

BSE Code: 530007

NSE Code: JKTYRE

Reuters Code: JKIN.NS

Bloomberg Code: JKI:IN

JK Tyre is a leading manufacturer of tyres in India with presence across commercial vehicles (CV's), passenger vehicles (PV's) and two-wheeler tyres. It commands a dominant 32% market share in the truck and bus radial (TBR) segment. The company derives ~87%/13% of its revenues from Indian/Mexican markets.

🔗 **Strong India performance:** India revenue registered decent growth of 9.4% YoY in Q4FY18 led by strong volume growth in OEM segment. Further, imposition of anti-dumping duty on Chinese tyres coupled with recent hike in customs duty on TBR tyres supported growth in replacement market. On the flip side, Mexico business continued to get impacted by restructuring and reported 12% YoY decline in revenue in Q4FY18.

🔗 **Stellar recovery in margins:** EBITDA grew by 64.6% YoY as EBITDA margin witnessed sharp improvement of 512 bps YoY (440 bps QoQ) to 14.4% in Q4FY18 despite pressure from crude based raw materials. The increase was primarily driven by gross margin expansion on account of lower natural rubber prices. Gross margin expanded to 40.5% in Q4FY18 as against 33.3% in Q4FY17 and 36% in Q3FY18. While India business reported EBIT margin improvement of 954 bps YoY to 16.8%, Mexico witnessed 209 bps YoY decline in EBIT margin to 10.6% in Q4FY18. However, on QoQ basis Mexico business saw significant improvement as it reported losses (-7% EBIT margin) in the previous quarter due to restructuring. Driven by strong operating performance coupled with higher other income, Adj. PAT grew ~4x on YoY basis in Q4FY18 although on a low base. We factor EBITDA margin of 12.8% and 13.5% for FY19E and FY20E, respectively as against 8.9% in FY18 driven by better product mix (strong growth in replacement segment, higher share of radials) and operating leverage.

🔗 **Robust demand to drive growth ahead:** We expect robust CV demand going forward driven by increasing preference for higher tonnage trucks, restrictions on overloading and government's thrust on infrastructure sector. Additionally, imposition of anti-dumping duty on Chinese tyres coupled with recent hike in customs duty on TBR tyres will support strong growth in the replacement segment. Besides, we expect radialisation trend to continue in Truck and Bus segment benefitting players such as JK tyres which has a dominant 32% market share in the TBR segment. Radials now account for 47% share in TB segment as against a meagre 6% share in FY09. Hence, we estimate 12% sales CAGR over FY18-20E for JK tyres.

**Outlook and Valuation:**

While FY18 was a tough year for the company due to GST implementation (limited company's ability to take price increase apart from destocking by the dealers) and increase in raw material cost (natural rubber dented margin in Q1FY18), we expect things to materially improve from FY19E onwards driven by strong demand which will enable the company to take price increase to offset the impact of input cost pressures. We continue to maintain BUY rating on the stock with revised rolled over TP of Rs. 152 based on 6x FY20E EV/EBITDA.

**Market Data**

<b>Rating</b>	<b>BUY</b>
<b>CMP (Rs.)</b>	129
<b>Target (Rs.)</b>	152
<b>Potential Upside</b>	18%
<b>Duration</b>	Long Term
Face Value (Rs.)	2
52 week H/L (Rs.)	193/119
Decline from 52WH (%)	33%
Rise from 52WL (%)	8%
Beta	1.0
Mkt. Cap (Rs.Cr)	2,916

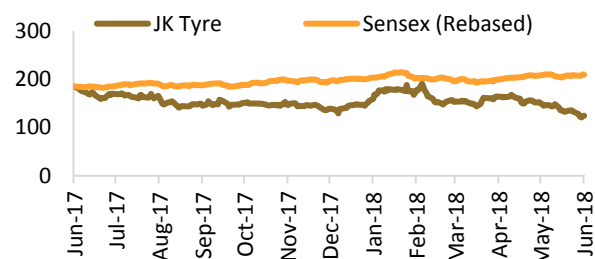
**Fiscal Year Ended**

Y/E	FY17	FY18	FY19E	FY20E
Revenue (Rs.Cr)	7,689	8,272	9,311	10,324
Adj. profit (Rs.Cr)	306	78	324	477
Adj. EPS (Rs.)	13.5	3.4	14.3	21.0
P/E (x)	9.5	37.5	9.0	6.1
P/BV (x)	1.5	1.5	1.3	1.1
ROE (%)	16.5	4.0	15.5	19.7

