

**BUY** JK Tyre**Focus on raising high-margin PCR share; continued de-leveraging**

Your success is our success

Auto Ancillaries ▶ Management Meet Update ▶ February 23, 2024

**TARGET PRICE (Rs): 700**

We hosted the management of JK Tyre (JKI), represented by Anuj Kathuria, President (India) and Sanjeev Aggarwal, CFO, for a series of investor meetings. JKI is accelerating focus on high-growth, high-margin PCR via well-timed capex (operating at ~95% utilization now), largely in high-margin SUV tyres, even as overall capex remains calibrated, thus driving further deleveraging. Consumers in both, commercial & passenger tyres, are increasingly looking at features besides only price (like mileage, comfort, safety, performance); in turn, this is driving gradual de-linking of margins to underlying commodities. We retain BUY on JKI, with unchanged TP of Rs700 at 15x FY26E PER; **JKI remains undervalued despite the ongoing sharp improvement in performance** across P&L/balance sheet/return ratios (trades at ~10x FY26E PER vs. ~14-15x peer average).

**JK Tyre: Financial Snapshot (Consolidated)**

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,19,830	1,46,449	1,50,905	1,65,483	1,76,906
EBITDA	10,733	12,978	21,655	23,912	26,271
Adj. PAT	1,976	3,246	8,947	11,433	13,330
Adj. EPS (Rs)	8.0	13.2	36.3	44.1	51.4
EBITDA margin (%)	9.0	8.9	14.4	14.5	14.9
EBITDA growth (%)	(17.8)	20.9	66.9	10.4	9.9
Adj. EPS growth (%)	(39.2)	30.7	240.1	21.3	16.6
RoE (%)	7.2	10.4	22.2	22.0	21.1
RoIC (%)	6.1	7.6	14.4	16.5	17.1
P/E (x)	62.6	38.1	13.8	11.4	9.8
EV/EBITDA (x)	16.2	13.1	7.4	6.8	6.0
P/B (x)	4.3	3.6	2.6	2.3	1.9
FCFF yield (%)	(4.9)	3.1	5.0	5.3	6.8

Source: Company, Emkay Research

**Premiumization focus to spur higher share of margin-accretive SUV tyres**

JKI is intensifying efforts towards improving its positioning in PCR, where it is #4 as against being the leader in TBR (PCR share in revenue can rise to ~38% going ahead vs. 29% now, as per our workings); of the ~Rs25bn capex (completed & on-going), Rs18bn is for PCR – mostly for high-margin SUV tyres; concerted efforts here would help raise share of the above-16-inch tyres in PCR to over 35% in the next 2-3 years vs. ~25% now/18% 3 years ago. PCR positioning improvement would be further aided by its efforts in branding/marketing spends, further distribution expansion, and focus on exports.

**Capex to remain under control; margins, debt reduction to sustain**

Capacity expansion would remain calibrated (currently over 95% utilization in radials and 80-85% in bias); JKI would continue to focus on profitability and cashflows – it reiterated its long-term margin guidance of 13-15%. RM outlook remains benign/range-bound. Strong profitability focus, cash-flow generation, and calibrated capex towards high-growth/-margin segments to accelerate deleveraging (~0.8x in Dec-23 vs 2.3x in FY19).

**Shift, away from commodity perception of tyres, to aid growth, pricing**

Tyres are seeing a structural shift in buying preferences; customer mindset of brand recognition for tyres is improving, accompanied by their willingness to spend more for differentiated products, as against the earlier perception of tyres being a commodity product. JKI expects such developments, along with initiatives like fleet management solutions (5-year head-start vs. competition), to act as an incremental growth lever, apart from further improving the pricing environment/profitability.

**Sustained margins and accelerated deleveraging to drive re-rating**

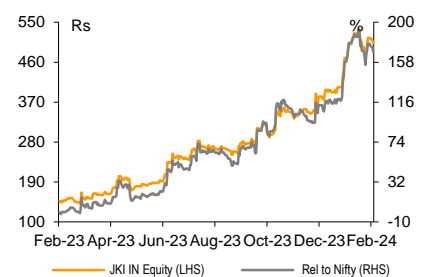
We maintain our belief that JKI's timely PCR expansion amid further tightening of the industry demand-supply dynamics (as players focus on return ratios/cashflows vs. only chasing growth) would ensure sustained growth/margin improvement, effecting faster deleveraging (net debt/equity at ~0.4x FY26E vs. 1.4x Mar-23) and driving a consistent 20% RoE, leading to further re-rating (trades at ~10x FY26E PER vs. ~14-15x peer avg.).

