

CMP: ₹ 170

Target: ₹ 180 (6%)

Target Period: 12 months

HOLD

November 4, 2022

Steady base; anticipating margin recovery in H2FY23

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.

- FY22 segment mix – truck/bus ~55%, PCR ~26%, 2-W, 3-W ~4%
- FY22 channel mix – aftermarket ~59%, OEM ~20%, exports ~21%

Q2FY23 Results: The company reported a steady performance in Q2FY23.

- Consolidated net sales were up 3% QoQ to ₹ 3,756 crore
- EBITDA margins rose 10 bps QoQ to 7.9%
- Consequent PAT was at ₹ 51.3 crore, up 38% QoQ

What should investors do? JKT's share price has grown at ~3.5% CAGR over the past five years (~₹ 145 levels in November 2017), in line with the Nifty Auto index.

- With high leverage on b/s and limited scope of b/s de-leveraging in the near term amid fresh capex spend we maintain **HOLD** rating on the stock

Target Price and Valuation: Building in RM price decline benefits, we now value JKT at ₹ 180 i.e. ~5.6x EV/EBITDA on FY24E basis (earlier target price ₹ 135).

Key triggers for future price performance:

- Focusing on product premiumisation & technologically advanced range of products like smart tyre, puncture guard tyre and EV specific tyres offering ultra-low rolling resistance and higher efficiency
- Cooling off of input prices i.e. natural rubber & crude derivatives to aid in margin recovery as well as healthy cash flow generation
- Reduction of debt on b/s (term loans) amid normalised working capital need
- Building in the visible positives, we build in 14.7% net sales CAGR in FY22-24E with margins seen at 10.6% in FY24E amid focus on export markets along with continued focus on premiumisation of products

Alternate Stock Idea: Besides JKT, in our auto coverage we like Apollo Tyres.

- Focused on sweating of assets, calibrated capex spends and RoCE focus
- BUY with a target price of ₹ 335



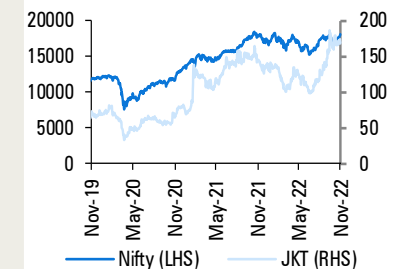
Particulars

Particular	₹ crore
Market Capitalization	4,186.3
Total Debt (FY22)	5,115.2
Cash & Investments (FY22)	175.7
EV (₹ Crore)	9,125.8
52 week H/L (₹)	198 / 95
Equity capital (₹ crore)	₹ 49.3 Crore
Face value (₹)	₹ 2

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	55.9	56.3	56.3	56.3
FII	8.1	8.2	7.4	7.2
DII	1.3	1.2	1.2	1.2
Other	34.7	34.4	35.2	35.3

Price Chart



Recent event & key risks

- Posted steady Q2FY23 results
- Key Risk:** (i) Slower than expected uptick in demand, (ii) Healthy CFO generation & more than anticipated debt repayment

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	10,369.9	8,724.9	9,102.2	11,983.0	9.3%	14,881.5	15,765.1	14.7%
EBITDA	1,114.1	987.6	1,306.3	1,073.3	-1.1%	1,329.6	1,676.1	25.0%
EBITDA Margins (%)	10.7	11.3	14.4	9.0		8.9	10.6	
Net Profit	176.4	150.8	319.4	210.0	-11.0%	297.6	507.1	55.4%
EPS (₹)	7.8	6.1	13.0	8.5		12.1	20.6	
P/E	21.9	27.8	13.1	19.9		14.1	8.3	
RoNW (%)	7.7	6.5	11.9	7.4		9.6	14.4	
RoCE (%)	9.2	7.4	11.8	8.1		10.4	13.3	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results

- Among geographies, growth for the quarter was led by Mexican geographies. India revenues increased 3% QoQ to ₹ 3,149.5 crore while Mexico operations posted increase of 7% to ₹ 720.9 crore
- The management said domestic demand is expected to continue to grow on the strength of improved economic activity and sustained focus of the government on infrastructural spends
- On the margin front, gross margins remained flat sequentially and were on expected lines. India EBIT margins recovered ~21 bps QoQ to 4.9%, with Mexico EBIT margins up ~14 bps QoQ to 7.1%

