

Muted performance, debt reduction takes backseat...

About the stock: JK Tyre (JKT) is a leading tyre manufacturer with annual capacity pegged at 5.97 lakh MT. It serves various automotive segments via India, Mexico plants with dominance in truck/bus radial (TBR) space domestically.

- Q4FY22 segment mix – truck/bus ~56%, PCR ~26%, 2-W, 3-W ~4%
- Q4FY22 channel mix – aftermarket ~54%, OEM ~26%, exports ~20%

Q4FY22 Results: The company reported a muted performance in Q4FY22.

- Consolidated net sales were up 8% QoQ to ₹ 3,312 crore
- EBITDA margins slid 200 bps QoQ to 6.9% amid rise in input cost
- Consequent PAT was at ₹ 40.2 crore was lower by 29.4% QoQ

What should investors do? JKT's share price has de-grown at ~6% CAGR over the past five years (~₹ 166 levels in May 2017), underperforming the Nifty Auto index

- With muted margins in the offering due to elevated commodity costs along with limited b/s de-leveraging due to fresh capex spend we downgrade JKT from BUY to **HOLD**, await margin recovery before turning decisively positive

Target Price and Valuation: Rolling over our valuations, we now value JKT at ₹ 120 i.e. 5.75x EV/EBITDA on FY24E basis (previous target price ₹ 170).

Key triggers for future price performance:

- Beneficiary of domestic CV upswing & high market share in TBR, ~65% sales contribution from the space (India operations) & ~56% at consol. level
- Decline in input prices namely natural rubber & crude derivatives and consequent o/p margin expansion as well as cash flow generation
- Building in the visible positives, we build 11% FY22-24E net sales CAGR with margins seen at 9.5% in FY24E on base of higher focus on export markets along with continued focus on premiumisation of products

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 ₹ 250



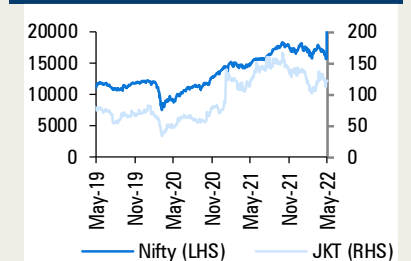
Particulars

Particular	₹ crore
Market Capitalization	3,004.3
Total Debt (FY22P)	5,115.2
Cash & Investments (FY22P)	175.7
EV (₹ Crore)	7,943.8
52 week H/L (₹)	172 / 98
Equity capital (₹ crore)	₹ 49.3 Crore
Face value (₹)	₹ 2

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	56.2	55.9	55.9	56.3
FII	6.3	7.8	8.1	8.2
DII	1.4	1.3	1.3	1.2
Other	36.1	35.0	34.7	34.4

Price Chart



Recent event & key risks

- Posted muted Q4FY22 results
- Key Risk:** (i) Higher than anticipated recovery in margin performance, (ii) slower than anticipated sales volume growth

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Raghvendra Goyal
raghvendra.goyal@icicisecurities.com

Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22P	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%	13,647.9	14,755.3	11.0%
EBITDA	1,114.1	987.6	1,306.3	1,073.3	-1.1%	1,090.3	1,408.1	14.5%
EBITDA Margins (%)	10.7	11.3	14.4	9.0		8.0	9.5	
Net Profit	176.4	150.8	319.4	210.0	-11.0%	180.0	369.8	32.7%
EPS (₹)	7.8	6.1	13.0	8.5		7.3	15.0	
P/E	15.7	19.9	9.4	14.3		16.7	8.1	
RoNW (%)	7.7	6.5	11.9	7.4		6.0	11.2	
RoCE (%)	9.2	7.4	11.8	8.1		7.7	10.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results

- Among geographies, growth for the quarter was led by Mexican geographies. India revenues increased 4% QoQ to ₹ 2,813.5 crore while Mexico operations posted increase of 13% to ₹ 586.4 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 and also focusing on premiumisation to improve margins. Capacity utilisation for the quarter was ~87%
- On the margin front, gross margin decline was massive 320 bps sequentially with rise in raw material being a key reason for QoQ dip in EBITDA margins. India EBIT margins fell ~183 bps QoQ to 3.8%, with Mexico EBIT margins down ~100 bps QoQ to 5.7%

