

CMP: ₹ 175

Target: ₹ 210 (20%)

Target Period: 12 months

May 20, 2023

BUY

High costs inventory dents Q4FY23, performance set to meaningfully improve, going forward...

About the stock: JK Tyre (JKT) is a leading tyre manufacturer with annual capacity pegged at 6.2 lakh MT. It serves various automotive segments via India, Mexico plants with dominance in truck/bus radial (TBR) space domestically.

- FY23 segment mix – truck/bus ~54%, PCR ~28%, 2-W, 3-W ~4%
- FY23 channel mix – aftermarket ~60%, OEM ~23%, exports ~17%

Q4FY23 Results: JKT's performance in Q4FY23 lagged peers on the margin front.

- Consolidated net sales were flat QoQ at ₹ 3,632.5 crore
- Consolidated EBITDA margins rose 100 bps QoQ to 10.4%
- Standalone gross margin improved just ~215 bps QoQ vs. peers reporting ~400-500 bps QoQ expansion. Management guided for high-cost inventory utilised in Q4FY23 with RM decline benefits to accrue in coming quarters
- Consequent PAT was at ₹ 108.4 crore, up 65% QoQ

What should investors do? JKT's share price has grown at ~6.5% CAGR over the past five years (~₹ 147 levels in May 2018), outperforming the Nifty Auto index

- We maintain **BUY** tracking margin expansion on the anvil and accelerated debt reduction amid controlled capex spends & healthy CFO generation.

Target Price and Valuation: Revising our estimates and rolling over our valuations, we now value JKT at ₹ 210 i.e. 5x EV/EBITDA on FY25E numbers.

Key triggers for future price performance:

- Uptick in domestic demand, particularly in the CV space amid higher fleet utilisation, pick-up in replacement demand and vehicle scrappage
- Focus on premiumisation in the form of smart tyres, puncture-guard tyres & EV-specific tyres that offer low rolling resistance and increase efficiency
- Controlled capex spends and healthy CFO generation with net debt seen declining from ~₹ 4,500 crore in FY23 to ~₹ 3,700 crore in FY25E
- Building in the visible positives, we build 6.3% CAGR net sales over FY23-25E with margins seen at 11% in FY25E. Return ratios are seen turning to 15% in that timeframe with debt: equity to reduce to 0.9x by FY25E

Alternate Stock Idea: Besides JKT, in our coverage we like Mahindra CIE.

- Focused on growth capex in India & efficiencies in European operations
- BUY with a target price of ₹ 200



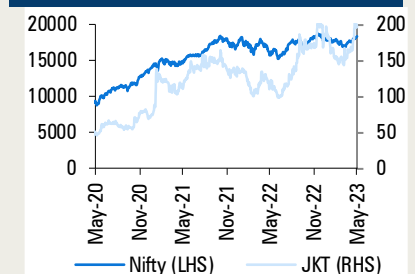
Particulars

Particular	₹ crore
Market Capitalization	4,309.4
Total Debt (FY23P)	4,783.5
Cash & Investments (FY23P)	277.0
EV (₹ Crore)	8,815.9
52 week H/L (₹)	214 / 95
Equity capital (₹ crore)	₹ 49.3 Crore
Face value (₹)	₹ 2

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	56.3	56.3	56.3	56.3
FII	7.4	7.2	7.5	6.7
DII	1.2	1.2	1.3	1.2
Other	35.2	35.3	35.0	35.8

Price Chart



Recent event & key risks

- Posted tad muted Q4FY23 result
- Key Risk:** (i) Lower than anticipated margin recovery in coming quarters amid benign raw material prices, (ii) Delay in debt reduction on b/s amid fresh capex spends

