JK Tyre & Industries (JKTYRE)

ICICI direct Research

CMP: ₹ 145 | Target: ₹ 185 (28%) | Target Period: 12 months | BUY

August 10, 2021

Company Update

Deleveraging to further drive re-rating…

About the stock: JK Tyre (JKT) is a leading tyre manufacturer with annual capacity pegged at 5.75 lakh MT. It serves various automotive segments via India, Mexico plants with dominance in truck/bus radial (TBR) space domestically.

- FY21 segment mix – truck/bus 56%, PCR 23%, 2-W, 3-W 5%, others 16%
- FY21 channel mix – aftermarket 64%, OEM 18%, exports 18%

Q1FY22 Results: The company's Q1FY22 results were muted.

- Consolidated net sales declined 10.9% QoQ to ₹ 2,608 crore
- EBITDA margins slid 481 bps QoQ to 10.7% amid RM costs pressure
- Consequent PAT at ₹ 46 crore was lower by 75.7% sequentially

What should investors do? JKT's share price has grown at ~5% CAGR over the past five years (from ~₹ 120 levels in August 2016), outperforming Nifty Auto index.

- We retain **BUY** rating given deleveraging thrust, expected return ratio uptick

Target Price and Valuation: We value the company at a revised target price of ₹ 185 i.e. 5.25x EV/EBITDA on FY23E basis (previous target price ₹ 180)

Key triggers for future price performance:

- Slated to be outsized beneficiary of expected domestic CV cyclical upswing courtesy high market share in TBR, 62% sales contribution from the space
- Combined with network expansion (>1,600 dealers added in 15 months), good PV outlook & higher exports, we build 18.9% FY21-23E net sales CAGR
- Planned deleveraging (~45% reduction of term debt) to strengthen b/s
- RoCE seen at ~14% (FY23E) on higher asset turnover, prudent capex spend

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

- India CV revival beneficiary focused on debt reduction, higher return ratios
- BUY with a target price of ₹ 275

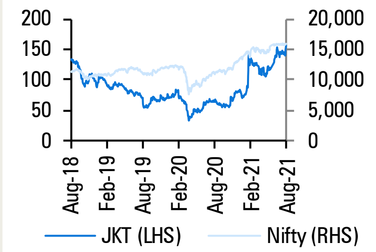
Particulars

Particular	₹ crore
Market Capitalization	3,570.6
Total Debt (FY21)	4,656.5
Cash & Investments (FY21)	173.8
EV (₹ Crore)	8,053.3
52 week H/L (₹)	166 / 55
Equity capital (₹ crore)	₹ 49.3 Crore
Face value (₹)	₹ 2

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	56.2	56.2	56.2	56.2
FII	2.2	3.0	3.3	6.3
DII	2.3	2.6	1.4	1.4
Other	39.2	38.2	39.0	36.1

Price Chart



Recent event & key risks

- Posted muted Q1FY22 results
- **Key Risk:** (i) Delayed cyclical recovery of India CV industry, (ii) Any slowing of progress on deleveraging/sweating of assets

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Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY16-21)
Net Sales	10,369.9	8,724.9	9,102.2	5.7%	11,881.5	12,872.2	18.9%
EBITDA	1,114.1	987.6	1,306.3	3.2%	1,308.9	1,545.3	8.8%
EBITDA Margins (%)	10.7	11.3	14.4		11.0	12.0	
Net Profit	176.4	150.8	319.4	-7.3%	348.4	542.6	30.3%
EPS (₹)	7.8	6.1	13.0		14.1	22.0	
P/E	18.6	23.7	11.2		10.2	6.6	
RoNW (%)	7.7	6.5	11.9		11.8	16.1	
RoCE (%)	9.2	7.4	11.8		11.4	14.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: India-led sluggish print for quarter

- Among geographies, decline for the quarter was entirely India-led. India revenues declined 13.9% QoQ to ₹ 2,263 crore while Mexico operations posted sequential increase of 15.8% to ₹ 470 crore
- As per management commentary, the company continues to focus on all three channels i.e. OEM, aftermarket and exports and is taking price hikes across product categories. Capacity utilisation for the quarter was >80%
- On the margin front, the performance was hurt by a steep 381 bps gross margin depletion as well as negative operating leverage. India EBIT margins fell ~590 bps QoQ to 7.2%, with Mexico EBIT margins down ~130 bps QoQ to 6.6%