Q2FY23 Earnings Conference Call highlights

- Total installed capacity was at 6.2 lakh MT i.e. ~3.3 crore tyres annually with corresponding capacity utilisation for H1FY23 at 90%
- JKT witnessed highest ever quarterly sales in Q2FY23 as it also benefitted from customer's preference for UV as UV have larger tyre size
- The management guided about strong demand from OEMs amid strong festive season and easing of chip shortages. Also, the CV industry is expected to witness a cyclical upswing in the medium term whereas tractor is expected to witness good demand amid healthy monsoons
- Cavendish revenue for Q2FY23 was at ₹ 982 crore, up 34% YoY vs. ₹ 942 crore at Q1FY23, Margins at Cavendish were at 6.3% and PBT at -₹ 18 crore (loss due to forex charge). Mexican operation's Q2FY23 revenue was at ₹ 721 crore, up 25% YoY vs. ₹ 673 crore in Q1FY23. Operating profit for the same was at ₹ 65 crore, up 13% YoY vs. ₹ 60 crore in Q1FY23
- Export from India was at ₹ 514 crore in Q2FY23 vs. ₹ 458 crore in Q1FY23
- Utilisation at JK Tornel, Mexico was at 90%. The management will conduct debottlenecking activities in near future but currently the company has sufficient capacity to meet rising demand. Also, JK Tornel remained the largest supplier to large MNCs like Walmart in Mexico and enjoys leadership position in the PCR segment
- JKT took ~16% price hike in the Mexican market in the last 15 months and can take ~1-2% more in coming quarters. Price hike in Indian operations for the quarter was at ~3%. RM cost increased ~4% in Q2FY23 but the company is witnessing some softening with benefits to flow from Q3FY23
- Over medium to long term, it expects its margin to stabilise at ~ 11-12%
- The company retained its capex guidance as in Q1FY23

In export market growth was primarily led by North American markets among 105 countries where the company exports to

The management guided about under recovery to extent of 7-8% still in system and will focus on premiumisation to offset the same

Anti-dumping duty imposed by Government of India on Chinese imported TBR tyre has been extended till December 2022 vs. earlier date of September 2022. It is currently under review

The company remains committed towards repayment of ~40% of long term debt by FY25E

JKT has developed the complete range of electric vehicle (EV)-specific smart radial tyres for all categories of trucks, buses, LCVs and passenger cars in India. It is also partner with Delhi Government for supply of tyres for e-buses

Volume growth for the quarter in Indian operations was flat QoQ

Peer comparison

Exhibit 1: Peer Comparison (tyres)

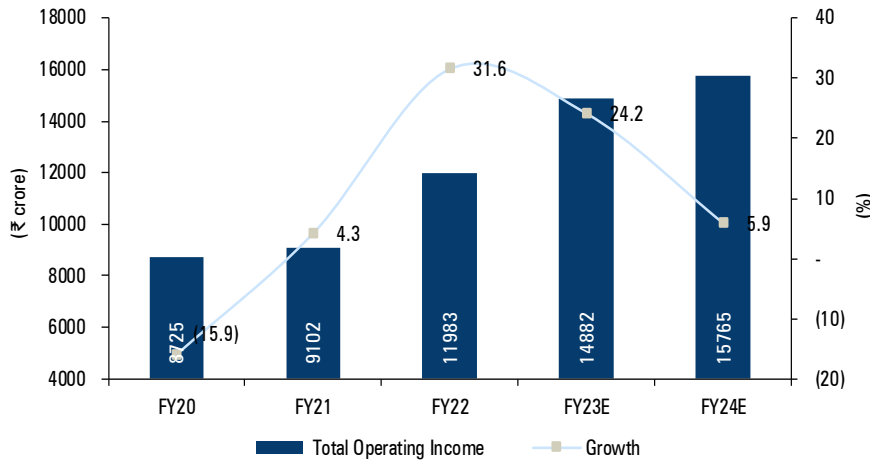
Company	CMP	TP	Rating	Mcap ₹ crore	EBITDA margin (%)			Debt to Equity (x)			RoCE (%)			EV/EBITDA (x)		
	₹	₹			FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Apollo Tyres (APOTYR)	286	335	Buy	18,162	12.3	13.1	15.1	0.5	0.4	0.3	6.3	9.4	13.0	8.8	6.8	5.2
Balkrishna Inds (BALIND)	1,896	2,550	Buy	36,653	23.9	18.2	23.5	0.4	0.3	0.2	15.9	13.1	19.7	19.4	20.3	13.3
JK Tyre (JKTYRE)	170	180	Hold	4,186	9.0	8.9	10.6	1.8	1.7	1.5	8.1	10.4	13.3	8.5	7.0	5.5

Source: Company, ICICI Direct Research

With highly leveraged b/s and limited b/s de-leveraging prospects due to fresh capex spend we maintain **HOLD** rating on the stock.