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	FY23P	5 year CAGR (FY18-23P)	FY24E	FY25E	2 year CAGR (FY23P-25E)
Net Sales	10,369.9	8,724.9	9,102.2	11,983.0	14,644.9	12.1%	15,373.8	16,562.0	6.3%
EBITDA	1,114.1	987.6	1,306.3	1,073.3	1,297.8	12.0%	1,686.3	1,826.2	18.6%
EBITDA Margins (%)	10.7	11.3	14.4	9.0	8.9		11.0	11.0	
Net Profit	176.4	150.8	319.4	210.0	262.5	31.8%	521.7	700.2	63.3%
EPS (₹)	7.8	6.1	13.0	8.5	10.7		20.1	27.0	
P/E	22.5	28.6	13.5	20.5	16.4		8.7	6.5	
RoNW (%)	7.7	6.5	11.9	7.4	7.7		13.7	16.0	
RoCE (%)	9.2	7.4	11.8	8.1	10.2		13.9	15.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results

- Among geographies, de-growth for the quarter was witnessed in Indian operations, which were down 1% QoQ at ₹ 3,062 crore. Mexican revenues grew 11% QoQ to ₹ 671 crore
- On the margin front, gross margin expanded 216 bps sequentially on standalone operations. India EBIT margins recovered ~144 bps QoQ to 8.3%, with Mexico EBIT margins down ~148 bps QoQ to 4.2%

JKT - ESG Disclosure Score*			
Score	FY20	FY21	FY22
Environmental	23.6	37.4	43.1
Social	23.6	23.6	21.0
Governance	84.9	84.9	89.9
Overall ESG Score	44.1	48.6	51.4

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

Q4FY23 Earnings Conference Call highlights

- Total installed capacity was at 6.2 lakh MT i.e. ~3.3 crore tyres annually (truck & bus: 6 million; passenger: 14.5 million, two, three wheeler: 7.9 million, others: 4.1 million) with corresponding capacity utilisation for FY23 at 86%
- The company is focusing on premiumisation through launch of EV specific tyres offering low rolling resistance and road noise
- JK Tonell Mexico revenue for FY23 was at ₹ 2,673 crore vs. ₹ 2,120 crore in FY22. EBITDA was at ₹ 215 crore vs. ₹ 187 crore in FY22. Revenue for Q4FY23 was at ₹ 671 crore (up 14% YoY & 10% QoQ). The management informed about high cost inventory in the US & Latin America impacting margin recovery. However, with a reduction in freight rates and inventory correction, margins to improve, going forward. The management expects global market to improve, going forward
- Net debt was at ~₹ 4,518 crore as of FY23 (reduced by ~₹ 422 crore). Net debt to equity was at ~1.3x in FY23 vs. 1.7x in FY22. Net debt/EBITDA was at ~3.4x in FY23 vs. 4.5x in FY22
- The management informed about ~14% YoY increase in number of tyres sold in Indian operations and Mexican operations growing 14% YoY in value terms. However, the management said tonnage was flattish YoY. Further, the management said exports were muted during Q4FY23
- On the margin front, the management expects recovery to continue in H1FY24 amid reduction in high cost inventory and operating leverage gains
- The management continued its capex spend of ₹ 790 crore (~₹ 530 for PCR & ~₹ 260 for truck radial) of which ~₹ 500 will be done in FY24E
- Cavendish revenue for Q4FY23 was at ₹ 970 crore vs. ₹ 976 crore in Q3FY23, margins at Cavendish were at 11.5% vs. 9.7% in Q3FY23. Utilisation was at ~85% vs. ~92% in Q3FY23
- Export was at ~13% of sales during Q4FY23 vs. ~16% of Q3FY23

Indian operation channel mix (Q4FY23): Replacement: 60%; OEM: 33%. Segment mix: TBR: 60%; PCR: 25%

Management expects PV & CV capacity to increase by ~35% & ~10%, respectively, post incremental capex

The management informed about lower tax rate being effective from FY25E

The company has scheduled long term debt repayment of ~₹ 450 crore in FY24E and take some fresh loan for upcoming capex spends

Peer comparison

Exhibit 1: Peer Comparison (tyres)