Q4FY22 Earnings Conference Call highlights

- The company witnessed highest ever yearly sales mark crossing ₹ 12,000+ crore gross sales in FY22 with total topline at ₹ 11,983 crore up 32% YoY. with exports from India amounting to ₹ 1,873 crore in FY22 vs. ₹ 1,176 crore in FY21 (up 60% YoY) highest ever till now. It is witnessing strong growth in truck, bus, LCV & PV radial tyres and remains bullish on the same
- The management recently approved expansion of PCR tyres with estimated capex of ₹ 530 crore in Banmore plant with resultant capacity up 35% from existing and will be operational by December 2023
- Cavendish revenue for Q4FY22 was at ₹ 848 crore vs. ₹ 791 crore in Q4FY21 with total revenue at ~₹ 3,000 crore, up 16% YoY with export sales seen at ₹ 307 crore. Mexican operation's Q4FY22 revenue was at ₹ 586 crore vs. ₹ 406 crore in Q4FY21 with total topline for FY22 at ₹ 2,120 crore. Operating profit for Mexican operation was at ₹ 187 crore. Tornell witnessed highest market share in Mexico in Q4FY22
- Rise in inventory was due to higher input cost coupled with elongated shipping time whereas receivable was higher due to extended export sales which take a longer time to realise
- Raw material price hike was ~3-4% in Q4FY22 with further price hike in Q1FY23 expected at ~4-5%. Correspondingly it has taken ~1-2% price hike in Q4FY22 with further 4-5% price hike planned in Q1FY23, subject to market conditions
- Growth capex for FY23-24 is ~₹ 766 crore including ₹ 530 crore for PCR capacity expansion and ~₹ 236 for TBR capacity expansion to be operational by end of FY23. JKT incurs maintenance capex of ~₹ 100-150 crore (annually). Growth capex of ~₹ 766 crore holds a revenue potential of ~₹1,000 crore Funding for capex would be primarily done from borrowing and internal cash generation

JKT will focus on smart and premium tyres to improve margins & focus on premiumisation of tyres in PCR & TBR segment with latest puncture guard tyre witnessing good traction within few months of launch

Overall capacity utilisation was at ~90%: India standalone ~85-90%, CIL ~80%; JK Tornell ~90%

Gross debt was at ~₹ 5,100 crore as of FY22 end

The company is present with popular OEM models like Hyundai Alcazar, TVS Apache, Maruti Suzuki Swift Dzire, Swift, WagonR, Kia Carens & Seltos among others. In Q4FY22 it added Kia Carens as new client for its range of tyres in domestic market

The management expects tyre industry in Mexico to grow in the range of 6-9% in FY23

Export market remains lucrative in terms of margin as price hike are easily absorbed by market but company will focus on domestic market amid buoyant demand prospects

Peer comparison

Exhibit 1: Peer Comparison (tyres)

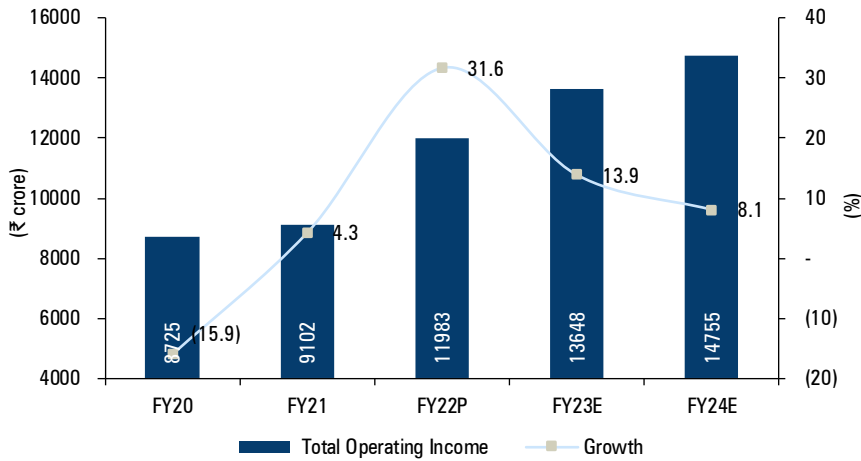
Company	CMP	TP	Rating	Mcap	EBITDA margin (%)			Debt to Equity (x)			RoCE (%)			EV/EBITDA (x)		
	₹	₹		₹ crore	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Apollo Tyres (APOTYR)	217	250	Buy	13,780	12.3	12.5	13.5	0.5	0.4	0.3	6.3	8.1	10.6	7.1	5.9	4.6
Balkrishna Inds (BALIND)	2,110	2,475	Buy	40,790	23.9	23.0	25.0	0.4	0.3	0.2	15.9	18.0	21.7	21.5	17.4	13.6
JK Tyre (JKTYRE)	122	120	Hold	3,004	9.0	8.5	9.0	1.8	1.8	1.6	8.1	7.7	10.6	7.4	7.5	5.8

Source: Company, ICICI Direct Research

With muted margins in the offering due to elevated commodity costs along with limited b/s de-leveraging due to fresh capex spend we downgrade JKT to **HOLD** await margin recovery before turning decisively positive.