Financial story in charts

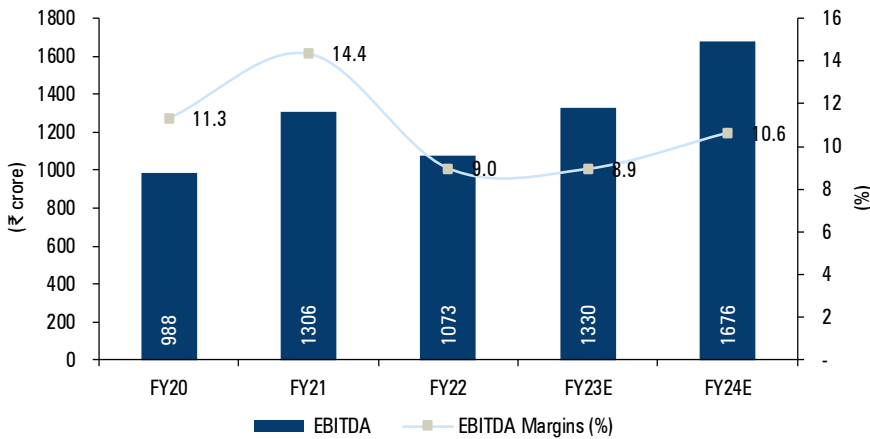
Exhibit 2: Topline trend



We expect sales to grow at a CAGR of 14.7% over FY22-24E to ₹ 15,765 crore in FY24E