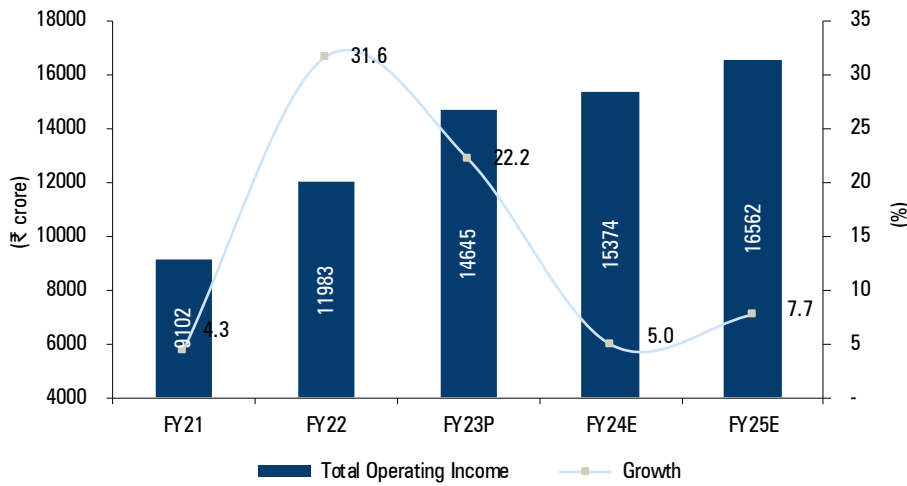
Company	CMP	TP	Rating	Mcap	EBITDA margin (%)			Debt to Equity (x)			RoCE (%)			EV/EBITDA (x)		
	₹	₹			₹ crore	FY23P	FY24E	FY25E	FY23P	FY24E	FY25E	FY23P	FY24E	FY25E	FY23P	FY24E
Apollo Tyres (APOTYR)	367	420	Hold	23,306	13.5	16.0	16.3	0.4	0.3	0.2	9.8	14.8	15.6	8.3	6.0	5.3
Balkrishna Inds (BALIND)	2,171	2,170	Hold	41,963	15.2	22.0	24.0	0.4	0.2	0.1	8.6	15.8	19.2	30.0	18.9	15.4
JK Tyre (JKTYRE)	175	210	Buy	4,309	8.9	11.0	11.0	1.4	1.2	0.9	10.2	13.9	15.1	6.8	5.1	4.4

Source: Company, ICICI Direct Research

We retain our BUY rating on **JK Tyre** amid management guidance to revert back to its ~12% margin trajectory amid benign raw material prices, controlled capex spends and healthy CFO generation to lead to meaningful debt reduction over the next two years and inexpensive valuations vs. peers.

Financial story in charts

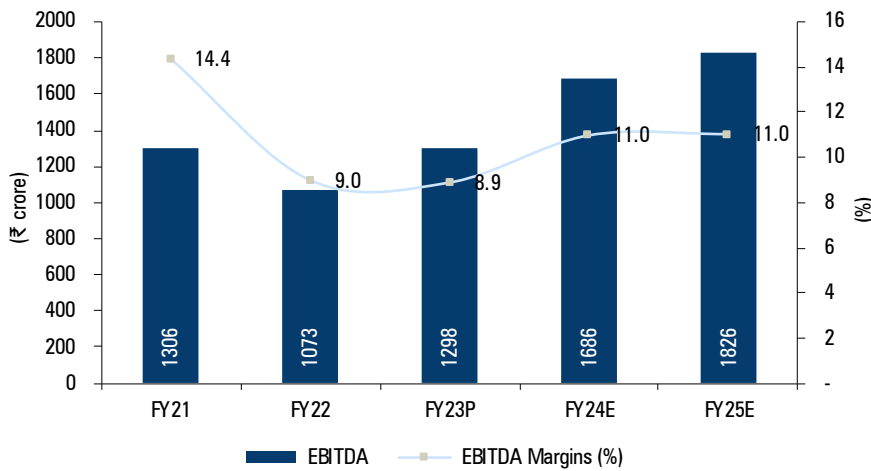
Exhibit 2: Topline trend



We expect sales to grow at a CAGR of 6.3% over FY23-25E to ₹ 16,562 crore in FY25E; albeit on a high base of FY23