Q1FY22 Earnings Conference Call highlights

- The company expects domestic tyre industry to grow at ~12% CAGR over the next five years
- The demand environment has improved post Q1FY22 across segments. The company is back at Q4FY21 capacity utilisation levels of ~95%. A 30% higher production can be achieved on present capacities
- Q1FY22 reported highest ever export sales of ₹ 476 crore, up 32% QoQ
- Raw material costs (₹/kg) in Q1FY22 were as follows – natural rubber 170, synthetic rubber 155, carbon black 90, steel cord 155. The company expects input costs to stabilise from H2FY22E onwards
- The company has taken a price hike of 2-3% thus far in Q2FY22, with total planned hikes for the quarter at ~5%. Mexico price increases have been higher than those in India
- Hyundai Alcazar, TVS Apache were among OEM model wins for the quarter
- Cavendish reported Q1FY22 revenues of ₹ 687 crore and margins of ~8.3%. Cavendish's margin performance sequentially was impacted by inability to pass on price hikes in the replacement segment
- The company added 200 new dealers in Q1FY22
- JKT has scheduled long term debt repayments of 45% of present levels over the next three years.

Peer comparison

Exhibit 1: Peer Comparison (tyres)

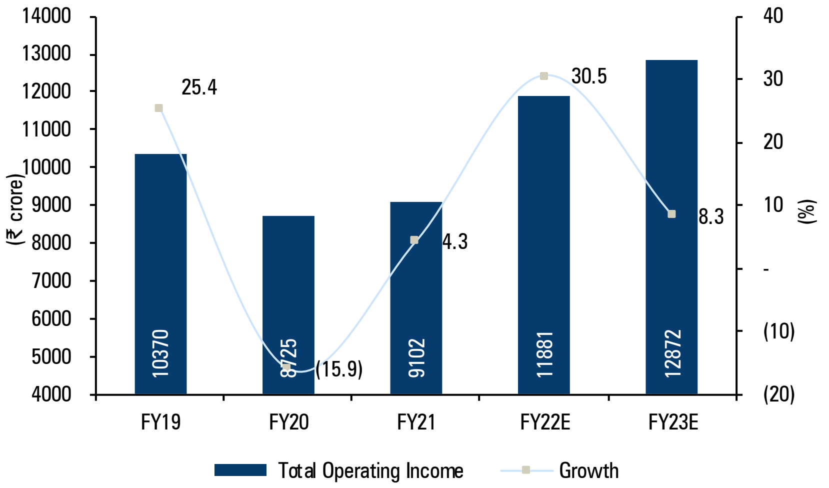
Company	CMP	TP	Rating	Mcap	EBITDA margin (%)			Debt to Equity (x)			RoCE (%)			EV/EBITDA (x)		
	₹	₹		₹ crore	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Apollo Tyres (APOTYR)	215	275	Buy	13,666	15.8	13.0	14.3	0.6	0.5	0.4	7.6	6.1	9.1	6.5	6.9	5.0
JK Tyre (JKTYRE)	**145**	**185**	**Buy**	**3,571**	**14.4**	**11.0**	**12.0**	**1.7**	**1.4**	**1.1**	**11.8**	**11.4**	**14.1**	**6.2**	**5.9**	**4.6**

Source: Company, ICICI Direct Research

JKT's leverage ratios & return ratios are set to improve, going forward, due to reduced interest outgo from lower debt, higher asset turnover and prudent capex spends.