Source: Company, ICICI Direct Research

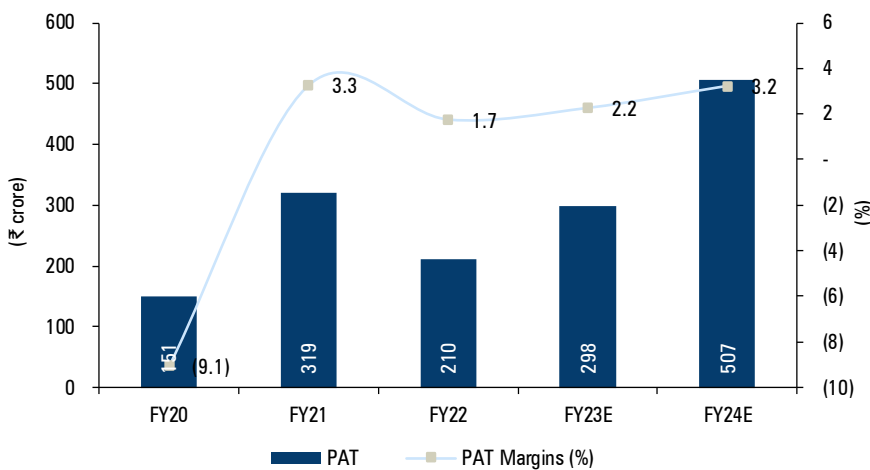
Exhibit 3: Margin trend



Margins are expected at 10.6% by FY24E vs. 9% in FY23E

Source: Company, ICICI Direct Research

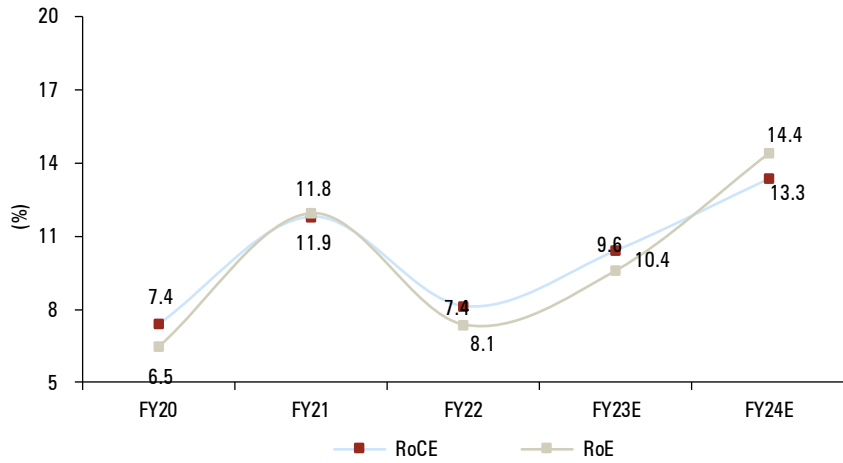
Exhibit 4: Trend in profitability



PAT is expected to grow at 55.4% CAGR over FY22-24E, albeit on a very low base

Source: Company, ICICI Direct Research

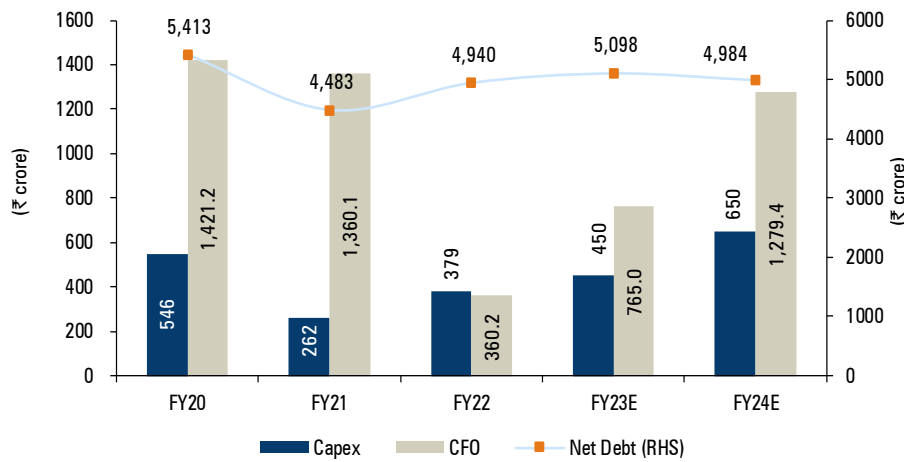
Exhibit 5: Trend in return ratios



Return ratios are seen rising to ~13-14% by FY24E

Source: Company, ICICI Direct Research

Exhibit 6: Debt, capex and CFO trend



Net debt is seen reaching a stabilising ~₹ 5,000 crore mark in FY22-24E with meaningful debt reduction possible only in FY25E, subject to capex spends

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	21.9	8.8	7.7	9.2
FY20	8,724.9	(15.9)	6.1	(21.3)	27.8	9.7	6.5	7.4
FY21	9,102.2	4.3	13.0	111.8	13.1	6.6	11.9	11.8
FY22	11,983.0	31.6	8.5	-34.2	19.9	8.5	7.4	8.1
FY23E	14,881.5	24.2	12.1	41.7	14.1	7.0	9.6	10.4
FY24E	15,765.1	5.9	20.6	70.4	8.3	5.5	14.4	13.3

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	9,102.2	11,983.0	14,881.5	15,765.1
Growth (%)	4.3	31.6	24.2	5.9
Raw Material Expenses	5,468.7	8,039.3	10,249.3	10,510.2
Employee Expenses	922.7	1,065.4	1,196.3	1,291.7
Other Expenses	1,404.4	1,805.1	2,106.3	2,287.1
Total Operating Expenditure	7,795.9	10,909.7	13,551.9	14,089.0
EBITDA	1306.3	1073.3	1329.6	1676.1
Growth (%)	32.3	-17.8	23.9	26.1
Depreciation	386.7	385.4	401.8	441.4
Interest	465.9	419.1	449.2	484.3
Other Income	43.1	36.6	29.3	31.5
Exceptional Items	-37.5	-3.6	57.6	0.0
PBT	496.9	305.4	508.0	781.9
Total Tax	200.9	108.7	159.9	273.7
PAT	319.4	210.0	297.6	507.1
Growth (%)	111.8	-34.2	41.7	70.4
EPS (₹)	13.0	8.5	12.1	20.6