Target Price – 12M	Mar-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	39.2
CMP (22-Feb-24) (Rs)	502.8

Stock Data	Ticker
52-week High (Rs)	554
52-week Low (Rs)	142
Shares outstanding (mn)	260.7
Market-cap (Rs bn)	131
Market-cap (USD mn)	1,582
Net-debt, FY24E (Rs mn)	36,427
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	823.5
ADTV-3M (USD mn)	9.9
Free float (%)	46.9
Nifty-50	22,217
INR/USD	82.8
<b>Shareholding, Dec-23</b>	
Promoters (%)	53.1
FPIs/MFs (%)	12.3/5.9

**Price Performance**

(%)	1M	3M	12M
Absolute	6.9	48.8	230.1
Rel. to Nifty	3.7	32.7	160.8

**1-Year share price trend (Rs)****Chirag Jain**chirag.jain@emkayglobal.com  
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**Exhibit 1: JKI has gained revenue market share relative to 5/10 years ago, including the H1FY24 period**

Consol. revenue (Rs mn)	FY13	FY18	FY23	H1FY24	Revenue CAGR			Revenue market share			
					1 Yr	5 Yr	10 Yr	FY13	FY18	FY23	H1FY24
<b>JK Tyre</b>	<b>69,852</b>	<b>82,721</b>	<b>146,449</b>	<b>76,156</b>	<b>22%</b>	<b>12%</b>	<b>8%</b>	<b>16.7%</b>	<b>16.2%</b>	<b>16.9%</b>	<b>17.1%</b>
APTY	127,989	148,429	245,681	125,241	17%	11%	7%	30.6%	29.1%	28.4%	28.1%
MRF	119,673	149,544	230,085	126,574	19%	9%	7%	28.6%	29.4%	26.6%	28.4%
Ceat	50,522	62,834	113,149	59,885	21%	12%	8%	12.1%	12.3%	13.1%	13.4%
TVS Srichakra	16,519	21,524	31,913	13,732	18%	8%	7%	3.9%	4.2%	3.7%	3.1%
Balkrishna Industries	33,939	44,438	97,595	44,125	18%	17%	11%	8.1%	8.7%	11.3%	9.9%
<b>Total</b>	<b>418,495</b>	<b>509,489</b>	<b>864,873</b>	<b>445,714</b>	<b>19%</b>	<b>11%</b>	<b>8%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Company, Capitaline, Emkay Research

**Exhibit 2: Share gains have been even stronger on the profitability front; performance sustains in H1FY24**

Consol. EBIT (Rs mn)	FY13	FY18	FY23	H1FY24	EBIT CAGR			EBIT market share			
					1 Yr	5 Yr	10 Yr	FY13	FY18	FY23	H1FY24
<b>JK Tyre</b>	<b>4,845</b>	<b>4,376</b>	<b>8,907</b>	<b>8,324</b>	<b>47%</b>	<b>15%</b>	<b>6%</b>	<b>13.9%</b>	<b>9.8%</b>	<b>15.7%</b>	<b>15.6%</b>
APTY	10,643	10,610	18,945	14,890	137%	12%	6%	30.4%	23.7%	33.4%	27.9%
MRF	9,702	15,807	11,435	16,020	-18%	-6%	2%	27.8%	35.3%	20.2%	30.1%
Ceat	3,448	4,185	4,711	5,978	12%	2%	3%	9.9%	9.4%	8.3%	11.2%
TVS Srichakra	755	1,849	1,366	945	17%	-6%	6%	2.2%	4.1%	2.4%	1.8%
Balkrishna Industries	5,568	7,911	11,366	7,125	-27%	8%	7%	15.9%	17.7%	20.0%	13.4%
<b>Total</b>	<b>34,961</b>	<b>44,739</b>	<b>56,730</b>	<b>53,283</b>	<b>16%</b>	<b>5%</b>	<b>5%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Company, Capitaline, Emkay Research