**Shareholding Pattern**

	Sep-17	Dec-17	Mar-18
Promoters	52.5	52.5	52.5
FII's	9.6	9.6	10.7
MFs/Insti	3.7	3.4	3.6
Public	17.9	17.2	14.9
Others	16.3	17.3	18.3

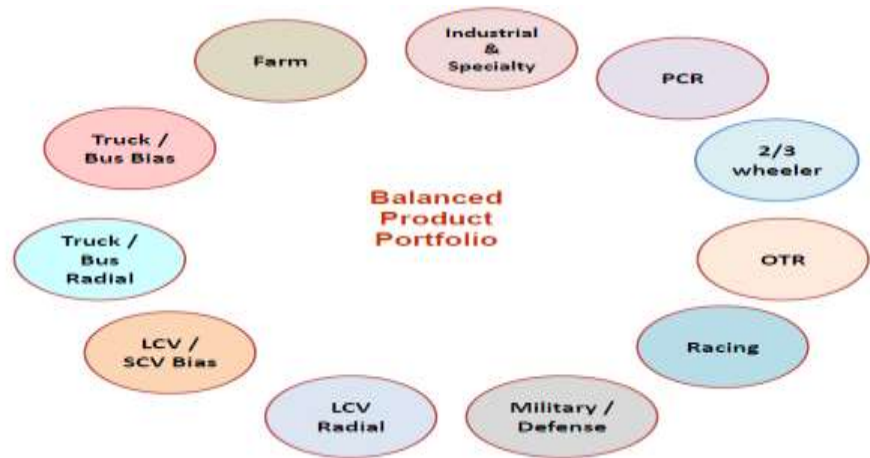
**One year price chart**



### JK Tyre Ltd: Business overview

JK Tyre is a leading manufacturer of tyres in India with presence across commercial vehicles (CV's), passenger vehicles (PV's) and two-wheeler tyres. It commands a dominant 32% market share in the truck and bus radial (TBR) segment. The company derives ~87%/13% of its revenues from Indian/Mexican markets. The company has wide range of products with a presence in over 105 countries and vast distribution and service network with over 4,000 dealers in India. JK Tyre is a partner to some of the renowned OEMs including Tata Motors, Ashok Leyland, M&M, Volvo Eicher, Maruti Suzuki, Honda, Volkswagen, BEML & Caterpillar India.

#### Comprehensive product portfolio



#### Diversified customer base

Car	Truck	Tractor	OTR
MARUTI SUZUKI	TATA, SHYAM SREE ENTERPRISES	Mahindra	BEML, CAT
TATA	ASHOK LEYLAND	TAFE	ACE, L&T Construction
Mahindra, HONDA	AMW, VOLVO	ESCORTS	TI Tractors India
FORCE	Mahindra Truck and Bus	CAPTAIN	Ganico, ESCORTS
BAJAJ	FORCE, MAN	India/Mexico	TATA HITACHI, LIUGONG
India/Mexico	SCANIA, EICHER	JOHN DEERE	LeeBoy, JCB
RENAULT, LTV	JK Tomet, Mexico - LTR	JK Tomet Mexico	LeeBoy, JCB
NISSAN, VW	NISSAN	NISSAN	LeeBoy, JCB
JK Tomet, Mexico	NISSAN	CNH	LeeBoy, JCB
CHRYSLER	NISSAN	Case New Holland	LeeBoy, JCB

