

Muted performance, deleveraging pace yet to pick up

JK Tyres & Industries (JKTIL) reported a dismal Q4FY20 performance. Consolidated revenues fell 33.7% YoY to ₹ 1,795 crore (India sales down 32.4%, Mexico sales down 36.2%). India formed 89% of consolidated revenues). Consolidated margins rose 46 bps QoQ, led by 410 bps gross margin expansion. India EBIT margins dropped 132 bps QoQ to 6.8% while Mexico operations posted mere 0.9% margins. The company posted consolidated loss of ₹ 51.2 crore. It booked exceptional charge of ₹ 61.1 crore, largely on account of forex loss of ₹ 60.5 crore. JKTIL declared final dividend of ₹ 0.7/share for FY20. On a consolidated basis for FY20, the company posted net sales of ₹ 8,754 crore (down 15.9% YoY), with PAT at ₹ 151 crore (down 14.5% YoY).

Aftermarket seen slowing CV drag

JKTIL is market leader in truck-bus radial (TBR) segment with ~30% market share (overall M&HCV market share at 23%). Domestic CV space remains a clear laggard on demand front, with issues like slowing economic activity and system overcapacity (higher load bearing due to revised axle load norms and sluggish freight movement) seen persisting over much of FY21E unless affirmative policy interventions take place. With CVs contributing ~60% of consolidated revenues, topline performance would directionally follow sector's fortunes. However, healthy share of aftermarket i.e. replacement (~65% of consolidated revenues, with OEM, exports equally forming the rest), is seen mitigating the extent of damage, especially in FY21E. Improved product mix on account of higher replacement sales is also seen limiting impact of negative operating leverage on the margins front. We build in flattish revenue in FY20P-22E, with margins seen rising to 13.9%.

Debt reduction plans key to structural rerating

JKTIL retains a heavy B/S. Absolute debt as of FY20P was at ~₹ 5,124 crore with resultant debt: equity at ~2.2x. Amid adequate capacity to service demand over the next two years, incremental capex needs, going forward, appear limited. In our view, this represents an opportunity for the company to follow through decisively on earlier stated deleveraging plan (cumulative ~35% of long-term debt over three years). We expect JKTIL's improved cash balances to provide the necessary elbow room for the same and build in debt reduction of ~₹ 470 crore by FY22E, with debt: equity thereby at ~1.8x. In our view, action on deleveraging front would be key to structural rerating of JKTIL stock, going forward.

Valuation & Outlook

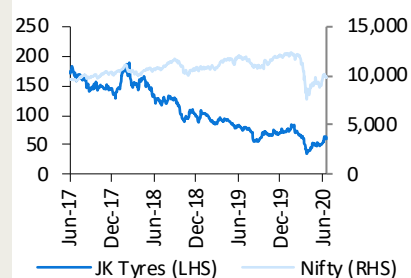
For JKTIL, demand prospects are expected to be subdued in FY20P-22E in line with wider automotive space. Margins, however, are seen improving amid benign commodity prices and better product mix. However, progress on debt reduction plan will be a key monitorable. We maintain **HOLD** rating on the stock with a target price of ₹ 65 i.e. 5x EV/EBITDA on FY22E numbers.



Particulars

Particular	Amount
Market Capitalization	₹ 1526.8 Crore
Total Debt (FY 20P) (₹ Crore)	5,124.1
Cash & Inv (FY 20P) (₹ Crore)	136.5
EV (₹ Crore)	6,514.3
52 week H/L (₹)	88 / 32
Equity capital	₹ 49.3 Crore
Face value	₹ 2