**Exhibit 3: Sharp improvement in Balance Sheet health; Company converging towards peers vs. being a laggard earlier**

Consol. net debt-to-equity (x)	FY13	FY18	FY23	H1FY24	FY24E	FY25E	FY26E
<b>JK Tyre</b>	<b>2.6</b>	<b>2.5</b>	<b>1.4</b>	<b>1.1</b>	<b>0.8</b>	<b>0.6</b>	<b>0.4</b>
APTY	0.8	0.4	0.5	0.4	0.3	0.2	0.1
MRF*	0.6	0.2	0.2	0.2	-0.1	-0.2	-0.3
Ceat*	1.2	0.3	0.6	0.5	0.5	0.4	0.3

Source: Company, Bloomberg, Emkay Research; \*Note: Bloomberg consensus estimates

**Exhibit 4: JKI to clock over 20% RoE from FY24E itself**

Consol. avg. RoE (%)	FY13	FY18	FY23	FY24E	FY25E	FY26E
<b>JK Tyre</b>	<b>24.5</b>	<b>3.4</b>	<b>8.4</b>	<b>22.2</b>	<b>22.0</b>	<b>21.1</b>
APTY	19.6	8.5	9.0	14.2	14.5	14.9
MRF*	22.5	12.3	5.4	14.2	12.9	12.5
Ceat*	16.4	9.5	5.5	18.8	16.5	15.6

Source: Company, Bloomberg, Emkay Research; \*Note: Bloomberg consensus estimates

**Exhibit 5: JKI trades at ~10x FY26E PER vs. ~14-15x peer average, despite the higher than expected EPS CAGR and return ratios**

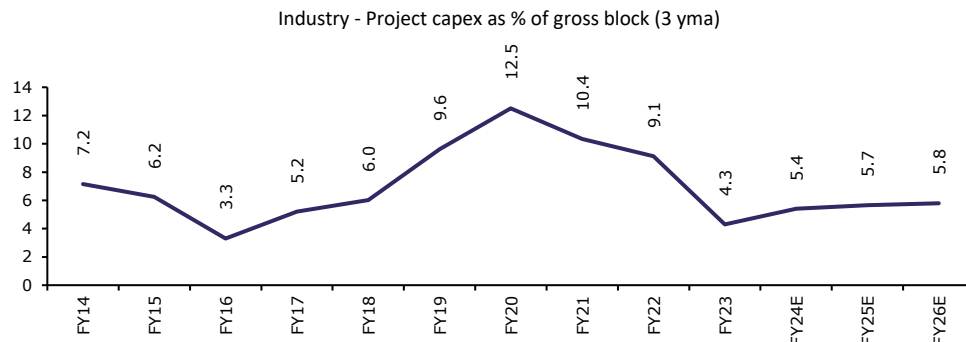
Company	Mcap (Rs bn)	CMP (Rs)	FY24E-26E EPS CAGR (%)	PER (x)			EV/EBITDA (x)			ROE (%)		
				FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
APTY	329	523	13%	17.3	15.4	13.7	8.3	7.4	6.6	14.2	14.5	14.9
MRF	638	150,299	6%	28.6	27.7	25.3	13.8	12.9	11.7	14.2	12.9	12.5
Ceat	117	2,905	5%	16.7	16.3	15.1	8.2	8.0	7.4	18.8	16.5	15.6
<b>JKI</b>	<b>131</b>	<b>503</b>	<b>19%</b>	<b>13.8</b>	<b>11.4</b>	<b>9.8</b>	<b>7.4</b>	<b>6.8</b>	<b>6.0</b>	<b>22.2</b>	<b>22.0</b>	<b>21.1</b>

Source: Bloomberg, Emkay Research

**Exhibit 6: Competitive positioning of market leader gradually being diluted, owing to improvements by other players**

MRF relative share (%)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	H1FY24
Revenue	33.5	33.7	31.5	33.8	32.2	31.4	31.3	32.6
EBITDA	42.1	43.4	38.6	39.7	36.8	32.2	30.2	35.8
EBIT	42.7	45.2	39.0	43.4	37.5	28.7	26.0	35.4