Financial story in charts

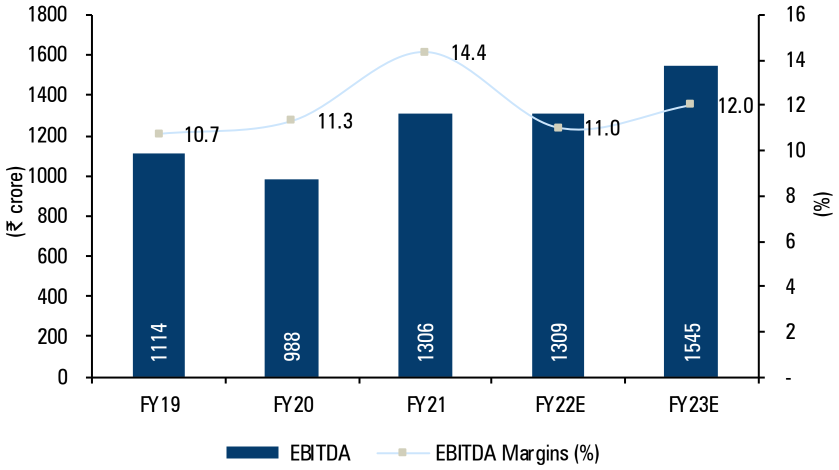
Exhibit 2: Topline trend



Source: Company, ICICI Direct Research

We expect sales to grow at a CAGR of 18.9% over FY21-23E to ₹ 12,872 crore in FY23E

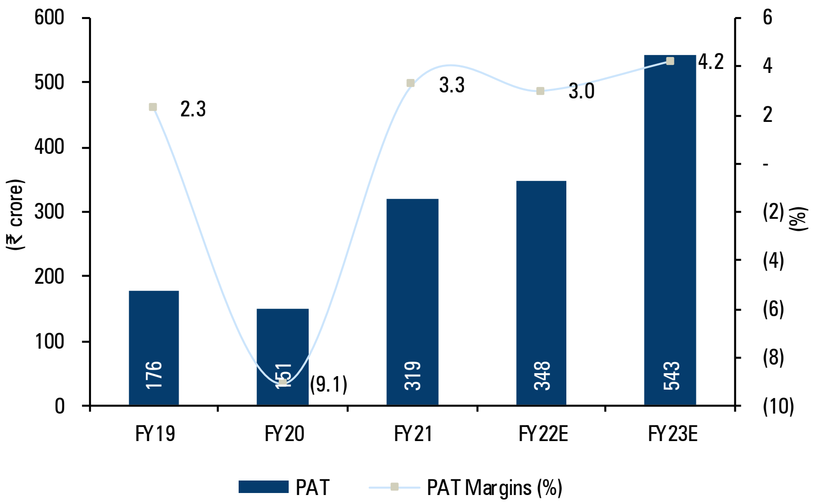
Exhibit 3: Margin trend



Source: Company, ICICI Direct Research

Margins are expected at 12% by FY23E, with channel mix normalisation imparting adverse impact courtesy lower pricing power in OEM channel

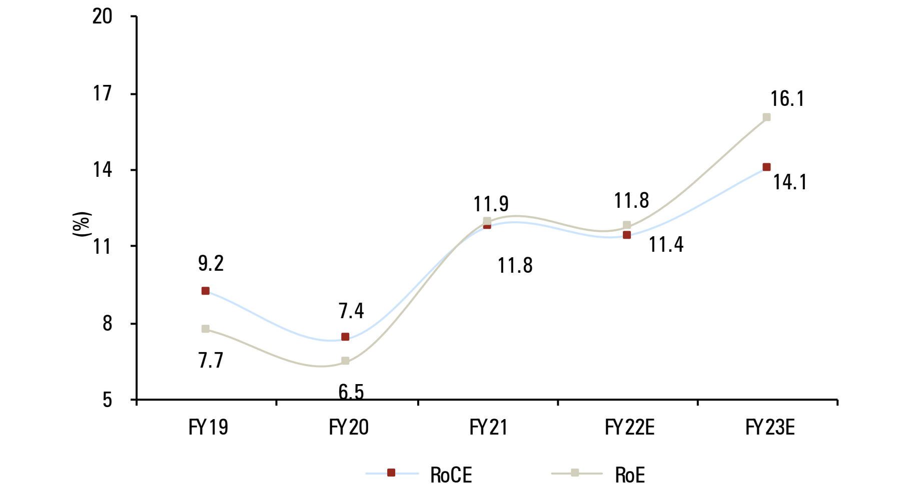
Exhibit 4: Trend in profitability



Source: Company, ICICI Direct Research

PAT is expected to grow at 30.3% CAGR over FY21-23E, helped by lower interest outgo