Source: Company, ICICI Direct Research

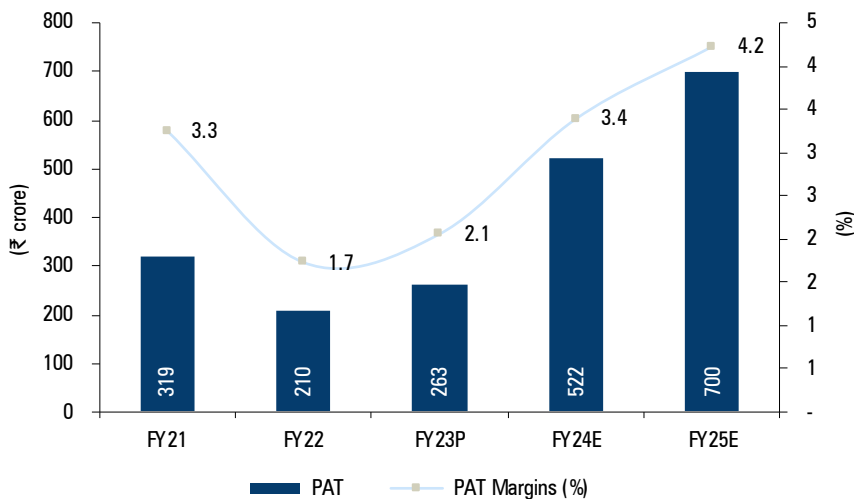
Exhibit 3: Margin trend



Margins are expected at stabilised ~11% mark over FY24-25E vs. 9% clocked in FY23. Management guidance is to revert back to ~12% levels

Source: Company, ICICI Direct Research

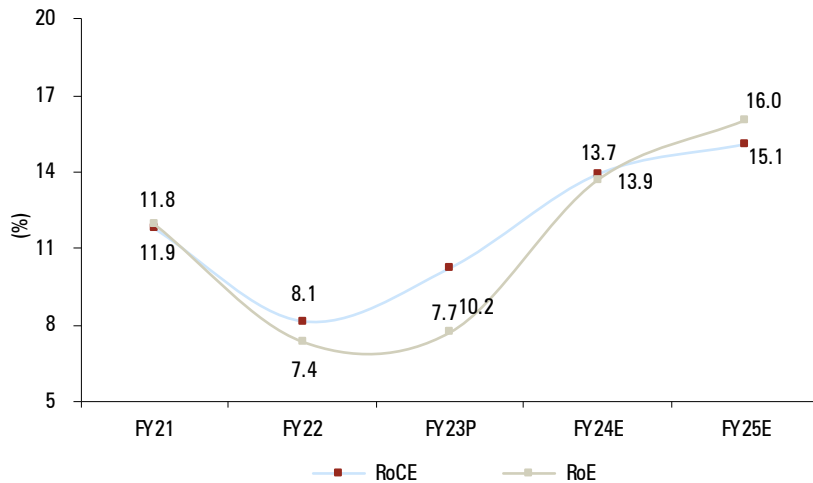
Exhibit 4: Trend in profitability



PAT is expected to grow at 63% CAGR over FY23-25E, albeit on a very low base & ~200 bps margin recovery