Source: Company, In-house research

## Investment Rationale

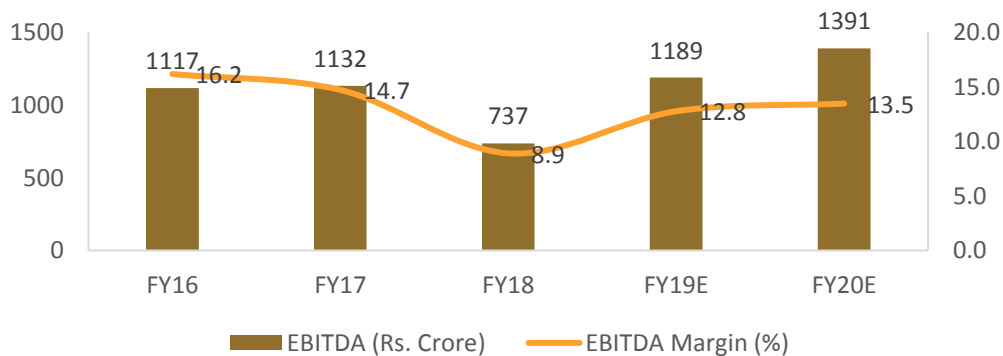
### Strong India performance

India revenue registered decent growth of 9.4% YoY in Q4FY18 led by strong volume growth in OEM segment. Further, imposition of anti-dumping duty on Chinese tyres coupled with recent hike in customs duty on TBR tyres supported growth in replacement market. On the flip side, Mexico business continued to get impacted by restructuring and reported 12% YoY decline in revenue in Q4FY18.

### Stellar recovery in margins

EBITDA grew by 64.6% YoY as EBITDA margin witnessed sharp improvement of 512 bps YoY (440 bps QoQ) to 14.4% in Q4FY18 despite pressure from crude based raw materials. The increase was primarily driven by gross margin expansion on account of lower natural rubber prices. Gross margin expanded to 40.5% in Q4FY18 as against 33.3% in Q4FY17 and 36% in Q3FY18. While India business reported EBIT margin improvement of 954 bps YoY to 16.8%, Mexico witnessed 209 bps YoY decline in EBIT margin to 10.6% in Q4FY18. However, on QoQ basis Mexico business saw significant improvement as it reported losses (-7% EBIT margin) in the previous quarter due to restructuring. Driven by strong operating performance coupled with higher other income, Adj. PAT grew ~4x on YoY basis in Q4FY18 although on a low base. We factor EBITDA margin of 12.8% and 13.5% for FY19E and FY20E, respectively as against 8.9% in FY18 driven by better product mix (strong growth in replacement segment, higher share of radials) and operating leverage.

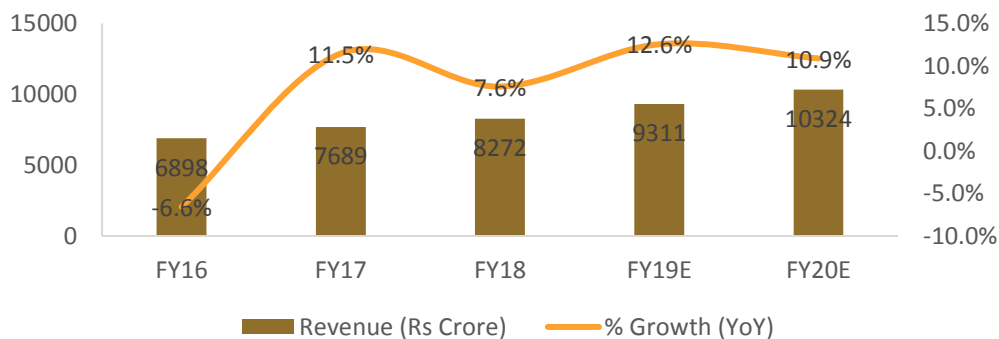
EBITDA to grow at 38% CAGR over FY18-20E