Financial story in charts

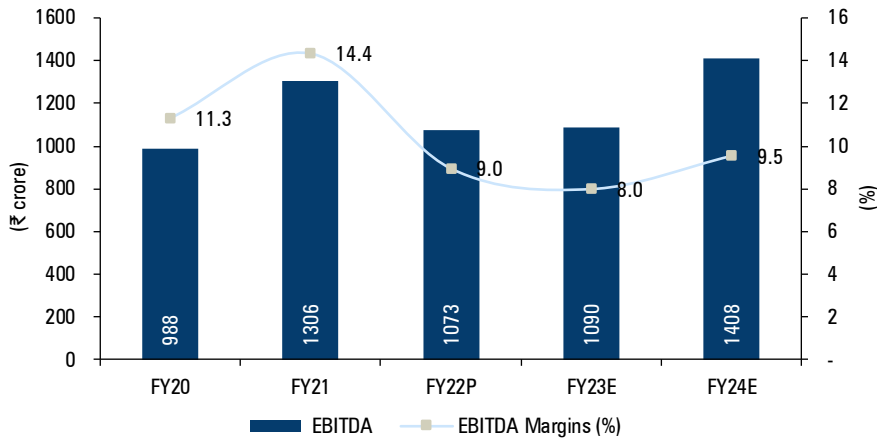
Exhibit 2: Topline trend



We expect sales to grow at a CAGR of 11% over FY22-24E to ₹ 14,755 crore in FY24E

Source: Company, ICICI Direct Research

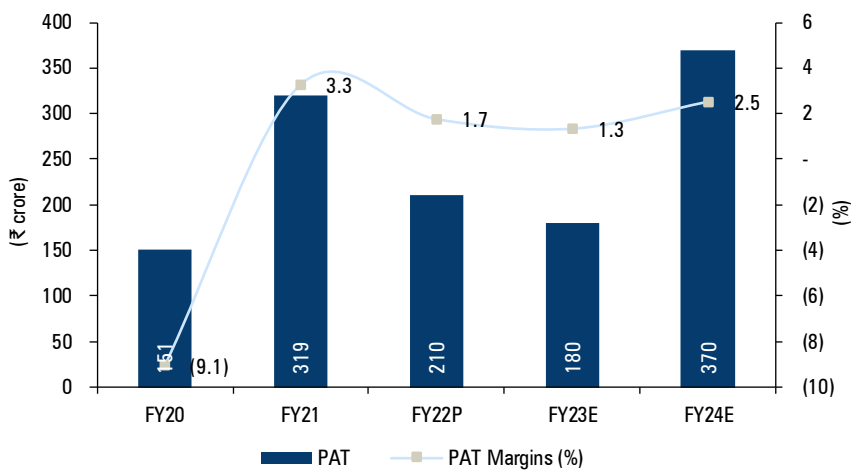
Exhibit 3: Margin trend



Margins are expected at 9.5% by FY24E vs. 9% clocked in FY22.

Source: Company, ICICI Direct Research

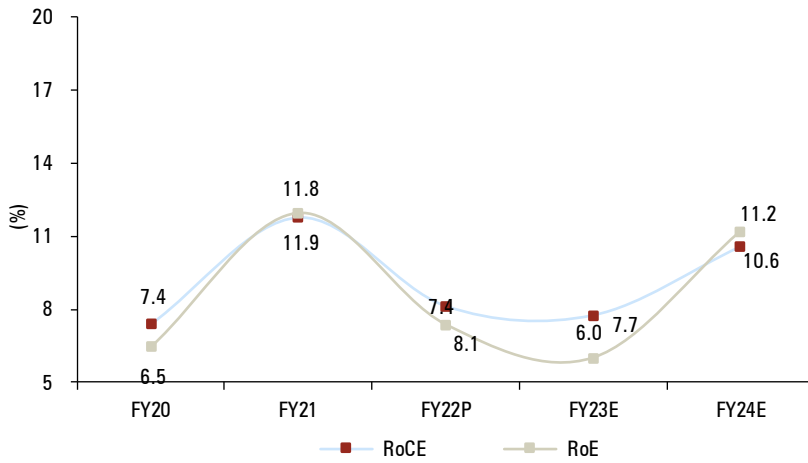
Exhibit 4: Trend in profitability



PAT is expected to grow at 32.7% CAGR over FY22-24E.