Price Chart



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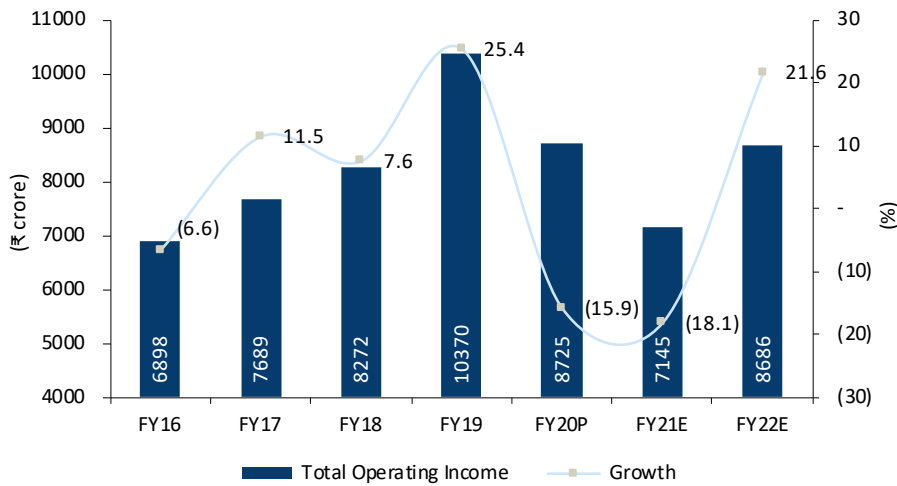
Key Financial Summary

Key Financials	FY18	FY19	FY20P	FY21E	FY22E	CAGR (FY20P-22E)
Net Sales	8,272.1	10,369.9	8,724.9	7,145.5	8,685.9	-0.2%
EBITDA	737.1	1,114.1	987.6	926.8	1,206.1	10.5%
EBITDA Margins (%)	8.9	10.7	11.3	13.0	13.9	
Net Profit	66.0	176.4	150.8	19.5	234.2	24.6%
EPS (₹)	2.9	7.8	6.1	0.8	9.5	
P/E	21.3	8.0	10.1	78.2	6.5	
RoNW (%)	3.4	7.7	6.5	0.8	9.1	
RoCE (%)	7.0	10.9	8.1	7.2	10.7	

Source: ICICI Direct Research, Company

Financial story in charts

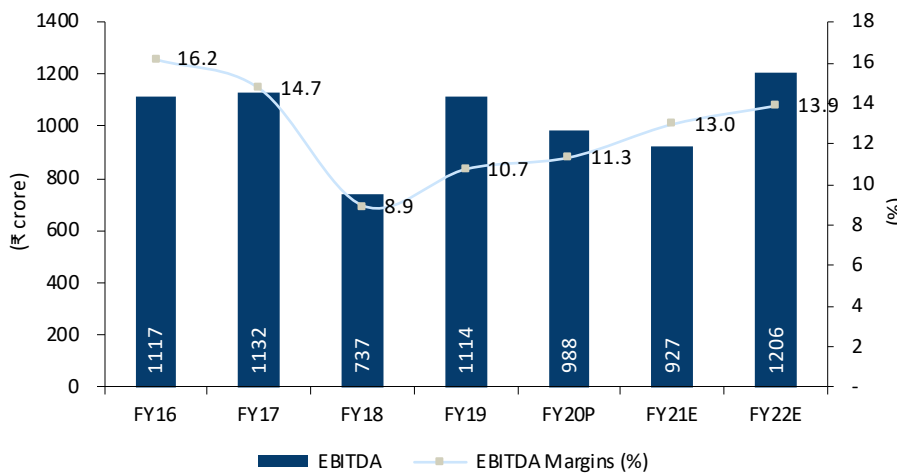
Exhibit 1: Top line trend



We expect sales to be flattish over FY20P-22E, with CV dependence being mitigated by high share of replacement sales