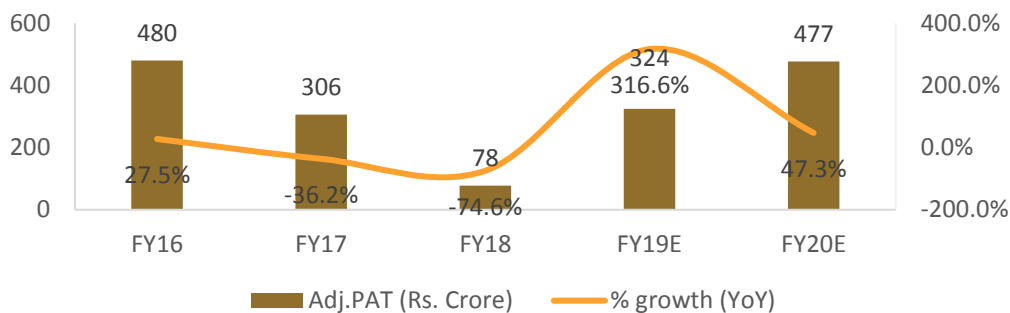
### Robust demand to drive growth ahead

We expect robust CV demand going forward driven by increasing preference for higher tonnage trucks, restrictions on overloading and government's thrust on infrastructure sector. Additionally, imposition of anti-dumping duty on Chinese tyres coupled with recent hike in customs duty on TBR tyres will support strong growth in the replacement segment. Besides, we expect radialisation trend to continue in Truck and Bus segment benefitting players such as JK tyres which has a dominant 32% market share in the TBR segment. Radials now account for 47% share in TB segment as against a meagre 6% share in FY09. Hence, we estimate 12% sales CAGR over FY18-20E for JK tyres.

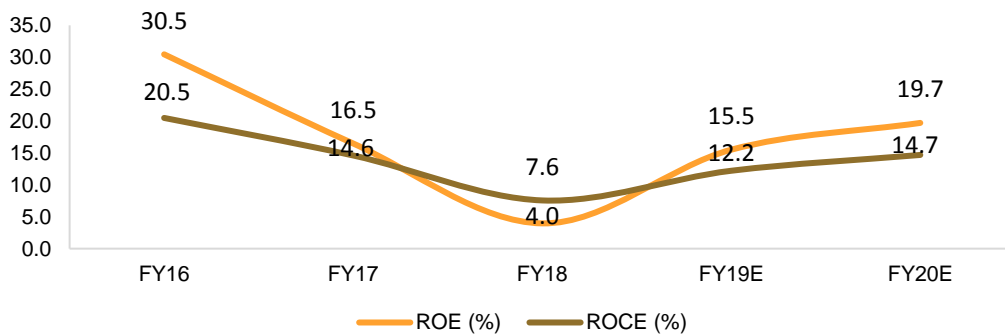
### Overall revenue to grow at 12% CAGR during FY18-20E



### Adj.PAT to grow substantially over FY18-20E



### Return ratios to stay robust



#### Key Risks:

- Any sharp increase in natural rubber prices could negatively impact the margins.
- High competition from China in the TBR segment.
- Weak demand in the M&HCV segment.

**Profit & Loss Account (Consolidated)**

Y/E (Rs. Cr)	FY17	FY18	FY19E	FY20E
<b>Total operating Income</b>	<b>7,689</b>	<b>8,272</b>	<b>9,311</b>	<b>10,324</b>
Raw Material cost	4,343	5,250	5,633	6,194
Employee cost	854	818	931	1,022
Other operating expenses	1,360	1,467	1,557	1,717
<b>EBITDA</b>	<b>1,132</b>	<b>737</b>	<b>1,189</b>	<b>1,391</b>
Depreciation	291	299	321	330
<b>EBIT</b>	<b>841</b>	<b>438</b>	<b>868</b>	<b>1,061</b>
Interest cost	440	466	450	421
Other Income	65	146	75	83
<b>Profit before tax</b>	<b>466</b>	<b>119</b>	<b>493</b>	<b>723</b>
Tax	155	44	164	241
<b>Profit after tax</b>	<b>311</b>	<b>75</b>	<b>329</b>	<b>482</b>
Minority Interests	6	(3)	5	5
P/L from Associates	1	0	0	0
<b>Adjusted PAT</b>	<b>306</b>	<b>78</b>	<b>324</b>	<b>477</b>
E/o income / (Expense)	69	(11)	-	-
<b>Reported PAT</b>	<b>375</b>	<b>66</b>	<b>324</b>	<b>477</b>