Source: Company, ICICI Direct Research

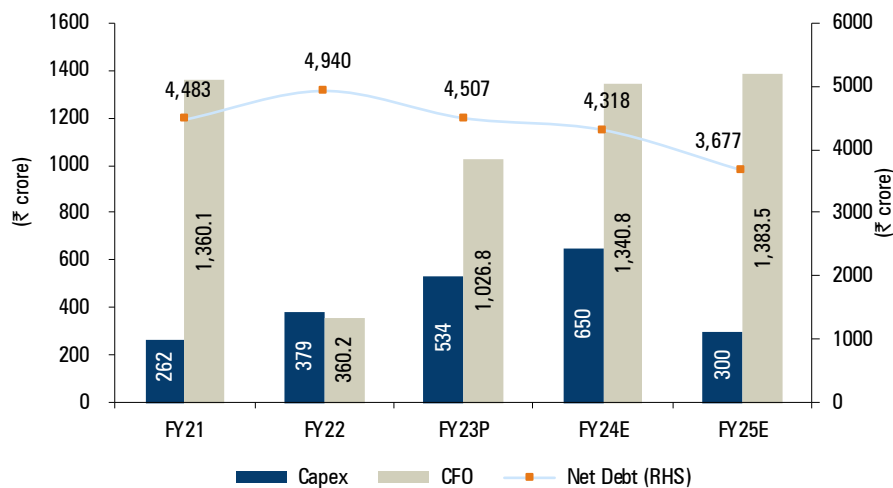
Exhibit 5: Trend in return ratios



Return ratios are seen rising to ~15% by FY25E

Source: Company, ICICI Direct Research

Exhibit 6: Debt, capex and CFO trend



Net debt is seen declining to ~₹ 3,700 crore levels by FY25E vs. ~₹ 4,500 crore as of FY23; amid limited capex spend in FY24-25E and expectations of robust CFO generation

Source: Company, ICICI Direct Research

Exhibit 7: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (Diluted) (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	10,369.9	25.4	7.8	167.1	22.5	8.9	7.7	9.2
FY20	8,724.9	(15.9)	6.1	(21.3)	28.6	9.8	6.5	7.4
FY21	9,102.2	4.3	13.0	111.8	13.5	6.7	11.9	11.8
FY22	11,983.0	31.6	8.5	-34.2	20.5	8.6	7.4	8.1
FY23P	14,644.9	22.2	10.7	25.0	16.4	6.8	7.7	10.2
FY24E	15,373.8	5.0	20.1	88.5	8.7	5.1	13.7	13.9
FY25E	16,562.0	7.7	27.0	34.2	6.5	4.4	16.0	15.1

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement		₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E	
Total operating Income	11,983.0	14,644.9	15,373.8	16,562.0	
Growth (%)	31.6	22.2	5.0	7.7	
Raw Material Expenses	8,039.3	10,010.9	10,026.2	10,823.0	
Employee Expenses	1,065.4	1,218.0	1,354.4	1,456.0	
Other Expenses	1,805.1	2,118.2	2,306.9	2,456.9	
Total Operating Expenditure	10,909.7	13,347.1	13,687.5	14,735.8	
EBITDA	1073.3	1297.8	1686.3	1826.2	
Growth (%)	-17.8	20.9	29.9	8.3	
Depreciation	385.4	407.1	445.8	480.3	
Interest	419.1	454.5	448.4	386.3	
Other Income	36.6	36.5	30.7	33.1	
Exceptional Items	-3.6	61.5	0.0	0.0	
PBT	305.4	472.8	822.8	992.7	
Total Tax	108.7	146.5	288.0	278.0	
PAT	210.0	262.5	521.7	700.2	
Growth (%)	-34.2	25.0	98.7	34.2	
EPS (₹)	8.5	10.7	20.1	27.0	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement		₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E	
Profit after Tax	210.0	262.5	521.7	700.2	
Add: Depreciation & Int	804.5	861.6	894.2	866.6	
(Inc)/dec in Current Assets	-1,240.0	23.7	-634.5	-445.9	
Inc/(dec) in CL and Provisions	585.7	-120.9	559.4	262.6	
CF from operating activities	360.2	1026.8	1340.8	1383.5	
(Inc)/dec in Investments	14.3	0.0	-10.0	-10.0	
(Inc)/dec in Fixed Assets	-379.1	-533.9	-650.0	-300.0	
Others	1.4	98.1	49.7	77.3	
CF from investing activities	-363.5	-435.8	-610.3	-232.7	
Issue/(Buy back) of Equity	0.0	0.0	2.7	0.0	
Inc/(dec) in loan funds	458.7	-331.7	-250.0	-600.0	
Dividend paid & dividend tax	-36.9	-49.3	-103.8	-142.8	
Others (incl Interest costs)	-416.6	-119.9	-451.0	-386.3	
CF from financing activities	5.2	-500.9	-802.1	-1129.1	
Net Cash flow	1.9	90.1	-71.7	21.7	
Opening Cash	173.8	175.7	265.8	194.1	
Closing Cash	175.7	265.8	194.1	215.8	