Source: Company, ICICI Direct Research

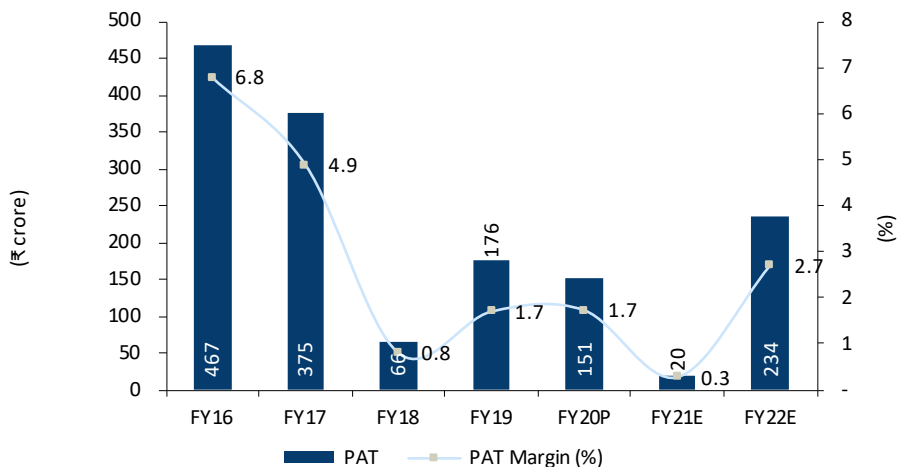
Exhibit 2: EBITDA trend and margin trajectory



We expect margins to grow to 13.9% level by FY22E, buoyed by favourable product mix (higher replacement sales) and volume growth in FY22E

Source: Company, ICICI Direct Research

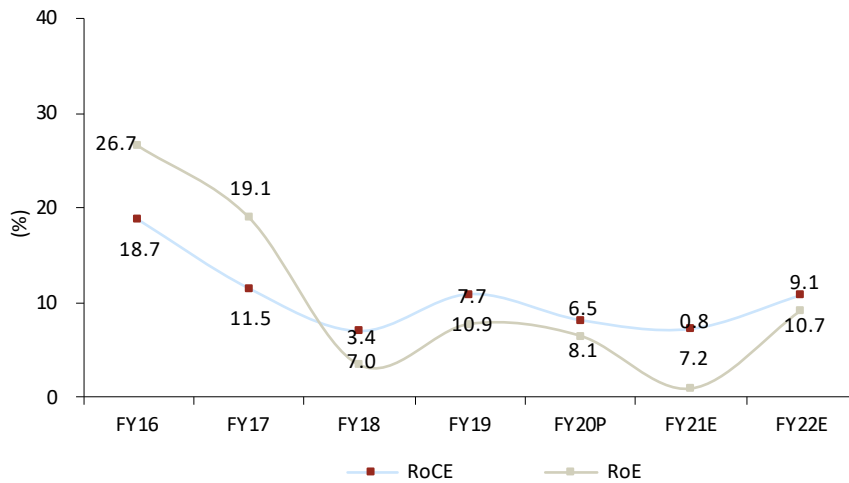
Exhibit 3: Profitability trend



We expect the company to post 24.6% PAT CAGR over FY20P-22E on the back of rise in margins and lower interest outgo