Source: Company, Emkay Research; Note: Industry here comprises of MRF, APTY, JKI, Ceat (all on consolidated basis)

**Exhibit 7: Unlike lumpy capex cycles in the past, industry's capacity additions to be calibrated over the next 2-3 years**

Source: Company, Emkay Research; Note: Industry here comprises of MRF, APTY, JKI, Ceat (all on consolidated basis)

**Exhibit 8: We expect the PCR industry capacity expansion to clock ~7% CAGR, trailing demand growth (~8%)**

Player	FY23 capacity mkt. sh. (%)	Industry PCR capacity (mn units)				Comment
		FY23	FY24E	FY25E	FY26E	
MRF	20	15.5	17.1	18.8	20.6	Built in ~10% CAGR in capacity increase (though gross block has already doubled in the last 5Y)
APTY	23	17.5	17.5	17.5	17.5	No growth capex in the next 2 years as per management; utilization 80% in 2Q vs. ~73% in 1Q
JK Tyre	14	10.9	12.5	14.0	15.5	As per announced plans, JK expansion is ~30% of industry
Ceat	18	14.0	14.8	15.7	16.7	Some downstream addition being done; overall bite-sized approach intact, as per management
Bridgestone	13	9.7	9.7	10.5	10.5	Built in announced capacity increase (~8%)
Continental	5	4.0	4.4	4.8	5.3	Built in ~10% CAGR capacity increase, as Company sees ~50% volume growth in coming years
Goodyear	7	5.0	5.0	5.0	5.0	No announcements as yet
Michelin	-	-	-	2.0	2.0	Has plans to start local production; assuming they will enter in FY25 with a minimum order block of ~1.5-2mn units
<b>Total</b>	<b>100</b>	<b>76.6</b>	<b>81.0</b>	<b>88.3</b>	<b>93.1</b>	
<b>Industry (mn units)</b>		<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>	
Capacity (from above)		76.6	81.0	88.3	93.1	
Growth YoY (%)			6	9	5	
Demand		61.0	65.9	71.2	76.8	
Growth YoY (%)			8	8	8	
<b>Capacity utilization (%)</b>		<b>80</b>	<b>81</b>	<b>81</b>	<b>83</b>	

Source: Company, Media articles, Emkay Research

## JK Tyre: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>1,19,830</b>	<b>1,46,449</b>	<b>1,50,905</b>	<b>1,65,483</b>	<b>1,76,906</b>
Revenue growth (%)	31.6	22.2	3.0	9.7	6.9
<b>EBITDA</b>	<b>10,733</b>	<b>12,978</b>	<b>21,655</b>	<b>23,912</b>	<b>26,271</b>
EBITDA growth (%)	(17.8)	20.9	66.9	10.4	9.9
Depreciation & Amortization	3,854	4,071	4,369	4,698	5,040
<b>EBIT</b>	<b>6,879</b>	<b>8,907</b>	<b>17,286</b>	<b>19,214</b>	<b>21,230</b>
EBIT growth (%)	(25.2)	29.5	94.1	11.2	10.5
Other operating income	0	0	0	0	0
Other income	366	365	383	403	423
Financial expense	4,191	4,545	4,445	4,100	3,568
<b>PBT</b>	<b>3,054</b>	<b>4,728</b>	<b>13,224</b>	<b>15,517</b>	<b>18,085</b>
Extraordinary items	(36)	615	0	0	0
Taxes	1,087	1,465	4,232	4,034	4,702
Minority interest	(9)	17	45	50	53
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>2,012</b>	<b>2,630</b>	<b>8,947</b>	<b>11,433</b>	<b>13,330</b>
PAT growth (%)	(39.2)	30.7	240.1	27.8	16.6
<b>Adjusted PAT</b>	<b>1,976</b>	<b>3,246</b>	<b>8,947</b>	<b>11,433</b>	<b>13,330</b>
<b>Diluted EPS (Rs)</b>	<b>8.0</b>	<b>13.2</b>	<b>36.3</b>	<b>44.1</b>	<b>51.4</b>
Diluted EPS growth (%)	(39.2)	30.7	240.1	21.3	16.6
<b>DPS (Rs)</b>	<b>1.5</b>	<b>2.0</b>	<b>4.5</b>	<b>4.1</b>	<b>4.7</b>
<b>Dividend payout (%)</b>	<b>18.4</b>	<b>18.7</b>	<b>12.4</b>	<b>9.2</b>	<b>9.2</b>
EBITDA margin (%)	9.0	8.9	14.4	14.5	14.9
EBIT margin (%)	5.7	6.1	11.5	11.6	12.0
Effective tax rate (%)	35.6	31.0	32.0	26.0	26.0
<b>NOPLAT (pre-IndAS)</b>	<b>4,431</b>	<b>6,147</b>	<b>11,754</b>	<b>14,218</b>	<b>15,711</b>
Shares outstanding (mn)	246.3	246.3	246.3	259.5	259.5