Source: Company, ICICI Direct Research

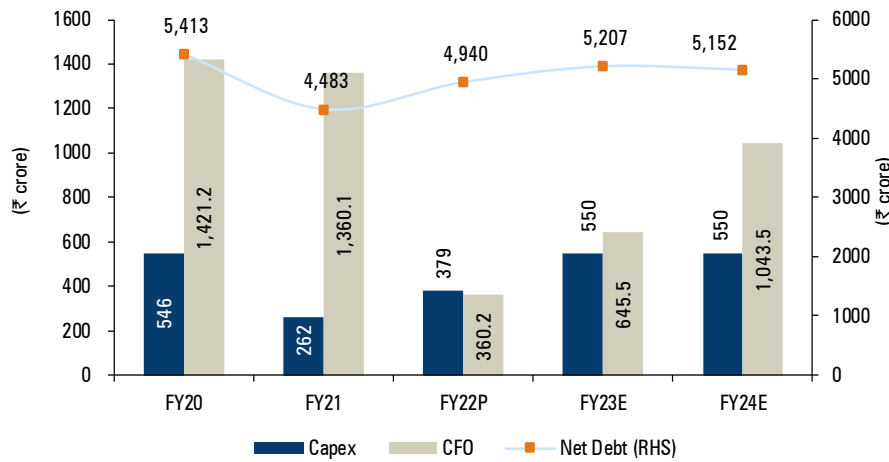
Exhibit 5: Trend in return ratios



Return ratios are seen rising to ~10-11% by FY24E

Source: Company, ICICI Direct Research

Exhibit 6: Debt, capex and CFO trend



Net debt is seen rising to ~₹ 5,200 crore by FY23E and then taper off marginally in FY24E

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	15.7	7.7	7.7	9.2
FY20	8,724.9	(15.9)	6.1	(21.3)	19.9	8.5	6.5	7.4
FY21	9,102.2	4.3	13.0	111.8	9.4	5.7	11.9	11.8
FY22P	11,983.0	31.6	8.5	-34.2	14.3	7.4	7.4	8.1
FY23E	13,647.9	13.9	7.3	-14.3	16.7	7.5	6.0	7.7
FY24E	14,755.3	8.1	15.0	105.5	8.1	5.8	11.2	10.6

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement					₹ crore
(Year-end March)	FY21	FY22P	FY23E	FY24E	
Total operating Income	9,102.2	11,983.0	13,647.9	14,755.3	
Growth (%)	4.3	31.6	13.9	8.1	
Raw Material Expenses	5,468.7	8,039.3	9,408.8	9,991.3	
Employee Expenses	922.7	1,065.4	1,148.7	1,231.7	
Other Expenses	1,404.4	1,805.1	2,000.1	2,124.3	
Total Operating Expenditure	7,795.9	10,909.7	12,557.5	13,347.2	
EBITDA	1306.3	1073.3	1090.3	1408.1	
Growth (%)	32.3	-17.8	1.6	29.1	
Depreciation	386.7	385.4	395.8	427.9	
Interest	465.9	419.1	460.3	456.0	
Other Income	43.1	36.6	44.4	48.0	
Exceptional Items	-37.5	-3.6	0.0	0.0	
PBT	496.9	305.4	278.6	572.2	
Total Tax	200.9	108.7	97.5	200.3	
PAT	319.4	210.0	180.0	369.8	
Growth (%)	111.8	-34.2	-14.3	105.5	
EPS (₹)	13.0	8.5	7.3	15.0	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					₹ crore
(Year-end March)	FY21	FY22P	FY23E	FY24E	
Profit after Tax	319.4	210.0	180.0	369.8	
Add: Depreciation & Int	852.5	804.5	856.1	883.9	
(Inc)/dec in Current Assets	150.5	-1,240.0	-739.0	-478.5	
Inc/(dec) in CL and Provisions	37.6	585.7	348.4	268.4	
CF from operating activities	1360.1	360.2	645.5	1043.5	
(Inc)/dec in Investments	-6.8	14.3	-20.0	-20.0	
(Inc)/dec in Fixed Assets	-262.2	-379.1	-550.0	-550.0	
Others	282.6	1.4	148.3	98.7	
CF from investing activities	13.6	-363.5	-421.7	-471.3	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-892.6	458.7	300.0	-50.0	
Dividend paid & dividend tax	-49.3	-36.9	-30.8	-61.6	
Others (incl Interest costs)	-394.6	-416.6	-460.3	-456.0	
CF from financing activities	-1336.4	5.2	-191.1	-567.6	
Net Cash flow	37.3	1.9	32.7	4.6	
Opening Cash	136.5	173.8	175.7	208.4	
Closing Cash	173.8	175.7	208.4	213.0	

