital	49	49	49	49	49
Preference Capital	0	0	0	0	0
Total Reserves	2,235	2,282	2,623	2,799	3,347
Net Worth	2,284	2,331	2,673	2,848	3,396
Minority Interest	136	95	106	99	100
Deferred Liabilities and others	1,357	1,388	1,759	1,184	1,093
Total Loans	5,221	5,124	4,707	5,155	4,882
Capital Employed	8,999	8,938	9,245	9,287	9,471
Net Fixed Assets	6,738	6,865	6,753	6,755	6,462
Goodwill on Consolidation	-	-	-	-	-
Capital WIP	270	284	299	106	191
Total Investments	137	146	153	138	79
Curr. Assets, Loans&Adv.	4,304	4,052	3,907	5,088	5,051
Inventory	1,689	1,618	1,789	2,433	2,171
Account Receivables	1,945	1,848	1,575	1,980	2,283
Cash and Bank Balance	170	137	174	176	266
Loans and Advances	500	449	368	500	331
Curr. Liability & Prov.	2,808	2,855	2,427	3,038	2,373
Account Payables	1,599	1,688	1,574	2,189	1,820
Other Current Liabilities	1,114	1,032	739	676	401
Provisions	96	134	113	174	152
Net Current Assets	1,496	1,197	1,480	2,050	2,678
Deferred Tax assets	358	446	559	238	62
Misc Expenditure	0	-	-	-	-
Appl. of Funds	8,999	8,938	9,245	9,287	9,471

Source: Company, YES Sec

## Exhibit 8: Income statement

Y/E March (Rs crore)	FY19	FY20	FY21	FY22	FY23
Income from Operations	10,368	8,723	9,102	11,983	14,645
Less: Excise Duty	0	0	0	0	0
Total Income from Operations	10,368	8,723	9,102	11,983	14,645
Change (%)	25.3	(15.9)	4.4	31.6	22.2
Cost of Materials Consumed	6,685	5,337	5,469	8,039	10,011
% of Sales	64.5	61.2	60.1	67.1	68.4
Personnel Expenses	910	923	923	1,065	1,218
% of Sales	8.8	10.6	10.1	8.9	8.3
Other Expenses	1,662	1,477	1,404	1,805	2,118
% of Sales	16.0	16.9	15.4	15.1	14.5
Total Expenditure	9,256	7,737	7,796	10,910	13,347
% of Sales	89.3	88.7	85.6	91.0	91.1
EBITDA	1,112	985	1,306	1,073	1,298
Margin (%)	10.7	11.3	14.4	9.0	8.9
Depreciation	316	378	387	385	407
EBIT	796	608	920	688	891
Int. and Finance Charges	521	549	466	419	455
Other Income	84	31	43	37	37
PBT bef. EO Exp.	359	89	497	305	473
EO Items	(89)	(106)	37	4	(62)
PBT after EO Exp.	270	(17)	534	309	411
Current Tax	94	(166)	201	109	147
Deferred Tax	-	-	-	-	-
Tax Rate (%)	34.8	988.6	37.6	35.2	35.6
Less: Mionrity Interest	0	2	(14)	10	(17)
Reported PAT	176	147	348	191	282
Adjusted PAT	234	(794)	324	188	321
Change (%)	252.1	(438.9)	(140.8)	(41.9)	70.7
Margin (%)	2.3	(9.1)	3.6	1.6	2.2

Source: Company, YES Sec

## Exhibit 9: Cash Flow Statement

Y/E March (Rs crore)	FY19	FY20	FY21	FY22	FY23
OP/(Loss) before Tax	797	1,237	1,598	346	411
Depreciation	316	378	387	385	407
Interest & Finance Charges	521	523	432	391	455
Direct Taxes Paid	(81)	(34)	(89)	(70)	(137)
(Inc)/Dec in WC	(228)	311	452	(650)	45
CF from Operations	1,325	2,415	2,780	402	1,181
Others	528	1,178	1,181	56	(43)
CF from Operating incl EO	797	1,237	1,598	346	1,224
(inc)/dec in FA	(258)	(274)	(160)	(292)	(399)
Free Cash Flow	539	964	1,439	54	826
(Pur)/Sale of Investments	1	-	(0)	25	-
Others	-	-	-	-	(2)
CF from Investments	(257)	(274)	(160)	(267)	(400)
Issue of Shares	198	-	-	-	-
Inc/(Dec) in Debt	1,152	119	620	1,390	(224)
Interest Paid	(519)	(525)	(471)	(425)	(443)
Dividend Paid	(41)	(45)	(17)	(49)	(37)
Others	(1,311)	(513)	(1,573)	(1,012)	(43)
CF from Fin. Activity	(522)	(963)	(1,441)	(96)	(747)
Inc/Dec of Cash	19	1	(2)	(17)	76

Source- Company, YES Sec



## Exhibit 10: Growth and Ratio matrix

Y/E March	FY19	FY20	FY21	FY22	FY23
<b>Basic (INR)</b>					
EPS	9.5	(32.2)	13.2	7.6	13.0
BV/Share	92.8	94.7	108.5	115.7	137.9
DPS	1.5	0.7	2.0	1.5	1.5
Payout (%)	49.8	62.0	5.0	25.8	13.1
<b>Valuation (x)</b>					
P/E	19.9	(5.9)	14.4	24.8	14.5
P/BV	2.0	2.0	1.7	1.6	1.4
EV/Sales	0.9	1.1	1.0	0.8	0.6
EV/EBITDA	8.4	9.4	7.1	8.7	7.2
Dividend Yield (%)	0.8	0.4	1.1	0.8	0.8
FCF per share	21.9	39.1	58.4	2.2	33.5
<b>Return Ratios (%)</b>					
EBITDA Margins (%)	10.7	11.3	14.4	9.0	8.9
Net Profit Margins (%)	2.3	(9.1)	3.6	1.6	2.2
RoE	11.0	(34.4)	13.0	6.8	10.3
RoCE	7.9	8.5	13.0	9.4	11.4
RoIC	6.4	(64.3)	6.8	5.1	6.4
<b>Working Capital Ratios</b>					
Accum. Dep/Gross Block (x)	1	1.6	1.7	1.8	0.4
Fixed Asset Turnover (x)	2	1.3	1.3	1.8	0.5
Asset Turnover (x)	1.2	1.0	1.0	1.3	1.5
Inventory (Days)	92	110.6	119.4	110.4	79.1
Debtor (Days)	68	77.3	63.2	60.3	56.9
Creditor (Days)	56	70.7	63.1	66.7	45.4
Working Cap. Turnover (Days)	47	44.4	52.4	57.1	60.1
<b>Growth (%)</b>					
Sales	25.3	(15.9)	4.4	31.6	22.2
EBITDA	50.9	(11.4)	32.6	(17.8)	20.9
PAT	252.1	(438.9)	(140.8)	(41.9)	70.7
<b>Leverage Ratio (x)</b>					
Current Ratio	1.5	1.4	1.6	1.7	2.1
Interest Cover Ratio	1.5	1.1	2.0	1.6	2.0
Debt/Equity	2.3	2.2	1.8	1.8	1.4

Source: Company, YES Sec

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**NEUTRAL:** Upside between 0% to 10% over 12 months

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