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	3,054	4,728	13,224	15,517	18,085
Others (non-cash items)	8,045	8,616	9,064	9,103	9,145
Taxes paid	(1,602)	(1,598)	(4,152)	(3,955)	(4,563)
Change in NWC	(14,322)	(450)	(1,357)	(2,720)	(2,453)
<b>Operating cash flow</b>	<b>(4,780)</b>	<b>10,663</b>	<b>16,512</b>	<b>17,621</b>	<b>19,657</b>
Capital expenditure	(3,792)	(5,340)	(8,500)	(9,000)	(9,000)
Acquisition of business	144	(111)	0	0	0
Interest & dividend income	275	156	0	0	0
<b>Investing cash flow</b>	<b>(3,648)</b>	<b>(5,451)</b>	<b>(8,500)</b>	<b>(9,000)</b>	<b>(9,000)</b>
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	12,041	(3,380)	(3,749)	(2,045)	(3,961)
Payment of lease liabilities	508	433	0	0	0
Interest paid	(4,191)	(4,545)	(4,695)	(4,405)	(4,105)
Dividend paid (incl tax)	(594)	(445)	(1,106)	(1,054)	(1,229)
Others	1,190	4,060	0	0	0
<b>Financing cash flow</b>	<b>8,446</b>	<b>(4,311)</b>	<b>(9,550)</b>	<b>(7,504)</b>	<b>(9,295)</b>
Net chg in Cash	18	901	(1,538)	1,116	1,363
OCF	(4,780)	10,663	16,512	17,621	19,657
Adj. OCF (w/o NWC chg.)	9,542	11,113	17,869	20,341	22,110
FCFF	(8,572)	5,323	8,012	8,621	10,657
FCFE	(12,488)	933	3,568	4,521	7,089
OCF/EBITDA (%)	(44.5)	82.2	76.3	73.7	74.8
FCFE/PAT (%)	(620.6)	35.5	39.9	39.5	53.2
<b>FCFF/NOPLAT (%)</b>	<b>(193.5)</b>	<b>86.6</b>	<b>68.2</b>	<b>60.6</b>	<b>67.8</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	493	493	522	522	522
Reserves & Surplus	27,991	33,469	46,219	56,539	68,570
<b>Net worth</b>	<b>28,483</b>	<b>33,962</b>	<b>46,741</b>	<b>57,060</b>	<b>69,092</b>
Minority interests	992	997	997	997	997
Deferred tax liability (net)	3,182	3,211	3,211	3,211	3,211
<b>Total debt</b>	<b>52,204</b>	<b>48,824</b>	<b>40,069</b>	<b>38,024</b>	<b>34,064</b>
<b>Total liabilities &amp; equity</b>	<b>84,861</b>	<b>86,993</b>	<b>91,017</b>	<b>99,292</b>	<b>1,07,364</b>
Net tangible fixed assets	61,980	62,088	65,065	69,184	73,144
Net intangible assets	2,254	2,528	2,528	2,528	2,528
Net ROU assets	0	0	0	0	0
Capital WIP	1,062	1,950	3,103	3,286	3,286
Goodwill	0	0	0	0	0
Investments [JV/Associates]	1,384	1,383	1,383	1,383	1,383
<b>Cash &amp; equivalents</b>	<b>1,757</b>	<b>2,770</b>	<b>3,642</b>	<b>5,574</b>	<b>7,925</b>
Current assets (ex-cash)	53,171	52,672	54,275	59,971	64,595
Current Liab. & Prov.	36,747	36,398	38,979	42,634	45,498
<b>NWC (ex-cash)</b>	<b>16,424</b>	<b>16,275</b>	<b>15,296</b>	<b>17,337</b>	<b>19,097</b>
<b>Total assets</b>	<b>84,861</b>	<b>86,993</b>	<b>91,017</b>	<b>99,292</b>	<b>1,07,364</b>
Net debt	50,447	46,054	36,427	32,450	26,139
Capital employed	84,861	86,993	91,017	99,292	1,07,364
<b>Invested capital</b>	<b>80,658</b>	<b>80,890</b>	<b>82,889</b>	<b>89,049</b>	<b>94,769</b>
BVPS (Rs)	115.7	137.9	189.8	219.9	266.3
Net Debt/Equity (x)	1.8	1.4	0.8	0.6	0.4
Net Debt/EBITDA (x)	4.7	3.5	1.7	1.4	1.0
Interest coverage (x)	0.6	0.5	0.3	0.2	0.2
<b>RoCE (%)</b>	<b>9.3</b>	<b>10.8</b>	<b>19.9</b>	<b>20.6</b>	<b>21.0</b>