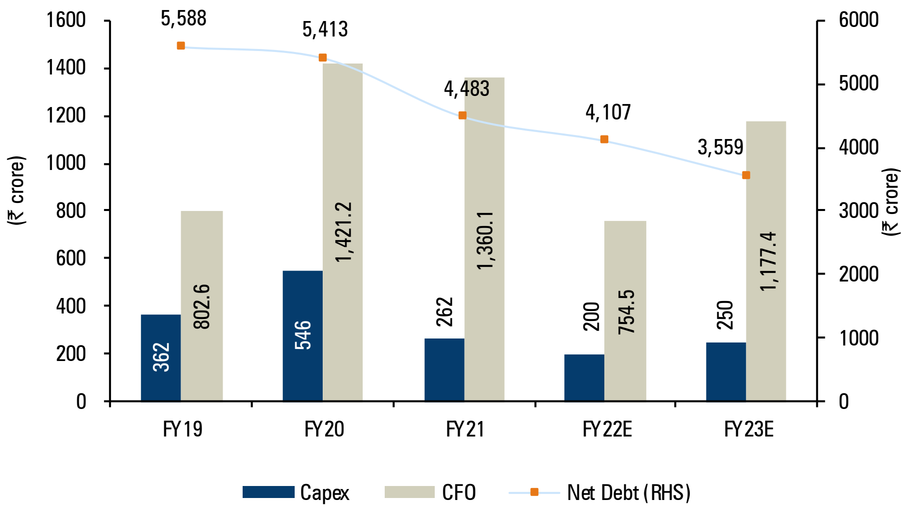
Exhibit 5: Trend in return ratios



Source: Company, ICICI Direct Research

Return ratios are seen rising to ~14-16% by FY23E on higher asset turns, controlled capex and deleveraging

Exhibit 6: Debt, capex and CFO trend



Source: Company, ICICI Direct Research

Net debt is seen declining to ₹ 3,559 crore by FY23E

Exhibit 7: Valuation Summary

	Sales	Growth	EPS (Diluted)	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY19	10,369.9	25.4	7.8	167.1	18.6	8.2	7.7	9.2
FY20	8,724.9	(15.9)	6.1	(21.3)	23.7	9.1	6.5	7.4
FY21	9,102.2	4.3	13.0	111.8	11.2	6.2	11.9	11.8
FY22E	11,881.5	30.5	14.1	9.1	10.2	5.9	11.8	11.4
FY23E	12,872.2	8.3	22.0	55.8	6.6	4.6	16.1	14.1

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	8,724.9	9,102.2	11,881.5	12,872.2
Growth (%)	-15.9	4.3	30.5	8.3
Raw Material Expenses	5,337.0	5,468.7	7,713.8	8,232.1
Employee Expenses	923.2	922.7	1,116.3	1,196.8
Other Expenses	1,477.2	1,404.4	1,742.5	1,898.0
Total Operating Expenditure	7,737.3	7,795.9	10,572.6	11,326.9
EBITDA	**987.6**	**1306.3**	**1308.9**	**1545.3**
Growth (%)	-11.4	32.3	0.2	18.1
Depreciation	377.8	386.7	415.9	450.5
Interest	549.0	465.9	403.2	347.5
Other Income	28.4	43.1	42.4	41.8
Exceptional Items	105.9	-37.5	10.6	0.0
PBT	**89.1**	**496.9**	**532.2**	**789.1**
Total Tax	-165.8	200.9	164.8	236.7
PAT	**150.8**	**319.4**	**348.4**	**542.6**
Growth (%)	-14.5	111.8	9.1	55.8
EPS (₹)	**6.1**	**13.0**	**14.1**	**22.0**