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	319.4	210.0	297.6	507.1
Add: Depreciation & Int	852.5	804.5	851.0	925.7
(Inc)/dec in Current Assets	150.5	-1,240.0	-882.2	-358.6
Inc/(dec) in CL and Provisions	37.6	585.7	498.5	205.3
CF from operating activities	1360.1	360.2	765.0	1279.4
(Inc)/dec in Investments	-6.8	14.3	-10.0	-10.0
(Inc)/dec in Fixed Assets	-262.2	-379.1	-450.0	-650.0
Others	282.6	1.4	35.0	65.5
CF from investing activities	13.6	-363.5	-425.0	-594.5
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-892.6	458.7	175.0	-110.0
Dividend paid & dividend tax	-49.3	-36.9	-49.3	-86.2
Others (incl Interest costs)	-394.6	-416.6	-449.2	-484.3
CF from financing activities	-1336.4	5.2	-323.4	-680.4
Net Cash flow	37.3	1.9	16.6	4.4
Opening Cash	136.5	173.8	175.7	192.2
Closing Cash	173.8	175.7	192.2	196.6

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	49.3	49.3	49.3	49.3
Reserve and Surplus	2,623.5	2,799.1	3,047.5	3,468.3
Total Shareholders funds	2672.8	2848.3	3096.7	3517.6
Total Debt	4,656.5	5,115.2	5,290.2	5,180.2
Deferred Tax Liability	368.3	405.1	428.7	454.2
Other non-current liabilities	809.9	821.2	871.1	922.8
Minority Interest	106.3	99.2	99.2	99.2
Total Liabilities	8613.8	9289.1	9785.9	10173.9
Assets				
Gross Block	10,061.9	10,626.9	10,926.9	11,776.9
Less: Acc Depreciation	3,806.8	4,192.2	4,594.0	5,035.4
Net Block	6255.1	6434.7	6332.9	6741.4
Capital WIP	286.4	100.6	250.6	50.6
Total Fixed Assets	6,541.5	6,535.2	6,583.4	6,792.0
Investments	147.0	132.8	142.8	152.8
Inventory	1,789.3	2,432.6	2,854.0	3,023.4
Debtors	1,575.4	1,979.9	2,446.3	2,591.5
Loans and Advances	136.0	208.8	147.7	156.5
Other current assets	417.5	536.9	592.4	627.5
Cash	173.8	175.7	192.2	196.6
Total Current Assets	4,092.0	5,333.9	6,232.6	6,595.6
Creditors	1,574.1	2,188.5	2,650.1	2,807.5
Provisions	7.8	17.4	21.1	22.3
Other current liabilities	791.0	752.7	785.9	832.6
Total Current Liabilities	2,372.9	2,958.6	3,457.2	3,662.4
Net Current Assets	1719.1	2375.3	2775.4	2933.2
Others	207.5	235.8	243.6	209.0
Application of Funds	8613.8	9289.1	9785.9	10173.9

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	13.0	8.5	12.1	20.6
Cash EPS	28.7	24.2	28.4	38.5
BV	108.5	115.7	125.8	142.8
DPS	2.0	1.5	2.0	3.5
Cash Per Share	7.1	7.1	7.8	8.0
Operating Ratios (%)				
EBITDA Margin	14.4	9.0	8.9	10.6
PBIT / Net sales	10.1	5.7	6.2	7.8
PAT Margin	3.3	1.7	2.2	3.2
Inventory days	71.8	74.1	70.0	70.0
Debtor days	63.2	60.3	60.0	60.0
Creditor days	63.1	66.7	65.0	65.0
Net Working Capital days	71.8	67.7	65.0	65.0
Return Ratios (%)				
RoE	11.9	7.4	9.6	14.4
RoCE	11.8	8.1	10.4	13.3
RoIC	12.5	8.4	11.0	13.7
Valuation Ratios (x)				
P/E	14.1	20.2	12.5	8.3
EV / EBITDA	6.6	8.5	7.0	5.5
EV / Net Sales	1.0	0.8	0.6	0.6
Market Cap / Sales	0.5	0.3	0.3	0.3
Price to Book Value	1.6	1.5	1.4	1.2
Solvency Ratios				
Debt/Equity	1.7	1.8	1.7	1.5
Current Ratio	2.5	2.3	2.3	2.3
Quick Ratio	1.3	1.2	1.2	1.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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