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet		₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E	
Liabilities					
Equity Capital	49.3	49.3	51.9	51.9	
Reserve and Surplus	2,799.1	3,346.9	3,762.1	4,319.6	
Total Shareholders funds	2848.3	3396.1	3814.1	4371.5	
Total Debt	5,115.2	4,783.5	4,533.5	3,933.5	
Deferred Tax Liability	405.1	430.6	452.0	486.9	
Other non-current liabilities	821.2	900.9	945.7	1,018.8	
Minority Interest	99.2	99.7	99.7	99.7	
Total Liabilities	9289.1	9610.8	9845.0	9910.5	
Assets					
Gross Block	10,626.9	11,070.7	11,870.7	12,145.7	
Less: Acc Depreciation	4,192.2	4,599.3	5,045.1	5,525.4	
Net Block	6434.7	6471.4	6825.6	6620.3	
Capital WIP	100.6	190.6	40.6	65.6	
Total Fixed Assets	6,535.2	6,662.0	6,866.2	6,685.9	
Investments	132.8	144.0	164.0	194.0	
Inventory	2,432.6	2,170.5	2,527.2	2,722.5	
Debtors	1,979.9	2,283.2	2,527.2	2,722.5	
Loans and Advances	208.8	171.9	180.5	194.4	
Other current assets	536.9	508.9	534.2	575.5	
Cash	175.7	265.8	194.1	215.8	
Total Current Assets	5,333.9	5,400.4	5,963.2	6,430.8	
Creditors	2,188.5	1,819.6	2,316.6	2,495.6	
Provisions	17.4	52.7	67.0	72.2	
Other current liabilities	752.7	965.4	1,013.4	1,091.8	
Total Current Liabilities	2,958.6	2,837.7	3,397.1	3,659.6	
Net Current Assets	2375.3	2562.7	2566.1	2771.1	
Others	235.8	178.9	139.3	150.0	
Application of Funds	9289.1	9610.8	9845.0	9910.5	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios					
(Year-end March)	FY22	FY23P	FY24E	FY25E	
Per share data (₹)					
EPS	8.5	10.7	20.1	27.0	
Cash EPS	24.2	27.2	37.3	45.5	
BV	115.7	137.9	146.9	168.4	
DPS	1.5	2.0	4.0	5.5	
Cash Per Share	7.1	10.8	7.5	8.3	
Operating Ratios (%)					
EBITDA Margin	9.0	8.9	11.0	11.0	
PBIT / Net sales	5.7	6.1	8.1	8.1	
PAT Margin	1.7	2.1	3.4	4.2	
Inventory days	74.1	54.1	60.0	60.0	
Debtor days	60.3	56.9	60.0	60.0	
Creditor days	66.7	45.4	55.0	55.0	
Net Working Capital days	67.7	65.7	65.0	65.0	
Return Ratios (%)					
RoE	7.4	7.7	13.7	16.0	
RoCE	8.1	10.2	13.9	15.1	
RoIC	8.4	10.8	14.4	15.7	
Valuation Ratios (x)					
P/E	20.8	14.3	8.7	6.5	
EV / EBITDA	8.6	6.8	5.1	4.4	
EV / Net Sales	0.8	0.6	0.6	0.5	
Market Cap / Sales	0.4	0.3	0.3	0.3	
Price to Book Value	1.5	1.3	1.2	1.0	
Solvency Ratios					
Debt/Equity	1.8	1.4	1.2	0.9	
Current Ratio	2.3	2.7	2.4	2.4	
Quick Ratio	1.2	1.6	1.4	1.4	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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