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	150.8	319.4	348.4	542.6
Add: Depreciation & Int	926.8	852.5	819.1	798.0
(Inc)/dec in Current Assets	207.4	150.5	-1,166.3	-423.9
Inc/(dec) in CL and Provisions	136.2	37.6	753.3	260.7
CF from operating activities	**1421.2**	**1360.1**	**754.5**	**1177.4**
(Inc)/dec in Investments	-9.1	-6.8	-25.0	-20.0
(Inc)/dec in Fixed Assets	-546.4	-262.2	-200.0	-250.0
Others	-37.7	282.6	310.9	110.8
CF from investing activities	**-593.2**	**13.6**	**85.9**	**-159.2**
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-208.4	-892.6	-400.0	-500.0
Dividend paid & dividend tax	-20.8	-49.3	-61.6	-123.1
Others (incl Interest costs)	-632.1	-394.6	-403.2	-347.5
CF from financing activities	**-861.2**	**-1336.4**	**-864.8**	**-970.6**
Net Cash flow	-33.2	37.3	-24.4	47.6
Opening Cash	169.7	136.5	173.8	149.4
Closing Cash	**136.5**	**173.8**	**149.4**	**197.0**

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	49.3	49.3	49.3	49.3
Reserve and Surplus	2,282.1	2,623.5	2,910.3	3,329.8
Total Shareholders funds	**2331.3**	**2672.8**	**2959.6**	**3379.1**
Total Debt	5,549.1	4,656.5	4,256.5	3,756.5
Deferred Tax Liability	279.9	368.3	480.8	520.9
Other non-current liabilities	699.9	809.9	1,057.2	1,145.4
Minority Interest	94.7	106.3	106.3	106.3
Total Liabilities	**8954.9**	**8613.8**	**8860.3**	**8908.1**
Assets				
Gross Block	9,808.9	10,061.9	10,311.9	10,611.9
Less: Acc Depreciation	3,420.2	3,806.8	4,222.7	4,673.2
Net Block	**6388.8**	**6255.1**	**6089.2**	**5938.7**
Capital WIP	277.2	286.4	236.4	186.4
Total Fixed Assets	6,666.0	6,541.5	6,325.6	6,125.1
Investments	140.2	147.0	172.0	192.0
Inventory	1,617.8	1,789.3	2,278.6	2,468.6
Debtors	1,848.4	1,575.4	2,083.3	2,257.0
Loans and Advances	120.9	136.0	177.5	192.3
Other current assets	481.6	417.5	545.0	590.4
Cash	**136.5**	**173.8**	**149.4**	**197.0**
Total Current Assets	4,205.2	4,092.0	5,233.9	5,705.5
Creditors	1,688.4	1,574.1	2,083.3	2,257.0
Provisions	25.1	7.8	10.4	11.2
Other current liabilities	621.7	791.0	1,032.5	1,118.6
Total Current Liabilities	2,335.3	2,372.9	3,126.2	3,386.9
Net Current Assets	**1869.9**	**1719.1**	**2107.7**	**2318.5**
Others	234.4	207.5	285.7	272.4
Application of Funds	**8954.9**	**8613.8**	**8860.3**	**8908.1**

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	6.1	13.0	14.1	22.0
Cash EPS	21.5	28.7	31.0	40.3
BV	94.7	108.5	120.2	137.2
DPS	0.7	2.0	2.5	5.0
Cash Per Share	5.5	7.1	6.1	8.0
Operating Ratios (%)				
EBITDA Margin	11.3	14.4	11.0	12.0
PBIT / Net sales	7.0	10.1	7.5	8.5
PAT Margin	-9.1	3.3	3.0	4.2
Inventory days	67.7	71.8	70.0	70.0
Debtor days	77.3	63.2	64.0	64.0
Creditor days	70.6	63.1	64.0	64.0
Net Working Capital days	74.4	71.8	70.0	70.0
Return Ratios (%)				
RoE	6.5	11.9	11.8	16.1
RoCE	7.4	11.8	11.4	14.1
RoIC	7.8	12.5	12.0	14.8
Valuation Ratios (x)				
P/E	-4.5	12.1	10.0	6.6
EV / EBITDA	9.1	6.2	5.9	4.6
EV / Net Sales	1.0	0.9	0.6	0.6
Market Cap / Sales	0.4	0.4	0.3	0.3
Price to Book Value	1.5	1.3	1.2	1.1
Solvency Ratios				
Debt/Equity	2.4	1.7	1.4	1.1
Current Ratio	2.4	2.5	2.4	2.4
Quick Ratio	**1.4**	**1.3**	**1.3**	**1.3**

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%

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