Source: Company, ICICI Direct Research

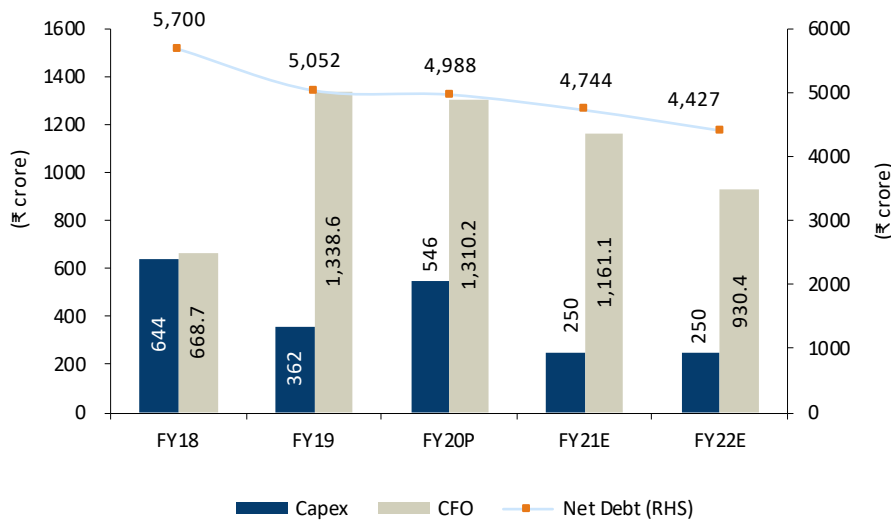
Exhibit 4: Return ratio profile



Return ratios expected to inch up to 9-10% levels by FY22E at JKTIL

Source: Company, ICICI Direct Research

Exhibit 5: Debt, capex and CFO trend



Net debt is seen declining from ~₹ 4,988 crore as of FY20P to ₹ 4,427 crore in FY22E

Source: Company, ICICI Direct Research

Exhibit 6: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (Diluted) (₹)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY 18	8,272.1	7.6	2.9	(82.4)	21.3	9.8	3.4	7.0
FY 19	10,369.9	25.4	7.8	167.1	8.0	5.9	7.7	10.9
FY 20P	8,724.9	(15.9)	6.1	(21.3)	10.1	6.6	6.5	8.1
FY 21E	7,145.5	-18.1	0.8	-87.1	78.2	6.8	0.8	7.2
FY 22E	8,685.9	21.6	9.5	1,099.8	6.5	4.9	9.1	10.7

Source: Bloomberg, ICICI Direct Research

Exhibit 7: Shareholding pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	56.2	56.2	56.2	56.2	56.2
FII	3.9	3.6	2.1	2.5	2.5
DII	2.0	2.2	2.0	1.8	1.0
Others	38.0	38.0	39.7	39.5	40.2

Source: Bloomberg, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement					₹ crore
(Year-end March)	FY19	FY20P	FY21E	FY22E	
Total operating Income	10,369.9	8,724.9	7,145.5	8,685.9	
Growth (%)	25.4	-15.9	-18.1	21.6	
Raw Material Expenses	6,684.6	5,337.0	4,122.7	5,102.4	
Employee Expenses	909.6	923.2	852.5	920.3	
Other Expenses	1,661.6	1,477.2	1,243.5	1,457.1	
Total Operating Expenditure	9,255.9	7,737.3	6,218.6	7,479.8	
EBITDA	1114.1	987.6	926.8	1206.1	
Growth (%)	51.2	-11.4	-6.1	30.1	
Depreciation	315.7	377.8	400.1	416.9	
Interest	521.1	549.0	517.0	465.4	
Other Income	82.1	28.4	21.4	26.1	
Exceptional Items	88.95	105.9	8.0	8.0	
PBT	359.4	89.1	31.1	349.8	
Total Tax	94.2	-165.8	6.9	102.6	
PAT	176.4	150.8	19.5	234.2	
Growth (%)	167.1	-14.5	-87.1	1,099.8	
EPS (₹)	7.8	6.1	0.8	9.5	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					₹ crore
(Year-end March)	FY19	FY20P	FY21E	FY22E	
Profit after Tax	176.4	150.8	19.5	234.2	
Add: Depreciation & Int	836.8	926.8	917.2	882.3	
(Inc)/dec in Current Assets	-632.4	207.4	736.7	-670.7	
Inc/(dec) in CL and Provisions	957.8	25.2	-512.3	484.6	
CF from operating activities	1338.6	1310.2	1161.1	930.4	
(Inc)/dec in Investments	-3.0	-9.1	-10.0	-10.0	
(Inc)/dec in Fixed Assets	-362.1	-546.4	-250.0	-250.0	
Others	49.0	-37.7	-140.8	137.4	
CF from investing activities	-316.1	-593.2	-400.8	-122.6	
Issue/(Buy back) of Equity	3.9	0.0	0.0	0.0	
Inc/(dec) in loan funds	-609.3	-97.4	-200.0	-270.0	
Dividend paid & dividend tax	-41.0	-20.8	0.0	-24.6	
Others (incl Interest costs)	-337.0	-632.1	-517.0	-465.4	
CF from financing activities	-983.4	-750.2	-717.0	-760.0	
Net Cash flow	39.0	-33.2	43.3	47.8	
Opening Cash	130.6	169.7	136.5	179.8	
Closing Cash	169.6	136.5	179.8	227.5	