**Balance Sheet (Consolidated)**

Y/E (Rs. Cr)	FY17	FY18	FY19E	FY20E
Paid up capital	45	45	45	45
Reserves and Surplus	1,919	1,916	2,172	2,581
<b>Net worth</b>	<b>1,965</b>	<b>1,961</b>	<b>2,217</b>	<b>2,626</b>
Minority interest	145	142	147	152
Total Debt	5,654	5,589	5,389	5,039
Other non-current liabilities	491	453	453	453
<b>Total Liabilities</b>	<b>8,255</b>	<b>8,144</b>	<b>8,205</b>	<b>8,269</b>
Total fixed assets	5,788	6,142	6,130	6,050
Capital WIP	326	309	200	150
Goodwill	-	-	-	-
Investments	79	128	128	128
Net Current assets	2,278	1,765	1,947	2,141
Deferred Tax assets (Net)	(586)	(381)	(381)	(381)
Other non-current assets	371	181	181	181
<b>Total Assets</b>	<b>8,255</b>	<b>8,144</b>	<b>8,205</b>	<b>8,269</b>

**Cash Flow Statement (Consolidated)**

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
Pre tax profit	535	119	493	723
Depreciation	291	299	321	330
Chg in Working Capital	(712)	348	(181)	(200)
Others	122	265	375	338
Tax paid	(131)	(44)	(164)	(241)
<b>Cash flow from operating activities</b>	<b>105</b>	<b>987</b>	<b>844</b>	<b>950</b>
Capital expenditure	(279)	(637)	(200)	(200)
Chg in investments	(473)	(49)	-	-
Other investing cashflow	(84)	146	75	83
<b>Cash flow from investing activities</b>	<b>(835)</b>	<b>(539)</b>	<b>(125)</b>	<b>(118)</b>
Equity raised/(repaid)	-	-	0	-
Debt raised/(repaid)	1,329	(65)	(200)	(350)
Dividend paid	(68)	(41)	(68)	(68)
Other financing activities	(431)	(466)	(450)	(421)
<b>Cash flow from financing activities</b>	<b>830</b>	<b>(572)</b>	<b>(718)</b>	<b>(839)</b>
Net chg in cash	<b>100</b>	<b>(124)</b>	<b>1</b>	<b>(6)</b>

**Key Ratios (Consolidated)**

Y/E	FY17	FY18	FY19E	FY20E
<b>Growth (%)</b>				
Net Sales	11.5	7.6	12.6	10.9
EBITDA	1.4	-34.9	61.3	17.0
Net profit	-36.2	-74.6	316.6	47.3
<b>Margin (%)</b>				
EBITDA	14.7	8.9	12.8	13.5
NPM	4.0	0.9	3.5	4.6
<b>Return Ratios (%)</b>				
RoE	16.5	4.0	15.5	19.7
RoCE	14.6	7.6	12.2	14.7
<b>Per share data (Rs.)</b>				
EPS	13.5	3.4	14.3	21.0
DPS	2.5	1.5	2.5	2.5
<b>Valuation(x)</b>				
P/E	9.5	37.5	9.0	6.1
EV/EBITDA	7.4	11.6	7.0	5.7
EV/Net Sales	1.1	1.0	0.9	0.8
P/B	1.5	1.5	1.3	1.1
<b>Turnover Ratios (x)</b>				
Net Sales/GFA	1.0	0.9	1.0	1.1
Sales/Total Assets	0.8	0.8	0.9	0.9

#### Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
<b>Buy</b>	More than equal to 10%	<b>Buy</b>	More than equal to 15%
<b>Hold</b>	Upside or downside is less than 10%	<b>Accumulate*</b>	Upside between 10% & 15%
<b>Reduce</b>	Less than equal to -10%	<b>Hold</b>	Between 0% & 10%
		<b>Reduce/sell</b>	Less than 0%

\* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

\* JK Tyres & Industries Limited is a small-cap company.

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