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet					₹ crore
(Year-end March)	FY21	FY22P	FY23E	FY24E	
Liabilities					
Equity Capital	49.3	49.3	49.3	49.3	
Reserve and Surplus	2,623.5	2,799.1	2,948.2	3,256.4	
Total Shareholders funds	2672.8	2848.3	2997.5	3305.7	
Total Debt	4,656.5	5,115.2	5,415.2	5,365.2	
Deferred Tax Liability	368.3	405.1	461.4	498.8	
Other non-current liabilities	809.9	821.2	935.3	1,011.2	
Minority Interest	106.3	99.2	99.2	99.2	
Total Liabilities	8613.8	9289.1	9908.6	10280.2	
Assets					
Gross Block	10,061.9	10,626.9	11,026.9	11,776.9	
Less: Acc Depreciation	3,806.8	4,192.2	4,588.0	5,015.9	
Net Block	6255.1	6434.7	6438.9	6761.0	
Capital WIP	286.4	100.6	250.6	50.6	
Total Fixed Assets	6,541.5	6,535.2	6,689.4	6,811.5	
Investments	147.0	132.8	152.8	172.8	
Inventory	1,789.3	2,432.6	2,617.4	2,829.8	
Debtors	1,575.4	1,979.9	2,430.4	2,627.7	
Loans and Advances	136.0	208.8	237.9	257.2	
Other current assets	417.5	536.9	611.5	661.1	
Cash	173.8	175.7	208.4	213.0	
Total Current Assets	4,092.0	5,333.9	6,105.6	6,588.7	
Creditors	1,574.1	2,188.5	2,430.4	2,627.7	
Provisions	7.8	17.4	19.3	20.9	
Other current liabilities	791.0	752.7	857.3	926.8	
Total Current Liabilities	2,372.9	2,958.6	3,307.1	3,575.4	
Net Current Assets	1719.1	2375.3	2798.5	3013.3	
Others	207.5	235.8	227.2	195.6	
Application of Funds	8613.8	9289.1	9908.6	10280.2	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22P	FY23E	FY24E
Per share data (₹)				
EPS	13.0	8.5	7.3	15.0
Cash EPS	28.7	24.2	23.4	32.4
BV	108.5	115.7	121.7	134.2
DPS	2.0	1.5	1.3	2.5
Cash Per Share	7.1	7.1	8.5	8.6
Operating Ratios (%)				
EBITDA Margin	14.4	9.0	8.0	9.5
PBIT / Net sales	10.1	5.7	5.1	6.6
PAT Margin	3.3	1.7	1.3	2.5
Inventory days	71.8	74.1	70.0	70.0
Debtor days	63.2	60.3	65.0	65.0
Creditor days	63.1	66.7	65.0	65.0
Net Working Capital days	71.8	67.7	70.0	70.0
Return Ratios (%)				
RoE	11.9	7.4	6.0	11.2
RoCE	11.8	8.1	7.7	10.6
RoIC	12.5	8.4	8.2	10.9
Valuation Ratios (x)				
P/E	10.2	14.5	16.7	8.1
EV / EBITDA	5.7	7.4	7.5	5.8
EV / Net Sales	0.8	0.7	0.6	0.6
Market Cap / Sales	0.3	0.3	0.2	0.2
Price to Book Value	1.1	1.1	1.0	0.9
Solvency Ratios				
Debt/Equity	1.7	1.8	1.8	1.6
Current Ratio	2.5	2.3	2.4	2.4
Quick Ratio	1.3	1.2	1.3	1.3

Source: Company, ICICI Direct Research

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Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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