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet					₹ crore
(Year-end March)	FY19	FY20P	FY21E	FY22E	
Liabilities					
Equity Capital	49.3	49.3	49.3	49.3	
Reserve and Surplus	2,235.2	2,282.1	2,301.6	2,511.2	
Total Shareholders funds	2284.4	2331.3	2350.9	2560.4	
Total Debt	5,221.5	5,124.1	4,924.1	4,654.1	
Deferred Tax Liability	457.6	279.9	229.2	278.6	
Other non-current liabilities	481.7	699.9	573.2	696.8	
Minority Interest	136.2	94.7	94.7	94.7	
Total Liabilities	8581.4	8529.9	8172.0	8284.6	
Assets					
Gross Block	9,269.9	9,808.9	10,108.9	10,408.9	
Less: Acc Depreciation	3,042.3	3,420.2	3,820.3	4,237.2	
Net Block	6227.6	6388.8	6288.6	6171.7	
Capital WIP	269.8	277.2	227.2	177.2	
Total Fixed Assets	6,497.4	6,666.0	6,515.8	6,348.9	
Investments	131.2	140.2	150.2	160.2	
Inventory	1,689.1	1,617.8	1,272.5	1,546.8	
Debtors	1,945.1	1,848.4	1,566.1	1,856.2	
Loans and Advances	154.4	120.9	99.0	120.3	
Other current assets	487.5	481.6	394.4	479.4	
Cash	169.7	136.5	179.8	227.5	
Total Current Assets	4,445.8	4,205.2	3,511.8	4,230.3	
Creditors	1,599.0	1,688.4	1,370.4	1,665.8	
Provisions	20.4	25.1	20.4	24.8	
Other current liabilities	1,115.7	1,046.7	857.3	1,042.1	
Total Current Liabilities	2,735.0	2,760.3	2,248.0	2,732.6	
Net Current Assets	1710.8	1444.9	1263.8	1497.6	
Others	234.7	234.4	212.9	277.8	
Application of Funds	8581.4	8529.9	8172.0	8284.6	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY19	FY20P	FY21E	FY22E
Per share data (₹)				
EPS	7.8	6.1	0.8	9.5
Cash EPS	21.7	21.5	17.0	26.4
BV	100.7	94.7	95.5	104.0
DPS	1.5	0.7	0.0	1.0
Cash Per Share	7.5	5.5	7.3	9.2
Operating Ratios (%)				
EBITDA Margin	10.7	11.3	13.0	13.9
PBIT / Net sales	7.7	7.0	7.4	9.1
PAT Margin	2.3	-9.1	0.4	2.8
Inventory days	59.5	67.7	65.0	65.0
Debtor days	68.5	77.3	80.0	78.0
Creditor days	56.3	70.6	70.0	70.0
Return Ratios (%)				
RoE	7.7	6.5	0.8	9.1
RoCE	10.9	8.1	7.2	10.7
RoIC	8.9	6.9	6.3	9.1
Valuation Ratios (x)				
P/E	6.0	-1.9	60.8	6.4
EV / EBITDA	5.9	6.6	6.8	4.9
EV / Net Sales	0.6	0.7	0.9	0.7
Market Cap / Sales	0.1	0.2	0.2	0.2
Price to Book Value	0.6	0.7	0.6	0.6
Solvency Ratios				
Debt/Equity	2.3	2.2	2.1	1.8
Current Ratio	2.6	2.4	2.4	2.4
Quick Ratio	1.6	1.4	1.5	1.5

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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