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	62.6	38.1	13.8	11.4	9.8
P/CE(x)	21.2	16.9	9.3	8.1	7.1
P/B (x)	4.3	3.6	2.6	2.3	1.9
EV/Sales (x)	1.5	1.2	1.1	1.0	0.9
EV/EBITDA (x)	16.2	13.1	7.4	6.8	6.0
EV/EBIT(x)	25.3	19.1	9.3	8.5	7.4
EV/IC (x)	2.2	2.1	1.9	1.8	1.7
FCFF yield (%)	(4.9)	3.1	5.0	5.3	6.8
FCFE yield (%)	(10.1)	0.8	2.9	3.5	5.4
Dividend yield (%)	0.3	0.4	0.9	0.8	0.9
<b>DuPont-RoE split</b>					
Net profit margin (%)	1.6	2.2	5.9	6.9	7.5
Total asset turnover (x)	1.5	1.7	1.7	1.7	1.7
Assets/Equity (x)	2.8	2.8	2.2	1.8	1.6
<b>RoE (%)</b>	<b>7.2</b>	<b>10.4</b>	<b>22.2</b>	<b>22.0</b>	<b>21.1</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	3.7	4.2	7.8	8.6	8.9
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
<b>RoIC (%)</b>	<b>6.1</b>	<b>7.6</b>	<b>14.4</b>	<b>16.5</b>	<b>17.1</b>
<b>Operating metrics</b>					
Core NWC days	50.0	40.6	37.0	38.2	39.4
<b>Total NWC days</b>	<b>50.0</b>	<b>40.6</b>	<b>37.0</b>	<b>38.2</b>	<b>39.4</b>
Fixed asset turnover	1.2	1.4	1.3	1.4	1.3
Opex-to-revenue (%)	24.0	22.8	24.9	24.6	24.2

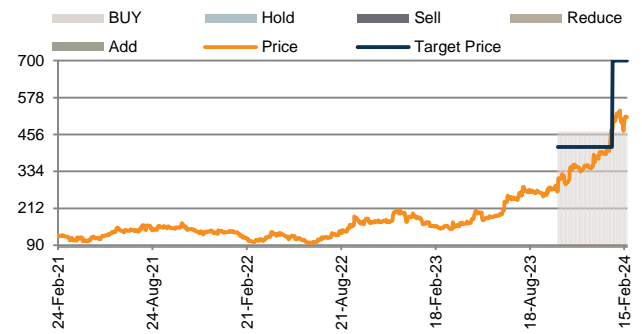
Source: Company, Emkay Research

**RECOMMENDATION HISTORY - DETAILS**

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
08-Feb-24	510	700	Buy	Chirag Jain
23-Jan-24	471	700	Buy	Chirag Jain
10-Oct-23	270	415	Buy	Chirag Jain

Source: Company, Emkay Research

**RECOMMENDATION HISTORY - TREND**



Source: Company, Bloomberg, Emkay Research

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<b>SELL</b>	<15% downside

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